

**OLYMPUS**<sup>®</sup>

Your Vision, Our Future

Integrated Annual Report 2016



One  
olympus  
Report

CORPORATE PHILOSOPHY

# Social IN



The Olympus Group strives to realize **better health and happiness for people** by being an **integral member of society**, sharing **common values**, and **proposing new values** through its business activities.

# One

The Olympus Group strives to realize better health and happiness for people by being an integral member of society, sharing common values, and proposing new values through its business activities.

This "Social IN" concept is key to the basic Olympus philosophy underlying all of our activities. "Social IN" comes from social value in the Company, a concept of incorporating social values into the Company's activities.

# Olympus

## VISION

**Olympus contributes to society by making people's lives healthier, safer, and more fulfilling around the world.**

Through our business activities, we will work to realize healthier, safer, and more fulfilling lives for people. Contributing to the greater society by helping to satisfy these fundamental needs, felt by people around the world and throughout society, is Olympus' true mission, and one we will faithfully fulfill.



# Our Innovation History

Olympus was born in 1919 with the purpose of manufacturing microscopes domestically. The Company succeeded in developing the world's first practical gastroscope roughly 30 years later. From the delivery of its first product up until today, Olympus has continued to be driven by its corporate DNA to create new value for society.

## Medical Equipment

### Gastrointestinal Endoscopes

#### Photographing

#### Diagnosis

#### Treatment

First step toward early diagnosis of cancer



**1950**  
Developed world's first practical gastroscope

Contributions to diagnosis and treatment



**1964**  
Introduced GTF fiber gastroscope

Beginnings in biopsies



**1966**  
Launched Olympus' first biopsy scope and endotherapy devices (biopsy forceps and cytology brushes)



**1982**  
Launched GF-UM1 / EU-M1, world's first ultrasonic endoscopy system



**1985**  
Introduced EVIS-1 endoscopic video system



**2002**  
Launched EVIS LUCERA, world's first HD endoscopy system



**2002**  
Commercialized world's first IT knife specially designed for ESD



**2006**  
Introduced EVIS EXERA II and EVIS LUCERA SPECTRUM, endoscopic video systems that include NBI technologies



**2010**  
Launched VisiGlide™ disposable guidewire for use in endoscopic treatment of biliary and pancreatic ducts



**2012**  
Introduced EVIS EXERA III and EVIS LUCERA ELITE next-generation platform systems for gastrointestinal endoscopy



**2016**  
Launched EZ Shot 3 plus single-use aspiration needle for Endoscopic Ultrasound-Fine Needle Aspiration (EUS-FNA)

## Evolution of Medical Business

### Development of World's First Practical Gastroscope

Olympus succeeded in creating a gastroscope through joint development between the Company's R&D team and a physician at the Department of Gastroenterology of the University of Tokyo who stated that, "I somehow want to cure the gastric cancer that afflicts so many Japanese people." The introduction of fiberscopes made it possible to see directly inside a patient's stomach in real time. In the years that followed, Olympus continued to work closely with physicians to refine these scopes, driving rapid advances in the development of diagnosis technologies for gastrointestinal diseases.

### Entry into Surgical Device Business

Predicating that endoscopes would eventually be used in surgery, Olympus acquired German rigid endoscope manufacturer Winter & Ibe GmbH in 1979 and expanded its business into the surgical endoscope field.

### New Era of Videoscopes

The development of videoscopes, which feature imaging elements such as charge coupled devices (CCDs) built into their distal tips, contributed to a substantial increase in the accuracy of diagnoses. This increase in accuracy came from the ability to display images on monitors for multiple physicians to view.

### Development of Endoscopic Surgery

Endoscopic surgery created a revolution in the field of surgery, and the spread of these surgeries accelerated in tandem with technological progress. Olympus fueled this progress with the release of innovative products, including HD surgical endoscopes, the world's first surgical energy device to integrate both advanced bipolar and ultrasonic energy, and 3D and 4K surgical endoscopes.

### Advent of Observation Using Specific Light Spectra

Olympus continued to advance technologies at an accelerated pace as the world was introduced to its first HD system and then to narrow band imaging (NBI) technologies that use optical technology to enhance the visualization of lesions. As a result, endoscopes evolved from being mere observation tools to becoming medical devices capable of treatment and therapy.

## Scientific Solutions and Imaging Products

1920	1936	1963	1968	1969	1983	1996	2006	2009	2012	2013
Introduced Asahi 600x microscope	Introduced Olympus' first camera, the Semi-Olympus I, marking entry into camera business	Launched the Olympus Pen F, the world's first half-size SLR camera	Launched Company's first industrial-use fiberscope, marking entry into industrial endoscope field	Developed world's first microcassette tape recorder	Introduced New Vanox-AH2 top-caliber photographing microscope, world's first to feature autofocus function	Introduced first Olympus digital cameras C-MEDIA C-800L and C-MEDIA C-400L	Introduced OmniScan IX non-destructive testing system	Introduced first Olympus mirrorless camera, OLYMPUS PEN E-P1	Introduced the IX Series (IX83, IX73, IX53) inverted research microscopes	Launched flagship mirrorless camera OLYMPUS OM-D E-M1

### From the Founding of Olympus and the Path to Business Modernization 1919–1950s

- 1919** Established as Takachiho Seisakusho to manufacture microscopes in Japan
- 1921** Registered trademark as Olympus
- 1949** Name changed to Olympus Optical Co., Ltd. Company listed on Tokyo Stock Exchange (TSE)



Founder, Takeshi Yamashita "Olympus" trademark

### Evolution as an Integrated Optical Manufacturer and Expansion of Overseas Sales Networks 1960s–1980s

- 1964** Established Olympus Europe
- 1968** Established Olympus Corporation of America
- 1979** Established U.S. location in California (currently world's largest endoscope service center)
- 1989** Established Beijing residential office and corporation in Singapore

### Diversification of Medical Business 1990s–2010

- 2001** Commenced collaboration with Terumo Corporation
- 2004** Acquired Celon AG
- 2008** Established first training center in China (Shanghai)
- Acquired Gyus Group PLC to strengthen surgical area of Medical Business

### Transition from Stage of Reconstructing Management to Stage of Sustainable Growth and Development 2011–Present

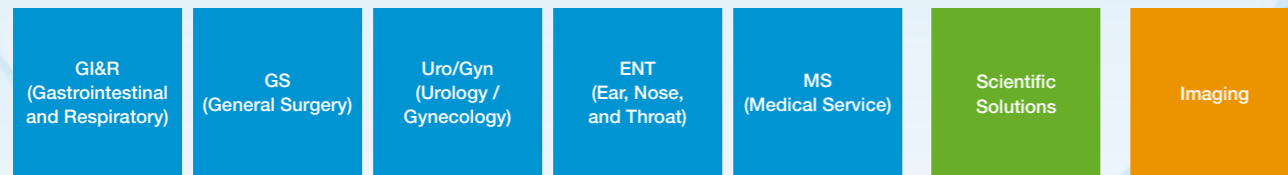
- 2011** Deferred recording of past losses discovered
- 2012** Appointed new management team. Announced medium-term vision (corporate strategic plan). Formed business and capital alliance with Sony Corporation. Transferred Information & Communication Business
- 2013** Security on Alert Designation placed on Company stock by TSE removed. Procured capital through public offering in overseas markets (approx. ¥110 billion). Established Sony Olympus Medical Solutions Inc. Constructed Company's largest training and service center in China (Guangzhou)
- 2014** Withdrew from biologics business
- 2015** Integrated three companies and shifted to matrix style operational structure
- 2016** Increased production capacity (completed construction of new buildings) at medical endoscope development and production sites (Aizu, Shirakawa, and Aomori). Announced new medium-term management plan, 16CSP

# Our Business Domains

Olympus develops its operations in three core business domains. The Scientific Solutions Business continues to refine the optical technologies Olympus has treasured since its founding. The Imaging Business drives advanced research on electronic imaging technologies. The Medical Business, meanwhile, grows by leveraging the technologies of these two businesses. The technologies developed through these businesses are the greatest strength of Olympus, and it is this strength that enables us to make world-leading products.

## Business Units

### Medical Business Units



For more information on business units, please refer to "Review of Business Segments" beginning on page 38.

## Medical Business

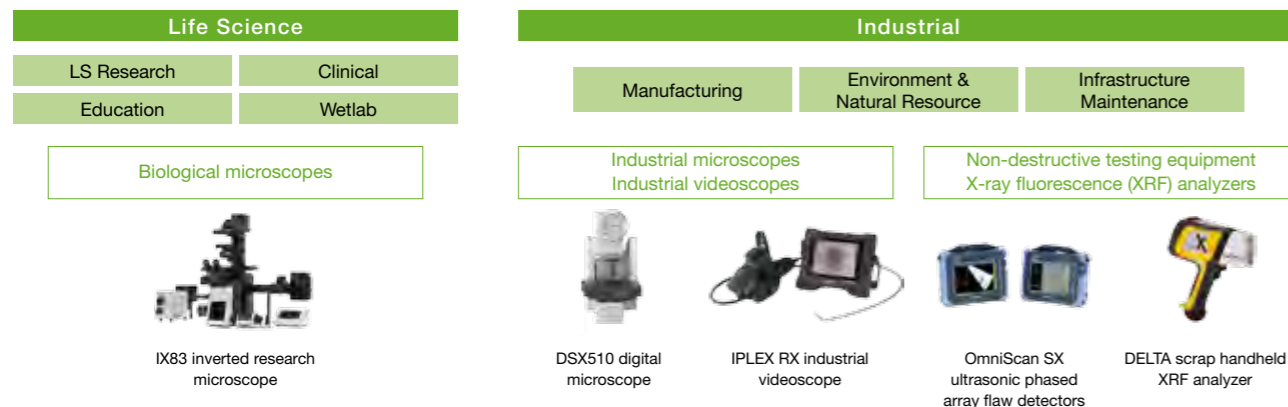
In the Medical Business, Olympus supplies various types of medical equipment, including gastrointestinal endoscopes that contribute to early diagnosis of diseases, surgical endoscopes that allow for minimally invasive therapies for reducing the burden

placed on patient bodies, and energy devices. By providing such equipment, we are contributing to a medical environment that cares for both the physical health and the mental health of people around the world.

## Scientific Solutions Business

The Scientific Solutions Business provides microscopes, which Olympus has been manufacturing since its inception. These microscopes are used in various fields, whether for conducting such clinical examinations as blood tests or pathological examinations related to cancer diagnosis, assisting advanced research

in the life science and medical fields, or performing quality control on manufacturing lines. Furthermore, the industrial videoscopes and ultrasonic flaw detectors offered in this business are used in inspections and examinations underpinning the safety of social infrastructure.



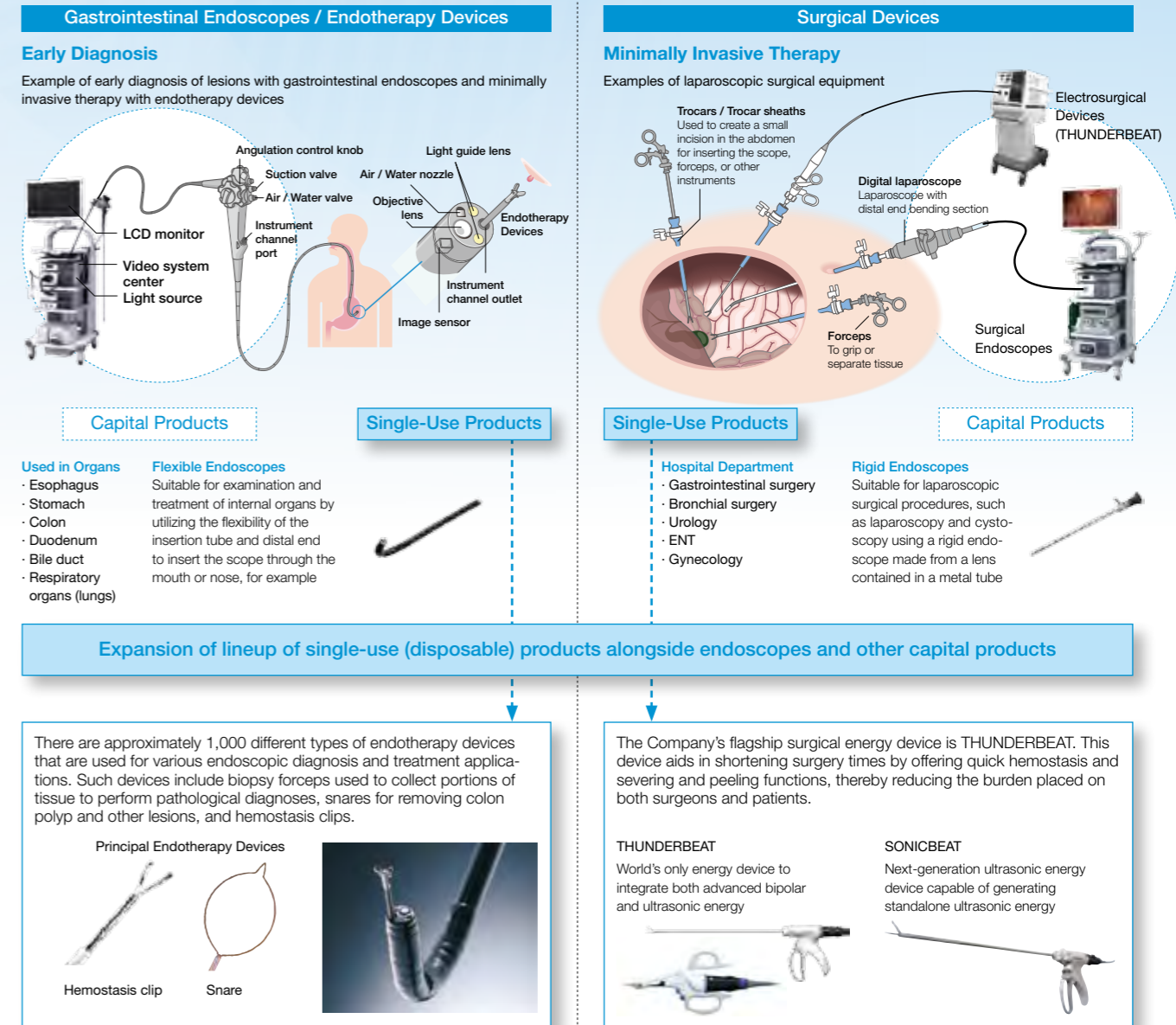
## Imaging Business

The Imaging Business provides Olympus brand cameras, which boast unparalleled image quality realized through world-leading lens processing technologies and have won the hearts of photographers around the world. We continue to introduce

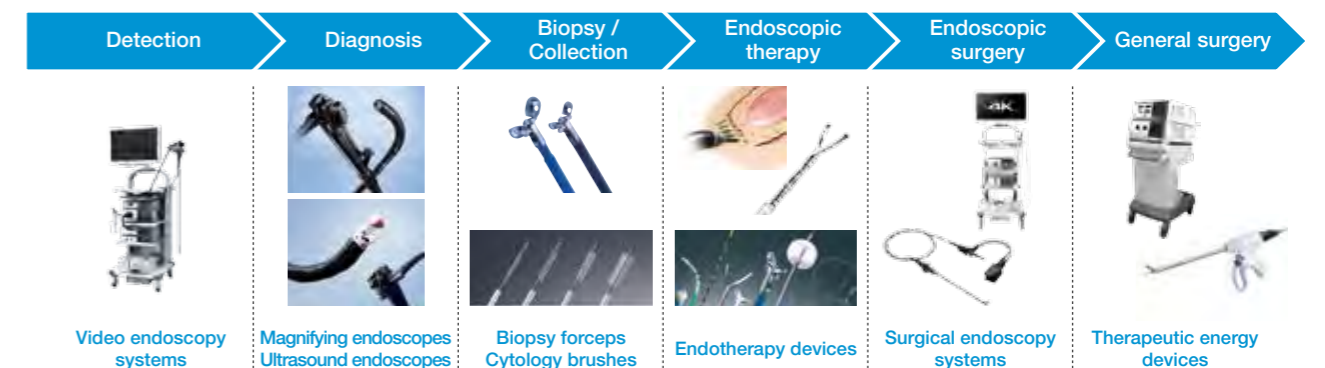
the world to such unique cameras as our compact, lightweight mirrorless cameras that offer the same level of performance as single-lens-reflex cameras and our Tough series of dustproof, waterproof cameras that are ideal for outdoor use.



## Medical Business



### Olympus Medical Equipment for Everything from Diagnosis and Endoscopic Therapy to Surgery



# Our Strengths / Presence

The Company's Medical Business is charged with the social mission of continuing to contribute to a medical environment that cares for both the physical and mental health of people around the world. We fulfill this mission by developing and supplying equipment for realizing early diagnosis of disease and reducing the physical burden on patients through minimally invasive therapies. Through these efforts, we strive to contribute to improved quality of life for patients while helping make medical treatment more efficient and affordable.



History of contributing to early diagnosis  
**66 years**

Olympus responds to medical needs by leveraging its technological prowess and collaborating with healthcare professionals as it moves forward on its never-ending quest to create a medical environment that alleviates the physical and mental burdens of patients around the world.

Gastrointestinal endoscope market share (Global)

**More than 70% No. 1**

Since developing the world's first practical gastroscope in 1950, Olympus has continued to create world-leading gastrointestinal endoscopes, thereby maintaining a dominating share of the global market. These product development capabilities are supported by the optical technologies and electronic imaging technologies that are born out of microscopes and cameras.

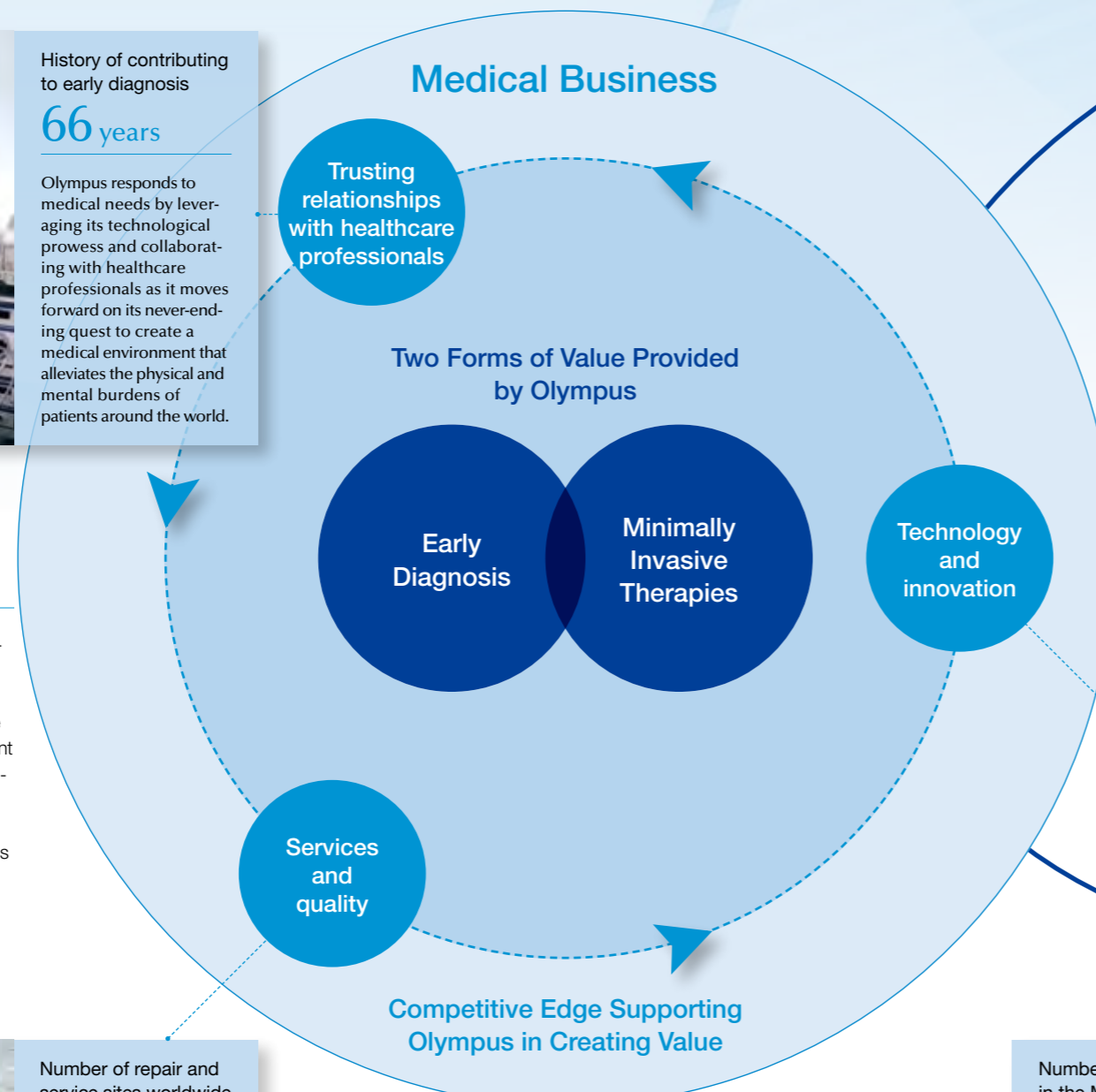
In addition, we are applying the technologies accumulated through gastrointestinal endoscope development to the surgical device field in order to expand the breadth of our product lineup to realize further growth.



Number of repair and service sites worldwide  
**Approx. 200**

Olympus' service network offers safety and reliability anywhere in the world based on the belief that medical treatment does not stop at the doors of the hospital.

The world's largest endoscope repair center, established in San Jose, California, is the main center for performing major repairs, including full instrument disassembly and reassembly.



**Scientific Solutions Business**  
Source of the optical technologies that arise from microscopes, which are then adapted to cameras and endoscopes

Biological microscope and industrial videoscope market share (Global)  
**Approx. 40% No. 1**

Number of patents held in the Scientific Solutions Business  
**Over 4,500**

The Scientific Solutions Business encompasses the biological microscope business. Olympus is the global market share leader in this business, which it has conducted since its founding. It is also the source of the optical technologies that represent a core competence. The processing technologies used for the lenses of microscopes, their most crucial component, are also used for making the camera lenses that create pictures with stunning quality and the ultrasmall lenses attached to the tips of thin endoscopes. Truly, these technologies are critical to the mainstay products of all Olympus businesses.

**Key Technologies**  
**Optical Technologies**  
 Optical Measurement Technology / Advanced Optical Technology / Next-Generation Optical Design Technology  
**Electronic Imaging Technologies**  
 Imager Technology / Key Digital Imaging Technology / High-Speed Communication Technology / System LSI  
**Precision Technologies**  
 Precision Control Technology / Precision Mounting Technology / MEMS Technology / Miniature Devices  
**Biological Based Technologies**  
 Live Cell Analysis Technology / Cell Separation, Cell Culture, and Evaluation Technology / Gene Transfer Technology

**Imaging Business**  
Technological driver for creating sophisticated electronic imaging technologies

Mirrorless camera market share (Japan)  
**Approx. 25% No. 2**

Number of patents held in the Imaging Business  
**Over 4,200**

In the camera operations of the Imaging Business, product development cycles are short and competition is fierce due to the presence of numerous rivals. However, this business creates sophisticated electronic imaging technologies that are of great benefit to the other businesses. For example, the digital imaging technologies from digital camera development were used to evolve endoscopes from fiberscopes to videoscopes.







Number of patents held in the Medical Business  
**Over 6,700**

Endoscopic videoscope system equipped with NBI functionality  
Images courtesy of Dr. Manabu Muto of Kyoto University Hospital

Image taken using standard optical imaging (esophagus)

Image taken using NBI (esophagus)

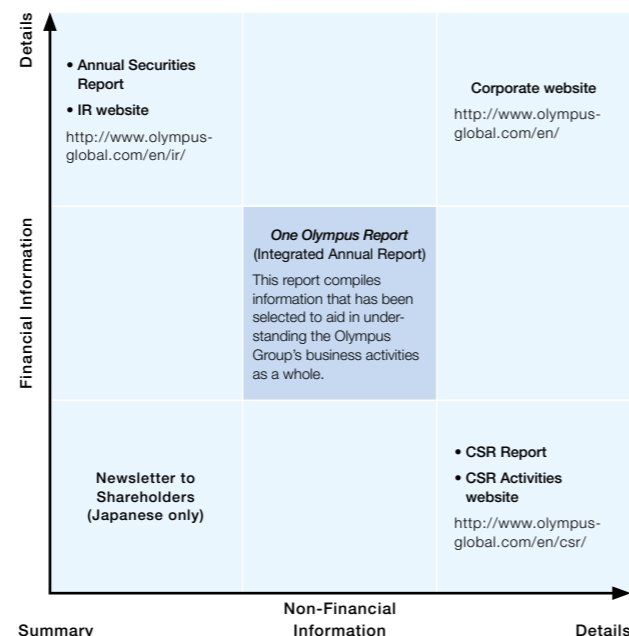
Gastrointestinal endoscope treatment support system

A First Look at Olympus		Goals of Olympus	Corporate Value Improvement and Management Strategy	Management Resources Supporting Competitive Edge	Fact Data
1 Our Philosophy and Vision	<b>10 To Our Stakeholders</b> 	12 Nine-Year Financial / Non-Financial Data (Consolidated)	30 Global Manufacturing Strategy —Development of Production Structure with Eyes to 10 Years from Now	51 R&D Activities	73 Financial Section
2 Our Innovation History		14 Financial / Non-Financial Highlights	32 Initiatives for Accelerating Medical Business Growth in the United States	53 Intellectual Property Activities	74 Analysis of Business Results, Financial Position, and Cash Flows
4 Our Business Domains		<b>16 New Medium-Term Management Plan (16CSP)</b> 	34 Potential for Advancement of Endoscopic Surgery and Expectations for Olympus	54 Human Resources	77 Risk Information
6 Our Strengths / Presence		<b>18 Message from the President</b>  24 Financial Strategies of 16CSP Targeting Future Growth —Discussion between the Chief Financial Officer and Analysts 	36 At a Glance	56 Contribution to Society	80 Consolidated Financial Statements and Notes
		<b>30 Special Feature: Foundations for Further Medical Business Growth</b>	38 Review of Business Segments	57 Harmony with the Environment	117 Independent Auditor's Report
			38 Medical Business  47 Scientific Solutions Business  49 Imaging Business 	58 Corporate Governance	118 Olympus Group Companies
				58 Conversation between an Outside Director (Chairman of the Board of Directors) and the President	120 Corporate Information
				62 Olympus' Corporate Governance	
				68 Compliance	
				69 Message from the Chief Compliance Officer	
				70 Management Structure	

**Editorial Policy**

The Olympus Group strives to conduct disclosure in a manner that meets the information needs of its stakeholders. Our annual report for fiscal 2016 has been compiled as an integrated report. With the foremost aim of deepening understanding with regard to the Olympus Group, this report contains the management strategy, business activity, financial, and other information traditionally disclosed in our annual reports while also including non-financial information on social contribution, environmental, and other activities necessary to explaining the Group's efforts to create value. In constructing this year's report, we referenced the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

We continue to provide detailed accounts of social contribution and environmental activities in our CSR reports, while the Company's corporate website provides up-to-date information on a variety of topics.



# One Olympus

**Forward-Looking Statements**

This annual report contains forward-looking statements concerning the Company's future plans, strategies, and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on economic, financial, and competitive data currently available.

Furthermore, these statements are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, worldwide business competition, customer demand, foreign currency exchange rates, tax rules, regulations, and other factors.

Olympus therefore wishes to caution readers that actual results may differ materially from its expectations.

# One

Olympus is making strides toward a new growth stage. Uniting the desires of everyone at the Olympus Group, I will lead us to achieving robust growth.

Four years have passed since I took up the mantle of president in 2012. The current management team, of which I am a part, was appointed to create a new Olympus in the wake of the series of scandals. As such, regaining trust and improving corporate value have been our top priorities. Devoted to once again realizing a strong Olympus, we proceeded to restructure corporate governance systems and achieve substantial improvements in our financial health, which was in a state of crisis after the scandals. These efforts led to incredibly impressive performance in our mainstay Medical Business, and the Company was thereby able to achieve record-breaking net income in fiscal 2016. Previously, we had faced various causes for uncertainty, including issues related to negotiations with the U.S. Department of Justice. However, we steadily resolved such issues, and we are now able to secure a certain amount of funds, enabling us to resume dividend payments. I therefore feel confident saying that we were generally able to achieve the goals of the plan over the past four years. Furthermore, a new matrix style of business operation was adopted in April 2015. This system has begun functioning exceptionally well, as indicated by an increase in cross-business and cross-region discussion and enhanced global coordination.

With fiscal 2017, we kicked off our new medium-term management plan 2016 Corporate Strategic Plan, or 16CSP for short. Forged during the course of plentiful discussions among the management team, this plan was announced at OLYMPUS IR DAY 2016, which, taking place in Tokyo in March 2016, was our first time to hold such an event. Following this announcement, Chief Financial Officer Yasuo Takeuchi and I visited several institutional investors around the world, explaining to them in detail our directives, policies, and growth strategies. The response to this plan has been overwhelmingly positive, for which I am most grateful. Such high expectations for our future make palpable the fact that Olympus is now making powerful strides forward.

Having moved passed the stage of reconstructing management, 16CSP will serve as an important strategy for guiding us in realizing sustainable growth and development in the next growth stage. We have set a course to this new stage, the next destination on our journey toward being a strong global player in the medical field. Moreover, we will celebrate the 100th anniversary of the Company's founding in 2019, three years from now. We thus seek to strengthen the foundations for our growth over the next 100 years through 16CSP while also striving to improve corporate value by developing an aggressive business portfolio. Olympus stands out among its peers as one of the few companies worldwide from which organic growth can be expected. Priding ourselves on this distinction, we will boldly tackle new challenges with the aim of transforming Olympus into a truly global company. We are firmly committed to living up to your expectations, and I assure you that this commitment will drive me as I lead the Company. I hope you will look forward to the future of Olympus with great anticipation.

August 2016

**Hiroyuki Sasa**

President and Representative Director



# Olympus

## Nine-Year Financial / Non-Financial Data (Consolidated)

(For the fiscal years as of / ended March 31)

Millions of yen

	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3
<b>Net sales</b>	1,128,875	980,803	883,086	847,105	848,548	743,851	713,286	764,671	804,578
<b>Selling, general and administrative (SG&amp;A) expenses</b>	396,678	418,558	347,125	349,306	348,287	343,121	367,011	398,889	430,773
Percentage of net sales (%)	35.1%	42.7%	39.3%	41.2%	41.0%	46.1%	51.5%	52.2%	53.5%
Percentage of net sales excluding R&D expenditures (%)	29.3%	35.5%	32.3%	33.3%	33.8%	37.6%	42.1%	42.5%	43.4%
<b>Operating income</b>	112,826	42,722	61,160	38,379	35,518	35,077	73,445	90,962	104,464
Percentage of net sales (%)	10.0%	4.4%	6.9%	4.5%	4.2%	4.7%	10.3%	11.9%	13.0%
<b>Ordinary income*1</b>	97,312	25,679	46,075	23,215	17,865	13,046	50,913	72,782	90,898
<b>Net income (loss)</b>	54,625	(50,561)	52,527	3,866	(48,985)	8,020	13,627	(8,737)	62,594
Percentage of net sales (%)	4.8%	—	5.9%	0.5%	—	1.1%	1.9%	—	7.8%
<b>EBITDA margin*2 (%)</b>	14.0%	12.8%	13.3%	9.9%	9.5%	10.6%	16.8%	18.5%	19.2%
EBITDA margin (Medical Business)*3 (%)	31.1%	27.0%	29.2%	26.9%	26.6%	29.0%	29.7%	29.1%	29.5%
<b>R&amp;D expenditures</b>	65,928	70,010	61,850	67,286	61,356	63,379	66,796	74,101	81,415
Percentage of net sales (%)	5.8%	7.1%	7.0%	7.9%	7.2%	8.5%	9.4%	9.7%	10.1%
<b>Capital expenditures*4</b>	50,070	55,632	34,323	32,699	37,961	28,109	37,810	47,743	64,445
<b>Depreciation and amortization</b>	37,497	44,594	43,099	34,188	33,787	33,899	36,850	41,219	39,912
<b>Amortization of goodwill</b>	7,899	37,881	12,918	11,619	11,103	9,683	9,457	9,421	9,867
<b>Average exchange rate</b>									
Yen / U.S. dollar	114.28	100.54	92.85	85.72	79.08	83.10	100.24	109.93	120.14
Yen / Euro	161.53	143.48	131.15	113.12	108.98	107.14	134.37	138.77	132.58
<b>Financial indicators</b>									
Total assets*5	1,217,172	1,038,253	1,104,528	1,019,160	966,526	960,239	1,027,475	1,081,551	1,000,614
Total net assets*5	244,281	110,907	163,131	115,579	48,028	151,907	331,284	357,254	384,283
Equity ratio (%)	19.1%	10.0%	14.1%	11.0%	4.6%	15.5%	32.1%	32.9%	38.2%
Interest-bearing debt	656,756	642,839	661,481	648,787	642,426	560,390	415,831	354,421	321,138
Net debt	533,475	505,763	454,698	435,226	442,338	330,780	163,710	144,546	154,584
Inventories	110,379	95,540	89,959	92,929	102,493	99,307	98,595	107,387	111,558
Inventory turnover period (months)	1.2	1.2	1.3	1.3	1.4	1.6	1.7	1.6	1.6
Cash and cash equivalents at end of year	119,842	132,720	203,013	210,385	198,661	225,782	251,344	209,809	166,323
Cash flows from operating activities	88,204	36,864	76,245	30,469	30,889	25,233	72,388	66,811	48,621
Cash flows from investing activities	(274,104)	(15,964)	(20,967)	19,003	(35,735)	33,455	(20,273)	(39,612)	(52,897)
Cash flows from financing activities	134,401	(3,751)	17,355	(37,359)	(5,761)	(42,436)	(39,693)	(70,185)	(33,870)
Return on equity (ROE) (%)	24.4%	(30.2%)	40.6%	2.9%	(62.3%)	8.3%	5.7%	(2.6%)	17.0%
Return on assets (ROA) (%)	9.3%	4.1%	4.9%	0.4%	(4.9%)	0.8%	1.4%	(0.8%)	6.0%
Net income (loss) per share (yen)	202.11	(188.85)	194.90	14.39	(183.54)	28.96	41.05	(25.53)	182.90
Total equity per share (yen)	861.58	387.31	576.63	421.37	167.76	493.30	962.83	1,038.64	1,117.24
Price earnings ratio (PER)*6 (times)	14.9	—	15.4	160.8	—	76.4	80.2	—	23.9
Price book-value ratio (PBR) (times)	3.5	4.1	5.2	5.5	8.1	4.5	3.4	4.3	3.9
Outstanding market value (billions of yen)	8,193	4,286	8,138	6,277	3,673	6,758	11,274	15,300	14,992
Cash dividends per share (yen)	40	20	30	30	—	—	—	10	17
<b>Non-financial indicators</b>									
Number of employees*7	35,772	36,503	35,376	34,391	34,112	30,697	30,702	31,540	33,336
(Average number of temporary employees)	(—)	(—)	(—)	(5,336)	(5,009)	(2,240)	(2,978)	(1,374)	(1,257)
Overseas employees as a percentage of employees (%)	65.4%	62.1%	63.3%	62.4%	62.1%	62.4%	62.5%	63.2%	63.3%
Percentage of women in managerial roles*8 (%)	0.9%	0.8%	0.9%	0.9%	0.8%	0.8%	1.1%	1.2%	1.2%
Percentage of employees with disabilities*9 (%)	1.6%	1.7%	1.8%	1.8%	1.9%	1.9%	2.0%	2.1%	1.9%

\*1 Ordinary income is calculated using the following formula: Ordinary income = Operating income + Interest income - Interest expense ± Equity in gain (loss) of affiliates ± Other gains (losses) except for extraordinary gains (losses) defined in Japanese GAAP. Ordinary income is not presented in the consolidated statements of operations since the consolidated financial statements have been reformatted for the convenience of readers outside Japan as described in the notes to the financial statements.

\*2 At the Company, EBITDA is calculated using the following assumptions: EBITDA = Operating income + Depreciation and amortization that is included in cost of sales or SG&A expenses + Amortization of goodwill that is included in SG&A expenses. EBITDA margin = EBITDA / Net sales

\*3 At the Company, EBITDA (Medical Business) is calculated using the following assumptions: EBITDA = Segment profit in the Medical Business + Depreciation and amortization that is included in cost of sales or SG&A expenses + Amortization of goodwill that is included in SG&A expenses. EBITDA margin (Medical Business) = EBITDA (Medical Business) / Net sales

\*4 Capital expenditures are calculated based on the definition of capital expenditure in accordance with ASBJ Statement No. 17 "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information."

\*5 In line with the issuance of IAS No. 19 "Employee Benefits" (revised on June 16, 2011) to be applied for fiscal years beginning on or after January 1, 2013, certain overseas subsidiaries adopted IAS No. 19 effective from the fiscal year ended March 31, 2014, and changed their method of recognizing actuarial gain or loss. This change has been applied retroactively to the figures for the fiscal year ended March 31, 2013.

\*6 Price earnings ratio (PER) for the fiscal years ended March 31, 2012 and 2015 are omitted as Olympus recorded net loss for these fiscal years.

\*7 The average number of temporary employees is stated in parentheses from the fiscal year ended March 31, 2011, as the number of temporary employees is over 10% of the total number of employees.

\*8 Figures for percentage of women in managerial roles only include individuals in Japan.

\*9 Figures for percentage of employees with disabilities are as of June 1 of the respective year and only include individuals in Japan.

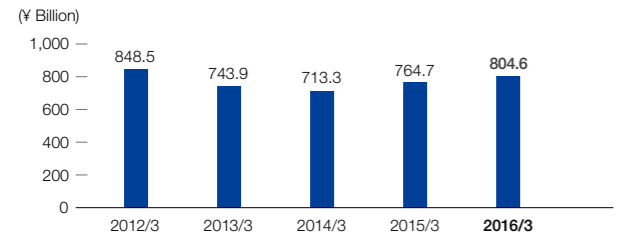


# Financial / Non-Financial Highlights

(For the fiscal years as of / ended March 31)

## Financial Highlights

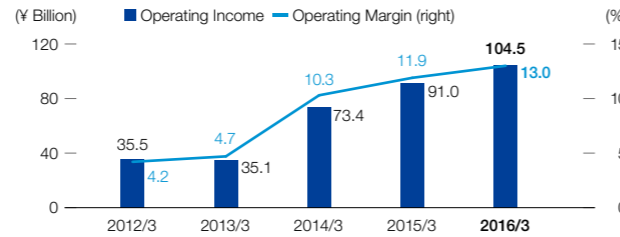
### Net Sales 5% UP (YoY) ▲



Net sales were up 5% year on year following strong sales of mainstay endoscopy systems and endotherapy devices.

### Operating Income 15% UP (YoY) ▲

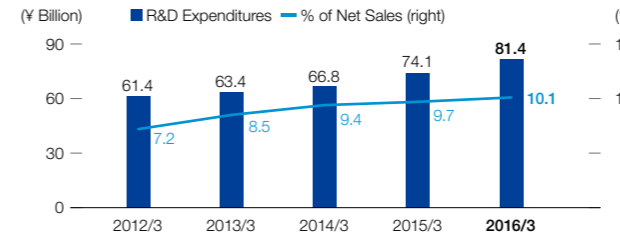
#### Operating Margin 1.1 points UP (YoY) ▲



Operating income climbed above ¥100 billion for the first time in eight years as the Medical Business posted record-breaking income for the third consecutive year and structural reforms led to higher income in the Scientific Solutions Business and reduced loss in the Imaging Business. As a result, the operating margin rose 1.1 percentage points.

### R&D Expenditures 10% UP (YoY) ▲

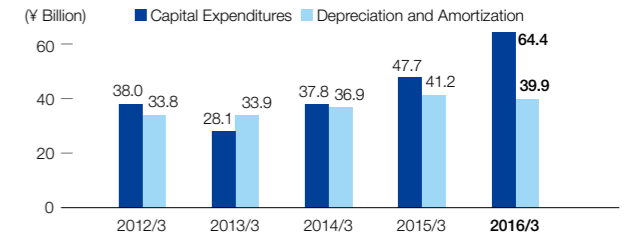
#### Percentage of Net Sales 0.4 points UP (YoY) ▲



R&D expenditures were up 10% year on year due to proactive investments in fields featuring growth potential, primarily in the Medical Business. We conduct investments targeting a ratio of R&D expenditures to net sales of between 9% and 10%.

### Capital Expenditures 35% UP (YoY) ▲

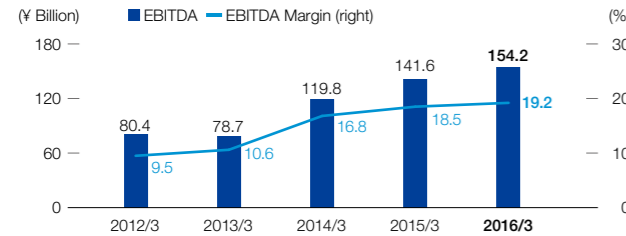
#### Depreciation and Amortization 3% DOWN (YoY) ▼



Capital expenditures increased as a result of production equipment acquisitions in the Medical Business. Depreciation and amortization decreased 3% year on year due to the change from the declining balance method of depreciation to the straight-line method.

### EBITDA 9% UP (YoY) ▲

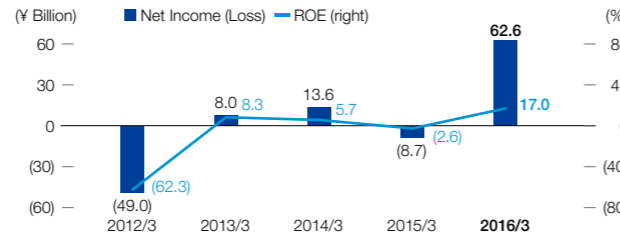
#### EBITDA Margin 0.7 points UP (YoY) ▲



Earnings before interest, taxes, depreciation, and amortization (EBITDA) rose 9% on the back of higher operating income. The EBITDA margin showed smooth improvement, reaching a new record high.

### Net Income (Loss) Record high ▲

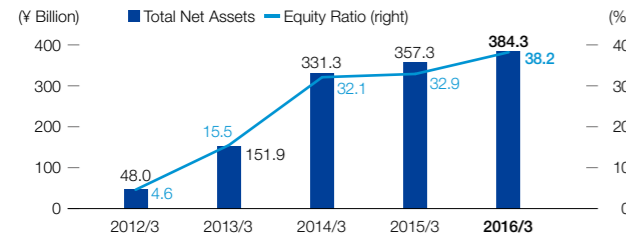
#### ROE 19.6 points UP (YoY) ▲



Record-breaking net income was posted thanks to higher operating income, lower interest expense following reduced interest-bearing debt, and a decrease in income taxes attributable to the recording of additional deferred tax assets. Return on equity (ROE) recovered from fiscal 2015's negative figure and climbed to 17.0%.

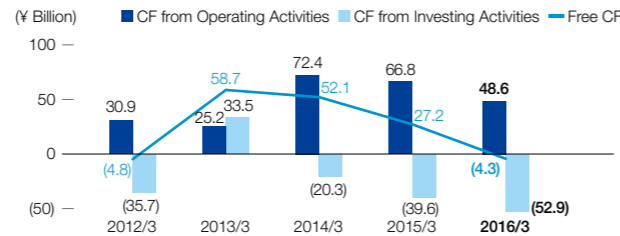
### Total Net Assets 8% UP (YoY) ▲

#### Equity Ratio 5.3 points UP (YoY) ▲



The equity ratio rose 5.3 percentage points due to higher retained earnings resulting from record-breaking net income and reduced interest-bearing debt.

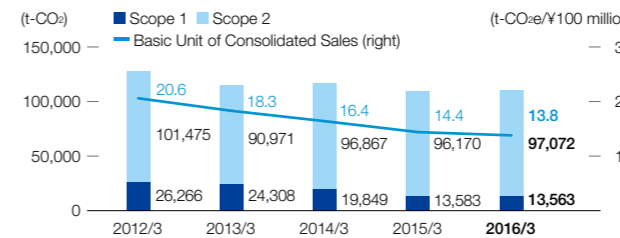
### Free Cash Flows (Free CF) ¥31.5 billion DOWN (YoY) ▼



Net cash provided by operating activities amounted to ¥48.6 billion, but free cash flow was a negative ¥4.3 billion due to one-time payments of criminal penalties and civil fines in relation to the settlement with the U.S. Department of Justice.

## Non-Financial Highlights

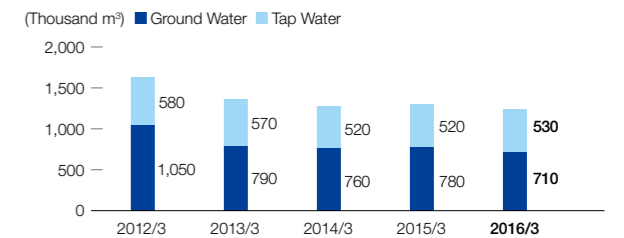
### CO<sub>2</sub> Emissions at Manufacturing Sites\*1,2 Increased 0.8% (YoY) ▲



The majority of the energy consumed by Olympus is in the form of electricity. In order to reduce electricity usage, we are promoting energy-saving activities in daily operations, introducing renewable energy, and developing manufacturing technologies that use less energy and resources. In this manner, the Company is working to reduce the environmental impact of its manufacturing operations.

\*1. Scope: Olympus Corporation and its domestic and overseas subsidiaries (excluding those of small scale)  
 \*2. Olympus reports in the following categories under the GHG Protocol.  
 Scope 1: Greenhouse gas emissions resulting from the direct use of fossil fuels  
 Scope 2: Greenhouse gas emissions resulting from secondary utilization, such as the purchase of electric power

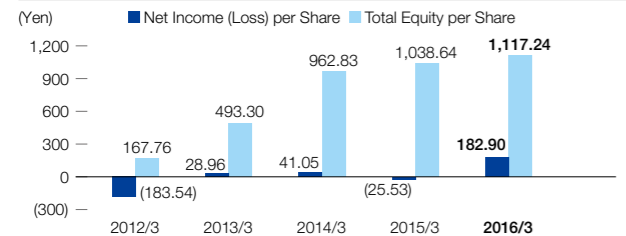
### Water Use Reduced 4.6% (YoY) ▼



Olympus uses water to wash product components. To reduce water usage, the Company is continually developing production methods that require less water and inspecting equipment to prevent leakage. We are also working to minimize the environmental impact by monitoring wastewater treatment facilities and conducting appropriate maintenance and by managing the quality of wastewater.

### Net Income (Loss) per Share ¥208.4 UP (YoY) ▲

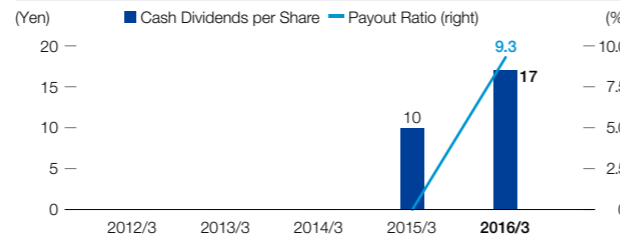
#### Total Equity per Share ¥78.6 UP (YoY) ▲



Net income per share amounted to ¥182.90 as a result of record-breaking net income. Total equity per share increased ¥78.6 year on year.

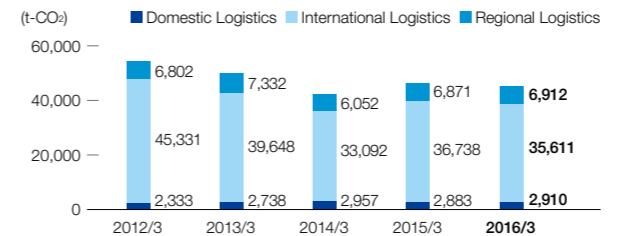
### Cash Dividends per Share ¥7 UP (YoY) ▲

#### Payout Ratio Improvement ▲



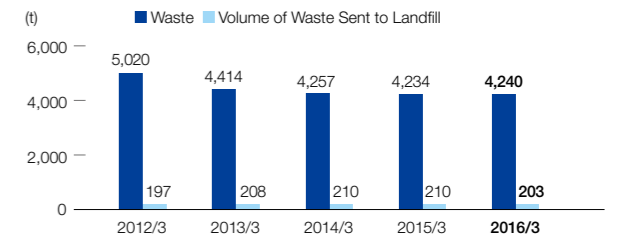
Cash dividends were issued for the first time in four years in fiscal 2015. In fiscal 2016, cash dividends per share were raised by ¥7 year on year, to ¥17 per share. The dividend payout ratio was 9.3%. (The Company adopts the policy of increasing cash dividend payments to target a total return ratio of 30%.)

### Transportation-Related CO<sub>2</sub> Emissions Reduced 2.3% (YoY) ▼



Olympus is working to reduce CO<sub>2</sub> emissions from logistics by lowering transportation loads through the reduction of product and packaging weights, improving transportation efficiency, and accelerating the modal shift toward transportation methods that produce less CO<sub>2</sub>.

### Waste Emissions Increased 0.1% (YoY) ▲



Olympus continues to pursue higher resource productivity in its manufacturing activities through efforts on various levels. These efforts include reduction in disposal at landfills, the improvement of recycling ratios, the reduction of processing losses, and the design of products to minimize waste.

# New Medium-Term Management Plan

(For five years from fiscal 2017 to fiscal 2021)

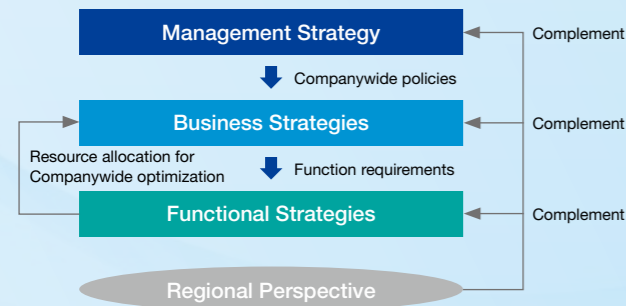
# 16CSP

In March 2016, Olympus unveiled 2016 Corporate Strategic Plan (16CSP), a five-year, medium-term management plan that began with fiscal 2017. Under this plan, Olympus will work to improve corporate value by strengthening the foundations of its business and developing an aggressive business portfolio for sustainable growth beyond its 100th anniversary in 2019.

**Management Policies**

- To be the greatest “Business to Specialist” Company
- One Olympus

## Strategy Framework



At the center of 16CSP is the Management Strategy, under which lies the Business Strategies and the Functional Strategies designed to support the Business Strategies. Within this framework, we will merge the business and function sides of operations in a balanced manner to fully utilize the management resources of the entire Company.

From April 1, 2015  
Transition to matrix style of business operation

# 2016~ 16CSP

## 2012~ Medium-Term Vision

Medium-Term Vision  
Management reconstruction stage

Recover trust and strengthen internal systems

One Olympus

Vision: Olympus contributes to society by making people's lives healthier, safer, and more fulfilling around the world

### FY2012 Results

Net sales: ¥848.5 billion  
Operating margin: 4.2%  
Equity ratio: 4.6%  
ROE: (62.3)%

### FY2016 Results

Net sales: ¥804.6 billion  
Operating margin: 13.0%  
Equity ratio: 38.2%  
ROE: 17.0%

2019  
(100th anniversary)

# 2021~

Grow into a strong global player in the medical field

# 16CSP

Sustainable growth stage

Strengthen foundations and develop aggressive business portfolio

## Management Goals

	FY2021 (Targets)	FY2016 (Results)
Capital Efficiency: ROE	15%	17%
Profitability: Operating margin	15%	13%
Business Growth: EBITDA	Double-digit growth*	+9% growth
Financial Soundness: Equity ratio	50%	38%

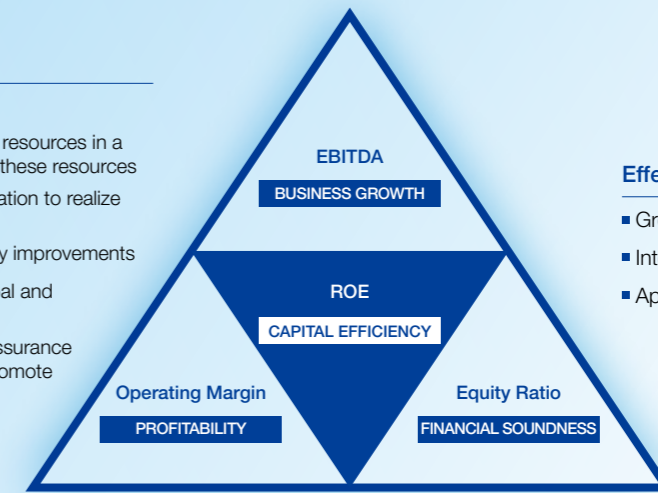
\* CAGR

Generate management resources

Balance-Oriented Management Emphasizing ROE

## Priority Strategies of 16CSP

- Take action to grow businesses
- Acquire necessary management resources in a timely manner and fully leverage these resources
- Advance forward-looking preparation to realize continued growth
- Pursue further business efficiency improvements
- Enhance management on a global and Groupwide basis
- Strengthen Quality/Regulatory assurance functions and internal control, promote strict compliance



## Effectively utilize capital and funds

- Growth investments (R&D, M&A, etc.)
- Internal reserve enhancement
- Appropriate shareholder returns

Optimally allocate management resources

Performance Indices and Targets	Net Sales	Operating Income	Free CF	EPS	EBITDA	Total Return Ratio	R&D Expenditures	Capital Expenditures
FY2021 (Targets)	¥1,100 billion	¥180 billion*	More than ¥250 billion (5-year total)	¥350*	¥240 billion	Approx. 30%	¥430 billion-¥480 billion (5-year total)	¥300 billion-¥350 billion (5-year total)
FY2016 (Results)	¥804.6 billion	¥104.5 billion	¥(4.3) billion	¥183	¥154.2 billion	9%	¥81.4 billion	¥64.4 billion

\* Figures are calculated based on International Financial Reporting Standards (IFRS).



Striving to become a strong global player in the medical field, we will further hone the unparalleled product creation capabilities and strengths as a “Business to Specialist” Company that we have forged to date as we endeavor to give form to the concept of a united One Olympus.

Hiroyuki Sasa  
President and Representative Director

## Review of the Medium-Term Vision

### Drive to Complete the Medium-Term Vision

Fiscal 2016 proved to be an important turning point at which we took time to consider our ideal vision for the Olympus of the future. It was also during this year that we advanced a drive to finish the medium-term vision, the corporate strategic plan launched in 2012 with the aim of reconstructing management. Under this plan, we reorganized non-core business domains and concentrated management resource allocation

on the Medical Business. We also advanced four basic strategies based on corporate management policies, including restructuring corporate governance and improving the Company's balance sheet. As a result of these efforts, we were able to successfully escape the state of crisis we found ourselves in when launching the medium-term vision, more or less achieving the plan's overall goals.

### Successes under the Medium-Term Vision

Basic Strategies	Evaluation	Achievements (Fiscal 2012 → Fiscal 2016)
1 Rebuilding of business portfolio / optimizing allocation of management resources	○	<ul style="list-style-type: none"> <li>Medical: Achieved net sales and operating income targets 1 year in advance</li> <li>Scientific Solutions: Improved profitability, expanded net sales in industrial field</li> <li>Imaging: Implemented drastic structural reforms, departed from structure creating operating losses of more than ¥10 billion</li> <li>Non-core: Completed reorganization ahead of schedule</li> </ul>
2 Review and reduction of costs	○	<ul style="list-style-type: none"> <li>Reorganized production bases in Asia and North America (30 bases → 21 bases)</li> <li>Optimized staff size (4,500 reduction in global employee numbers*)</li> <li>Consolidated operating margin: 4.2% → 13.0%; Cost of sales ratio: 54.8% → 33.5%</li> </ul>
3 Restoration of financial health	◎	<ul style="list-style-type: none"> <li>Increased equity ratio (5% → 38%) through reduced interest-bearing debt (¥642.4 billion → ¥321.1 billion) and other balance sheet streamlining measures, achieving target ahead of schedule</li> <li>Issued dividends for first time in 4 years in fiscal 2015</li> </ul>
4 Restructuring of corporate governance	○	<ul style="list-style-type: none"> <li>Established Board of Directors membered by majority of highly independent outside directors</li> <li>Strengthened internal controls and had Security on Alert designation removed from Company stock in 1 year</li> <li>Reinforced compliance systems and reached settlement with U.S. Department of Justice</li> </ul>

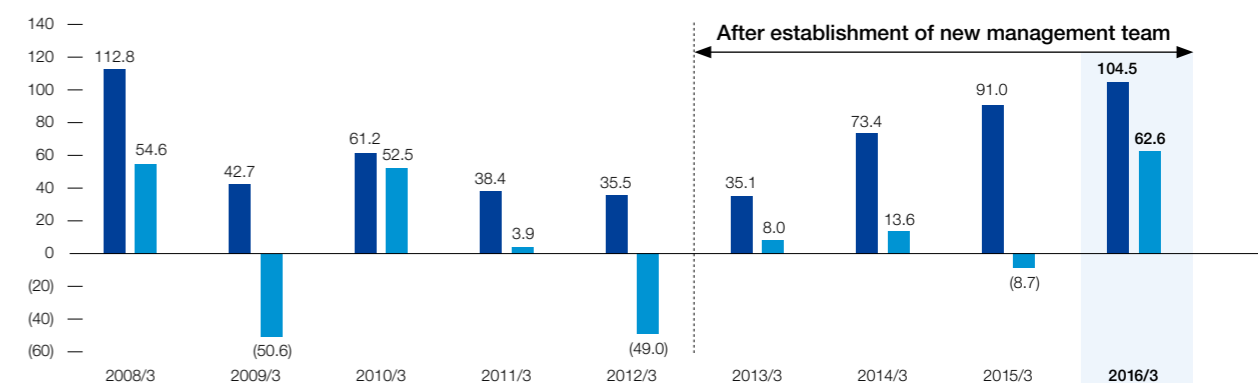
\* Including average number of temporary employees

Looking at performance, operating income in fiscal 2016 exceeded ¥100 billion for the first time in 8 years and was roughly three times higher than when I assumed the position of president in fiscal 2013. We also posted record-breaking net income of ¥62.6 billion. Meanwhile, we managed to make a certain degree of progress in eliminating the root causes of extraordinary losses as we prioritized reorganizing unprofitable

businesses, addressing securities litigations, and reaching settlements with the U.S. Department of Justice. In this manner, we have improved our corporate constitution to the point at which we can safely secure profits, allowing us to resume dividend payments, which I see as a significant achievement. We will continue to enhance shareholder returns.

### Consolidated Performance

(¥ Billion) ■ Operating Income ■ Net Income



### Performance Indices

The medium-term vision focused on the four performance indices of return on invested capital, or ROIC, the operating margin, free cash flow, and the equity ratio, and we thus pursued simultaneous improvements in each of these indices. As a result, the fiscal 2017 targets for both the operating margin and the equity ratio were achieved three years in advance.

This accomplishment came on the back of a substantial improvement in our financial position, which we realized over a short period of only four years. This improvement was achieved by taking advantage of the cash flows generated through earnings growth centered on the Medical Business to

reduce interest-bearing debt while reorganizing non-core business domains and procuring additional capital from overseas. ROIC also showed a pronounced improvement, rising from 3% in fiscal 2012 to 9% in fiscal 2016 due to increased profitability and asset efficiency. Free cash flow, meanwhile, was a negative ¥4.3 billion in fiscal 2016. However, this less-than-satisfactory outcome was primarily due to one-time outlays, such as those related to settlements with the U.S. Department of Justice. Our current structure is such that, if these one-time outlays are excluded, we would have been able to achieve our free cash flow target of ¥70 billion.

### Performance Indices and Targets (Consolidated)

Performance Indices	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3 (Targets)
Return on invested capital (ROIC)*	2.7%	2.7%	5.9%	8.0%	8.8%	More than 10%
Operating margin	4.2%	4.7%	10.3%	11.9%	13.0%	More than 10%
Free cash flow (Cash flow from operating activities + Cash flow from investing activities)	(¥4.8 billion)	¥58.7 billion	¥52.1 billion	¥27.2 billion	(¥4.3 billion)	More than ¥70 billion
Equity ratio	4.6%	15.5%	32.1%	32.9%	38.2%	More than 30%

\* Return on invested capital (ROIC) = Return (Operating income after taxes) / IC (Shareholders' equity + Interest-bearing debt)

### A Look Back at Our Businesses

In our mainstay Medical Business, exceptionally impressive performance was seen centered on the gastrointestinal endoscope field, leading the business to achieve its net sales and operating income targets a year in advance while driving earnings growth on a Companywide basis. In the surgical device field, where we must compete with European and U.S. rivals that were early market participants, we were able to introduce products for fueling future growth as scheduled. Such products included differentiated surgical endoscopes that take advantage of our lead in the areas of 3D and 4K imaging technologies. We also conducted upfront investment in sales and marketing, areas where we needed to strengthen our capabilities. Focused on North America, these investments reinforced sales and marketing systems, and we are now positioned to ensure sales of such new products. Going forward, we believe it will be important to increase the amount of sales by each member of our sales staff. Initiatives to this end will include implementing sales activity tracking measures to improve sales efficiency.

In the Scientific Solutions Business, we transitioned away from strategies based on product lineups to focus more on those oriented to customer groups. We also improved business efficiency by integrating sales divisions in Europe and North America and conducting other reorganizations. Through these efforts, we seek to cut costs by improving efficiency and thereby boost profitability to establish a structure that can generate operating income, even if the rapidly changing operating environment were to cause sales stagnancy. Looking ahead, we will continue to accurately identify the growth potential and

profitability presented by each customer group to bolster earnings capacity and realize further growth.

In the Imaging Business, one of our most important accomplishments under the medium-term vision was to improve profitability. For digital cameras, the market continues to contract, creating a consistently difficult operating environment. Nevertheless, Olympus responded to such market change with a massive shift in strategies, thereby realizing a substantial increase in profitability. Specifically, although the Imaging Business had posted operating losses exceeding ¥10 billion for five consecutive years, we were able to reduce operating loss to approximately ¥2 billion in fiscal 2016, finally moving us within sight of our goal of breaking even on the operating income level. I therefore feel that the structural reforms we have advanced in this business thus far have begun to generate results. Part of such reforms included halving the staff of the Imaging Business, which was larger than 10,000 people four years ago, and consolidating its five production bases into two. In addition, we withdrew from low-priced compact camera operations and accelerated our shift toward mirrorless cameras. By adopting a policy of not pursuing sales expansion, we endeavored to cut fixed costs to the point that would allow us to break even, improving profitability as a result. In the future, we will continue controlling costs in the Imaging Business as necessitated by market contraction and change. At the same time, we will utilize the technologies and other resources of this business in growth businesses in other fields, positioning the Imaging Business as a Companywide technology driver.

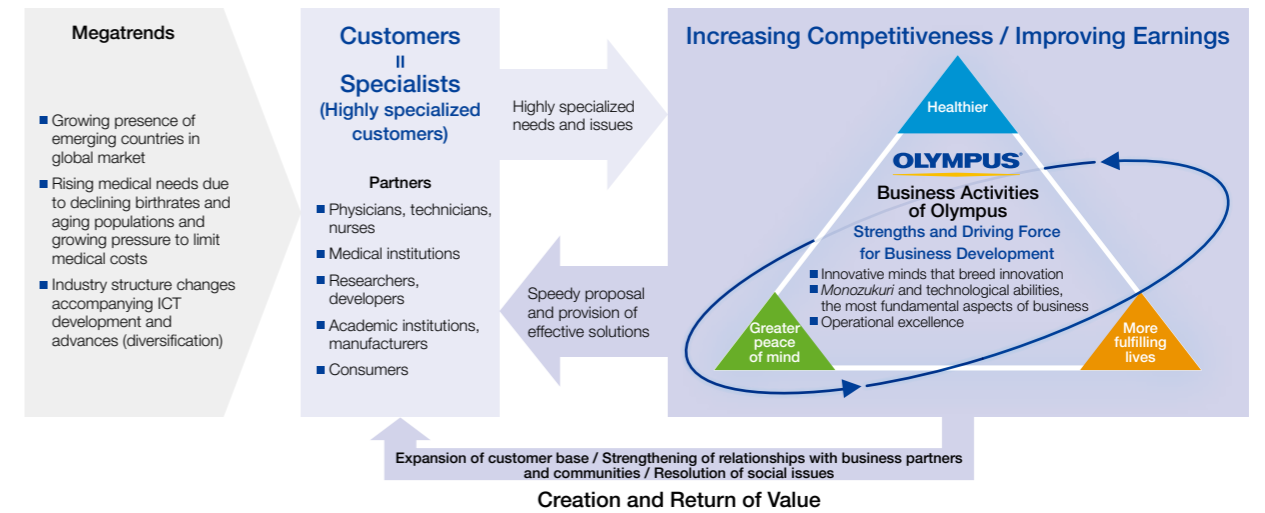
## New Medium-Term Management Plan—2016 Corporate Strategic Plan (16CSP)

### Competing in Fields Where We Can Leverage our Strengths while Focused on Specialists

Our new medium-term management plan, 2016 Corporate Strategic Plan, or 16CSP, started with fiscal 2017. This plan examines how we plan to grow the Company going forward based on our vision for Olympus 10 years from now. When formulating this plan, we began by reexamining the question of “who are our customers?” Looking back over the history of Olympus, we saw that we have traditionally excelled in businesses targeting specialists, those customers with highly specialized skills. We thus identified Olympus’ strength as the ability to conduct product creation based on an accurate understanding of the needs of highly specialized customers and to rapidly propose products and solutions that effectively address these needs. We have grown our business up until today by earning the trust of our customers through these efforts, a fact that holds true for the Medical Business, the Scientific Solutions Business, and the Imaging Business. For

this reason, a core directive of 16CSP is for us to reinforce our operations in markets targeting specialists that understand the type of value Olympus provides. Accordingly, we have set the policy of striving to be the greatest “Business to Specialist” Company. However, when we say “the greatest,” we are not referring to the biggest or the strongest. Rather, we view “the greatest” as being a term for referring to the company that makes the largest contributions to its stakeholders, not only customers but also communities, shareholders, employees, and others, and that is in return looked to with anticipation and respect. This term thus embodies our strong commitment to becoming such a company. Based on this policy, we will continue to push forward with measures to strengthen our operations in fields where we can leverage our strengths as a “Business to Specialist” Company and take full advantage of our management resources.

### Approach toward Target Customers and Creation of Value Leveraging Strengths of Olympus



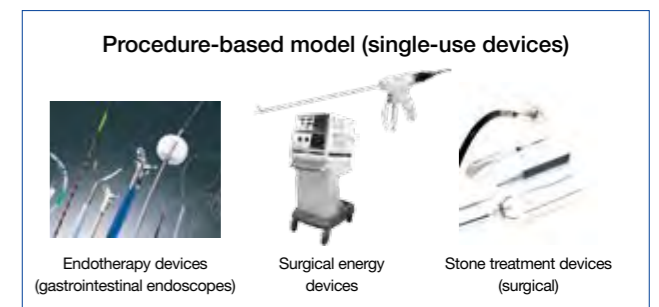
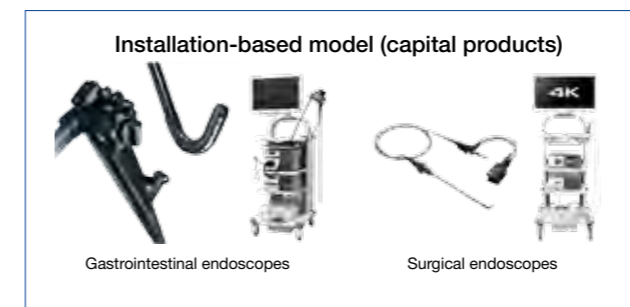
### Developing an Olympus-Style, Procedure-Based Medical Business Model That Responds to Social Needs Arising from Declining Birthrates and Aging Populations, Decreasing Hospital Numbers, and the Curtailment of Medical Expenses

Olympus’ core business is the gastrointestinal endoscope business. There is no change to our policy of expanding this business going forward while maintaining high profitability and competitiveness along with a dominating market share. The operating environment of the Medical Business is undergoing substantial change. However, I am confident that—if we can effectively exercise our strengths in response to change—change will come to present significant business opportunities for the Company.

Looking at developed nations in particular, the strong pressure to curtail medical expenses makes it unlikely that the number of hospitals, and consequently the number of endoscopic treatment facilities and operating rooms, will show any significant increase in the future. Conversely, population aging is expected to result in a rise in the number of procedures conducted at each medical facility. Given this change in the operating environment, the development of a procedure-based Medical Business model to complement our existing installation-based model will be a matter of strategic importance. The first step in developing this model will be expanding our single-use device operations. In this regard, we feel that it will be prudent to strengthen our operations in relation to the endotherapy devices used in gastrointestinal endoscopic examinations and treatments and the energy

devices used in general surgery. This undertaking will require us to develop an optimal value chain for single-use devices, which will differ from our traditional endoscope value chain.

Olympus possesses business competency as a specialist in the field of capital products, such as endoscopes. However, our single-use device capacities need to be strengthened further. It is therefore vital that we accelerate the cycle of development and introduction of new products while also reinforcing the various frameworks and systems necessary for our single-use device operations, such as fast-acting regulatory affairs systems and manufacturing systems capable of low-cost, high-quality mass production. Furthermore, the sales process for single-use devices is completely different from that for capital products. Accordingly, it will be important to establish sales systems that can ensure our ability to move these devices, a task that must be pursued while stepping up coordination between development and manufacturing and between quality and medical affairs functions. By overcoming these obstacles, we aim to create an Olympus-style, procedure-based Medical Business model for endotherapy devices and surgical energy devices. Key to the success of 16CSP will be utilizing this model as a driver of Companywide growth.



### Strengthening Systems for Management on a Global and Groupwide Basis to Target Higher Levels

In 16CSP, we put forth the policy of sharing values and strategies on a global and Groupwide basis. As one facet of our efforts to develop critical systems for supporting this policy, we underwent a major organizational shift as we transitioned to a matrix style of business operation in April 2015 with the aim of better leveraging Companywide management resources. This transition signified the start of our operating the head office from a global perspective, part of becoming the truly global company we target. In other words, rather than simply reinforcing headquarters functions for domestic operations, we will globally strengthen headquarters functions to promote management on a global and Groupwide basis.

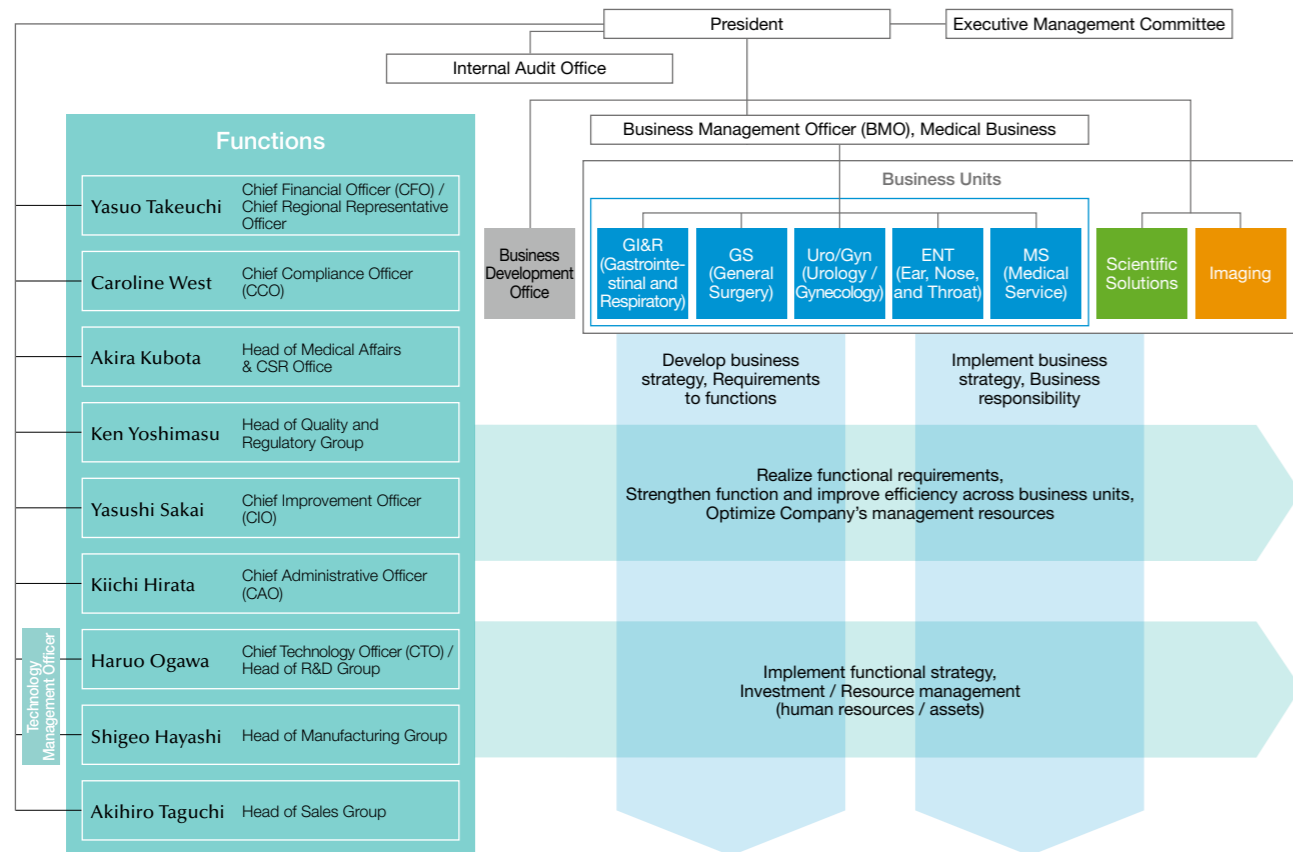
For example, in April 2016, we enhanced our compliance and legal affairs systems with the appointment of a new, global chief compliance officer (CCO). This individual is a lawyer from the United States with a rich background in compliance as it pertains to overseas pharmaceutical companies and biologics manufacturers. In addition, we welcomed a new division manager for the Legal Affairs Division who has a strong track record in the legal affairs division of Olympus Corporation of the Americas (OCA), a North American base.

The Medical Business forms a central pillar supporting the Olympus Group's growth. In expanding this business, however,

it is not sufficient to merely respond to the regulatory requirements of today; we must strengthen systems in consideration of the requirements that may be instituted 10 years from now. Having reached a settlement with regard to the incident leading to investigations by the U.S. Department of Justice, we have pushed forward with reinforcements to compliance divisions at OCA and throughout the Group, creating a system that will prevent the reoccurrence of such incidents by instituting stricter internal regulations and standards. However, as the Medical Business is central to the Group's operations, we are aware of the fact that we will need to further strengthen compliance systems for our business processes going forward. The level of compliance that will be expected of Olympus as a global company is even higher than the level we have previously been held to. We will therefore continue reinforcing corporate governance and compliance systems on a global scale to ensure that these systems are up to the required level.

To help oversee these efforts, we appointed a chief improvement officer, or CIO, to serve alongside the chief financial officer (CFO) and the chief administrative officer (CAO). The CIO will be positioned as the top authority regarding IT and other process reforms, placing this officer in the role of helping the Company pursue further business efficiency improvements, which is one of the priority strategies of 16CSP.

#### Matrix Organizational Structure That Maximizes Use of Corporate Resources by Interconnecting Businesses and Functions



The pursuit of efficiency is an important and never-ending endeavor for companies, and one in which we cannot expect results overnight. Nevertheless, we will remain diligent as we drastically review processes on a global basis, aggressively working toward higher business efficiency and productivity

and targeting the development of strong business infrastructure and low-cost structures for supporting management. Such reforms will not be easy, and some sacrifices will be required, but our resolve is strong; we will persevere and climb to higher pinnacles of corporate value.

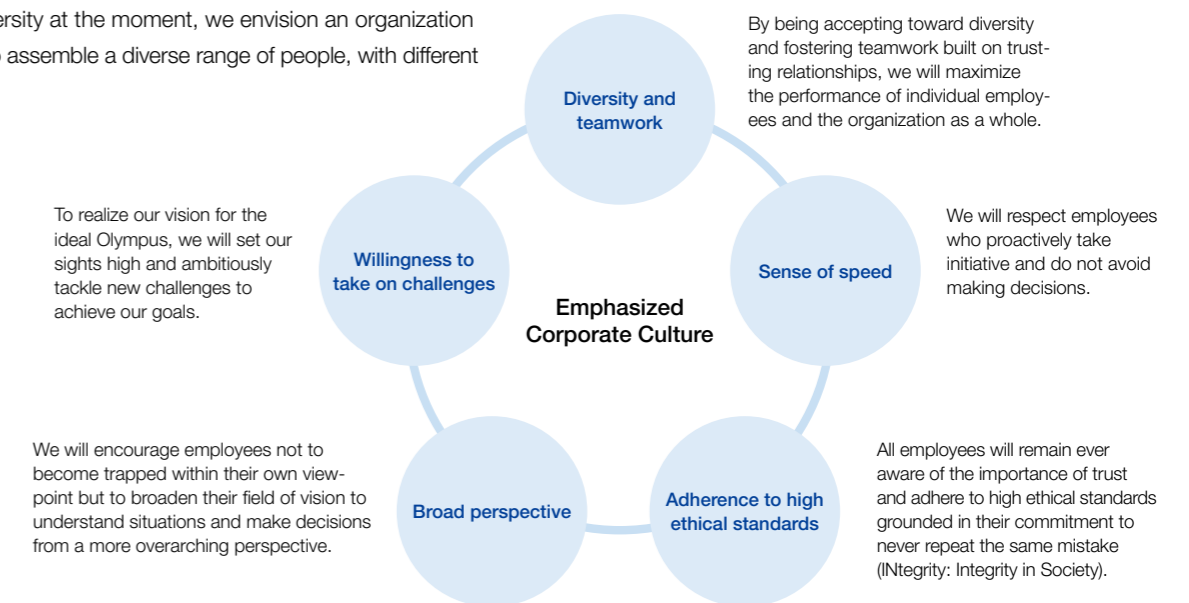
### Building the Foundations for the Next 100 Years Today

In 2019, the fourth year of 16CSP, we will celebrate the 100th anniversary of the Company's founding. By advancing 16CSP, I hope we can further hone the product creation capabilities and strengths as a "Business to Specialist" Company that we have forged over our 100-year history. With this plan, we have taken our first step toward building the systems suited to a global medical equipment manufacturer and foundations for ongoing growth that will carry over to the 100 years beyond this anniversary.

As a global medical equipment manufacturer, the expectations levied at Olympus will include the ongoing reinforcement of business foundations, such as through the enhancement of corporate governance and compliance systems. At the same time, people will also look on us to contribute to society by breeding social value through our business activities, or, in other words, our product creation initiatives. In addition, it goes without saying that investors will expect returns that are suitable for a global medical equipment manufacturer. Striving to always live up to the high expectations of various stakeholders, we will continue to reinforce our foundations, never letting our pride get in the way, as we pursue ongoing growth.

Today's operating environment is changing at breakneck speed. As such, it is crucial for both the Company and its employees to be capable of responding to the constantly changing environment. While Olympus cannot be said to have sufficient diversity at the moment, we envision an organization that is able to assemble a diverse range of people, with different

countries, genders, upbringings, and cultures, and combine their various strengths as an organization that is able to respond to change. Based on this belief, Olympus defines the corporate culture emphasized in advancing business activities under 16CSP as being characterized by diversity and teamwork, a willingness to take on challenges, a sense of speed, broad perspective, and adherence to high ethical standards. Always aware of these five characteristics, employees across the globe will align themselves along the same vector, committed to prevailing as a team and acting quickly to give form to the concept of a united One Olympus.





**Hidekatsu Watanabe**  
Mizuho Securities Co., Ltd.

**Yasuo Takeuchi**  
Director, Vice President and Chief Financial Officer (CFO)

**Junya Ayada**  
Daiwa Securities Co., Ltd.

# Financial Strategies of 16CSP Targeting Future Growth

## —Discussion between the Chief Financial Officer and Analysts

At the end of March 2016, Olympus unveiled its new medium-term management plan, 2016 Corporate Strategic Plan (16CSP). As directives for financial strategies, 16CSP puts forth the policies of secure financial soundness and improve capital efficiency, which are to be accomplished through efficient cash flow allocation. Chief Financial Officer (CFO) Yasuo Takeuchi talked with analysts about Olympus, which has escaped its state of crisis and is now transitioning to a stage of more aggressive development, and its financial strategies and listened to their earnest opinions and advice.

(Conversation held on July 5, 2016, in a meeting room of the Company's head office)



### Hidekatsu Watanabe

Senior Analyst  
Equity Research Department  
Mizuho Securities Co., Ltd.

**Profile**  
Mr. Watanabe joined Nomura Research Institute, Ltd., after graduating from the Faculty of Economics of Keio University in 1990. Positioned in the Corporate Research Department, he was placed in charge of the healthcare sector in 1995. He entered Mizuho Securities in 2000. Today, he covers a wide range of fields in the healthcare sector, including medical equipment.

### Junya Ayada

Senior Analyst  
Equity Research Department  
Daiwa Securities Co., Ltd.

**Profile**  
In 2003, Mr. Ayada graduated from the First Department of Literature at Waseda University and joined Daiwa Institute of Research Ltd. (currently Daiwa Securities Co., Ltd.). Over the years, he conducted studies of small and medium-sized enterprises and was stationed in London before being placed in charge of the electrical machinery industry in 2011. Today, Mr. Ayada primarily covers the consumer electronics sector.

## Financial and Capital Strategies of 16CSP

**Takeuchi**  
Over the past four years, our primary focus has been reconstructing management, and we have been successful in raising equity capital and substantially improving return on equity, or ROE, through this process.

In 16CSP, we define four important management indicators based on which quantitative performance is to be evaluated. These indicators are ROE; the operating margin; the growth rate of earnings before interest, taxes, depreciation, and amortization, or EBITDA; and the equity ratio. The underlying principle behind our decision to set these indicators is for us to maintain ROE of 15% over the long term through earnest business reforms to improve profitability and asset efficiency, even as our financial leverage decreases due to efforts to ensure financial soundness. The target figure of 15% for ROE represents a level that will exceed our capital costs after financial soundness has been achieved through an appropriate capital structure.

In addition, this is the level that will be necessary for Olympus to stand shoulder-to-shoulder with other global medical equipment manufacturers and continue growing indefinitely.

Moreover, we believe that responding to the needs of our shareholders and other stakeholders, and pursuing a balanced increase in the differing types of value sought by shareholders, customers, employees, and business partners, will in turn lead to improved corporate value. Sustained improvements in corporate value will require that we continue to generate returns that meet the expectations of our stakeholders while maintaining financial soundness, thereby ensuring that Olympus is a company that can grow its business in an ongoing manner over the medium-to-long term. Based on this premise, we will practice management that emphasizes the four management indicators I just mentioned, the perspectives they represent, and the balance among them with the aim of improving corporate value.

### Management Emphasizing ROE

ROE 15%		Net income			Equity capital	
				<ul style="list-style-type: none"> <li>Achieve ROE level necessary to compete with global companies and realize ongoing growth</li> <li>Improve profitability and capital efficiency (growth potential) to maintain ROE of 15% over long term</li> </ul>		
			FY2016 (Results)		FY2021 (Targets)	
Profitability	Ratio of net income to net sales = $\frac{\text{Net income}}{\text{Net sales}}$		7.8%	↑	Approx. 10% <ul style="list-style-type: none"> <li>Increase operating margin</li> <li>Improve balance of other income and expenses</li> </ul>	
Asset efficiency	Total asset turnover = $\frac{\text{Net sales}}{\text{Total assets}}$		0.8 times	↑	Approx. 0.9 times <ul style="list-style-type: none"> <li>Increase net sales</li> <li>Improve business asset efficiency</li> <li>Improve corporate asset efficiency</li> </ul>	
Financial leverage	$\frac{\text{Total assets}}{\text{Equity capital}}$		2.6 times	↓	Approx. 2.0 times <ul style="list-style-type: none"> <li>Manage financial leverage</li> <li>Conduct BS-based management</li> </ul>	

**Watanabe**  
Let me begin by saying that I honestly think that Olympus has set forth a very good balance among the management indicators established in 16CSP. Over the past few years, Olympus has accomplished a startling improvement in its balance sheet, a feat that I believe warrants praise. Probably anyone looking at the approach toward capital policies announced in the new corporate strategic plan would feel the same. I can get behind the aim of substantially expanding surgical device operations, as contained in the Company's growth strategies, but it cannot be denied that many investors find objection with the reiteration of this goal given past failures to achieve targets set in this regard. The target of a compound annual growth rate of slightly more than 10% for sales in the surgical business, including

energy devices, is a target that Olympus has pursued previously. While holding doubts in relation to this target, investors will certainly check to see if sales growth is achieved and the Company's share of the surgical device market does indeed increase. I have covered Olympus for 17 years now, and I can therefore explain to investors that raising market share is not easy and that such growth must come gradually. However, it seems to me that the time frame investors adopt to view such progress is a bit different to the unique time frame that is taken by medical equipment manufacturers.

**Ayada**  
In my daily conversations with investors, I feel that they understand the Company's market and have praise for the position

Olympus commands within this market. In other words, they realize how solid the Company's 70% share of the gastrointestinal endoscope market is. Previously, Olympus has grown on the back of this strong position. In 16CSP, however, Olympus has displayed its intent to grow of its own accord, striving to outperform the market and laying down very ambitious target figures. As Mr. Watanabe hinted at, the market has a very favorable opinion of 16CSP. At the same time, however, there is some doubt with regard to the ability of Olympus to topple its rivals in the surgical device and endotherapy device fields, especially when considering their strong business models.

I mainly cover the electrical machinery industry. One clear difference between gastrointestinal endoscopes and standard electronics products is the extent to which they incorporate customer needs. Gastrointestinal endoscopes are developed through a market-oriented approach, by maintaining close coordination with physicians, which allows manufacturers of these products to create strong business models. Electronics products, on the other hand, are sometimes developed by focusing too much on the products themselves, and this approach can lead to divergence between products and the needs of consumers. From this perspective, I cannot help but feel that the market-oriented product development practices and approach toward understanding customer needs that Olympus uses for gastrointestinal endoscopes will also prove successful for surgical devices and endotherapy devices.

**Takeuchi**



One major difference between making medical equipment and making consumer electronics is that, in the case of medical equipment, we do not directly interact with the patients; physicians handle all such interactions. For this reason, we have to base our products on the needs of physicians, and those are needs that also extend to

economic benefits in the medical field. The result of this approach is that products come to be matched to the needs of patients, who are our end customers. However, as patients are not our direct target, we cannot perform direct marketing. We are also unable to approach every individual physician. Accordingly, we are focused on raising the recognition of Olympus among medical societies, striving to have our products become acknowledged as the de facto standard. These efforts, I feel, have given shape to the gastrointestinal endoscopes we deal in today.

Looking at another product, we introduced the THUNDERBEAT energy device four years ago. While this product was incredibly well received by physicians, this strong evaluation was only held by those physicians that we were able to approach



directly. We have not yet been able to achieve the type of recognition that would garner the unanimous support of a certain medical society or of practitioners in a certain treatment field. Of course, the reverse is true of our gastrointestinal endoscopes, which do indeed boast this type of support. It will likely require a great deal of time for THUNDERBEAT to earn such recognition. Looking ahead, we aim to compete in the surgical device field as we have previously done in the gastrointestinal endoscope field, seeking to inspire customers to choose Olympus for products that meet their medical and overall needs. A central theme of 16CSP is to ensure that we can accomplish this goal to the greatest extent possible over the next five years.

**Watanabe**

Many investors still question the decision to continue the Imaging Business, and a number of investors fear that the basis for this decision is the qualitative evaluation of management alone.

**Ayada**

If asked whether or not investors truly trust the management of Olympus, I would have to say that they do not yet. One reason for this lack of trust is the camera business. I personally think that there is merit in Olympus continuing in the camera business. However, this continuation must be prefaced on a reason that seems rational to the stock market. In other words, this business needs to generate a profit. Moreover, this profit needs to exceed capital costs. I understand that Olympus is greatly reducing its number of models and shifting toward high-value-added products. If it continues on this course, while effectively maintaining fixed costs within a range that matches sales, I believe that the Company should be able to create a business model with high

in the differing types of value sought by various stakeholders"

levels of capital efficiency, perhaps by increasing earnings through lenses. One good year will not be enough to change opinions, but if Olympus is able to continue operating the camera business in this manner over several fiscal years, the view that these operations are unprofitable will gradually fade away. If accomplished, investors will begin to see the Imaging Business as meaningful in its entirety, not just with regard to its synergies with the Medical Business in terms of optical technologies. This situation would also serve to improve management's reputation in the stock market.

**Takeuchi**

Quite frankly, I think there are risks associated with Olympus withdrawing from the Imaging Business. It is not that we do not want to quit this business, but rather that we believe that we should not quit this business. To validate this belief, it is vital that the Imaging Business becomes able to generate a profit on an individual business basis. However, given our corporate constitution and scale as well as the uncertain nature of market changes, stably generating earnings will not be easy. It was for this reason that we moved away from the prior in-house company system to adopt a matrix style of business operation. Under this structure, we have established new divisions for new businesses, subsequently creating new business models, which will be utilized to grow the lens business by taking advantage of our imaging technologies. This approach will require us to use all of our assets, including our human resources, in a more effective manner. I believe it is crucial for us to demonstrate the value of these operations through this approach, and this endeavor will take time. As the CFO of Olympus, I feel that improving asset efficiency and linking this efficiency to our business activities will be a matter of utmost importance.

**Ayada**

Looking at the targets for the five years of 16CSP, it is my opinion that the targets for the latter half of the plan are of the most importance. The first half of the plan, I believe, is somewhat of a preparation phase in which higher levels of capital will be invested. With regard to the second half, however, there is still much that is unknown, such as what type of results will be generated and on what schedule these results will appear. For this reason, if you have defined key performance indicators, such as those for determining if asset efficiency in each field of the Medical Business is being properly controlled, it will be easier for management to converse with the stock market. That in turn will ease investors and analysts, such as us, into understanding that the Company's initiatives are heading in the appropriate direction during the first half of the plan, even when we are still unable to see the top line and income growth that these initiatives will create. You mentioned that, from your perspective as CFO, asset efficiency will be a matter of utmost importance. However, with the matrix style of business operation, it might not be clear what to think of the asset efficiency levels of each individual business. The Companywide target for ROE has been defined as 15%, and I believe that this target should be focused on. With regard to whether or not individual businesses have sufficient asset efficiency or if this efficiency is increasing, perhaps it would be enough to know the level of asset efficiency for the Medical Business as a whole.



**Watanabe**

With regard to the numeric side of 16CSP, I would have liked a little more information on R&D expenditures and capital expenditures. Five-year aggregate figures have been provided, but I feel that the Company could have stood to offer some sort of breakdown in relation to these figures. The R&D activities of manufacturers in the medical equipment industry are difficult to understand, but I think this is actually becoming an area that investors need to consider. Pharmaceutical companies disclose their pipelines, making research progress readily apparent. The underlying research efforts of medical equipment manufacturers, however, can be difficult to see. As such, we often do not know whether the benefits of R&D activities are increasing or decreasing in comparison to expenditures. The lack of applicability of such indicators as the ratio of new product sales to total sales can be frustrating to investors. For this reason, I think it might have been a good idea to explain this matter in greater depth. Perhaps you can discuss this topic a little more in the future.

**Takeuchi** Knowing that investors perceive our R&D activities in this manner does provide some hints about how we should proceed. For the meantime, we are projecting R&D expenditures that are equivalent to approximately 10% of net sales. With regard to capital expenditures, we have completed almost all of the large-scale expenditures anticipated, and future expenditures will likely be limited to ongoing investment in sales-use demo products. Accordingly, the level of investment at Olympus will be lower than at other global medical equipment manufacturers over the foreseeable future.

**Watanabe** When explaining to overseas investors that, compared with other Japanese medical equipment manufacturers, the valuation of Olympus is low in comparison to its profit growth, these investors have stated that, on the contrary, they view the Company's stock price as high. My theory about this discrepancy in opinion is that, in the eyes of overseas investors, other Japanese medical equipment manufacturers are a type of "Far East niche company." For this reason, the level of their valuation is not seen as an important factor for consideration. Olympus, meanwhile, is competing with the titans of the United States in a massive and completely new market. For this reason, overseas investors compare it to Johnson & Johnson, Medtronic, and other such rivals. That might explain why the Company's stock price is seen as high. In other words, this discrepancy could be seen as proof that Olympus is viewed as a peer to these companies, a situation that raises the bar to which Olympus is held.

**Takeuchi** I am happy to hear that. Over the past four years, we have continued to advance IR activities overseas. At first, Olympus was primarily viewed as just a Japanese company. Today, however, I feel that we are increasingly being seen as a global company.

**Ayada** If there is one indicator that would be most effective in communicating the Company's value to global investors, who see Olympus

as only one potential investment target from among candidates in all other industries, I believe this indicator would be free cash flow yield. If, for example, the Company generates free cash flow of ¥60 billion to ¥70 billion a year and has a market capitalization of roughly ¥1,300 billion, then free cash flow yield will be about 5%. I do not think that such a yield is particularly low in comparison with companies in other industries. Looking at cash usage, I understand that 16CSP is projecting a five-year aggregate free cash flow of more than ¥250 billion. When the measures instituted during the first half of the plan begin contributing to enhanced cash-generation capacity in the second half of the plan, what will this cash be used for? I suspect that this question is on the minds of many participants in the stock market. Olympus has a profit model based on the large size of its market share and the consistency of its business, a sort of recurring profit model. I therefore feel that the Company's ability to generate cash flows is highly evaluated. The question that remains then is how this cash will be used and how improved asset efficiency will be achieved. If this cash is effectively utilized to fuel the future growth of the Company, investors will naturally come to hold higher expectations for the Olympus of tomorrow. In regard to shareholder returns, I do not think it is enough to simply use cash to make returns by issuing dividends and acquiring treasury stock. Rather, the Company should purchase treasury stock when its stock price is low and use the funds created in this manner to conduct M&A activities, for example. I hope to see Olympus taking advantage of its cash in such ways over the medium-to-long term.

**Takeuchi** You mentioned M&A activities. Let me say that we are not considering the possibility of M&A activities purely for the purpose of increasing the scale of our business. Olympus does not view M&A activities in terms of purchasing entire companies. Rather, we see these activities as a means of purchasing technologies. As stated, we are projecting a five-year aggregate free cash flow of more than ¥250 billion under 16CSP, part of which is earmarked for R&D expenditures. Our quantitative targets are primarily based on the assumption of organic growth. However, we are considering, of course, the possibility of using cash for M&A transactions that are not excessively large.

**Ayada** Would you help me understand this policy of viewing M&A activities through the lens of research and development? Does this mean that Olympus aims to purchase lacking technologies, or does this imply that the Company's target will be the acquisition of people? Some also speak of buying time. In the case of Olympus, which of these do you believe to be lacking?

**Takeuchi** M&A activities conducted without a clear post-acquisition integration plan will not be effective, and that is true whether the target of the acquisition is technologies or people. There are several cases of acquisitions not providing their anticipated benefits in the medical equipment industry. I suspect that, in these cases, sufficient post-acquisition plans were not established. As for Olympus, we will be concentrating investments on the surgical device field going forward.

**Watanabe** The Company has stated its intent to target a total return ratio of 30%. Given the circumstances surrounding the resumption of

dividends, this seems like an incredibly orthodox decision. However, as investors traditionally anticipate high growth rates from medical equipment manufacturers, they will not expect a higher payout ratio than your target. I therefore think that the policy of focusing on purchasing technologies is a prudent decision. The Company's gastrointestinal endoscope operations will no doubt continue to grow non-stop over the next 10-to-15 years, and this growth will be seen in both examination-use and treatment-use endoscopes. It can also be expected that the fundamental form of endoscopes will be very different 15 years from now. For this reason, the policy of using funds to acquire technologies could be seen as one facet of R&D activities, from a broad definition. In the future, when Olympus is debt-free, there will be a need to determine how cash generated thereafter will be used. I do not suspect that investors will expect this cash to be used to increase the total return ratio.



### Opinions, Advice, and Hope for Olympus

**Watanabe** Of the listed medical equipment manufacturers in Japan, the only manufacturer that can be called a first-mover is Olympus. The Company did not gain its position by simply mimicking its U.S. rivals. Quite the contrary, Olympus earned its position by promoting the spread of gastrointestinal endoscopes on its own. It is true that Olympus is a latecomer in the surgical device and energy device fields. However, the current trend in these fields is toward both North American and Japanese companies simultaneously striving to develop new therapeutic devices and thereby mold the markets. You would be surprised to see how many investors do not realize this fact. At the same time, the landscape of the medical equipment field in Japan is also changing. In the current environment, it is crucial to consider the potential of such trends as the aging of the population. For this reason, it seems only natural for the valuation of companies that primarily compete in Japan, where the population aging trend is more pronounced than in other nations, to be higher in this country than companies based out of North America, where medical equipment is treated as a full-fledged industry. I believe that there is room to continue the discussion of whether or not some sectors are more viable in Japan and if it is important to hold stocks in sectors other than the medical equipment sector.

**Ayada** I believe that Olympus currently holds a very beneficial position. There is some discussion regarding the possibility of designating

Olympus stock as one of the core stocks among those of the Japanese stock market. For this reason, I believe that Olympus is the target of both high anticipation of the future and high expectations for its actions. The stock market currently has its eyes on Olympus, intent to see if it can steadily advance the recently announced 16CSP and thereby live up to the expectations of investors. I touched on this point at the beginning of the discussion, but I would like to reiterate that the Company's ability to achieve the goals of 16CSP will likely hinge on whether or not Olympus is able to increase its share in the surgical device and endotherapy device markets. Accordingly, I hope that Olympus will not become overly preoccupied by short-term fluctuations in the macroeconomic environment or foreign exchange rates. Rather, I feel it is important for the Company to strengthen its business portfolio from a medium-to-long-term perspective, looking 5-to-10 years in the future.

**Takeuchi** In formulating 16CSP, we engaged in countless discussions, forging the plan and the logic contained therein, over a period of more than a year. We have utter confidence in this plan, and therefore we are convinced that our odds of success are high. Foreign exchange rates will change, and it would be difficult for us to hedge against all the factors that could impact us in the short term. Accordingly, we do not intend to devote an excessive amount of effort to combating these potential impacts. Rather, we are committed to moving forward with 16CSP and ensuring its success.





## 1 Global Manufacturing Strategy Development of Production Structure

with Eyes to 10 Years from Now

2

The Manufacturing Function Strategy of 16CSP drives us to continue production structure reforms that extend to repair bases in order to improve quality, reduce costs, and otherwise augment manufacturing capabilities with eyes to 10 years from now. Based on the core competency of each manufacturing site, we work toward achieving globally optimized production\* to become the world's No. 1 medical equipment manufacturing group by globally exercising our competitive advantages in terms of products, technology, skills, management structures, human resources, and organizational strength.

- 1 Exhaustively strengthen integral manufacturing capabilities in Japan through integration of R&D and manufacturing functions to enhance No. 1 position in gastrointestinal endoscope field
- 2 Respond to need for cost competitiveness and swift product launches for single-use devices by expanding production of endotherapy devices in Vietnam and augmenting surgical energy device manufacturing capabilities in North America

\* Globally optimized production: Production at the most rational manufacturing site based on comprehensive judgments that take into account the costs, tax systems, legal systems, logistics, procurement, labor resources, site core technologies, and other characteristics of each region and country

Japan / Asia	
Aomori	Endotherapy devices, surgical energy devices
Aizu	Endoscopes, endoscope reprocessor
Shirakawa	Video system center (image processor), light sources, ultrasound endoscopes
Hinode	Production start-up and manufacture of new element products
Nagano	Medical equipment related components
Long Thành (VNM)	Endotherapy devices

### Medical Business Manufacturing Sites

Americas	
Bartlett	ENT field devices
Norwalk	Base components
Brooklyn Park	Surgical energy devices



Europe	
Hamburg (GER)	Rigid endoscopes
Berlin (GER)	High-frequency generators
Přerov (CZE)	Urology field devices
Cardiff (U.K.)	Surgical energy devices
Southend-on-Sea (U.K.)	Endoscope peripherals (trolleys, insufflators, etc.)
Plymouth (U.K.)	Medical equipment related components

### Develop business model centered on single-use devices

Under 16CSP, growing single-use device operations has been positioned as a priority strategy. In these operations, we will improve cost competitiveness while quickly starting up the production of new products to enhance our lineup and building a production structure that facilitates the shift from high-mix, low-volume production to mass production. At the same time, we will seek to establish the most ideal production structure based on considerations of the regions in which products will be used and the relationship between R&D and manufacturing functions. We will also increase our ability to respond to foreign exchange risks through these efforts.

#### Endotherapy Devices

The factory of Aomori Olympus Co., Ltd., will be positioned as our mother factory for starting up the production of new endotherapy devices and driving technological innovation. Meanwhile, we will transfer the production of products centered on devices requiring mass production to the Vietnam plant, which benefits from lower costs.

#### Surgical Energy Devices

At the Brooklyn Park plant, the construction of which was completed in April 2015, we will endeavor to boost production capacity and efficiency for surgical energy devices expected to see increased demand. We aim to enable this plant to practice in-house development and production. For this reason, marketing, R&D, and manufacturing functions will be integrated to create a system that allows the plant to conduct swift commercialization and cost reduction measures.



1

### Increase production capacity at three Tohoku factories, principle medical equipment manufacturing sites, to cater to expanding Medical Business and raising production efficiency

In October 2015, Shirakawa Olympus Co., Ltd., completed the construction of its new facility a step ahead of the other two Tohoku manufacturing sites, creating a more efficient system by consolidating procurement, production, and medical equipment repair and service functions into a single site.



**Aizu Olympus Co., Ltd.** Development and manufacture of endoscopes and endoscope reprocessor  
**Shirakawa Olympus Co., Ltd.** Development and manufacture of video system center (image processor), light sources, and ultrasound endoscopes  
**Aomori Olympus Co., Ltd.** Development and manufacture of endotherapy devices



**Advanced precision processing technologies**  
**Imaging development technologies**  
**Single-use device and high-mix manufacturing technologies**

	Investment	Start of Expansion	Commencement of Enhanced Operations	Benefits of Redeveloping 3 Tohoku Factories
Aizu	Approx. ¥10 billion	Mar. 2014	May 2016	<b>Production capacity</b> ↑ 30% improvement <sup>*1</sup> <b>Production efficiency</b> ↑ 50% improvement <sup>*2</sup> <b>Business continuity plan measures</b> Establish manufacturing foundations to allow for continued supply after disasters
Shirakawa	Approx. ¥10 billion	Nov. 2014	Oct. 2015	
Aomori	Approx. ¥4 billion	Apr. 2015	Sept. 2016	

<sup>\*1</sup> Approx. 30% increase in total floor space  
<sup>\*2</sup> Efficiency measured as production volume per 1m<sup>2</sup> of floor space

### Medical Business Manufacturing Sites:

Japan **5** Asia **1**  
 Americas **3** Europe **6**

Medical equipment repair and service sites:

Approx. **200** worldwide  
 Of which, major repair sites: **50** (improve repair and service QCD\* through coordination with manufacturing sites)

\* QCD: Quality, Cost, Delivery



**Shigeo Hayashi**  
 Head of Manufacturing Group

Top priorities for the Manufacturing Group include achieving globally optimized production in response to production increases in the Medical Business and, during this process, building upon the core competencies of each manufacturing site and utilizing them to realize ideal production QCD. An example of core competencies in Japan is the processing of microlenses by Aizu Olympus Co., Ltd. We have already begun supplying factories in Europe with lenses manufactured at the Aizu factory. In order to realize true globally optimized production, it will be necessary to expand the scope of such inter-factory coordination from components to include units and actual products. For this reason, we will leverage the strengths of manufacturing sites in Asia, including Japan, the Americas, and Europe and conduct manufacturing while coordinating operations between these sites. At the same time, we will advance efforts to secure the necessary human resources at each site and improve technological and onsite capabilities on a global scale.

Our strengths in product creation lie in our technological and onsite capabilities. For example, the microlenses and other optical components used in the tips of endoscopes are difficult to process for other companies. Olympus, however, boasts exceptionally high processing technologies in this area. With regard to our onsite capabilities, we will improve plant consulting and human resource development capabilities based on 5S (sort, set in order, shine, standardize, and sustain) and TPS methodologies. No matter how technologies may advance, it will also be people that discover issues at manufacturing sites and then pursue improvements, and it is these people that support our product creation activities. By forming global collaborative networks between the people at sites across the globe, we will strive to become the world's No. 1 medical equipment manufacturing group.

# Opportunity

## 2 Initiatives for Accelerating Medical Business Growth in the United States

Todd Usen joined Olympus in June 2015 as the President of the Medical Systems Group in the United States (U.S.). Focusing on customers is his number one priority, and this year, he will lead new initiatives to ensure their needs are understood and being met. He will also focus on growing the medical business in the U.S. by leveraging existing strengths, identifying new opportunities in complementary specialty areas, and seeking opportunities for both organic and inorganic growth.

**Todd Usen**

President, Olympus Medical Systems Group  
Olympus Corporation of the Americas



**Q** Could you please explain your background and your role at Olympus?

I joined Olympus Corporation of the Americas (OCA) on June 1, 2015, as the President of the Medical Systems Group in the U.S., but have worked in the medical device market for many years. Before my start with Olympus, I held the position of President of Orthopedics at Smith & Nephew, and I have also held major roles in endoscopy, including Senior Vice President,

Endoscopy for Smith & Nephew and Vice President of Sales for Boston Scientific. Currently, the focus of my role is to lead the U.S. Medical Systems Group into its next chapter, continuing to grow the business and identifying new opportunities according to the Olympus 16CSP, five-year, medium-term management plan.

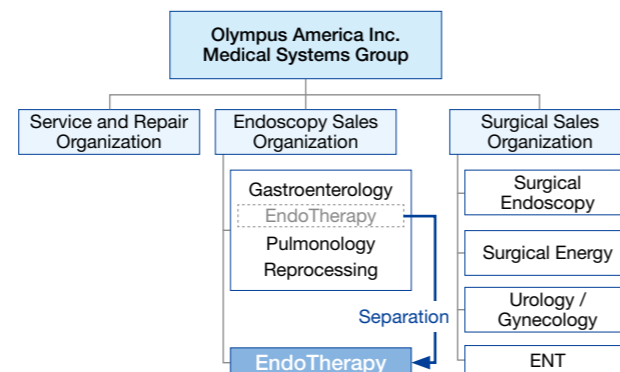
**Q** One year has passed since you assumed your current position. Presently, what are your thoughts on the American operations of the Medical Business and the issues needing to be addressed therein?

The medical business in the U.S. is currently responsible for the majority share of OCA's overall revenue and will continue to be the primary driver of long-term growth in the Americas. OCA's consolidated net sales rose 7% year-over-year in fiscal 2016, ended March 2016, mainly due to the medical business' strong performance.

Fiscal 2016 was an exciting year of renewal for the medical business in the U.S. We established new senior leadership and created standalone Sales organizations for both EndoTherapy (ET) and Gastroenterology and Respiratory (GI&R). This separation was a significant organizational shift which I believe will enable us to enhance and implement the clinical selling tools of ET; maintain the growth of EVIS EXERA III; continue to build strategic areas such as Respiratory, Endoscopic Ultrasound (EUS), and Cleaning, Disinfection,

and Sterilization (CDS); and ensure that our technologies continue to capture market share.

**Separation of Endoscopy Sales Organizations Implemented on April 1, 2016**



Fiscal 2016 also brought many exciting product launches, including the highly anticipated March 2016 release of Surgical Endoscopy's VISERA 4K Ultra High-Definition "Big Screen" imaging system. The Ear, Nose, and Throat (ENT), Urology /

Gynecology, and Surgical Energy groups also expanded their portfolios, and the DIEGO ELITE Multidebrider won the Edison Silver Innovation Award in the ENT Surgical Tools category.

**Q** What growth strategies and initiatives will you institute with the aim of accomplishing the goals of 16CSP?

Focusing on our customers will continue to be our number one priority. We will seek new opportunities to ensure their needs are being met and will actively enhance the clinical value that our sales professionals offer.

In GI&R and ET, we will continue to concentrate on customer service, educational programs, clinical selling, CDS, as well as new technologies in the Pulmonary and Ultrasound spaces. We will identify key offerings, such as the EVIS EXERA III system, and push to increase market penetration. The Surgical portfolio is also positioned for significant growth, with major sales drivers including: innovations led by 4K in Surgical Endoscopy; Narrow Band Imaging technology; the DIEGO ELITE in ENT; the THUNDERBEAT Open Fine Jaw in Surgical Energy; and stone management devices and "glass and metal" imaging solutions in Urology. A sharp focus on rapid iteration within R&D will allow us to continually bring new, advanced technologies to market, further expanding our comprehensive product portfolio and enabling us to maintain our strong foundation in capital equipment.

As outlined in 16CSP, another focal point will be to evolve

from an equipment installation-based company to a procedure-based company, emphasizing disposable and device technologies.

From an internal perspective, I will continue to champion the effort to ensure that employees and groups across the organization are aligning their objectives and working towards achieving the same business goals, and most importantly, serving our customers to the best of our abilities.



4K surgical endoscopy system that supports surgery with high-resolution images

**Q** What is your vision for the future of Olympus (medium-to-long-term goals)?

In alignment with our global mission to be the greatest "Business to Specialist" Company, we will concentrate on several key areas to meet this aim and continue to be recognized as a top-tier medical device company.

Firstly, we must continue to be customer-focused and truly understand our customers' needs. This will include a strong emphasis on education, both internally and for the HCPs who use our products. By actively teaching the medical community and inviting physicians and surgeons to train in our buildings on a regular basis, we will help to ensure that they possess the essential knowledge needed about our products to provide safe, effective treatment. Additionally, it will inspire conversation about procedural skills and the future goals and needs of medicine.

Fully exploring and establishing a presence in similar and complementary specialty areas as well as increasing our clinical knowledge will also be key initiatives. We will continue to look at adjacent markets and specialties where our technology will be a benefit to patients. Furthermore, both organic and inorganic growth will be imperative for our future success. We are positioned well for further expansion within the business and must now explore and realize growth from other opportunities in mergers and acquisitions and distributor partnerships, such as our recent agreement for the exclusive distribution of ENDOCUFF VISION®\*.

I look forward to driving these efforts and leading America's Medical Business into its next chapter with a bright future.

\* ENDOCUFF VISION® is only sold in the United States and Canada and is primarily used to secure a functional field of view when performing colonoscopies.

# 3

## Potential for Advancement of Endoscopic Surgery and Expectations for Olympus

Olympus developed the world's first practical gastroscope in 1950. Since then, the Company has continued to develop new medical equipment together with the healthcare professionals that use this equipment. We asked Dr. Sumio Matsumoto, honorary director of the National Hospital Organization Tokyo Medical Center, about the needs of the medical field, where equipment is becoming more sophisticated on a daily basis, and what are expectations for Olympus in light of these needs.



Honorary Director, National Hospital Organization Tokyo Medical Center  
Member of the New Strategy Promotion Special Investigating Committee,  
Strategic Headquarters for the Promotion of an Advanced Information and  
Telecommunications Network Society  
Auditor, Japan Society for Endoscopic Surgery

### Sumio Matsumoto

1973: Graduated from Keio University School of Medicine  
1973: Trainee Surgeon, Keio University School of Medicine  
1980: Surgeon, National Hospital Organization Kanagawa Hospital  
1982: Assistant Professor in Surgery, Nagoya Health University School of Medicine  
1984: Assistant Professor in Surgery, Fujita Health University College School of Medicine  
1990: Associate Professor of Surgery, Fujita Health University School of Medicine  
1993: Professor of Surgery, Fujita Health University School of Medicine  
2000: Director, Banbuntane Hotokukai Hospital, No. 2 Teaching Hospital,  
Fujita Health University  
2005: Director, National Hospital Organization Tokyo Medical Center  
2014: Honorary Director, National Hospital Organization Tokyo Medical Center

### Operating Environment for Japanese Medical Equipment Manufacturers

Japanese manufacturing companies possess sophisticated technologies that are ideal for use in medical equipment. However, due to an insufficient ability to integrate these technologies into medical equipment, it is rare for products utilizing such technologies to appear on the market. As a physician, I am a bit dissatisfied with this reality. In 2014, the scale of the domestic medical equipment market was roughly ¥2.8 trillion\*. However, an excessively large portion of this amount was attributable to imported equipment, forcing medical practitioners like myself to rely on equipment made by overseas manufacturers.

In May 2014, the government of Japan enacted the Act on Promotion of Healthcare Policy, codifying the country's intent to actively promote the development of cutting-edge medical equipment. A November 2014 revision to Japan's Pharmaceutical Affairs Act further established the regulatory environment for this drive. I suspect that high expectations will be put on Olympus, a leading Japanese medical equipment manufacturer, with regard to applied research of medical equipment and the development of the industry.

\* Based on *Statistics of Production by Pharmaceutical Industry*, Ministry of Health, Labour and Welfare

### Development of Endoscopic Surgery Procedures

I was inspired to begin performing endoscopic surgeries by a video session on gallbladder removal using surgical endoscopes during an international conference on gastrointestinal surgery held in Toronto in 1989. After returning to Japan, I took up the challenge of training in these surgeries. I performed my first local excision of an early gastric carcinoma in 1990 and then succeeded in removing a gallbladder in 1991. As surgeons, we were particularly

impressed with how little post-operative pain is felt by patients that have undergone endoscopic surgery. The benefits of endoscopic surgery include the fact that it entails less pain, is less invasive, and allows for quicker recovery. The world's first endoscopic surgery was conducted about 30 years ago, and since then the number of these surgeries has risen rapidly. You could even say that these minimally invasive therapies caused somewhat of a revolution.

Today, nearly 200,000 endoscopic surgeries take place in Japan each year. However, this number still does not represent a particularly large portion of the total number of disease cases. Should technological progress give rise to endoscopes and endotherapy

devices that allow for surgeries to be performed more safely, I expect that a greater number of surgeons would switch from open abdominal and chest surgeries to endoscopic surgery. This shift could then lead to a sharp increase in the numbers of these surgeries.

### Benefits of Advances in Medical Equipment

The resolution of endoscopy images is getting much better. At Tokyo Medical Center, the difference between analog images and HD images has resulted in a reduction in surgery time of about one hour when conducting sigmoidectomy, a representative example of endoscopic surgery. Indeed, there is a clear link between being able to view higher resolution images and shortened surgery times. Meanwhile, the depth of information generated by 3D endoscopes has made it significantly easier to train in these procedures, particularly among younger surgeons, who pick up these techniques at a startling pace. I anticipate that the progress in imaging technologies will make it possible to display details that are invisible under current technologies, thereby expanding the range of endoscopic surgeries that can be performed while increasing safety and furthering education on these surgeries. From Olympus, as the Company is already offering 4K endoscopes with resolution exceeding HD, I hope to see the early release of 4K

endoscopes with 3D technologies.

The advancement of therapeutic devices makes large contributions to shortening surgery times. When endoscopic surgeries first emerged, it was difficult to treat bleeding, and surgeries could prove exceptionally stressful for surgeons as a result. Accordingly, I was very impressed with how easy it became to stop bleeding after the advent of ultrasonic coagulation and cutting systems. Olympus launched an ultrasonic surgical system in 1990, and it recently released an energy device that integrates both advanced bipolar and ultrasonic energy. When I tried this integrated energy device, I was able to perform surgeries faster than when using other products, and the strain on both the patient and myself was significantly lower.

Looking forward, I hope that medical equipment manufacturers will work to make endoscopic surgeries safer while also developing equipment that contributes to even shorter surgery times and further reduced burdens on both patients and surgeons.

### Expectations for Olympus

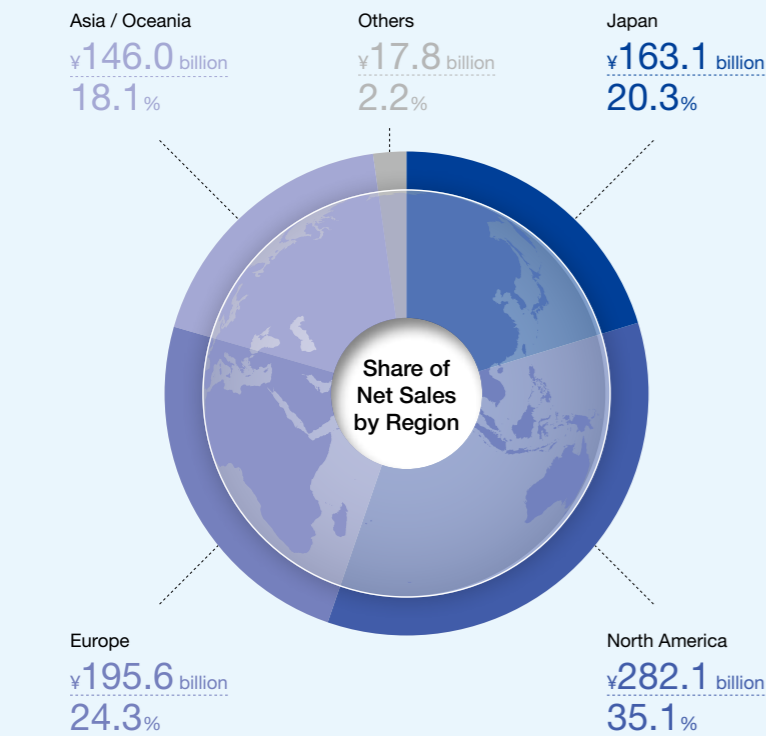
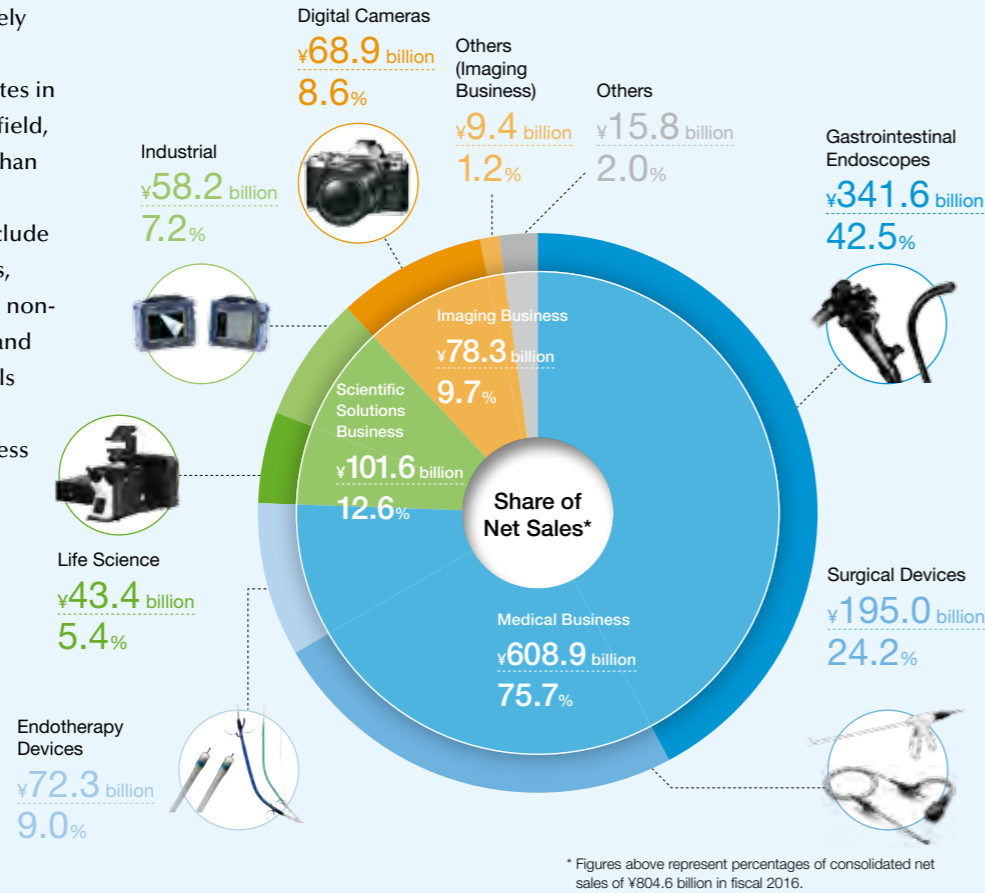
In 1992, I was approached at a conference by a member of the Olympus development staff, who proposed that we work together to develop equipment that resolves the issues faced in endoscopic surgery. This encounter marked the start of my involvement in the development of various pieces of medical equipment. It was in 1998 that Olympus established an organization known as the Endoscopic Surgery Liaison Committee to serve as a forum for discussion between physicians working in the medical field and development staff members. A number of subcommittees in a variety of areas were formed under this committee, and I took part in many of them. Unfortunately, many of the ideas raised at this forum were never incorporated into actual products, but I was nonetheless impressed by the committed efforts on the part of Olympus to provide answers to the needs of physicians.

holders to prevent disruptions due to the surgeon's hands shaking and incorporate forceps with multiple degrees of freedom and forceps holders. I understand that the development of such systems will continue to be advanced. Olympus possesses superb technological elements. In the future, I hope that the Company will enhance its ability to integrate these technologies and work to develop more user-friendly equipment. In regard to IoT, image deep learning technologies are advancing, as indicated by the ability of an artificial-intelligence program to beat professional Go players at their own game. As Olympus is a company that uses endoscopes to capture images, I suspect that such technologies could be used to support diagnoses. The Company might want to consider acquiring human resources with IoT specialties or collaborating with companies that possess IoT technologies.

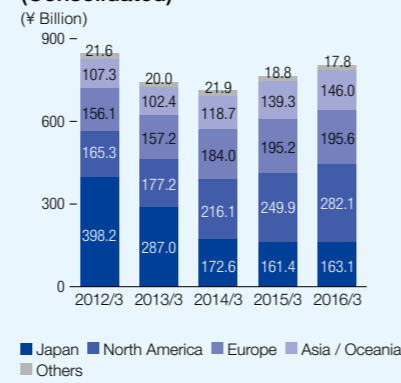
Looking ahead, I think it will be important to respond to such trends as the development of robotics technologies and the spread of the Internet of Things, otherwise known as IoT, throughout society. Robotic assisted surgery, for example, not only reduces the physical burden on the surgeon, it is also said to shorten the time taken for surgical training compared with that for laparoscopic surgery. Olympus has made prototypes of small-scale robotic assistance systems that use endoscope

As advances in medical equipment make endoscopic surgeries safer and easier to perform, more and more surgeons will switch over from open abdominal and chest surgeries, resulting in growth in the endoscope market. My expectations for Olympus are for it to develop equipment that is friendly to both patients and physicians and for it to claim a prominent position on the global stage where it can stand proudly as a Japanese medical equipment manufacturer.

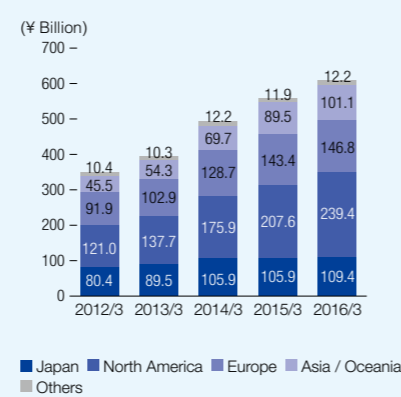
Olympus generates approximately 80% of its sales in the Medical Business, which primarily operates in the gastrointestinal endoscope field, where it holds a share of more than 70% of the global market. The Company's other businesses include the Scientific Solutions Business, which deals in microscopes and non-destructive testing equipment, and the Imaging Business, which sells digital cameras. These three businesses constitute the business domains of Olympus.



Share of Net Sales by Region (Consolidated)



Share of Net Sales by Region (Medical)

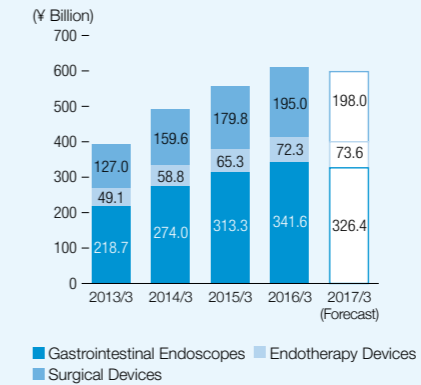


## Medical Business

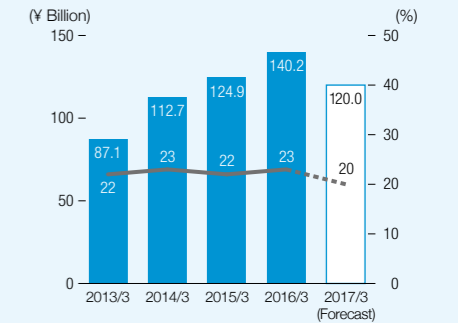
### Results of Operations in Fiscal 2016

In the Medical Business, performance was strong in the gastrointestinal endoscope field as well as in the surgical device and endotherapy device fields. Sales continued to increase for mainstay gastrointestinal endoscopes, as they did for surgical endoscopy systems and energy devices. By region, overall growth was driven by North America and Asia. As a result, net sales in the Medical Business increased 9% year on year, to ¥608.9 billion, and operating income rose 12%, to ¥140.2 billion.

### Net Sales



### Operating Income / Operating Margin

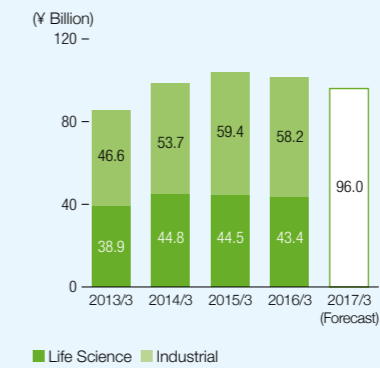


## Scientific Solutions Business

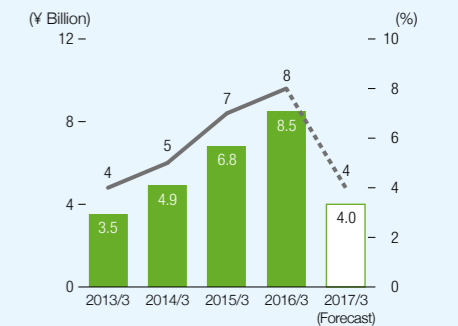
### Results of Operations in Fiscal 2016

The life science field operations saw sales of research-use equipment and other products decline due to delayed budget execution among research institutions. Sales of industrial field products, such as non-destructive testing equipment, also decreased, following the drop in resource prices. As a result, the Scientific Solutions Business posted a 2% year-on-year decrease in net sales, to ¥101.6 billion. Operating income, however, was up 24%, to ¥8.5 billion, reflecting reductions in cost of sales and increased efficiency through the integration of sales bases.

### Net Sales



### Operating Income / Operating Margin

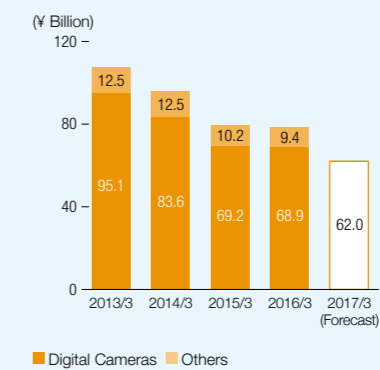


## Imaging Business

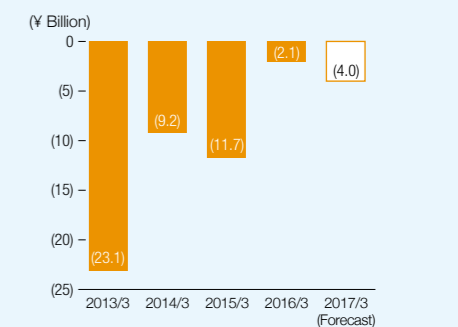
### Results of Operations in Fiscal 2016

Although net sales declined 1% year on year, to ¥78.3 billion, in the Imaging Business, operating loss decreased from ¥11.7 billion in fiscal 2015 to ¥2.1 billion in fiscal 2016. This accomplishment was a result of our efforts to reduce the scale of this business and lower the level of expenses to match this scale while securing earnings and minimizing risks. We were unable to achieve our target of breaking even on the operating income level. Nonetheless, we did begin seeing the successes of our structural reforms, which included a substantial reduction in operating loss.

### Net Sales



### Operating Loss



(Note) The division of operations included in the Imaging Business was changed in fiscal 2015 and then again in fiscal 2016. Net sales figures for fiscal 2013 and fiscal 2014 use the division of operations after this change.

## Others

In Others, we provide bone replacement material and other biomaterials and also sell lens modules directly to other companies. In addition, this segment is responsible for seeking out new businesses and conducting R&D activities in relation to such businesses. To develop future pillars supporting the Company, we are searching for new business opportunities and advancing R&D and discovery activities for acquiring technologies.

# MEDICAL BUSINESS



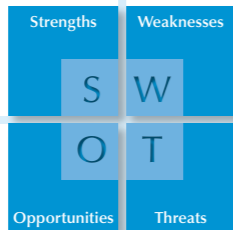
**Focused on the two types of value provided by early diagnosis and minimally invasive therapy, we seek to help reduce healthcare expenses and improve patient quality of life.**

Olympus is one of the few healthcare companies capable of providing a full lineup of solutions for early diagnosis, centered on gastrointestinal endoscopes, and minimally invasive therapy, primarily through endotherapy devices and surgical devices. Going forward, we will continue striving to help reduce healthcare expenses, which are rising on a global scale, and improving patient quality of life by offering technologies, products, services, and solutions of the highest caliber.

## Akihiro Taguchi

Business Management Officer, Medical Business

- More than 70% share of global gastrointestinal endoscope market
- Technological capabilities that led to development of world's first practical gastroscope and have continued to lead innovation
- Position as only manufacturer to deal in both imaging equipment and energy devices
- Network of approx. 200 repair and service sites worldwide
- Lineups of 3D, 4K, and other differentiated products boasting high resolution and impeccable quality



- Position as follower in surgical device field after European and U.S. companies
- Limited systems for acquiring clinical evidence on medical and economic benefits of our surgical devices
- Insufficient lineup of surgical devices for procedures requiring open surgery and other treatments
- Lacking lineup of single-use products

- Growing healthcare awareness; rising demand for early diagnosis due to spread of cancer prevention enlightenment
- Increased demand for minimally invasive therapy methods
- Insufficient number of physicians trained in endoscopic procedures and space to improve medical techniques in emerging countries
- Progress in medical system reforms worldwide

- Strengthening medical equipment regulations worldwide
- Downward pressure on selling prices due to increased influence of GPOs
- Appearance of overseas rivals due to reorganization of medical equipment industry
- Impacts of foreign exchange rate fluctuations (yen appreciation)

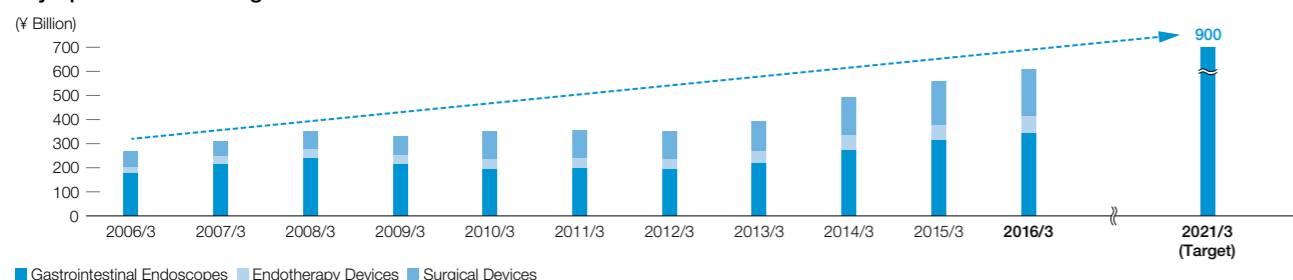
### Operating Environment and Business Opportunities

In developed countries, where populations are rapidly aging, as well as in emerging countries, which are experiencing high economic growth, the improvement of patient quality of life and the control of both healthcare and social security expenses have become urgent priorities. At the same time, this drive to limit healthcare expenses will likely result in a decrease in the number of facilities (endoscopic treatment facilities and operating rooms) despite the rise in case numbers that is projected to occur in conjunction with population aging. Under these trends, it will not be enough to simply supply quality products; there will also be an increased emphasis on the economic benefits of these products to the medical field.

Olympus possesses technologies for the development and

manufacture of medical equipment for advancing progress in terms of early diagnosis and minimally invasive therapies. These technologies place the Company in a prime position to contribute to the medical industry. By leveraging this strength, the Medical Business will seek further business expansion by providing technologies, products, services, and solutions of the highest caliber. Looking ahead, it can be expected that the operating environment will grow increasingly difficult as more stringent regulations are instituted for medical equipment and various other legal requirements are made more rigorous. In light of this situation, we will strengthen our management structures on a global basis while always keeping an eye toward 10 years in the future.

### Olympus' Ever-Growing Medical Business



### Direction of Medical Business Strategy

To further accelerate growth in the Medical Business, we will concentrate investments on the five business units created under the new organizational structure and work to increase sales and income. Investments will also be conducted in the functions that support business expansion in order to strengthen these functions while striking a balance between growth potential and profitability.

to strengthen our sales, R&D, manufacturing, and quality and regulatory assurance functions and conduct efficient investments to improve growth potential and profitability. With regard to investments in the manufacturing function, we will establish systems for responding to growth in demand for our products worldwide by bolstering manufacturing lines and optimizing global production systems with eyes to 10 years from now. In Japan, the principal site of gastrointestinal endoscope manufacturing, new facilities at our Aizu, Shirakawa, and Aomori factories were constructed through a total investment of ¥24 billion. Looking ahead, we will transfer the manufacture of certain endotherapy devices from Aomori to Vietnam. In North America, meanwhile, we will expand manufacturing lines and pursue increased efficiency with regard to energy devices and other products at our Brooklyn Park plant.

#### 1. Concentrate Investments on Five Business Units and Increase Sales and Income

In April 2015, Olympus shifted to an organizational structure for the Medical Business that comprises five business units: the GI&R (gastrointestinal and respiratory) Business Unit; the GS (general surgery) Business Unit; the Uro/Gyn (urology / gynecology) Business Unit; the ENT (ear, nose, and throat) Business Unit; and the MS (medical service) Business Unit. We will pursue increased sales and income by directing growth investments toward each of these business units.



#### 2. Invest in Sales, R&D, Manufacturing, and Quality and Regulatory Assurance Functions That Support Business Expansion

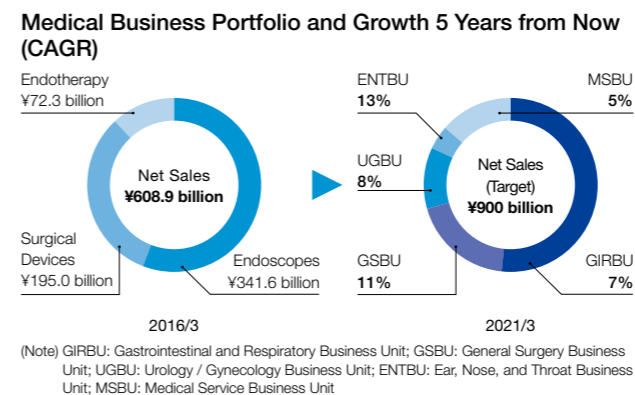
In order to further expand the Medical Business, we will work

### Priority Measures

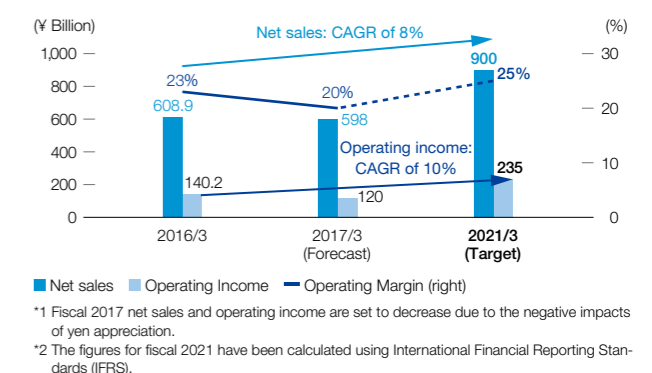
Measure	Details
1	Expand dominant GI market share and improve profitability while realizing substantial growth in ET and surgical business operations
2	Shift from installation-based Medical Business model to procedure-based Medical Business model
3	Expand operations in emerging countries
4	Strengthen ability to respond to GPOs/IDNs*
5	Strengthen QA/RA** functions
6	Improve productivity

\*1 GPOs: Group Purchasing Organizations; IDNs: Integrated Delivery Networks  
 \*\*2 Quality Assurance / Regulatory Assurance

### KPI (16CSP)



### Performance Forecasts



## Gastrointestinal and Respiratory Business Unit (GIRBU)

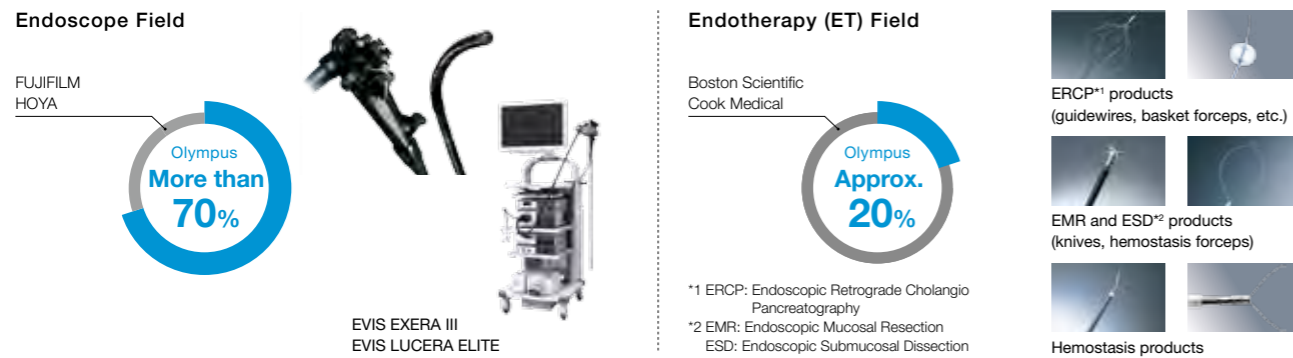
MEDICAL BUSINESS



The GI&R Business Unit advances the Company's core business, which supports Olympus with its share of more than 70% of the global gastrointestinal endoscope market. We will continue to expand this business while improving profitability. At the same time, we will actively invest in boosting our share of the endotherapy device market and seek to grow operations in peripheral fields: respiratory; cleaning, disinfection, and sterilization (CDS); endoscopic ultrasound (EUS); capsule endoscopy; and IT.

**Katsuyuki Saito**  
Head of GI&R Business Unit

### Global Market Share / Competitors (As estimated by the Company)



### Strategies and Priority Measures

#### Gastrointestinal Endoscopes (Capital Products)

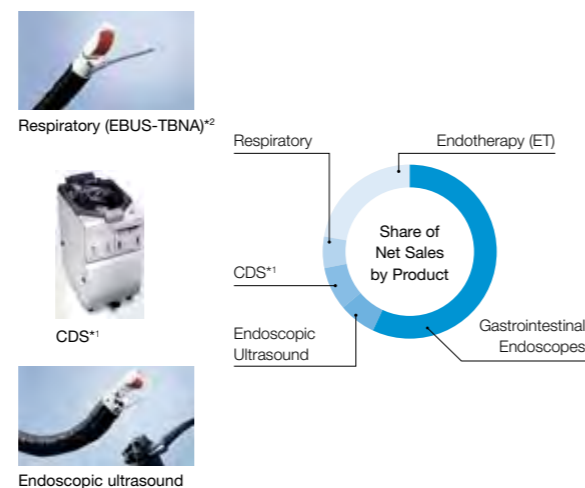
**1 Secure Strong Market Position in Gastrointestinal Endoscope Business and Improve Profitability through Selection and Concentration**

In the gastrointestinal endoscope field, where we boast unparalleled strength, we will pursue sustainable sales growth through the introduction of high-value-added products. For example, over the period of 16CSP, we plan to launch unique scopes that address market needs as well as base systems to replace existing models. Olympus realizes that the global drive to limit healthcare

expenses has created a need for the development of equipment that provides economic benefits in the medical field. We are thus developing products that allow examinations with Olympus endoscopes to be performed with increased efficiency. At the same time, we will work to improve profitability by boosting the efficiency of development, manufacturing, and sales functions.

**2 Expand Business in Respiratory, CDS<sup>\*1</sup>, Endoscopic Ultrasound, Capsule Endoscopy, and IT Fields**

We will also expand our operations in fields other than gastrointestinal endoscopes. In the respiratory field, we aim to spread and expand usage of endobronchial ultrasound guided transbronchial needle aspiration (EBUS-TBNA)<sup>\*2</sup>. As CT screening becomes increasingly more common in North America, it can be expected that the number of cases of lung cancer incidence will increase, stimulating a growing need for local biopsies. In the CDS field, we have re-acknowledged the rising level of market requirements from the perspective of infection control, and we are targeting rapid growth in the North American and Chinese markets accordingly. As for the IT field, we will utilize strategic alliances with medical IT vendors to grow our operations through the provision of seamless interfaces for connecting endoscopy systems to hospital network systems.



\*1 Cleaning, disinfection, and sterilization  
\*2 EBUS-TBNA is a procedure performed mainly for lung cancer diagnosis and staging by sampling tissues from mediastinal and hilar lymph nodes.

**3 Realize Business Growth in Emerging Markets**

Recognizing that emerging markets will continue to be positioned as growth markets into the future, we will strengthen our operating foundations in China, other parts of Asia, and the Near and Middle East. Emerging countries are experiencing population aging in a similar fashion to developed countries, and national healthcare costs are shooting upward. For this reason, fostering of new endoscopists is a pressing task. To address this task, Olympus has established three training and service centers in China, located in Shanghai, Beijing, and Guangzhou. The Company is now amply equipped to respond to training and after-sales service demand in the Chinese

market. Furthermore, in July 2016, we established a training center in Thailand that targets healthcare professionals in Southeast Asia. We also have plans to develop training centers in other parts of Asia. These centers will be utilized to spread early diagnosis procedures and minimally invasive therapies and techniques using endoscopes, thereby helping us expand our business.



T-TEC (Thai-Training and Education Center)

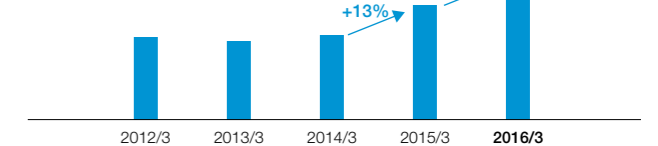
#### Endotherapy Devices (Single-Use Devices)

**1 Expand Share in World's Largest Market of North America**

We have continued to expand our sales force in the North American market, an undertaking that has enabled us to achieve double-digit growth in the endotherapy device market for two consecutive years. Having launched differentiated products that match this market's needs, including guidewires, various endoscopic submucosal dissection knives, and rotating clips, we anticipate further sales expansion. Going forward, we will work to further expand our market share by redoubling our efforts to continually develop differentiated products and acquire lineups of competitive products while further reinforcing and enhancing sales systems. At the same time, we will step up our

approach to group purchasing organizations (GPOs) and integrated delivery networks (IDNs) on an ongoing basis to raise the recognition of Olympus, thereby seeking to provide comprehensive solutions combining endoscopes, services, and other offerings.

**North American Endotherapy Device Sales Growth**  
(Local currency basis)



**2 Strengthen Business Excellence in Single-Use Device Business**

The expansion of operations in the endotherapy device field will require unique sales and marketing, R&D, and manufacturing functions tailored to single-use devices. We are strengthening our operating foundations in this area out of consideration for this requirement. In regard to sales and marketing functions, we will work to improve the knowledge and skills of sales representatives. We will also steadily develop account management infrastructure to better track sales activities, thereby aiming to

improve sales quality and efficiency. In reinforcing the R&D function, we will step up activities for collecting information on market needs and develop systems that allow us to respond quickly to requests for minor changes to products. We will also coordinate R&D and manufacturing functions to shorten the cycles of new product introductions. While undertaking these reforms, a phased shift in the production of existing products to Vietnam will be undertaken to raise cost competitiveness.

**3 Execute Growth Strategies Utilizing Strength in Endoscope Field**

By utilizing our strength of being able to provide both endoscopes and endotherapy devices, we will advance the development of techniques and of businesses that adopt both

of these items. Through this endeavor, we aim to provide total solutions for early diagnosis and minimally invasive therapies, the likes of which only Olympus can.

### KPI (16CSP)

**Net Sales: CAGR of 7%**

Field	Targets	Key Points	Market Scale (Growth Forecasts)
Endoscopes	CAGR: 6%	<ul style="list-style-type: none"> <li>Achieve stable growth that exceeds market growth rates</li> <li>Expand business peripheral to endoscopes and operations in emerging markets</li> </ul>	¥350 billion–¥370 billion (CAGR: 4%–6%)
Endotherapy Devices	CAGR: 9%	<ul style="list-style-type: none"> <li>Take advantage of higher endotherapy device demand accompanying rising case numbers and expanding share in U.S. market</li> </ul>	¥370 billion–¥390 billion (CAGR: 4%–6%)



## General Surgery Business Unit (GSBU)

MEDICAL BUSINESS

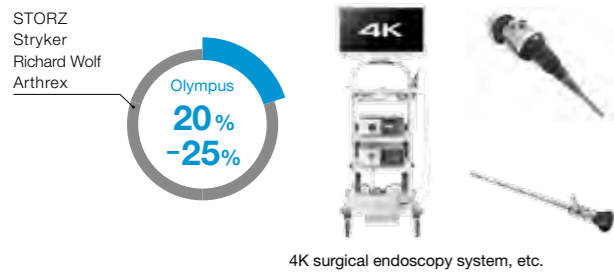


Olympus is actively allocating management resources to the general surgery field with the aim of growing operations into a second core business after gastrointestinal endoscopes. Specific goals with this regard include working to establish 4K and 3D surgical endoscopes as the de facto standard and developing a business model for single-use devices, which must be purchased and used for each individual case.

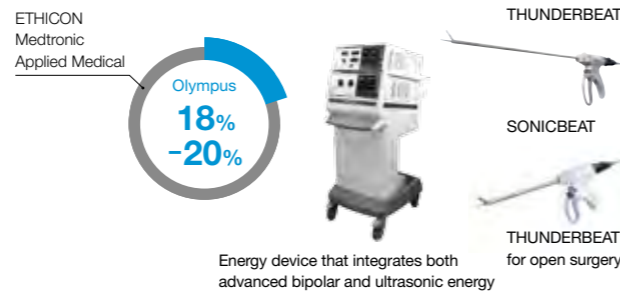
**Tomohisa Sakurai**  
Head of General Surgery Business Unit

### Global Market Share / Competitors (As estimated by the Company)

#### Surgical Imaging



#### Surgical Energy Devices



### Strategies and Priority Measures

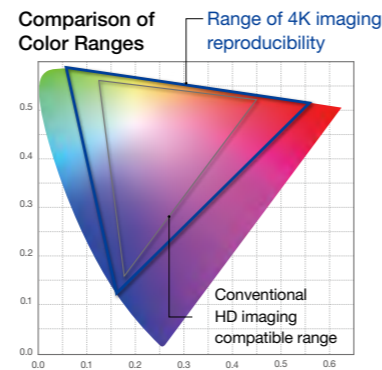
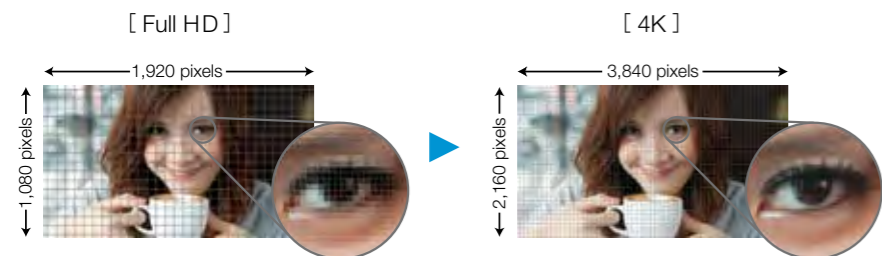
#### Surgical Imaging (Capital Products)

##### 1 Establish New De Facto Standard in Surgical Imaging Market

In October 2015, Olympus launched a surgical endoscopy system that employed 4K technologies developed jointly with Sony Corporation. The unique high-resolution images provided through 4K technologies make it possible to observe minute details inside the body with this system. Moreover, the high color reproducibility of the system supports the identification of the small tissue and vessel structures of veins, nerves, and lymph ducts. Compared to conventional full HD images, 4K images have increased color reproducibility and a wider color gamut, allowing for more delicate color adjustments. The system has, in particular, a higher degree of reproducibility for the

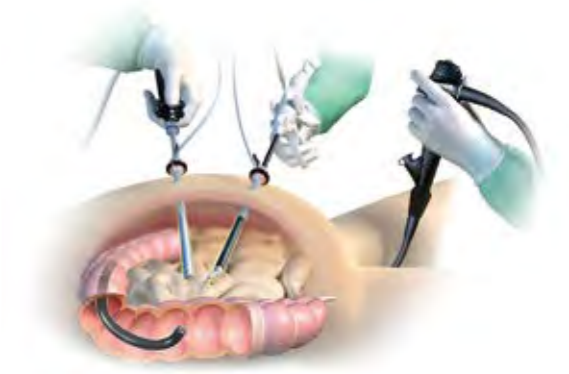
color red, which is a crucial color to be able to distinguish during surgeries. This feature is expected to contribute to increased surgical accuracy by making it easier to identify the boundaries between veins, nerves, lymph ducts, and fat. In addition to helping realize better accuracy in difficult surgeries, this system can also be expected to reduce the physical burden placed on surgeons. Since the product's launch, the response from the medical field has been incredibly positive, and we are already seeing customers convert from competing products. Moving forward, we aim to establish a new de facto standard in the surgical imaging field with this system.

#### Comparison of Full HD and 4K Images



##### 2 Fully Leverage Strength of Olympus in Gastrointestinal Endoscope Field

In recent years, the need for flexible endoscope utilization in operating rooms has been growing. For example, a procedure in which flexible endoscopes are used to confirm anastomosis when conducting endoscopic colorectal surgery is becoming increasingly more common in the United States. Compared to confirming anastomosis after the completion of colon resection surgery, conducting confirmation at an early stage during the process of the surgery in this manner is an effective means of minimizing post-surgery complications and is therefore expected to contribute to reduced healthcare costs. Taking advantage of such strengths of flexible endoscopes, we aim to develop and provide new minimally invasive therapy procedures to create value that is unique to Olympus.



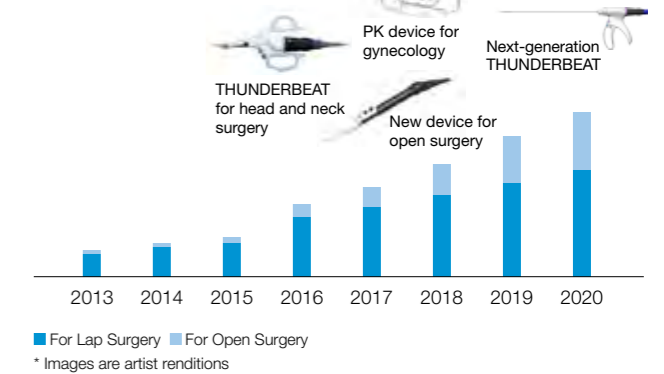
Confirmation of anastomosis when conducting endoscopic colorectal surgery (artist rendition)

#### Surgical Energy Devices (Single-Use Devices)

##### 3 Secure No. 3 Position in Energy Device Market and Encroach upon No. 2 and No. 1 Positions

The energy device market is anticipated to grow at a startling pace. Olympus aims to expand its share in this market by broadening its device portfolio and shortening the product development cycle. We offer a platform power supply system that integrates the advanced bipolar and ultrasonic energy of strategic product THUNDERBEAT and can also be connected to other devices. One such compatible device is SONICBEAT, which was launched in Japan in 2015. Looking ahead, we will continue expanding our energy device operations by bolstering our lineup of products through the development of devices that are compatible with various surgeries and procedures.

#### Sales History and Projection of Energy Devices (U.S. and EU market)



##### 4 Establish Single-Use Device Business Model

There are systems that will need to be put in place if we are to expand our energy device operations. Energy devices are single-use devices that must be purchased and used for individual cases. As such, the purchasing process employed by hospitals with regard to these devices differs from that for endoscopes and other capital products. Therefore, it is necessary that we first develop an understanding of the types of surgeries and procedures conducted at each hospital as well

as the case numbers so that we can propose devices that meet the needs of specific hospitals. In order to effectively carry out this style of sales, we will need to establish a customer relationship management (CRM) system and step up our sales approach. We will also need to solicit the clinical and economic value of our devices, rather than focusing only on their performance and characteristics. We aim to realize growth in these operations through these efforts.

### KPI (16CSP)

#### Net Sales: CAGR of 11%

Field	Targets	Key Points	Market Scale (Growth Forecasts)
Surgical Imaging	CAGR: 10%	<ul style="list-style-type: none"> <li>Achieve sales growth that greatly exceeds market growth rates</li> <li>Establish new de facto standard in surgical imaging market</li> </ul>	¥260 billion–¥290 billion (CAGR: 2%–4%)
Surgical Energy Devices	CAGR: 14%	<ul style="list-style-type: none"> <li>Establish single-use device business model</li> </ul>	¥160 billion–¥180 billion (CAGR: 3%–5%)



## Urology / Gynecology Business Unit (UGBU)

MEDICAL BUSINESS



The Uro/Gyn Business Unit develops operations that form the foundations supporting the Company's ongoing business expansion. Seeking to reinforce existing operations and expand its scope, this business unit calls upon the imaging technologies gained through dealing in gastrointestinal endoscopes and the treatment technologies accumulated in surgical device operations. It also utilizes the solid North American sales network created through the acquisition of Gyrus ACMI, Inc.

**Minoru Okabe**  
Head of Uro/Gyn Business Unit

### Global Market Share / Competitors (As estimated by the Company)

Field	Market Trends (Operating Environment)	Market Scale (Growth Forecasts)	Share	Competitors
Urology	<ul style="list-style-type: none"> <li>Approx. 1.0 million benign prostatic hypertrophy and bladder tumor resection procedures conducted annually; increasing cost awareness associated with outpatient surgical alternatives and prevention of reoccurrence</li> <li>Approx. 1.8 million stone treatment procedures conducted annually; number of high-efficacy endoscopic treatments (ureteroscopic lithotripsy) rising (CAGR: 4%)</li> <li>Reimbursement for bladder tumor (cancer in-situ) observation and treatment using NBI (Japan, FY2017)</li> </ul>	¥170 billion–¥190 billion (CAGR: 2%–4%)	Approx. 30%	<ul style="list-style-type: none"> <li>Karl Storz</li> <li>Richard Wolf</li> <li>Boston Scientific</li> <li>Cook Medical</li> <li>CR Bard</li> </ul>
Gynecology	<ul style="list-style-type: none"> <li>Rising case numbers for diagnosis and treatment of atypical genital bleeding and hypermenorrhea</li> <li>Shift toward outpatient surgical alternatives and other minimally invasive therapies</li> </ul>	¥20 billion–¥30 billion (CAGR: 2%–4%)	Approx. 10%	<ul style="list-style-type: none"> <li>Karl Storz</li> <li>Richard Wolf</li> <li>Johnson &amp; Johnson</li> </ul>

### Strategies and Priority Measures

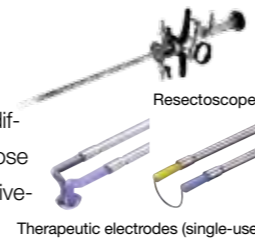
#### Urology

##### 1 Secure Dominant Shares in Markets for Flexible Endoscopes and TURIs\* Products That Leverage Technological Prowess of Olympus

Olympus prides itself on its top share in the market of the flexible cystoscopes and resectoscopes used in diagnosis and treatment of benign prostatic hypertrophy and bladder tumors. By stepping up our efforts to support healthcare professionals, we will promote the spread of procedures using these products amid the rise in case

numbers. At the same time, we will differentiate Olympus products from those of competitors by soliciting the effectiveness of narrow band imaging (NBI).

\* TURIs: Transurethral resection in saline



##### 2 Strengthen Urinary Tract Stone Management Business Operations to Expand Market Share

Created by utilizing the small diameter scope technologies of the former Gyrus ACMI, Olympus flexible ureteroscopes have a dominating edge and boast the top market share, similar to flexible cystoscopes. This strength will be used to advance our

efforts and grow sales in the field of stone treatment devices

(single-use), which are used with flexible ureteroscopes to treat urinary tract stones.



#### Gynecology

##### 3 Efficiently Increase Market Share by Leveraging Existing Products and Technologies

The products Olympus handles in the gynecology field are highly compatible with the urology field. We will therefore seek to efficiently

increase our market share in areas in which we can leverage competitive, existing products and technologies to grow sales.

### KPI (16CSP)

#### Net Sales: CAGR of 8%

Field	Products	Targets	Key Points
Urology	Flexible Scopes	Acquire and maintain dominating No. 1 share (more than 60%)	<ul style="list-style-type: none"> <li>Secure share in flexible endoscopes and TURIs markets</li> <li>Expand urinary tract stone management market share</li> </ul>
	TURIs Electrodes (single-use)	CAGR: 6%	
	Stone Treatment Devices (single-use)	Share: 14% (Europe, U.S., and Japan)	
Gynecology	TURIs Electrodes (single-use)	Share: 8% (U.S.)	



## Ear, Nose, and Throat Business Unit (ENTBU)

MEDICAL BUSINESS



The ENT Business Unit will continue to grow its operations by utilizing the Company's core competencies and capitalizing on the strong growth potential of the ENT business. Specific efforts will include expanding the range of areas in which this business unit is active by leveraging the technologies developed in gastrointestinal endoscope and surgical device operations. We will also aggressively invest in both sales network reinforcement and product development to increase earnings capacity.

**Georg Schloer**  
Head of ENT Business Unit

### Global Market Share / Competitors (As estimated by the Company)

Field	Market Trends (Operating Environment)	Market Scale (Growth Forecasts)	Share	Competitors
Laryngology	Flexible Endoscopes	Improved recognition of NBI benefits and rising needs for early diagnosis	¥15 billion–¥17 billion (CAGR: 4%–5%)	50%–60% • Hoya
Rhinoscopy	ESS* Imaging	Increased needs for high-resolution, wide-color-spectrum images through HD and 4K systems	¥18 billion–¥20 billion (CAGR: 4%–5%)	Less than 1% • Karl Storz
	ESS* Debriders	Sinus surgeries and procedures using debriders commonplace in developed countries • Healthcare economics in U.S. driving some procedures to out-patient care	¥22 billion–¥24 billion (CAGR: 4%–5%)	10%–15% • Medtronic
Otology	Implants and Vent Tubes	Slight increase in illness and case numbers and procedure numbers	¥5 billion–¥7 billion (CAGR: Less than 1%)	40%–50% • Medtronic

\* ESS: Endoscopic Sinus Surgery

### Strategies and Priority Measures

#### Laryngology

##### 1 Expand ENT Flexible Endoscope Operations Centered on "Videonization"

Our flexible endoscopes hold the No. 1 share. By advertising the effectiveness of NBI and its ability to contribute to early detection of laryngeal and pharyngeal cancer, we will further expand these operations. We will also seek to acquire clinical evidence on the efficacy of NBI and step up activities utilizing

this evidence to achieve an insurance reimbursement listing for this technology. At the same time, we will communicate the high value that differentiates this technology from competitors' and encourage customers to switch over to products using it.

#### Rhinoscopy

##### 1 Acquire ESS Operations

We aim to expand endoscopic sinus surgery (ESS) operations from the perspectives of "See & Treat." The demand to use high level resolution and superior color reproducibility unique to 4K imaging for conducting diagnosis is increasing, and we can expect usage of systems that offer these advantages to grow.

Moreover, we will develop our operations through the provision of therapeutic devices

for which our lineup centers around DIEGO ELITE, which supplies tissue declog removal, high-frequency hemostasis, and other differentiated functions.



#### Overall

##### 1 Establish Global Sales Systems

While our ENT business has previously been centered on North America, we will actively develop this business in Japan, Europe, and Asia Pacific in the future. To facilitate this endeavor,

we will enhance sales capabilities by assembling dedicated ESS sales forces and proactively introduce successful measures from the U.S. market into the markets in these regions.

### KPI (16CSP)

#### Net Sales: CAGR of 13%

Field	Products	Targets	Key Points
Laryngology	Flexible Scopes	Maintain dominant No. 1 share by pursuing even higher levels of product and service value	<ul style="list-style-type: none"> <li>Acquire ESS operations</li> <li>Establish global sales systems</li> </ul>
Rhinoscopy	ESS Imaging	Start up ESS imaging business and achieve market share of more than 10%	
	ESS Debriders	Expand ESS treatment business and achieve market share of more than 20%	





## Medical Service Business Unit (MSBU)

MEDICAL BUSINESS



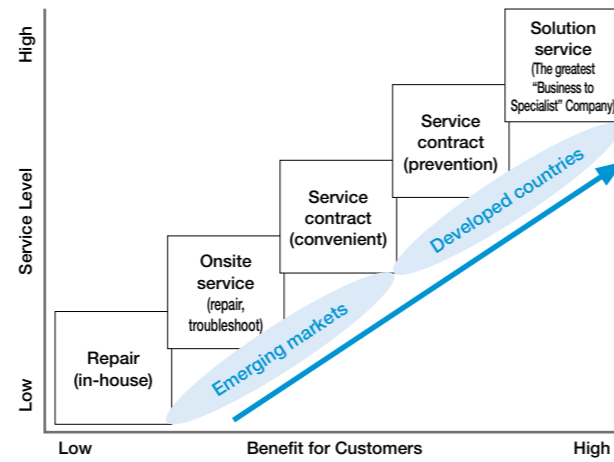
We recognize the Medical Service Business Unit as supplying a core competency of Olympus that supports the Medical Business. This business unit will continually strengthen customer contact points to provide ongoing support for the overall growth of the Medical Business. Specifically, we will further enhance relationships with customers by reinforcing systems and allocating the management resources necessary for establishing service system foundations in emerging countries that are projected to grow rapidly.

**Yoshihito Shimizu**  
Head of Medical Service Business Unit

### Strategies and Priority Measures

#### 1 Introduce Service Contracts That Realize High Levels of Customer Satisfaction, Increase Number of Such Contracts, and Improve Profitability

Olympus has traditionally worked to improve customer satisfaction by realizing impeccable repair quality and shortening repair turnaround times. Looking ahead, we will redouble our efforts for preventing product failures and increase the number of service contracts that realize high levels of customer satisfaction. Specifically, service contracts will be created that respond to various customer needs. These contracts will include such provisions as failure prevention training conducted at ideal timings and matched to the circumstances pertaining to customers, such as failure types and frequency, and prices set in consideration of usage numbers. In addition, the product improvement know-how accumulated on the manufacturing floor will be applied at repair bases to shorten lead time and reduce costs, thereby further augmenting the benefits of the consolidation of repair bases. The goal of



these initiatives will be to improve the profitability of operations in the Medical Service Business Unit.

#### 2 Expand Service Operations for Surgical Devices

Surgical devices are used in the operating room to perform diagnosis and treatments, meaning that malfunctions and product failures during procedures must be avoided at all costs. Swift response to failures that do occur is also vital. Olympus takes numerous steps to offer services that contribute to substantial

improvements in device operating rates. For example, we provide hospital staff with ongoing training and distribute endoscope inspection manuals. We also quickly supply loaners and replacement products when necessary and offer services in which Olympus technical staff members can be stationed at customer facilities.

#### 3 Provide Services That Improve Medical Institution Efficiency

Olympus possesses a global network of approximately 200 repair and service sites. We are advancing the reorganization of existing bases and the establishment of new bases in a phased manner to improve the efficiency and quality of services provided. Furthermore, we are endeavoring to utilize

product improvement know-how gained through manufacturing operations at our repair and service bases. We thereby aim to shorten turnaround times, reduce costs, and ultimately improve the profitability of the Medical Service Business Unit.

### KPI (16CSP)

#### Net Sales: CAGR of 5%

Field	Targets	Key Points
Service Contract	CAGR: 6%	• Increase number of service contracts
General Repairs	CAGR: 0.5%	• Expand service operations for surgical devices



## SCIENTIFIC SOLUTIONS BUSINESS



We will expand earnings by providing optimal products and solutions to target customer segments.

In the Scientific Solutions Business, we aim to achieve ongoing growth while securing stable income. We will therefore seek to identify the growth potential and profitability of each customer segment so that we can set priorities for the entire business and advance initiatives tailored to each segment. At the same time, we will continually enhance our ability to connect with customers and strengthen solutions provision capabilities to maintain relations with existing customers while approaching new customers.

### Toshihiko Okubo

Head of Scientific Solutions Business Unit

- Superior technological prowess and quality for optical, imaging, ultrasound, and XRF technologies
- Top-class market shares for all product segments
- Global sales, marketing, and service networks
- Total solutions provided through diverse product lineup

Strengths	Weaknesses
S	W
O	T
Opportunities	Threats

- High susceptibility to changes in economic conditions of specific regions and countries
- Technological maturity of certain products
- Increased manufacturing and sales costs for certain products
- Lost opportunities and low efficiency due to product segment based business operation

- Long-term demand growth for social infrastructure construction in emerging countries and aging social infrastructure maintenance in developed countries
- Continuous growth in demand in aviation, automotive, and other manufacturing industries
- New needs arising from regularization of regenerative medicine

- Trend toward limiting capital expenditures by private-sector companies
- Delayed execution of government budgets and budget cuts in various countries
- Emergence of alternative technologies
- Economic slowdown in emerging countries
- Cyclical trends in specific customer segments

### Global Market Share / Competitors (As estimated by the Company)

Customer Segment	Business Opportunities	Market Scale (Growth Forecasts)	Share / Competitors
LS Research	• Growing needs in areas ranging from observation to analysis in drug discovery and regenerative medicine markets	¥80 billion–¥100 billion (CAGR: 1%–2%)	
Wetlab (Cell cultures)	• Future cell culture support industry market growth projected in drug discovery and regenerative medicine fields	¥6 billion–¥8 billion (CAGR: 6%–7%)	Biological microscopes: Approx. 40%
Clinical (Pathological examination)	• Expanding range of examination methods stemming from introduction of new technologies into overall examination market in conjunction with population aging and advances in cancer treatments	¥20 billion–¥30 billion (CAGR: 3%–4%)	Competitors: Carl Zeiss, Leica, Nikon
Education	• Growing possibilities for education systems using digital imaging at medical education facilities	¥8 billion–¥10 billion (CAGR: 1%–2%)	
Infrastructure Maintenance	• Infrastructure aging expected in developed countries and new infrastructure construction anticipated in emerging countries • Ongoing growth in aircraft and high-speed rail demand	¥70 billion–¥90 billion (CAGR: 7%–8%)	Industrial endoscopes: Approx. 40% Non-destructive testing equipment: Approx. 30%
Manufacturing	• Long-term growth in automotive, aviation, electricity, and other markets • Advances in process efficiency improvements as illustrated by Industry 4.0, etc.	¥100 billion–¥120 billion (CAGR: 4%–5%)	Competitors: GE,
Environment & Natural Resource	• Rising needs anticipated for energy and materials in emerging countries and for energy, materials, and recycling in developed countries	¥7 billion–¥9 billion (CAGR: 4%–5%)	Carl Zeiss, Leica, Nikon, KEYENCE, Thermo Fisher

### Operating Environment and Business Opportunities

The Scientific Solutions Business is currently faced with a difficult operating environment. This environment is characterized by limited budget execution among domestic and overseas public-sector research institutions and reduced capital expenditures by private-sector companies stemming from low resource prices and the deceleration of the markets for electronic components, such as those used in smartphones. In the medium-to-long term, however, we expect to see the acceleration of advanced research on such topics as induced pluripotent stem cells (iPS cells) as

well as a push for the practical application of regenerative medicine in the area of life science research. In addition, infrastructure investment is projected to increase in emerging countries in conjunction with economic development. The market for Scientific Solutions Business products is anticipated to expand as a result of these factors. Meanwhile, we aim to improve business efficiency and reinforce our earnings foundation by advancing business restructuring. At the same time, we will invest in growth fields over the medium-to-long term to expand earnings.

Strategies and Priority Measures

**1 Realize Continuing Organic Growth and Keep Operating Margin Consistently above 10% through Initiatives Tailored to Customer Segments**

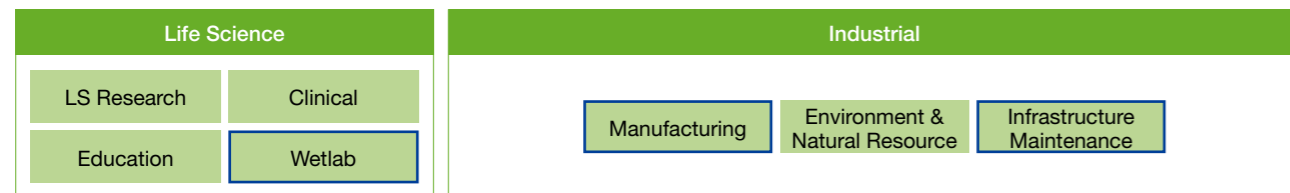
The top priority of the Scientific Solutions Business is to further enhance its growth strategies and improve its profitability. It was for this reason that the business undertook a massive change in the direction of its business strategies and measures for global operation of its organization in fiscal 2015. Previously, independent functions for such processes as development, marketing,

and sales were established for each product line. However, we have since shifted from strategies based on product lineups to formulate those oriented toward customer segments while taking on related structural reforms. These reforms entailed cutting back on redundant functions to improve profitability and constructing systems for executing priority investments in growth markets.

**2 Actively Expand Portfolios Targeting Customer Segments from which Particular Growth Can Be Anticipated in Consideration of Company Strengths and Market Growth Potential (Wetlab, Manufacturing, and Infrastructure Maintenance)**

The Scientific Solutions Business has defined seven segments in its customer segment oriented strategies. In consideration of the Company's strengths and the market growth potential in these segments, we have positioned the

wetlab, manufacturing, and infrastructure maintenance segments as growth fields. We will thus pursue organic growth in these fields while expanding our product and solutions portfolios through M&A activities.



**Contributions to Life Science and Medical Research**  
Through the provision of automated cell counters and cell cultivation microscopes, Olympus is contributing to future advances in life science and medical research. In the life science research sector, where research is conducted on regenerative medicine and various other themes, we are conducting the research and development of equipment that matches customer needs, thereby working to stimulate new product demand in this growth market.



**Contributions to Improved Efficiency and Quality in Industry**  
Olympus provides various inspection, measurement, and analysis solutions, including those for use in quality inspections in the steelmaking and automotive industries as well as for use with the delicate electronic components contained in smartphones and other devices. With these solutions, we are contributing to efficiency improvements and advances in industry. Demand for such solutions is growing in conjunction with the global deployment of various industrial products as well as the diversification of quality requirements and the increasing precision of processing methods.

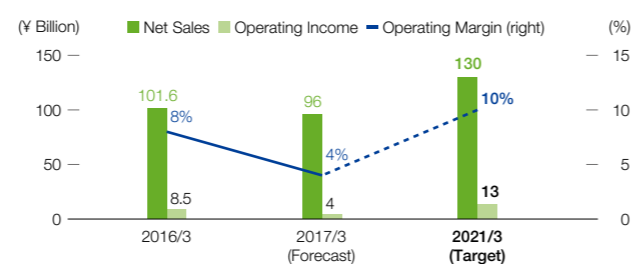


**Contributions to Safety and Peace of Mind in People's Daily Lives**  
Olympus contributes to safety and peace of mind in people's daily lives by supplying inspection, measurement, and analysis solutions for use in the maintenance and inspection of lifelines and social infrastructure, such as aircraft, manufacturing plants, pipelines, roads, and bridges. We will expand operations in this field in developed countries, where the aging of infrastructure is becoming an issue, and in emerging countries, where brisk infrastructure-related construction is expected going forward.

KPI (Fiscal 2021)

**Net Sales: ¥130 billion**  
**Operating Margin: 10%**

Indicators	Targets	Key Points
Net sales	¥130 billion	<ul style="list-style-type: none"> <li>Structural reforms for improving profitability already implemented</li> <li>Organic growth to be realized through selective reinforcement of existing businesses</li> <li>Product and technology portfolio expansion targeting additional sales growth</li> </ul>
Operating income (Operating margin)	¥13 billion (10%)	



IMAGING BUSINESS

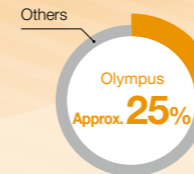


**We will further advance selection and concentration and transition to cost structures that will enable us to establish a system that can generate stable income.**

In the Imaging Business, we strive to provide products and services that are uniquely Olympus in order to establish a solid position for our brand. With this position, we will refrain from engaging in excessive cost competition and strive to create a system that can generate stable income. At the same time, we will advance the selection and concentration of target regions for sales in response to the contraction of the market in order to transition to a cost structure that supports ongoing income generation.

**Masamichi Handa**  
Head of Imaging Business Unit

Domestic Market Share (Mirrorless cameras)



- Unique technologies accumulated by concentrating on mirrorless cameras
- Competencies in designing and manufacturing compact, lightweight, high-performance lenses
- Leading share in mirrorless camera market (domestic)

- Solid demand in mirrorless camera market
- Expanding camera applications and growing imaging-related technology demand in nonconsumer markets

Strengths	Weaknesses	Opportunities	Threats
S	W	O	T
• Unique technologies accumulated by concentrating on mirrorless cameras	• Small shares of massive U.S. and Chinese markets	• Solid demand in mirrorless camera market	• Intensified competition in mirrorless camera market
• Competencies in designing and manufacturing compact, lightweight, high-performance lenses		• Expanding camera applications and growing imaging-related technology demand in nonconsumer markets	• Further evolution of smartphones and tablets
• Leading share in mirrorless camera market (domestic)			

Market Share / Competitors (As estimated by the Company)

Field	Market Trends (Operating Environment)	Market Scale (Growth Forecast)	Share	Competitors
Digital ILCs (including SLRs and mirrorless cameras)	<ul style="list-style-type: none"> <li>• Ongoing contraction of SLR market, mirrorless camera market scale unchanged</li> <li>• Increased sales ratios for mirrorless cameras</li> <li>• Rising sales ratios for high-priced models</li> </ul>	10 million–13 million units (CAGR: -6%–0%)	Mirrorless cameras (Domestic): Approx. 25%	<ul style="list-style-type: none"> <li>• Canon</li> <li>• Nikon</li> <li>• Sony</li> <li>• FUJIFILM</li> <li>• Panasonic, etc.</li> </ul>

Operating Environment and Forecasts

The compact digital camera market is rapidly contracting due to the spread of smartphones, and the Imaging Business continues to face a harsh operating environment as a result. In order to address this major market change, we are pushing forward with structural reforms to shrink the Imaging Business to a more appropriate scale. As one facet of this undertaking, we have developed conservative sales plans with a narrower scope, only including focus products and market segments,

that do not presume the pursuit of sales growth, even in the core mirrorless camera market. We aim to minimize risks through this limited scope. In conjunction with this shift in focus, we are revising cost structures to realize a business structure that will enable the Imaging Business to break even, despite the reduced sales. We are also enhancing earnings structures by strengthening sales of high-margin interchangeable lens products.

Strategies and Priority Measures

1 Advance Ongoing Business Structure Reforms

Olympus will focus on the development of high-value-added mirrorless cameras and interchangeable lenses—primarily OM-D series cameras and PRO series lenses—that boast sufficient cost competitiveness. After the launch of products, the value of entire camera systems will be improved and new value will be provided by adding to the functionality of cameras through firmware updates and building upon the synergies with lens lineup expansions. This type of ongoing value provision will be ingrained into the image of the Olympus brand.

The Company will also endeavor to develop systems that allow for improved efficiency in new product manufacturing startups and mass production. This objective will be

accomplished by raising the level of manufacturing technologies at the Vietnam plant through the transfer of the sophisticated minute adjustment technologies created at our China plant. In procurement and purchasing activities, we will pursue cost reductions by increasing the procurement of finished units and establishing systems for Companywide purchasing.

Through these business structure reforms, we will create systems and cost structures capable of generating stable income.



In response to market contraction, we will cut back on sales bases with low cost performance to shift toward cost structures capable of generating stable income on an ongoing basis. In addition, we will construct sales systems to ensure that focus bases can consistently produce earnings.

2 Improve Responsiveness to Market Changes

Olympus strives to improve responsiveness to market changes. To this end, we will monitor the market scale and the Company's share so that we can furnish a timely response to changes in conditions by improving sales function efficiency and advancing the selection and concentration of target market segments.

3 Minimize Inventory Risks

By improving supply chain management processes, we aim to reduce product supply lead times and lower risks associated with overdependence on certain regions and consequently shorten inventory turnover periods. Specific measures for shortening turnover periods will include

process improvements, such as reducing the amount of time required for transportation from production bases to sales bases and developing shared product and packaging specifications to decrease the time required to respond to changes in export targets.

4 Contribute to Olympus as Groupwide Technology Driver

The Imaging Business has continued to foster a strong brand image by constantly providing customers with new value. This feat was accomplished in a fiercely competitive environment in which we face numerous rivals and must realize short product development cycles. The cutting-edge electronic imaging technologies born in this environment serve as valuable assets to other Group businesses.

Furthermore, through the development and manufacture of OM-D series cameras and PRO series lenses, we will continually create advanced digital, low-cost manufacturing, and mobile technologies. By applying these technologies to other businesses, the Imaging Business will continue to contribute to Olympus as a Groupwide technology driver.

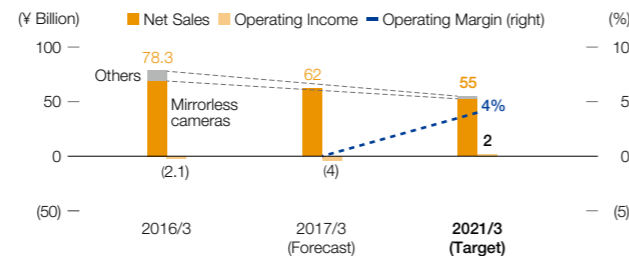
To augment these technologies, we will establish a comprehensive range of 4K and 8K technologies that can be used for developing devices necessary for recording at these resolutions as well as for optimizing interface with outputs (monitors).



KPI (Fiscal 2021)

Achievement of Profitability through Earnings Structure Improvement

Indicators	Targets	Key Points
Net sales	¥55 billion	● Create business structure capable of securing operating margin of 4% even if net sales decrease by as much as 7% each year after fiscal 2016 due primarily to compact camera market contraction
Operating income	¥2 billion	
(Operating margin)	(4%)	



Management Resources Supporting Competitive Edge

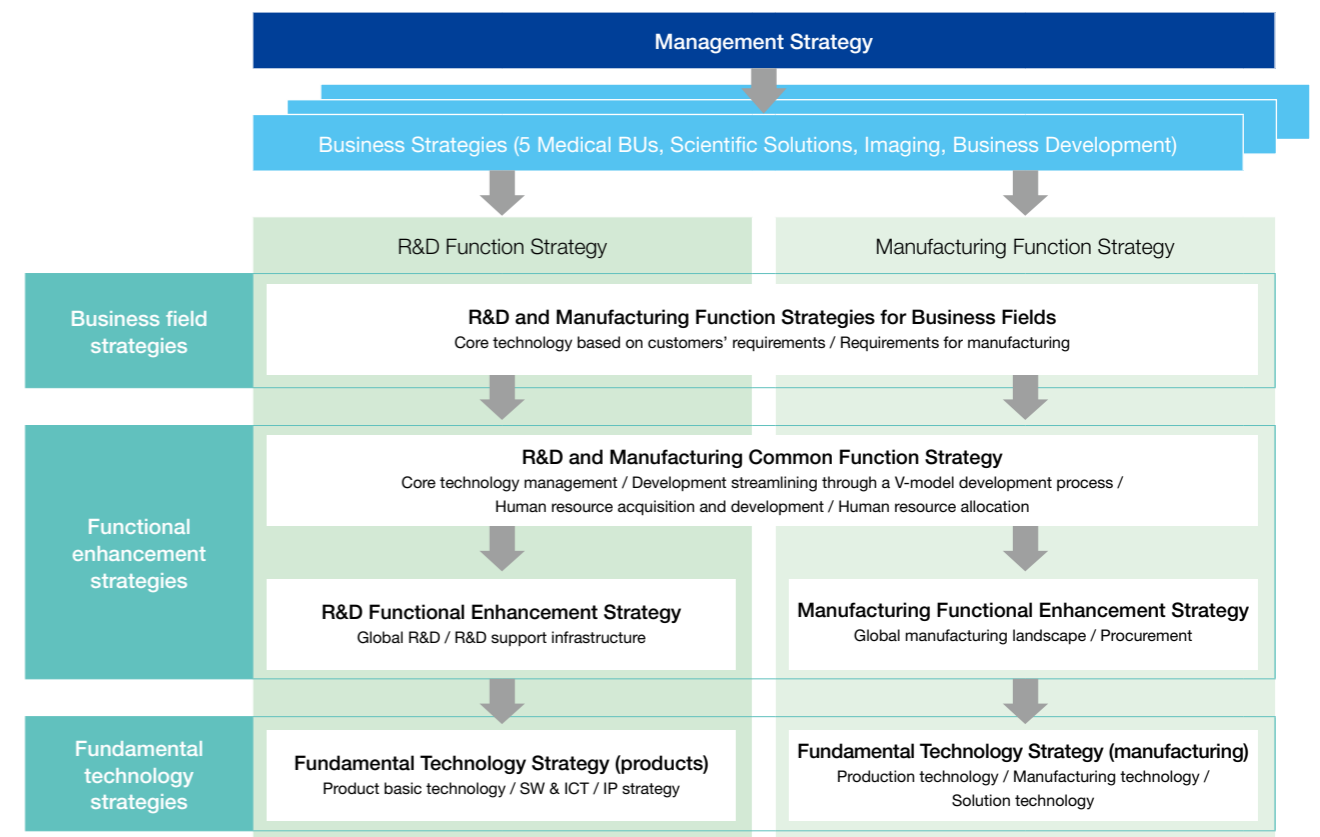
R&D Activities

Basic Policy

Olympus provides value in the form of early diagnosis and minimally invasive therapies through the supply of endoscopes, microscopes, digital cameras, and other proprietary developed products. We refer to the differentiated technologies that allow us to create such value for customers as “core technologies,” and these core technologies arise from our core competencies in optical technologies, electronic imaging technologies,

precision technologies, and biological based technologies. It is the goal of the R&D Group to support Olympus in creating value that exceeds customer expectations on into the future and in constantly providing competitive products and services. We will therefore continue striving to enhance and develop new core technologies.

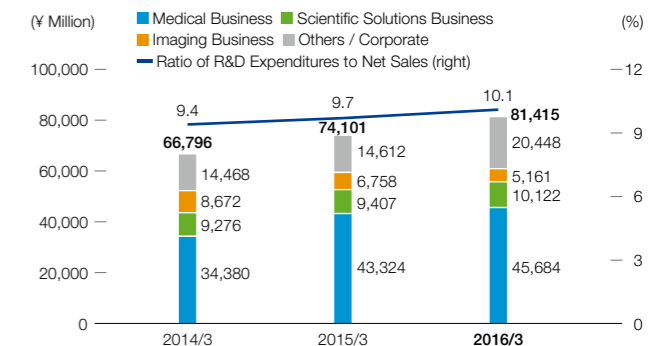
R&D and Manufacturing Strategy Framework



Overview of R&D Activities

In fiscal 2016, total R&D expenditures increased 9.9% year on year, to ¥81.4 billion, and the ratio of R&D expenditures to net sales rose 0.4 percentage points, to 10.1%. Since the April 2015 shift to the matrix style of business operation, we have been stepping up the development of Companywide core competencies. In addition, we conducted more than 70%\* of R&D expenditures in the Medical Business, and we have succeeded in developing and subsequently launching a surgical endoscopy system equipped with 4K technologies and single-use, high-frequency knives. In the Imaging Business, R&D expenditures were down 23.6% year on year following the reduction of our compact camera lineup and the revision of product cycles.

R&D Expenditures / Ratio of R&D Expenditures to Net Sales



\* Ratio of R&D expenditures excluding Others / Corporate

### Core Technology Management Strategy

Our core technology management strategy is aimed at creating new customer value. To this end, the strategy categorizes core technologies linked to customer value into five technology groups based on customer workflows, thereby clarifying our goal with regard to each technology group and enabling us to step up related efforts. Moreover, by organizing and sharing the core

technologies developed in each business, we will deploy technologies throughout the Company and optimize the allocation of management resources from a Companywide perspective. At the same time, we will continually enhance the core competencies and intellectual property strategies that support core technologies in order to raise the overall level of these core technologies.

#### Core Technology Groups Arranged from the Perspective of Workflows to Create Customer Value



#### Technology Groups of Strength

##### I. Access technologies

- Expand range of diagnosis by further reducing diameter and improving bend operability of endoscopes
- Expand range of inspections by evolving remote observation technologies for industrial endoscopes
- Expand range of photography with high-speed autofocus and image stabilizers



Technology targeting quick insertion of scopes into deep structure of lumens

##### II. Imaging and sensing technologies

- Improve diagnosis capabilities of endoscopes and operability during treatment with 4K, 8K, and 3D images
- Enable real-time live cell observation
- Enhance macro photographs with Focus Stacking

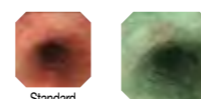


Macro photograph using Focus Stacking to keep picture in focus at all depths

#### Technology Groups to Be Strengthened

##### III. Recognition and analysis technologies

- Utilize deep learning to improve image diagnosis and inspection and analysis capabilities



Standard optical imaging NBI

##### IV. Treatment and therapeutic technologies

- Bolster endotherapy device lineup
- Expand range of uses for surgical energy devices
- Reduce surgeon burden with surgery support robots



Treatment support system realizing free movement in alimentary canal lumens

##### V. Report and evidence technologies

- Address diagnosis and treatment guidelines by strengthening evidence acquisition systems
- Utilize ICT to support endoscopic workflow



Forum discussing potential for ICT to contribute to improved medical quality

### COLUMN

## Creation of Valuable Technologies Based on Opto-Digital Technology

One of the characteristics of the R&D Group's involvement with 16CSP is that it entails incorporating the technology strategies of business units while also setting forth a strategy for strengthening the R&D function.

When previously formulating technology strategies, we had to consider how we would contribute to business units with technology. In this process, it was important for us to properly understand the type of products to be developed in each business, or the direction that would be taken in advancing operations, and then to create and develop technologies accordingly. However, this changed when we shifted to the matrix style operational structure in April 2015. This move resulted in a transition from business-specific R&D divisions to a single, cross-organizational division that consolidates all relevant personnel, technologies, and other management resources. As a result, the R&D Group was born, not as a business support division, but rather as an active group that assumes responsibility for the R&D needs of business units.

### Haruo Ogawa

Chief Technology Officer (CTO) / Head of R&D Group



While businesses had previously determined their own direction for R&D, the R&D Group unites these activities under a single, shared perspective and guides them through the common core technology management strategy. I am confident that advancing R&D in this manner will lead to the creation of unprecedented new customer value.

Our duties will not be limited to strengthening technologies. Quite the contrary, the R&D Group will endeavor to reinforce its very constitution by improving R&D efficiency, creating global development systems, and strategically cultivating human resources. The establishment of clear policies for the development process and the enhancement of R&D systems is also something that differs from previous R&D strategies. Under our current strategy, we will optimally utilize management resources from around the world on a Companywide basis and streamline development through the introduction of a V-model development process that promotes exhaustive development and verification measures.

# Intellectual Property Activities

### Overview of Intellectual Property Strategies

#### Intellectual Property Strategies Linked to Business Strategies

Olympus formulates its intellectual property strategies in conjunction with its corporate strategic plans and is advancing intellectual property activities that facilitate its management and business activities.

Under the intellectual property strategies that were formulated based on the medium-term vision, the previous corporate strategic plan announced in June 2012, each business unit clearly defined the core technologies for which it requires a strong patent base and developed its patent portfolio accordingly. In Companywide core

competence areas, intellectual property activities were strengthened from a long-term perspective and on an organization-wide basis that encompassed business units and R&D divisions. In this manner, we worked to increase Companywide efficiency and maximize intellectual property value. Under 16CSP, the new corporate strategic plan that commenced in April 2016, we will continue the aforementioned intellectual property strategies while also pushing forward with activities based on the 16CSP R&D Function Strategy, which includes our core technology management strategy.

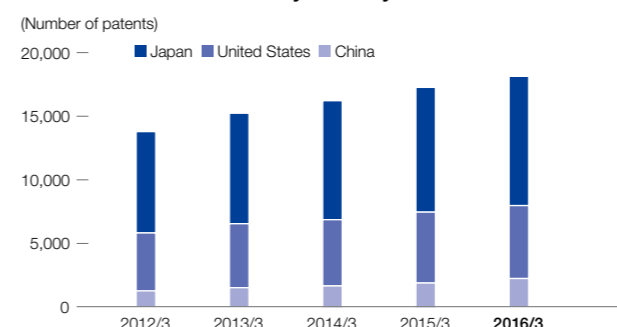
### Business Contributions from Intellectual Property

#### Intellectual Property Activities Matched to Business Portfolio and Expansion Initiatives

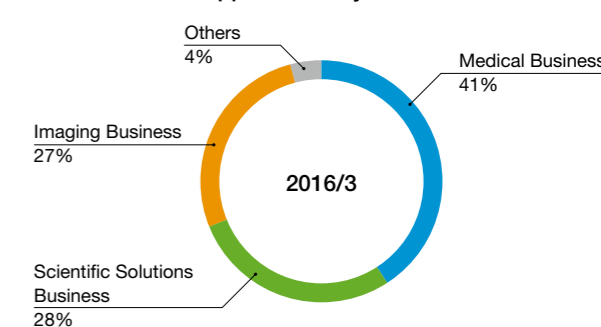
As our business activities grow more global, we have defined the policy of increasing the number of patents held overseas, and we are advancing patent acquisition efforts accordingly. Looking at patent holdings of individual businesses, more than

40% of the Company's patents are associated with inventions related to the Medical Business, which is the central pillar supporting the expansion of Olympus' earnings and business. Of the remainder, nearly 30% is associated with Scientific Solutions Business inventions and roughly the same amount is accounted for by Imaging Business inventions (as of March 31, 2016).

#### Number of Patents Held by Country



#### Share of Patent Applications by Business Portfolio



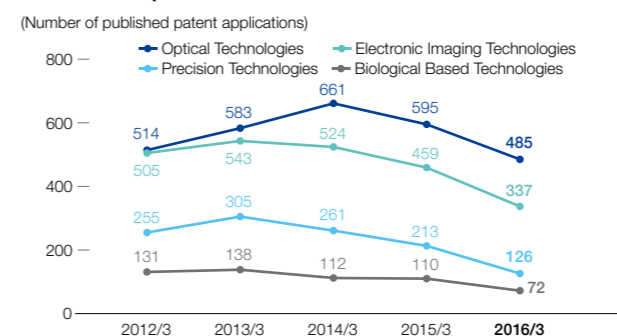
### Intellectual Property Activities in Core Competence Areas

#### Number of Patent Applications Published in Japan and Overseas in Core Competence Areas

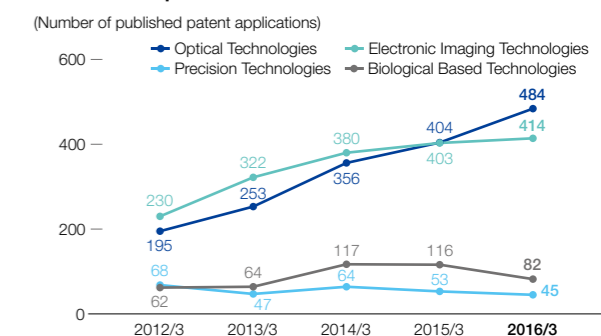
In implementing the above-mentioned policy of increasing the number of overseas patents, we had to be more selective when submitting patent applications in Japan, and the number of patent applications published in core competence areas is

decreasing in Japan as a result. Overseas, the overall number of patent applications published is increasing, particularly with regard to optical technologies and electronic imaging technologies. In the future, we will continue to bolster our global patent portfolio by submitting applications in the United States, China, and other countries.

#### Number of Patent Applications Published in Japan in Core Competence Areas



#### Number of Patent Applications Published Overseas in Core Competence Areas



# Human Resources

Olympus views its human resources as the most important management resource to ensuring its sustained growth. We therefore respect the individuality of employees as we seek to become an organization that can furnish swift and systematic responses to changes in the operating environment.

## Basic Policy regarding Human Resources

Olympus faces a rapidly changing operating environment. In order for the Company to grow and return value to society, it is crucial that all employees pursue self-growth as independent and socially minded craftspeople to become able to respond appropriately to social change. Olympus thus believes in the importance of respecting the individuality and unique skills of its employees and, trusting in their ambition and enthusiasm, accurately evaluating their achievements and providing appropriate rewards.

For this reason, we base human resources systems on merits and achievements and focus on fostering all employees while encouraging independent skill development.

## Employees' Personal Growth as the Foundation for Business Activities

Olympus defines the successes it should pursue as a company in terms of business performance, corporate constitution, and the personal growth of its employees.

We cannot anticipate ongoing corporate growth through the pursuit of short-term improvements in business performance. If Olympus is to continue to grow, it will be absolutely essential to achieve a corporate constitution that exhibits true competitiveness on the global stage and can generate stable performance.

There can be no doubt that it will be our employees who will build this constitution. It can therefore be said that employees' personal growth forms the foundation for all of our business activities. We have defined the following policies to establish a corporate culture that places strong emphasis on this fact.

## Basic Policy on Human Resources Systems

**"We will maximize the value and attractiveness of work as a driving force for personal growth and organizational development."**

### Vision

#### Management

Management will continually strengthen the potential of the organization by helping individual members to reach their full potential through training and guidance that is centered on the value and attractiveness of work (new work philosophy).

#### Individuals

Individuals will fulfill their expected roles within the organization by achieving personal growth through work (Group philosophy).

#### Organization

The organization will build solid relationships based on trust through the sharing of a vision toward which everyone can work (shared aspirations).

## Major Initiatives

### 1. Work-Life Integration

Olympus has been promoting Work-Life Integration to help employees generate work-life synergies by maintaining a good work-life balance. We thereby seek to enable them to maximize their abilities and proactively continue their careers even during periods when they need to take care of their children or other family members.

### Support Systems Introduced Starting from Fiscal 2014

- Telecommuting system
- Reentry system
- Task flex system

### 2. Acquisition of "Kurumin" Certification

Olympus has continued to establish action plans based on the Act on Advancement of Measures to Support Raising Next-Generation Children through which it has advanced various initiatives, including promoting Work-Life Integration, facilitating understanding in this regard, and introducing a telecommuting system. These efforts have been recognized by the Ministry of Health, Labour and Welfare, which designated Olympus as a "Kurumin" certified company in fiscal 2016.



### 3. Empowerment of Female Employees

The empowerment of female employees is one of the most important tasks to be addressed in promoting Work-Life Integration. For this reason, we formulated an action plan as a general business operator in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace, and we disclosed this plan in April 2016. We interviewed female employees during the course of preparing this plan in order to analyze the circumstances related to the ability for women to exercise their skills and participate in the workplace from both a qualitative standpoint and a quantitative standpoint. Based on the findings, we set the targets of doubling the number of female managers from fiscal 2016's

### 4. Manufacturing Technician Training

Olympus manufacturing features high precision and extreme compactness and high-mix, low-volume production, both of which are difficult to achieve through automated production. Accordingly, it is our skilled manufacturing technicians that underpin manufacturing operations. Olympus regards manufacturing technicians as an important source of the value it provides. The skills of such technicians are categorized into six levels and staff are encouraged to improve their skill level in a planned manner. We classify the technicians with skills of level 1 to 3 as "Skilled Workers" and those with skills of level 4 or greater as "Highly Skilled Workers." Highly Skilled Workers are certified as a Manufacturing Advisor (MA) at level 4, a Manufacturing Supervisor (MS) at level 5, and a Manufacturing Master (MM) at the final level 6. Training is given according to

number by fiscal 2020 and realizing a more than 25% ratio of women among new graduates joining the Company in April 2019, of which 40% will be hired for office positions and 20% for engineering positions. Initiatives for achieving these targets are currently under way.

## Performance

	2016/3
Ratio of female managers	1.4%
Ratio of female full-time employees	13%
Ratio of female new graduate hires	19%

each level, from newly joining staff members to MM technicians.

Recently, Olympus has been extending manufacturing technician

training programs overseas in pace with the overseas expansion of its manufacturing operations, and these programs will continue to be advanced around the world in the future.



## Number of Highly Skilled Workers

	2013/3	2014/3	2015/3	2016/3
Number of newly qualified	6	11	6	13
Total qualified	177	188	194	207

## COLUMN

### Human Resources, a Company's Greatest Asset

More than 30,000 people work at Olympus, and we realize that there will be no growth for the Company if each and every one of these employees is unable to exercise their talents to the fullest. Our human resources strategy aims to achieve our vision for Olympus by placing the right person in the right position. But, this concept was not completely entrenched throughout the organization previously. We fixed this issue, however, with the shift to a matrix style of business operation during fiscal 2016. This move collected the HR and training personnel that had been dispersed among different functions into a single division, creating a system that allows for HR functions to be exerted on a cross-organizational basis. As a result, we are now able to more thoroughly utilize our human resources for maximizing Company success.

Currently, more than 70% of sales come from overseas, and I therefore feel that Olympus is the type of company that

### Kiichi Hirata

Chief Administrative Officer (CAO)



can grow by developing its business from a global standpoint. I supervise back-office divisions responsible for HR and other matters. In the past, there was an extent to which we were inclined to leave overseas matters to the discretion of overseas subsidiaries, a sentiment that prevented us from fully embracing the globalization trend.

Today, the world has become smaller than ever due to the development of the Internet and logistics systems. Accordingly, work related to HR and general affairs is now able to spread outside the borders of Japan. As such, neither individuals nor the Company will be able to grow if we remain satisfied to let "someone else" handle matters overseas. Looking ahead, we remain committed to making Olympus into a truly global company, which will also be important to further expanding the range of customers that choose it.

# Contribution to Society

## Approach to CSR

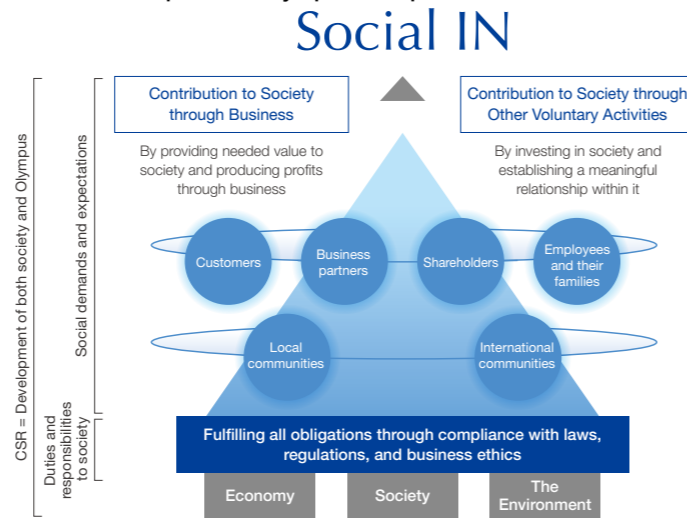
Through its CSR activities, the Olympus Group responds to the needs and expectations of society and fulfills its obligations and responsibilities.

We believe that to justify the continuing existence of Olympus as a company and to help people enjoy healthier and happier lives, we must fulfill our responsibilities through dialogue with all stakeholders (persons and organizations with which we interact through our business activities), including customers, suppliers, shareholders and other investors, as well as employees and their families, local communities\*, and international communities\*.

\* Local communities and international communities include general citizens, NGOs, NPOs, and governments.

Additional Information on CSR Activities:  
<http://www.olympus-global.com/en/csr/>

## CSR Concept of the Olympus Group



## Establishment of the CSR Committee

Olympus established the CSR Committee under the chairmanship of the president to strengthen its CSR activities and ensure the realization of its "Social IN" corporate philosophy. By assisting the president in his decision making and promoting and monitoring the implementation of decisions, the CSR Committee helps to disseminate and consolidate CSR within

the Olympus Group.

Several promotion committees have been established under the CSR Committee. These committees work with the CSR Committee to study measures and develop plans and promote their implementation in the functional areas for which they are responsible.

## TOPICS

### Social Contribution Activities Characteristic of Olympus

#### Training of Endoscopists in Emerging Countries

To contribute to the development of medicine in emerging countries, Olympus offers support for fostering endoscopists in such countries. In fiscal 2016, we were selected by Japan International Cooperation Agency (JICA) to take part in a project for aiding in the social and economic development of emerging countries by spreading private-sector technologies. Through this project, we provided training opportunities for endoscopists in Thailand and Indonesia. Medical associations and institutions in these countries and in Japan cooperated in this project to dispatch Japanese endoscopists to lead training sessions in all three countries. These training sessions served as opportunities for fledgling endoscopists to learn about the latest endoscopic surgeries and Japan's unique surgical technician certification system while receiving guidance from seasoned veterans.



Training for the fostering of endoscopists

#### Contribution to Medical Care for Socially Disadvantaged People and Migrants

Olympus Group companies in Europe participated in a project called "Migrants Medicine," which offers medical care to people without health insurance and is run by a local German organization with the support of "Doctors of the World," which is an international humanitarian organization. During the 2015 Christmas season, our subsidiaries donated 13,000 EUR in total to the project and supported it to offer special medical care for women and children in a district with a high percentage of socially disadvantaged residents and a high proportion of migrants. Through the project, our subsidiaries also donated microscopes to a health service center for migrants, contributing to faster, and more accurate diagnosis for many women and children.



Offering medical care by "Migrants Medicine"

# Harmony with the Environment

## Environmental Management

We are working under the Olympus Group Environmental Charter to maintain a healthy environment and contribute to the creation of a society capable of sustainable development

by establishing environmental management systems and reducing environmental impact.

Environmental Management:  
<http://www.olympus-global.com/en/csr/involvement/management/>

## Product, Technology, and Facility Initiatives

<h3>Create Olympus Eco-Products</h3> <p>(Achieve impeccable product performance while reducing environmental impact)</p> <p><b>Surgical endoscopy system</b></p> <p><b>4K camera head OLYMPUS CH-S400-XZ-EB</b></p> <ul style="list-style-type: none"> <li>High resolution unique to 4K</li> <li>42% reduction in packaging volume</li> </ul> <p><b>Mirrorless cameras</b></p> <p><b>OLYMPUS PEN-F</b></p> <ul style="list-style-type: none"> <li>High resolution realized through 20.3 megapixel Live MOS sensor and 5-axis voice coil motor image stabilization</li> <li>Low electricity consumption and easy disassembly (easy battery removal)</li> </ul>	<h3>Develop Technologies That Contribute to the Environment</h3> <p><b>Product that contributes to lower CO<sub>2</sub> emissions for society</b></p> <p><b>IPLEX RX/RT industrial videoscope</b></p> <ul style="list-style-type: none"> <li>Capable of inspection of equipment interiors and diagnosis of issues</li> <li>Sharp and clear image recreation of even minuscule flaws</li> <li>Usable for examination of wind power generation facilities and increasingly more fuel efficient automobile and aircraft engines</li> </ul> <p><b>Product that aids in analysis of harmful substances and resource recycling</b></p> <p><b>DELTA Element handheld XRF analyzer</b></p> <ul style="list-style-type: none"> <li>Capable of identification and measurement of amounts of substances contained in target article</li> <li>Portable and easy to use</li> <li>Able to analyze harmful substances contained in products</li> <li>Usable for analysis of harmful substances in soil</li> <li>Easy sorting of recyclable materials through analyses of scrap</li> </ul>	<h3>Reduce Facility Environmental Footprints</h3> <p><b>New factory building at Shirakawa site</b></p> <ul style="list-style-type: none"> <li>Installation of solar panels and cold water thermal storage tower</li> </ul> <p><b>Olympus Surgical Technologies Europe (Germany)</b></p> <ul style="list-style-type: none"> <li>Installation of insulation and solar panels</li> </ul>
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## Summary of Results of Activities in Fiscal 2016

Priority Policy	Targets	Results	Future Plans	
Promotion of environmental management	Enhancement of environmental governance system	Reinforcement of environmental governance system on global level	<ul style="list-style-type: none"> <li>Established global environmental management regulations</li> <li>Entrenched practice of operating environmental information management platform</li> <li>Trained ISO auditors (80 individuals)</li> </ul>	Continue reinforcing environmental governance system on global level through global coordination and improvement of environmental management system
	Compliance with laws and regulations	Continued improvement of processes for complying with environmental laws	<ul style="list-style-type: none"> <li>Continued implementation of regulations related to products and facilities</li> <li>Instituted chemical substance management training at facilities (Trained 420 individuals in Japan)</li> </ul>	Improve processes for complying with environmental laws related to products and facilities on ongoing basis
Environmental initiatives throughout product life cycles	Product-related initiatives	Create Olympus Eco-Products	Created eco-friendly products in all business areas (31 new products, 556 products in total)	Continually create eco-friendly products matched to business characteristics
	Facilities-related initiatives	Energy consumption rate: 7.73% or more reduction in FY2021 (relative to FY2013; in Japan)	Energy consumption rate: Improved by 7%	Reduce energy consumption rate through manufacturing improvements, introduction of energy-saving equipment and renewable energy systems, and other activities matched to regional characteristics
	Environmental contribution activities	Environmental contribution activities under theme of "Water Circulation—Protection of Forests, Rivers, and Oceans"	<ul style="list-style-type: none"> <li>Conducted river cleanup and community greening activities at bases worldwide</li> <li>Continued coral planting and nature school (3 times) initiatives from fiscal 2015</li> </ul>	Advance ongoing social contribution activities

—Conversation between an Outside Director  
(Chairman of the Board of Directors) and the President—

## Establishment of a Corporate Governance System Expected of a Truly Global Company

Under the current management team, Olympus pursued the establishment of an ideal corporate governance system and the exercise of its effectiveness as top priorities, undertaking such measures as forming a Board of Directors membered by a majority of highly independent outside directors and creating voluntary committees. The following is a frank exchange of opinions about the past, present, and future of the Company's corporate governance system between Outside Director Shiro Hiruta, who has participated in the management of Olympus since his days on the Management Reform Committee following the series of scandals and is now the chairman of the Board of Directors, and President Sasa.



### Unique Governance System Matched to Olympus

**Hiruta** .....  
The current corporate governance system at Olympus realized two major improvements. The first improvement was the institution of a management team consisting of a Board of Directors with 11 members, of which 6 members, or a majority, are highly independent outside directors. By injecting the experience and insight of these outside directors, this governance system ensures that the executive management side of the team is able to make effective decisions without being trapped within the internal logic of the Company. I and the other outside directors strive to always examine the measures proposed to resolve the issues Olympus faces in order to determine their adequacy and identify when they are based solely on the Company's traditional perspective. Given this approach, I feel that sufficient discussion is conducted with regard to the appropriateness of such matters as plans for responding to the new operating environment. Furthermore, briefings are held prior to meetings of the Board of Directors. Audit & supervisory board members also attend these briefings, which serve as an initial opportunity to discuss and uncover issues with proposals. Later, at the actual meeting of the Board of Directors, we are able to devote time to further discussing issues and other important matters with the entire Board. There are times when we are unable to reach a unanimous decision regarding certain proposals and times when several revisions are suggested to proposals. This type of deliberation is not traditionally seen in the governance systems of Japanese companies, and it

represents a massive improvement for Olympus.  
The second major improvement was the establishment of three independent committees—namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee—which are all chaired by outside directors. These committees make the corporate governance system of Olympus a sort of hybrid system with measures first being thoroughly examined by the appropriate committee before being submitted to the Board of Directors for approval. In this manner, while Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan, it is also able to receive the benefits of the Company with Nominating Committee, etc. system. This hybrid system is a massive improvement over the Company's previous system.  
**Sasa** .....  
I too feel that the improvements to our corporate governance system over the past four years have been great. However, when viewed from the outside, there may be some concerns as to whether or not this system is functioning appropriately. When we initially transitioned to the current system, we began by focusing on the form of the system. It was because this form was functional that we were able to build the Olympus of today, and our improvements in this area are ongoing. The actual content of the discussions that take place among management cannot be seen from the outside. One example of the products of these discussions, however, would be when, based on our need to

strengthen compliance on a global scale, we appointed an individual who could perform duties on the global stage as our chief compliance officer and developed a framework in which reports would be issued directly to the president, by which I mean me. In addition, targeting even higher levels of compliance, we

established the Medical Affairs Division as an independent organization for housing our cross-organizational medical affairs functions. Measures such as these are examined and approved by the Board of Directors, and I believe they serve as prime examples of the functionality of our corporate governance system.

### Sincere Fulfillment of Roles Expected by Stakeholders

**Hiruta** .....  
It is incredibly rare among Japanese companies for an outside director to serve as the chairman of the Board of Directors. Even though I hold this position, I do not feel I have any special role or mission. Rather, I feel that my role is the same as that of other outside directors and that it is important for me, in my capacity as an outside director, to support the execution of management. If there is any special role for me as the chairman, it is probably to ensure that the proceedings of the Board of Directors advance smoothly and to decide the timing for votes on measures after determining that discussion has been sufficient and that all members have participated. If I judge that discussion has been insufficient, I must choose whether to reexamine the proposal without voting or make decisions after

receiving additional opinions. I believe my obligation to the Board of Directors is to provide this type of leadership.  
**Sasa** .....  
I have responsibilities as a member of the executive management team. For this reason, if I cannot follow through with the measures I pass at the Board of Directors, management will cease to function. My stance is to carry out any proposal I make. Sometimes, the outside directors point out issues that I had not anticipated. Such guidance enables us as executives to formulate even better implementation plans by endeavoring to deconstruct and thoroughly understand the issues identified. Given this ability, I feel that the Board of Directors is functioning exceptionally well.

### Development of the Optimal Governance System over the Future

**Hiruta** .....  
The optimal governance system is dependent upon the environment surrounding a company and the stage of that company's development. For the present Olympus,

I believe that the governance system we have now is the most ideal. In terms of diversity, while the Board of Directors only has one female director, I do not feel that it is the number of women that is the question. Rather, I think it is

more important to consider whether or not the Company's outside directors and audit & supervisory board members possess the skills necessary for the operating environment faced at the time. Similarly, we should prioritize considerations of how the Board of Directors is to lead the Company, remaining prepared to make changes if the Board proves incapable of practicing such leadership. It is also crucial to develop a successor framework. When thinking about the future of Olympus, an idea of what type of person will be suited to being the next leader should be established, and the type of person necessary must be cultivated in line with a set career plan. Plans for fostering such human resources are best discussed by the Nominating Committee.

**Sasa** .....  
Just as you say, Mr. Hiruta, when determining what the optimal governance system is, we must first think of the current situation surrounding the Company. Given the present circumstances, I too feel that the governance system Olympus is using now is ideal. However, while it is easy to shape systems, cultivating awareness is more difficult. It is the awareness of a company's leader that drives management; a company's leader sets what is seen to be the right course and will stay on that course without slowing. However, outside directors help adjust and guide this course with the various opinions they offer, and it is for this reason that the Board of Directors needs a diverse range of members. So long as we maintain this perspective, our governance system will function effectively.

### Involvement of the Board of Directors in Deciding Medium-to-Long-Term Management Policies and Strategies

**Sasa** .....  
In regard to the functionality of our governance system, the Board of Directors held several discussions when formulating 16CSP, thoroughly examining the risks and opportunities placed before us during this process. It was in April 2015 when we undertook the integration of three companies and shifted to the new matrix style organizational structure to reallocate resources. When considering this integration, we were already engaged in the discussions that would culminate in 16CSP. At the time, it was important for us to determine how we could make full use of our limited management resources and shift these resources on a global basis. We examined and re-examined these issues to decide how best to address them. Also, as 16CSP was designed

based on our vision for 10 years from now, we discussed medium-to-long-term management policies when crafting this plan. Numerous suggestions were received from the outside directors over the course of deciding the plan's strategies. They offered specific advice about management policies, the definition of a "Business to Specialist" Company, and the concept of maintaining a balance between risks and risk buffers. We revised our strategies accordingly. I therefore feel confident in saying that the strategies of 16CSP were forged through an ideal process.

**Hiruta** .....  
From the perspective of the effectiveness of the governance system, immediately after the scandals came to light the most pressing matters were resolving compliance issues and addressing the vulnerability of the Company in terms of its capital structure. As such, the advice offered to the executive management team was primarily related to those matters. As a result, we were able to guide Olympus in overcoming these problems in accordance with plans, and I therefore feel that the Board of Directors was functioning properly at that point. Having overcome these difficulties, Olympus has now entered a new stage, a stage in which it must consider future growth and global expansion policies. This fact is reflected in the new organizational structure and in 16CSP itself. This plan was formulated through a W-shaped process. Vigorous discussions were held through this process, which entailed the executive management

“ That challenge itself represents a chance for Olympus to become a truly global company and achieve substantial growth. ”



“ We should prioritize considerations of how the Board of Directors is to lead the Company, remaining prepared to make changes if the Board proves incapable of practicing such leadership. ”



team proposing basic policies on such matters as how to develop the Olympus Group's business in the changing operating environment, discussing these proposals among the Board of Directors, and then reflecting these discussions back into the proposals. With regard to numeric targets, we did not so much discuss the figures themselves. It would be more accurate to say that we considered what level would be necessary to achieve from the standpoint of the Group's business.

For example, a discussion of stock prices would examine such factors as the level of dividends that would be necessitated by certain stock price figures and, given the associated business risks, what dividend policies should be adopted. I also feel that we devoted sufficient time to having in-depth discussions of medium-to-long-term issues. From this perspective as well, I believe that the Board of Directors is being operated within an effectively functioning governance system.

### Future Hopes and Tasks

**Hiruta** .....  
My greatest hope for Olympus is for it to practice good compliance, mitigate risks, and continue steadfast growth. The goal of becoming the greatest "Business to Specialist" Company was raised due to the fact that the Company possesses the development and manufacturing infrastructure necessary for addressing the needs of specialists and doing so on a global scale. This goal also embodies my desire for the Company to grow by using this infrastructure to provide specialized Olympus products and services around the world. However, there are also tasks that the Company needs to address. In order to become a "Business to Specialist" Company that operates globally, it is vital that the currently different governance systems in each country be standardized and then reinforced. In addition, although there have been substantial improvements to the Company's balance sheet, there is still a certain degree of unbalance when viewing it from the perspective of global management resource allocation. Furthermore, human resource evaluation and development programs—not just frameworks—will need to be based on global standards. It will take time to address these tasks, but I am hopeful that Olympus will be able to formulate effective plans and then put them into action. I will offer the Board of Directors as much

advice as possible on any risks I detect during this process. I believe that Olympus will be able to continue steadfast growth.

**Sasa** .....  
In 16CSP, we set policies with the aim of realizing ongoing growth, and effectively exercising these policies will be of utmost importance. I am confident that Olympus is among the few companies with the chance to grow. However, there are aspects about the Company that, despite seeming completely normal to us, are significantly lacking in comparison to the global standards for medical equipment manufacturers. Significant time will be required before these deficiencies come to be recognized by the entire Company. However, by spreading recognition of these deficiencies and pursuing improvement in these areas, I am certain that Olympus will be able to climb to greater heights. In this endeavor, it will be important to examine the global standards for human resources systems, financial strategies, and compliance and then determine how we should change. That challenge itself represents a chance for Olympus to become a truly global company and achieve substantial growth. I am therefore committed to carrying out the necessary measures to live up to the expectations of us.




**Basic Stance toward Corporate Governance**

The Olympus Group strives to realize better health and happiness for people by being an integral member of society, sharing common values, and proposing new values through its business activities. We call this aim "Social IN" and have made it the underlying principle for all of our activities. The "Social IN" corporate philosophy inspires us to work for our shareholders and other stakeholders in order to realize ongoing corporate growth and medium-to-long-term improvements in corporate value.

Since the institution of the new management team in 2012, Olympus has been continually strengthening its corporate governance system, positioning this task as a top

management priority. In addition, we endorse the goals of Japan's Corporate Governance Code, which was formulated in March 2015, and we comply with and have implemented measures based on all of the principles of the code. Through such efforts, we seek to ensure effective corporate governance based on our fiduciary duty to shareholders; our responsibilities toward customers, employees, communities, and other stakeholders; and the aforementioned corporate philosophy.

 [Response to the Corporate Governance Code:  
http://www.olympus-global.com/en/ir/governance/policy/index.jsp](http://www.olympus-global.com/en/ir/governance/policy/index.jsp)

**Corporate Governance Structure**

**Basic Corporate Governance Policies**

In order to enhance the oversight functions of the Board of Directors, which is membered by a majority of highly independent outside directors, Olympus fills the position of chairman of the Board of Directors with a director that does not have business execution responsibilities in order to establish a clear divide between business execution and oversight functions. In addition, the Nominating Committee and the Compensation Committee, both of which were established voluntarily by the Company, consist of a majority of highly independent outside directors and are also chaired by such directors.

When selecting directors, the Company considers the diversity of experience, knowledge, and skills of the Board of Directors as a whole. We also secure sufficient time for meetings of the Board of Directors to ensure that all directors are able to fulfill their duties and responsibilities.

**Overview of the Corporate Governance Structure**

The Board of Directors consists of 11 members, a majority of whom are outside directors. In principle, the Board of Directors meets once per month and approves important management proposals made by the president, the highest authority for executive management, while exercising appropriate oversight of business execution. The term of directors is set at one year to allow their performance to be evaluated on a yearly basis and to clarify responsibility for this performance. Olympus expects the six outside directors to apply their specialized expertise in management by engaging in decision making and oversight of the Board of Directors from an independent perspective.

Furthermore, the Board of Directors requests reports on matters that are decided by the Executive Management Committee or by the president. In this manner, the Company is strengthening governance from the perspectives of sharing information and monitoring, thereby creating systems for better ensuring the soundness of management. Olympus employs an executive offi-

cer system, which segregates the decision-making function and supervisory function of the Board of Directors from the business execution function of the executive officers. In addition, the Company has set a maximum tenure period for the president and a maximum age for directors and executive officers. These restraints are in place to prevent inappropriate activities from occurring due to extended tenures of corporate officers. The Executive Management Committee, in principle, convenes three times a month in order to aid the president in making important management decisions through discussion of these matters. This committee consists of members that include the president and heads of functional organizations. Also, audit & supervisory board members attend meetings of this committee as observers, thereby further reinforcing the oversight function for business execution divisions.

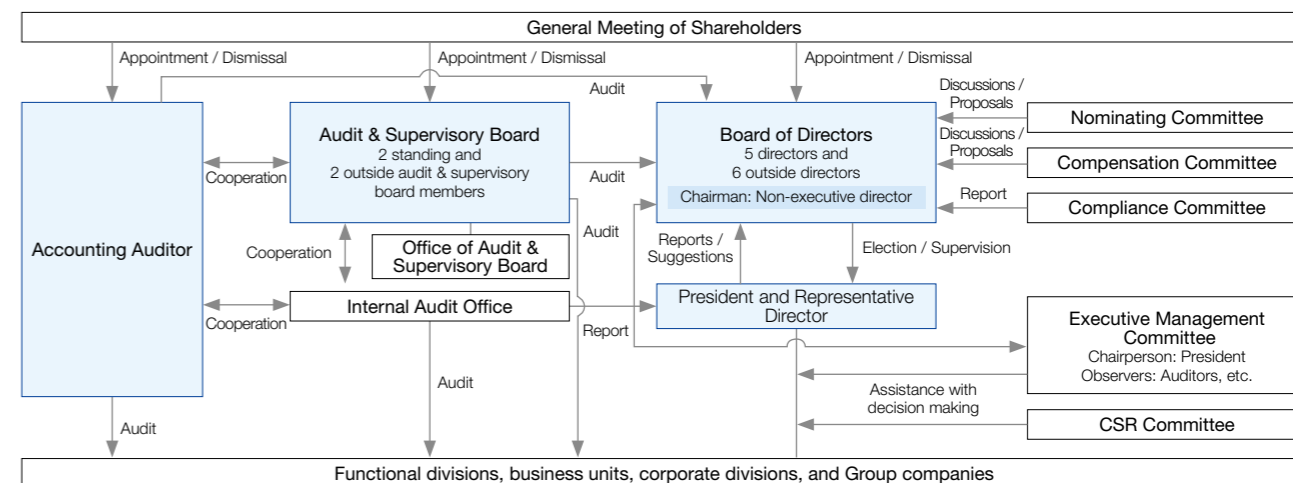
**Voluntarily Established Committees**

Olympus has adopted the Company with Board of Company Auditors system for its governance system but has also incorporated aspects of the Company with Nominating Committee, etc., system by actively pursuing voluntary improvements in governance functions through the establishment of its Nominating Committee and Compensation Committee. Furthermore, the Compliance Committee, which is chaired by an outside director, was established as a body to oversee and improve the compliance system.

**Overview of the Corporate Governance Structure**  
(As of June 28, 2016)

	Board of Company Auditors system
Format	Yes
Adoption of executive officer system	Yes
Directors	11
Of whom, outside directors	6
Term of directors	1 year
Audit & supervisory board members	4
Of whom, outside audit & supervisory board members	2
Independent officers	8
Participation of outside directors in determination of remuneration	Yes
Board of Directors convened	23 times
Results-linked remuneration	Yes

**Corporate Governance Structure**



**Composition of Committees**

Name	Position	Nominating Committee (3)	Compensation Committee*1 (3)	Compliance Committee*2 (5)
Hiroyuki Sasa	President	○	○	
Shiro Hiruta	Outside director (Chairman)	○ (Chairperson)		
Sumitaka Fujita	Outside director		○	
Keiko Unotoro	Outside director			○
Takayuki Katayama	Outside director		○	
Susumu Kaminaga	Outside director			○ (Chairperson)
Michijiro Kikawa	Outside director	○		

\*1 Election of chairman through mutual voting at the first meeting of the Compensation Committee.

\*2 In addition to the two members described above, the members of the Compliance Committee also include the Chief Compliance Officer and external members.

**Outside Directors and Audit & Supervisory Board Members**

Olympus has strengthened the corporate governance structure by appointing 6 outside directors, representing more than half of its 11 directors, and utilizing their objective standpoint, wealth of experience, and extensive knowledge of management. Furthermore, Olympus has increased the objectivity and fairness of management oversight by appointing 2 outside audit & supervisory board members out of the 4 audit & supervisory board members.

Outside directors and audit & supervisory board members receive reports from the Group's Internal Audit Office about

internal audits at Board of Directors' meetings. Outside audit & supervisory board members also receive reports from both the Internal Audit Office and the accounting auditor at Audit & Supervisory Board meetings. In addition, outside audit & supervisory board members meet with staff from the Internal Audit Office and the accounting auditor to share opinions and otherwise coordinate their efforts. Furthermore, all 6 outside directors are independent directors and both outside audit & supervisory board members are independent officers.

Outside directors	Reason for appointment	Attendance at meetings of the Board of Directors (Met 23 times in FY2016)
Shiro Hiruta*	Mr. Hiruta was appointed so that his extensive experience and diverse knowledge as a business manager at Asahi Kasei Corporation may be applied to the Company's management.	23/23
Sumitaka Fujita*	Mr. Fujita was appointed so that his extensive experience and diverse knowledge as a business manager at ITOCHU Corporation may be applied to the Company's management.	23/23
Keiko Unotoro*	Ms. Unotoro was appointed so that her extensive experience and diverse knowledge acquired from working at the Japan Fair Trade Commission may be applied to the Company's management.	23/23
Takayuki Katayama*	Mr. Katayama was appointed so that his extensive experience and diverse knowledge as a business manager at Teijin Limited may be applied to the Company's management.	Appointed from FY2017
Susumu Kaminaga*	Mr. Kaminaga was appointed so that his extensive experience and diverse knowledge as a business manager at Sumitomo Precision Products Co., Ltd. may be applied to the Company's management.	Appointed from FY2017
Michijiro Kikawa*	Mr. Kikawa was appointed so that his extensive experience and diverse knowledge as a business manager at Hitachi Construction Machinery Co., Ltd. may be applied to the Company's management.	Appointed from FY2017


Outside audit & supervisory board members	Reason for appointment	Attendance at meetings of the Board of Directors and the Audit & Supervisory Board (Met 23 times in FY2016)	Audit & Supervisory Board (Met 30 times in FY2016)
Katsuya Natori*	Mr. Natori was appointed so that his extensive experience and diverse knowledge as a business manager at Sun Microsystems, Inc., Fast Retailing Co., Ltd., and IBM Japan, Ltd., as well as his diverse knowledge as an attorney may be applied to the Company's management.	22/23	29/30
Atsushi Iwasaki*	Mr. Iwasaki was appointed so that his extensive experience and diverse knowledge as a certified public accountant may be applied to the Company's management.		Appointed from FY2017

\* Independent officers

### Evaluation Results regarding the Effectiveness of the Board of Directors

To increase the effectiveness of the Board of Directors and improve corporate value, the Company institutes annual analyses and evaluations of the overall effectiveness of the Board of Directors. Third-party perspectives are employed as part of

this process. The results of these analyses and evaluations are disclosed.

 Evaluation of the Effectiveness of the Board of Directors: <http://www.olympus-global.com/en/ir/governance/board/>

#### Method of Evaluation

In cooperation with an external consulting firm, the Company prepared a questionnaire on the effectiveness of its Board of Directors and individual committees (Nominating Committee, Compensation Committee, and Compliance Committee) and their relationships with investors and shareholders. This questionnaire was distributed to each director and audit &

supervisory board member, and the Company received answers from all of the respondents. With these replies from the directors and audit & supervisory board members as well as feedback from the external consulting firm, the Company did an analysis and evaluation regarding the effectiveness of its Board of Directors.

#### Results of Analysis and Evaluation in Fiscal 2016

Items	Analysis and evaluation	Change in evaluation from previous year*
1. Fulfillment of the functions of the Board of Directors	This is a new item that we added for this year and beyond to evaluate the fulfillment of the primary functions of the Board of Directors, i.e., objective supervision over decisions made on the direction of business strategies and significant issues as well as over the execution of such decisions. The evaluation found that the Board of Directors fully fulfills these functions, indicating that its effectiveness is secured.	(Newly added item)
2. Composition and actual operation of the Board of Directors	The evaluation found that the Board of Directors is appropriate in size and composition and holds open and active discussions. Accordingly, the result is better than the result last year. Moreover, since we have made efforts to have more in-depth discussions on medium- and long-term managerial issues, in the evaluation the items of discussion on a few of those issues were found to have improved. Meanwhile, we received some opinions, such as "it would be more appropriate if outside directors made up a majority of the Board of Directors" and "it is necessary to narrow down the items on the agenda submitted to Board of Directors' meetings." Please note that in terms of the composition of the Board of Directors, outside directors now make up a majority of the Board of Directors after the election of directors at the general meeting of shareholders for the 148th term held on June 28, 2016.	Improved evaluation
3. Important committees	The Nominating Committee, the Compensation Committee, and the Compliance Committee were highly evaluated in general. The evaluation found that they are operated properly.	Maintained high evaluation from previous year
4. Support system for outside directors	As in the previous fiscal year, this item was evaluated highly. The evaluation found that the training / education and information are adequately provided to outside directors in terms of how much they need for discussions.	Maintained high evaluation from previous year
5. Expectations for the roles of corporate auditors	As in the previous fiscal year, this item was evaluated highly. The evaluation found that the existence of corporate auditors contributes to the securement of the Board of Directors' effectiveness.	Maintained high evaluation from previous year
6. Relationships with investors / shareholders	The Company's long-term competitiveness is being communicated to the capital market (investors / shareholders, etc.), and we have established a system to ensure that the Board of Directors will periodically receive feedback from investors and shareholders regarding their evaluations of the Company in a structured manner and in their entirety. As a result, the evaluation found that the Board of Directors receives feedback from the capital market and this item was evaluated more highly than in the previous fiscal year.	Improved evaluation

\* For details on the analysis and evaluation conducted in fiscal 2015, please refer to page 53 of Annual Report 2015.

#### Improvements in Issues Recognized in Fiscal 2015

Issues	Analysis and evaluation from fiscal 2015	Status of improvement
More complete discussions on medium- and long-term managerial issues at board meetings	The Board of Directors of the Company acknowledged that its discussions had a relative tendency to focus on time-critical significant issues, such as dealing with risks, improving the corporate governance structure, and responding to compliance issues.	The Board of Directors endeavored to increase discussion of important matters based on the medium-to-long-term outlook for business competition and market trends. As a result, it was judged that sufficient discussion was conducted during fiscal 2016 with regard to a variety of issues, including the medium-to-long-term outlook for competition and market trends, medium-to-long-term management policies and strategies, and the establishment of medium-to-long-term goals and the confirmation of progress.
Enhanced feedback to the board on evaluations of the Company by the capital market	The Board of Directors of the Company acknowledged that, in its relationships with shareholders and other investors, it had made efforts to communicate the Company's long-term competitive advantage and status of improvement in the corporate governance structure, and that there had been a lack of systematic and organized feedback to the Board of Directors in terms of evaluations by shareholders and other investors of the Company.	A framework for providing systematic, organized, and regular feedback to the Board of Directors in terms of evaluations by shareholders and other investors of the Company was established. As a result, it was judged that the Board of Directors was provided with sufficient information during fiscal 2016.

### Strengthening of Audit and Supervisory Functions

Olympus has adopted the Company with Board of Company Auditors system. To guarantee the strength of supervisory functions, two of the four audit & supervisory board members are outside audit & supervisory board members. Olympus has established the Office of Audit & Supervisory Board to support audit & supervisory board members and assigned full-time employees to assist with their work. In principle, the Audit & Supervisory Board, like the Board of Directors, meets once per month.

In accordance with the Rules of the Audit & Supervisory Board and the Audit & Supervisory Board Members' Audit

Standard, the audit & supervisory board members attend important meetings, including Board of Directors' meetings, and periodically exchange opinions with directors and executive officers. In principle, they exchange opinions with the representative director four times per year. Furthermore, the accounting auditor periodically provides explanations about annual audit plans, matters regarding quarterly financial statements, and year-end audit reports. Forums for exchanges of opinions are also held as necessary.

### Corporate Officer Compensation

Our basic policy for corporate officer compensation is to provide compensation that is appropriate based on the duties of officers and that instills in them a strong commitment to maximizing corporate value so that the Company may live up to shareholder expectations. Based on this policy, we place

emphasis on setting an appropriate ratio between compensation linked to short-term performance and compensation linked to medium-to-long-term performance. Actual compensation levels are decided based on the opinion statements and advice of the Compensation Committee.

Position	Total value of remuneration (¥ million)	Total compensation by type (¥ million)				Number of directors / audit & supervisory board members
		Base	Bonuses	Stock options	Retirement benefits	
Directors (excluding outside directors)	368	249	67	53	—	7
Audit & supervisory board members (excluding outside audit & supervisory board members)	56	56	—	—	—	2
Outside officers	96	96	—	—	—	10

#### Policies for Determining Corporate Officer Compensation and Calculation Method

Compensation for directors, excluding outside directors, comprises monthly salaries, bonuses, and stock options. Monthly salaries are set according to the base compensation for each position and such factors as the degree of contribution to the Company by each individual director. The total amount of bonuses is decided based on the Company's consolidated operating income and net income in the applicable fiscal year. The stock option system allocates share warrants that are separate from monthly salaries and bonuses for the purpose of incentivizing and motivating directors to work toward the Company's medium-to-long-term performance improvement and corporate value enhancement. Outside directors only receive monthly salaries and are not eligible for bonuses or stock options. Audit & supervisory board members only receive monthly salaries, which are determined through discussion among audit & supervisory board members, and are not eligible for bonuses or stock options.

#### Calculation Method for Income-Linked Bonuses

The following formulas will be used for calculating the compensation to be paid to directors in fiscal 2017.

- Total value of remuneration  
 Total value of remuneration =  
 ((Consolidated operating income in fiscal 2017 – ¥30.0 billion) × 0.069% + (Consolidated net income in fiscal 2017 – ¥10.0 billion) × 0.0418%) × (Total sum of "officer points" for all applicable directors ÷ 92)  
 (rounded to the nearest ¥10,000)
- Individual compensation  
 Individual compensation =  
 Total value of remuneration ÷ Total sum of "officer points" for all applicable directors × "Officer points" of individual director  
 (rounded to the nearest ¥10,000)

#### Officer Points

Chairman	President and Representative Director	Director, Vice President	Director, Senior Executive Managing Officer	Director, Executive Managing Officer	Director, Managing Officer
24	28	20	16	12	9

**Internal Controls**

Framework to ensure the compliance by directors and employees of the Company and its subsidiaries, in the performance of duties, to applicable laws and regulations as well as the Articles of Incorporation:

■ **Compliance Committee**

The Company shall establish the Compliance Committee chaired by an outside director as a body to oversee and improve the compliance system.

■ **CSR Committee**

Olympus shall set up the CSR Committee with the president responsible for CSR and chaired by the officer in charge of CSR, and regularly hold meetings to plan CSR activities for the Olympus Group and set objectives for and evaluate these activities.

■ **Internal Audit Office**

Olympus shall establish the Internal Audit Office to directly report to the president. The Internal Audit Office shall, pursuant to the provisions of the Internal Audit Regulations, conduct internal audits of the Company and its domestic subsidiaries with respect to compliance with laws and regulations, the Articles of Incorporation, internal rules and regulations, the appropriateness of business execution procedures and details, and other matters.

Rules relating to the risk management of the Company and its subsidiaries in the event of loss and other circumstances:

1 The Company shall manage its business risks of the Olympus Group based on thorough discussions held at meetings of the Board of Directors and the Executive Management Committee, among other meetings, and appropriate internal approval procedures.

2 The Company shall manage risks, such as those relating to quality, product safety, export control, information security, occupational health and safety, the environment, and disasters, by defining responsible divisions, establishing internal corporate regulations and standards, working for preventive risk management as the Olympus Group, and implementing related education and training.

3 The CSR Committee shall report and deliberate on plans and

measures in relation to risk management and make efforts to establish and maintain a risk management system at the Olympus Group. Moreover, pursuant to the internal Rules on Risk Management and Crisis Response, each department in charge in the Company and the subsidiaries shall be aware of risks and take preventative measures, and the Company has a framework that enables prompt actions in the event of an emergency. In the event of an earthquake, fire, other natural disaster, accident, corporate ethics violation, or occurrence of another high-risk incident, the department in charge shall make immediate reports to the president, other members of the Executive Management Committee, and relevant people. Response measures will then be decided by the president.

Framework to ensure the effective performance of duties by directors of the Company and its subsidiaries:

1 The Board of Directors shall approve medium- and long-term corporate strategic plans in which the business objectives of the Olympus Group are set forth, and action plans for these, which are called annual business plans. In addition, the Board of Directors shall receive a monthly report on business performance in order to evaluate the status of the Company's annual business plan.

2 The Board of Directors shall determine the separation of duties among the president and other operating directors and approve the separation of duties of executive officers. In addition, the Board of Directors shall receive reports on their duties as performed.

3 Based on internal corporate regulations including the internal rules on approval procedures and organizational matters, the Board of Directors shall approve the management organization and the separation of duties, as well as the responsibility and authority of each representative director, other operating director, and executive officer, and receive reports from major management organizations on their duties as performed.

4 To ensure efficient execution of duties by directors of the subsidiaries, the Company has established Group Finance Control Rules and introduced a cash management system for Japan, America, Europe, and Asia.

**Establishment of the Internal Control Department to Strengthen Internal Controls**

In April 2016, the Company established the Internal Control Department. Tasked with strengthening internal controls, this department consolidates existing risk management and information security control functions with new regulatory control functions. Through these regulatory control functions, the implementation of internal rules is promoted in accordance with the new rules system established to match the current management structure and reinforce internal controls. As for

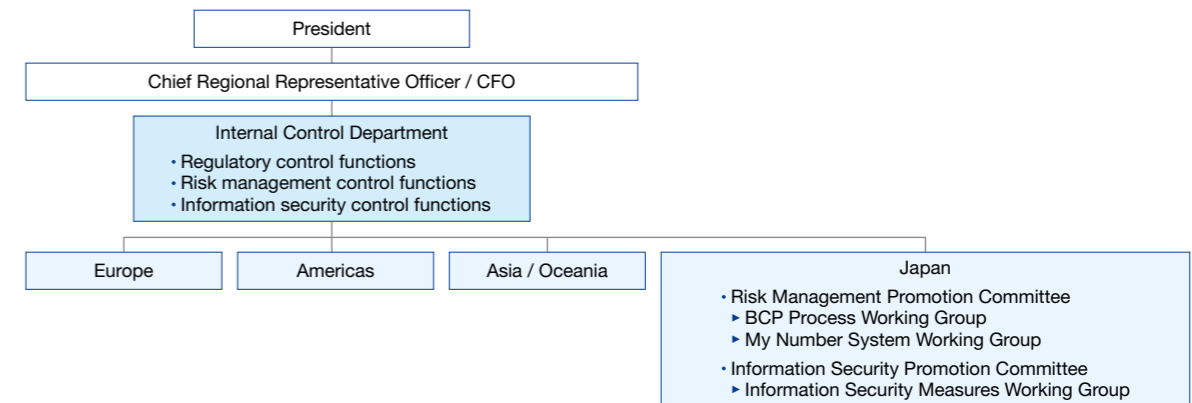
risk management functions, we are reinforcing and advancing the preventive risk management and crisis management initiatives that we implement on an ongoing basis. In addition, we are addressing the Social Security and Tax Number System ("My Number" system) instituted in Japan in 2010 through the My Number System Working Group, which was established to advance a uniform, Groupwide response. Meanwhile, the BCP Process Working Group was created to

strengthen countermeasures for the recently rising risk of large-scale earthquakes. In this manner, we strive to ensure preparedness for various events.

Information security control functions have been crafted with the concept of guaranteeing the protection of confidential, personal, and other important information to prevent the occurrence of serious incidents. Based on this concept, we

take steps to safeguard against external attacks, including virus-carrying emails and cyberattacks on our networks, implement measures for securing IT equipment, and educate employees on the safe use of social media. In Japan, basic countermeasures and activities are advanced through committees. Overseas, similar initiatives are implemented in line with our basic rules while sharing information among regions.

**Internal Control Framework**



**Basic Policies for Information Disclosure**

In addition to conducting appropriate disclosure as mandated by laws and regulations, the Company also strives to transmit information in various forms on its own accord in order to ensure the transparency and impartiality of decision making and realize effective governance. These forms include Olympus' corporate website, annual reports, and shareholder newsletters as well as voluntarily released timely disclosure documents. In issuing these communications, directors take care to ensure that all information disclosed is not only easy to understand but also valuable to the target recipients. Furthermore, as a large portion of the Company's shareholders are not Japanese, we provide English-language versions of the majority of these information disclosures.

**Communication with Stakeholders**

Seeking to facilitate sustainable growth and medium-to-long-term improvements in corporate value, the president and the

chief financial officer (CFO) play a central role in our proactive efforts to communicate with shareholders. Investor relations divisions support these efforts and create systems for sharing information within the Company and relaying input from shareholders to management.

Furthermore, to protect the rights of shareholders, convocation notices for the general meeting of shareholders are sent at the earliest date possible and are made to include a comprehensive range of information. In addition, English-language versions of convocation notices are uploaded onto the Company's corporate website, and we take other steps to guarantee that such information is provided fairly to all shareholders, including those overseas, and thereby ensure that shareholders have ample information and sufficient time to properly exercise their voting rights.

**Investor Relations (IR) Activities**

The following investor relations activities were conducted in fiscal 2016.

Activity	Times conducted	Details
Conferences on results for institutional investors and analysts	4	Meetings held quarterly to explain topics from the period, focused on financial performance and forecasts
IR DAY	1	Explanatory forum on 16CSP with presentations by the president, the CFO, and heads of businesses
Facility tours and study sessions	3	Tours and study sessions of plants, repair centers, training centers, and other facilities
Conference calls for overseas institutional investors	4	Teleconferences with overseas institutional investors held on the day of financial results presentations for each quarter
Overseas IR roadshows	3	Meetings for institutional investors in which the president and the CFO visit overseas sites
Conferences held by securities companies (including overseas conferences)	11	Participation in and meetings at conferences held by securities companies in Japan and overseas
Meetings for individual investors	17	Meetings held at branch offices of securities companies
Individual meetings with institutional investors and analysts	715	Individual meetings held with the president, the CFO, and/or investor relations division representatives (including meetings conducted at overseas IR roadshows and conferences)

# Compliance

## Promotion of Compliance

The Olympus Group strives to foster an environment within the organization in which no concern pertaining to compliance will be ignored, under any circumstances. At the same time, it maintains an understanding of the status of compliance systems and works to strengthen these systems. Realizing the immense responsibilities of the Company's Medical Business

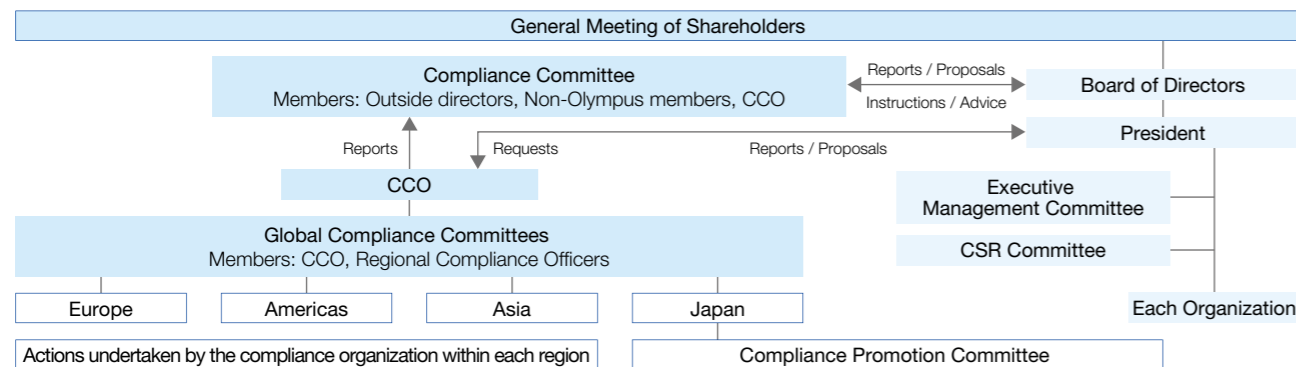
due to its provision of items related directly to people's life, Olympus is committed to maintaining impeccable levels of product safety and quality. The Company has also established its own internal rules to ensure compliance with the various regulations in place in countries worldwide, and it is promoting awareness and conducting training with regard to these rules.

## Compliance Promotion Structure

Olympus has appointed a chief compliance officer (CCO) whose task is to clarify compliance-related responsibilities. We have also established the Compliance Committee, chaired by an outside director and consisting of the CCO and independent members, to advise the Board of Directors. The Compliance Committee works to strengthen compliance

initiatives through its meetings, which are normally held every quarter. Olympus holds quarterly meetings of Global Compliance Committees for compliance officers from each regional headquarters worldwide. The purpose of these committees is to implement compliance-related policies and measures, identify issues, and enforce countermeasures as required, both globally and regionally.

## Compliance Promotion System

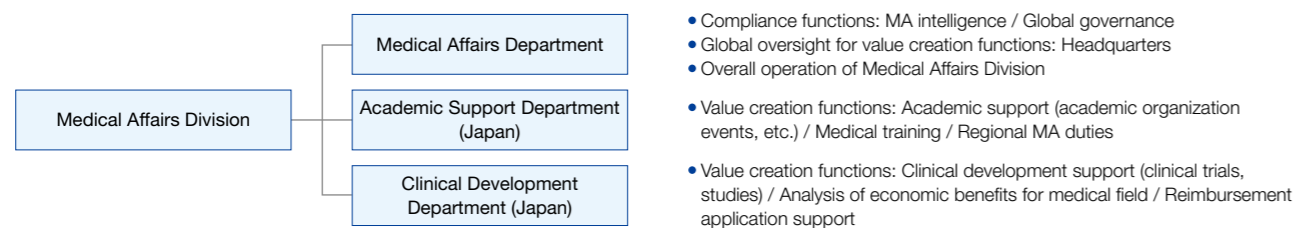


## Establishment of the Medical Affairs Division to Pursue Higher Levels of Compliance

The requirements for compliance in the medical equipment industry are becoming increasingly more rigorous across the globe. Accordingly, companies are now expected to go beyond simply avoiding inappropriate activity to installing systems that actively prevent such activity. Meanwhile, the lack of innovative medical advances is creating an environment in which even more emphasis is being placed on proving the medical value of products through an evidence-based medicine approach utilizing customer data. Furthermore, rising pressure to limit healthcare expenses is making it more important than ever for companies to solicit the economic benefits for the medical field of their products.

In consideration of these changes in the operating environment, Olympus established the Medical Affairs Division in November 2015. This division is tasked with drafting and promoting strategies to ensure the appropriateness of activities to create and provide value in relation to our medical equipment products and services. While we already have medical affairs functions in place in North America, we realize that these functions are necessary on a global scale. For this reason, we are setting up new organizations in other regions and deploying initiatives to further strengthen compliance systems and for value creation functions.

## Overview of Medical Affairs Organizations in Japan Head Office



## Message from the Chief Compliance Officer



Caroline West joined Olympus in January 2016 as the Chief Compliance Officer (CCO) for Olympus Corporation of the Americas (OCA) and in April 2016 was appointed to the role of Global CCO for Olympus Corporation. She was initially drawn to Olympus for the positive impact made by its breadth of innovative technologies and offerings and, soon thereafter, became equally impressed by its pursuit of unsurpassed integrity in all of its business activities.

**Caroline West**

Chief Compliance Officer (CCO)

### Q Could you please explain your background and your role at Olympus?

I began my career as an attorney in Pennsylvania, and have spent the last 19 years building and leading compliance programs in the pharmaceutical/biotech industries—starting at Rhone-Poulenc Rorer/Aventis, then Shire. Upon starting with OCA in January, I was responsible for overseeing the organization's compliance framework and leading a strong compliance department; a role that I continue to hold today.

In April, I also assumed the role of Global CCO. In this position, I will manage a staff in Tokyo as well as regional compliance departments to continue to enhance the Company's global compliance programs and practices. I am honored to accept this opportunity, which legitimizes Olympus' initiatives for globalization and optimization and reinforces the Company's evolving diversity.

### Q What are your thoughts regarding the current state of compliance at Olympus and what issues remain to be addressed?

Since the challenges of the financial events of 2011 as well as the events from that same time frame that resulted in the recent settlements with the United States Government, Olympus has made a deep commitment to compliance and, under the prior leadership of the former CCO, has built an impressive foundation that will serve Olympus well as we move forward.

Looking ahead, we will focus efforts on regaining and

nurturing the trust that our stakeholders have in Olympus. We need to assure that our corporate culture encourages and preserves unsurpassed integrity, where we always do the right thing, the right way. Olympus is expected to adhere to exceptionally high standards for corporate governance and compliance in all of its business processes, and I believe that we are prepared to meet those standards.

### Q What are your medium-to-long-term vision and goals for Olympus?

In the global environment in which we do business, compliance challenges in one region can have swift and negative effects in others. It is also true that different regions have different challenges, different laws, different cultures, and different levels of compliance risk.

My first goal is to assure that there are consistent standards of compliance across Olympus, while still preserving and respecting any cultural differences. I look forward to working with the regional compliance teams to iron out those standards, gain efficiencies where needed, and continue to instill the message of

unsurpassed integrity. My second goal is to have the Compliance function be a partner to the business. We need compliance to be a part of our everyday activities, owned and an integral part of what we do at Olympus. In turn, the Company's Compliance Department will continue to provide relevant training to increase awareness, and provide any support and guidance needed to walk through certain situations. A strong partnership with the business will enable working together to solve problems before they happen, rather than after they happen. That is truly the aim of compliance.

# Management Structure

(As of June 28, 2016)



## Directors

### A President and Representative Director

#### Hiroyuki Sasa

(Date of birth: September 14, 1955)  
 Apr. 1982 Joined the Company  
 Apr. 2001 General Manager, Endoscope Business Planning Dept., Olympus  
 Apr. 2005 Division Manager, First Development Div., Olympus Medical Systems Corp.  
 Apr. 2007 Division Manager, Marketing Div., Olympus Medical Systems Corp.  
 Jun. 2007 Executive Officer, Olympus Director, Olympus Medical Systems Corp.  
 Apr. 2012 President and Representative Director, the Company (present)

### B Director, Vice President

#### Yasuo Takeuchi

(Date of birth: February 25, 1957)  
 Apr. 1980 Joined the Company  
 Apr. 2005 General Division Manager, Olympus Medical Systems Corp.  
 Apr. 2009 Director, Olympus Europa Holding GmbH  
 Jun. 2009 Executive Officer, the Company  
 Oct. 2011 Executive Managing Director and Chairman of the Board, Olympus Europa Holding GmbH  
 Apr. 2012 Director, the Company (present)  
 Senior Executive Managing Officer, the Company  
 Group President of Group Management Office, the Company  
 Chairman of the Board, Olympus Corporation of the Americas (present)  
 Mar. 2013 Administrative Board and Managing Director, Olympus Europa Holding SE (present)  
 Apr. 2015 Head of Corporate Management Office, the Company  
 Apr. 2016 Director, Vice President, the Company (present)  
 Chief Financial Officer, the Company (present)

### C Director, Senior Executive Managing Officer

#### Akihiro Taguchi

(Date of birth: January 26, 1958)  
 Apr. 1980 Joined the Company  
 Apr. 2009 Division Manager, R&D Div. 2, Olympus Medical Systems Corp.  
 Jun. 2010 Executive Officer, the Company  
 Director, Member of the Board, Olympus Medical Systems Corp. (present)  
 Apr. 2012 Senior Executive Managing Officer, the Company (present)  
 President, Olympus Medical Systems Corp.  
 Apr. 2015 Head of Sales Group, the Company  
 Business Management Officer of Medical Business, the Company (present)  
 Director, Member of the Board, Olympus Medical Systems Corp. (present)  
 Jun. 2015 Director, the Company (present)  
 Apr. 2016 Head of Sales and Marketing Group, the Company (present)

### D Director, Senior Executive Managing Officer

#### Haruo Ogawa

(Date of birth: April 13, 1957)  
 Apr. 1982 Joined the Company  
 Jul. 2009 Deputy Division Manager Imaging Business Div., Olympus Imaging Corp.  
 Oct. 2010 Division Manager Medical Technology R&D Div., the Company  
 Apr. 2011 Executive Officer, the Company  
 Director, Member of the Board, Olympus Imaging Corp.  
 Apr. 2012 Executive Managing Officer, the Company  
 Apr. 2012 President, Olympus Imaging Corp.  
 Apr. 2015 Head of R&D Group, the Company (present)  
 Business Management Officer of Scientific Solutions Business and Imaging Business, the Company  
 Jun. 2015 Director, the Company (present)  
 Apr. 2016 Senior Executive Managing Officer, the Company (present)  
 Chief Technology Officer, the Company (present)

### E Director, Executive Managing Officer

#### Kiichi Hirata

(Date of birth: July 1, 1957)  
 Apr. 1980 Joined the Company  
 Oct. 2003 General Manager, Planning Dept., Scientific Equipment Div., the Company  
 Apr. 2004 General Manager, Sales and Marketing Dept., Bioscience Div., the Company  
 Apr. 2006 General Manager, Logistics Development Dept., Business Support Div., the Company  
 Nov. 2012 President, Olympus Logitex Co., Ltd.  
 Oct. 2013 Division Manager, Corporate Service Div., the Company  
 Apr. 2014 Executive Officer, the Company  
 Apr. 2015 Head of Corporate Group, the Company  
 Apr. 2016 Executive Managing Officer, the Company (present)  
 Chief Administrative Officer, the Company (present)  
 Jun. 2016 Director, the Company (present)

### F Outside Director

#### Shiro Hiruta

(Date of birth: December 20, 1941)  
 Apr. 1964 Joined Asahi Chemical Industry Co., Ltd. (currently Asahi Kasei Corporation)  
 Jun. 1997 Director, Asahi Chemical Industry Co., Ltd. (currently Asahi Kasei Corporation)  
 Jun. 1999 Managing Director, Asahi Chemical Industry Co., Ltd. (currently Asahi Kasei Corporation)  
 Jun. 2001 Senior Managing Director, Asahi Kasei Corporation  
 Jun. 2002 Executive Vice President, Asahi Kasei Corporation  
 Apr. 2003 President and Representative Director, Asahi Kasei Corporation  
 Apr. 2010 Director and Senior Advisor, Asahi Kasei Corporation  
 Jun. 2010 Senior Advisor, Asahi Kasei Corporation  
 Mar. 2011 Audit & Supervisory Board Member, Nikkei Inc.  
 Apr. 2012 Director, the Company (present)  
 Jun. 2013 Standing Counselor Adviser, Asahi Kasei Corporation  
 Apr. 2015 Director, ORION ELECTRIC Co., LTD. (present)  
 Jun. 2016 Counselor, Asahi Kasei Corporation (present)

[Important concurrent position]  
 Director, ORION ELECTRIC Co., LTD.

### G Outside Director

#### Sumitaka Fujita

(Date of birth: December 24, 1942)  
 Apr. 1965 Joined ITOCHU Corporation  
 Jun. 1995 Director, ITOCHU Corporation  
 Apr. 1997 Managing Director, ITOCHU Corporation  
 Apr. 1998 Representative Managing Director, ITOCHU Corporation  
 Apr. 1999 Representative Senior Managing Director, ITOCHU Corporation  
 Apr. 2001 Representative Executive Vice President, ITOCHU Corporation  
 Apr. 2006 Representative Vice Chairman, ITOCHU Corporation  
 Jun. 2006 Vice Chairman, ITOCHU Corporation  
 Jun. 2007 Director, Orient Corporation  
 Jun. 2008 Senior Corporate Adviser, ITOCHU Corporation  
 Director, Furukawa Electric Co., Ltd. (present)  
 Audit & Supervisory Board Member, NIPPONKOA Insurance Company, Limited (currently Sampo Japan Nipponkoa Insurance Inc.)  
 Jun. 2009 Director, Nippon Sheet Glass Co., Ltd.  
 Apr. 2010 Director, NKSJ Holdings, Inc. (currently Sampo Japan Nipponkoa Holdings, Inc.)  
 Apr. 2012 Director, the Company (present)

[Important concurrent positions]  
 Director, Furukawa Electric Co., Ltd.  
 Chairman, Japan Association for CFOs

### H Outside Director

#### Keiko Unotoro

(Date of birth: October 26, 1954)  
 Apr. 1977 Joined Secretariat of Japan Fair Trade Commission ("JFTC")  
 Apr. 2000 Part-time teacher, Senshu University Graduate School (present)  
 Jun. 2004 Chief Hearing Examiner, General Secretariat, JFTC  
 Jan. 2007 Director, Trade Practices Department of Economic Affairs Bureau, JFTC  
 Jun. 2008 Senior Deputy Secretary General, Secretariat, JFTC  
 Jan. 2011 Director General, Economic Affairs Bureau, JFTC  
 Nov. 2012 Advisor, Oh-Ebashi LPC & Partners (present)  
 Apr. 2013 Professor, Faculty of Modern Business Administration, Toyo Gakuin University (present)  
 Jun. 2013 Director, the Company (present)  
 Mar. 2015 Director, Bridgestone Corporation

[Important concurrent position]  
 Professor, Faculty of Modern Business Administration, Toyo Gakuin University

### I Outside Director

#### Takayuki Katayama

(Date of birth: October 9, 1945)  
 Apr. 1968 Joined Teijin Limited  
 Jun. 1997 Director, Teijin Limited  
 Apr. 2000 CFO, Teijin Limited  
 Jun. 2000 Senior Managing Director, Teijin Limited  
 Oct. 2001 CEO, Teijin-DuPont Films Joint Venture  
 Apr. 2004 CSO, Teijin Limited  
 Jun. 2004 Representative Director and Executive Managing Director, Teijin Limited  
 Apr. 2005 CSRO, Teijin Limited  
 Jun. 2006 Executive Vice President, Teijin Limited  
 Apr. 2009 CFO, Teijin Limited  
 Jun. 2011 Senior Advisor to CEO, Teijin Limited (present)  
 Jun. 2012 Director, Santen Pharmaceutical Co., Ltd. (present)  
 Audit & Supervisory Board Member, Toyo Seikan Group Holdings, Ltd.  
 Jun. 2016 Director, the Company (present)

[Important concurrent position]  
 Director, Santen Pharmaceutical Co., Ltd.

### J Outside Director

#### Susumu Kaminaga

(Date of birth: December 3, 1946)  
 May. 1969 Joined Sumitomo Precision Products Co., Ltd.  
 Mar. 1995 Representative Director, Surface Technology Systems Ltd.  
 Jun. 2000 Director, Sumitomo Precision Products Co., Ltd.  
 Jun. 2002 Managing Director, Sumitomo Precision Products Co., Ltd.  
 Jun. 2004 President, Sumitomo Precision Products Co., Ltd.  
 Jun. 2012 Adviser to the Board, Sumitomo Precision Products Co., Ltd.  
 Oct. 2012 Representative Director & Chief Executive, SK Global Advisers Co., Ltd. (present)  
 Executive Senior Adviser, SPP Technologies Co., Ltd. (present)  
 Dec. 2012 Director, DEFTA Capital Inc. (present)  
 Jun. 2016 Director, the Company (present)

[Important concurrent positions]  
 Representative Director & Chief Executive, SK Global Advisers Co., Ltd.  
 Executive Senior Adviser, SPP Technologies Co., Ltd.  
 Director, DEFTA Capital Inc.

### K Outside Director

#### Michijiro Kikawa

(Date of birth: August 2, 1947)  
 Apr. 1970 Joined Hitachi Construction Machinery Co., Ltd.  
 May. 1995 President, Hitachi Construction Machinery (China) Co., Ltd.  
 Jun. 1999 Senior Officer and President, Hitachi Construction Machinery (China) Co., Ltd.  
 Jun. 2001 Executive Officer and General Manager, Hitachi Construction Machinery Co., Ltd.  
 Jun. 2002 Vice President and Executive Officer, Hitachi Construction Machinery Co., Ltd.  
 Apr. 2003 Senior Vice President and Executive Officer, Hitachi Construction Machinery Co., Ltd.  
 Jun. 2003 Senior Vice President and Executive Officer, Hitachi Construction Machinery Co., Ltd.  
 Apr. 2005 Representative Executive Officer and Executive Vice President, Hitachi Construction Machinery Co., Ltd.  
 Jun. 2005 Representative Executive Officer, Executive Vice President and Director, Hitachi Construction Machinery Co., Ltd.  
 Apr. 2006 Representative Executive Officer, President, Chief Executive Officer and Director, Hitachi Construction Machinery Co., Ltd.  
 Apr. 2012 Director, Hitachi Construction Machinery Co., Ltd.  
 Jun. 2012 Chairman of the Board, Hitachi Construction Machinery Co., Ltd.  
 Director, Hitachi, Ltd.  
 Jun. 2014 Consultant to the Board of Directors, Hitachi Construction Machinery Co., Ltd.  
 Jun. 2016 Director, the Company (present)



A B C D

**Audit & Supervisory Board Members**

**A Standing Audit & Supervisory Board Member**

**Takashi Saito**

(Date of birth: February 11, 1952)  
 Apr. 1976 Joined the Company  
 Jun. 2005 Executive Officer  
 Apr. 2006 Division Manager, Business Support Div., the Company  
 Jun. 2007 President and Representative Director, Aizu Olympus Co., Ltd.  
 Jun. 2010 Executive Managing Officer, the Company  
 President and Representative Director, Olympus Medical Science Sales Corp.  
 Apr. 2012 Standing Audit & Supervisory Board Member, the Company (present)

**B Standing Audit & Supervisory Board Member**

**Masashi Shimizu**

(Date of birth: December 19, 1957)  
 Apr. 1982 Joined Nippon Life Insurance Company  
 Mar. 2007 General Manager, Credit Department, Nippon Life Insurance Company  
 Apr. 2012 Standing Audit & Supervisory Board Member, the Company (present)

**C Outside Audit & Supervisory Board Member**

**Katsuya Natori**

(Date of birth: May 15, 1959)  
 Apr. 1986 Joined Masuda & Ejiri (currently Nishimura & Asahi)  
 Jun. 1990 Joined Davis Wright Tremaine LLP  
 Jul. 1992 Joined Wilmer, Cutler & Pickering  
 Jul. 1993 Joined Esso Petroleum Corporation (currently EMG Marketing Godo Kaisha)  
 Jan. 1995 Joined Apple Japan, Inc.  
 Jan. 1997 Director, Sun Microsystems, Inc.  
 Mar. 2002 Executive Officer, Fast Retailing Co., Ltd.  
 Jan. 2004 Director and Executive Officer, IBM Japan, Ltd.  
 Apr. 2010 Executive Officer, IBM Japan, Ltd.  
 Feb. 2012 Chief, Natori Law Office (present)  
 Apr. 2012 Audit & Supervisory Board Member, the Company (present)  
 Jul. 2014 Director, 45Corporation Co., Ltd. (present)  
 Mar. 2015 Director, MODEC, INC. (present)  
 Dec. 2015 Director, MORITEX Corporation (present)  
 Apr. 2016 Supervisory Director, Global One Real Estate Investment Corp. (present)

[Important concurrent positions]  
 Chief, Natori Law Office  
 Director, 45Corporation Co., Ltd.  
 Director, MODEC, INC.  
 Director, MORITEX Corporation  
 Supervisory Director, Global One Real Estate Investment Corp.

**D Outside Audit & Supervisory Board Member**

**Atsushi Iwasaki**

(Date of birth: January 9, 1959)  
 Nov. 1990 Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)  
 Mar. 1991 Registered as certified public accountant  
 Mar. 1997 Registered as real estate appraiser  
 Dec. 1997 Partner, Century Audit Corporation (currently Ernst & Young ShinNihon LLC)  
 Sep. 2005 Chief, Iwasaki CPA Office (present)  
 Jun. 2013 Director, ISEKI & CO., Ltd. (present)  
 Jun. 2015 Audit & Supervisory Board Member, NH Foods Ltd. (present)  
 Jun. 2016 Audit & Supervisory Board Member, the Company (present)

[Important concurrent positions]  
 Chief, Iwasaki CPA Office  
 Director, ISEKI & CO., Ltd.  
 Audit & Supervisory Board Member, NH Foods Ltd.

FINANCIAL SECTION

# Analysis of Business Results, Financial Position, and Cash Flows

## Analysis of Business Results

### Company Overview

In the global economy during fiscal 2016, monetary policy in the United States moved toward a state of normalcy as seen in the interest rate hike implemented by the U.S. Federal Reserve in light of the continuing strong state of the U.S. economy. Meanwhile, the European economy recovered gradually. However, slowdown in the overall global economy grew increasingly more pronounced due to such factors as recessionary business conditions in China and other emerging countries as well as falling resource prices. In the Japanese economy, despite improvements in corporate earnings and the job market, the opaque conditions continued, reflecting among other factors the risk of downturn in the Chinese economy and rapid appreciation of the yen that began in February 2016.

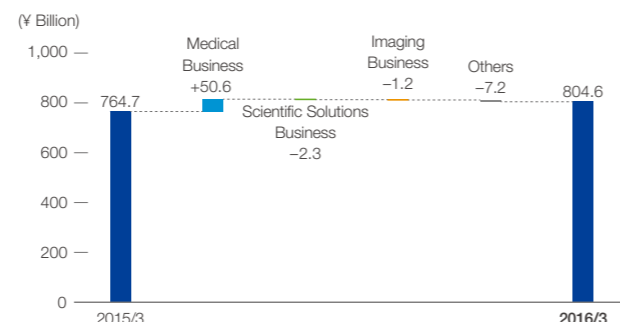
Faced with this business environment, the Olympus Group continued to push vigorously ahead with respect to the basic strategies set forth in the medium-term vision (corporate strategic plan) launched in fiscal 2013. Furthermore, under the new organizational structure associated with the Group's reorganization in April 2015, we promoted initiatives geared toward enhancing our capacity to respond to the fast-changing business environment and enabling the efficient allocation of management resources, setting our sights on the new corporate strategic plan that began in fiscal 2017.

In the Medical Business, our flagship gastrointestinal endoscope operations continued to generate robust sales in Japan and overseas, and sales increased in both the surgical device and endotherapy device fields due to the benefits of growth investments conducted in strengthening sales forces and other initiatives. In the Scientific Solutions Business, we moved forward with organizational reforms that involved shifting away from strategies based on product lineups and more toward those oriented to customer groups, and, by cutting manufacturing costs and other expenditures, we brought about substantial improvements in terms of our profitability. In the Imaging Business, we streamlined operations by concentrating our product lineups and narrowing the scope of core sales areas while conducting more extensive cost cuts and other structural reforms. In fiscal 2016, R&D expenditures amounted to ¥81,415 million and capital expenditures totaled ¥64,445 million.

In regard to foreign exchange, the yen depreciated significantly against the U.S. dollar while appreciating against the euro in comparison with the previous fiscal year. The average exchange rate during fiscal 2016 was ¥120.14 against the U.S. dollar (¥109.93 in the previous fiscal year) and ¥132.58 against the euro (¥138.77 in the previous fiscal year). These rates increased net sales by ¥19,288 million and operating income by ¥11,323 million year on year.

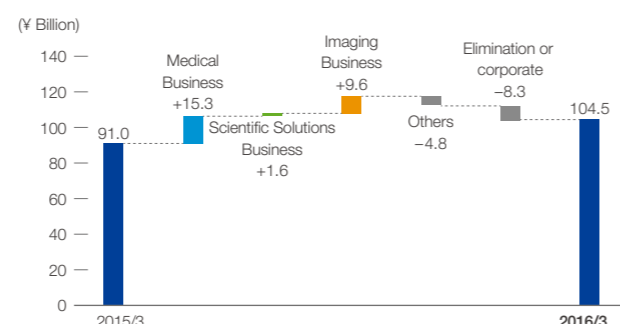
### Net Sales

Consolidated net sales increased 5.2% year on year, to ¥804,578 million, due largely to higher earnings in the Medical Business.



### Operating Income

Operating income was up 14.8% year on year, to ¥104,464 million, due to the posting of higher income in the Medical Business and the Scientific Solutions Business and reduced operating loss in the Imaging Business.



### Net Income (Loss)

Net income amounted to ¥62,594 million, compared with net loss of ¥8,737 million in the previous fiscal year. This substantial improvement in performance was realized despite the fact that extraordinary losses of ¥22,467 million were recorded, primarily loss related to the investigation under U.S. Anti-kickback Act and the related Act, and income taxes of ¥8,149 million were recognized.

### Performance by Segment

#### Medical Business

In the Medical Business, consolidated net sales totaled ¥608,927 million, up 9.1% year on year, and operating income was ¥140,220 million, up 12.3%.

In the gastrointestinal endoscope field, sales were strong for mainstay gastrointestinal video endoscopy systems EVIS EXERA III and EVIS LUCERA ELITE. In the surgical device field, robust sales were posted for the VISERA ELITE surgical video endoscopy system—designed to support endoscopic surgery—as well as for our 3D laparoscopy surgical system, and sales continued to grow for the THUNDERBEAT integrated energy device, which features both advanced bipolar and ultrasonic

energy. In the endotherapy device field, sales were up for Visi-Glide 2™, a new disposable guidewire product for use in endoscopic diagnosis and the treatment of biliary and pancreatic ducts. In this manner, sales grew in all fields, resulting in an overall increase in net sales for the Medical Business, which itself contributed to higher operating income in this business.

#### Scientific Solutions Business

In the Scientific Solutions Business, consolidated net sales totaled ¥101,608 million, down 2.2% year on year, and operating income amounted to ¥8,482 million, up 24.1%.

In the life science field, sales decreased for mainly research-use devices as a result of delayed budget execution among research institutions. In the industrial field, sales were up for such industrial microscopes as the STM7 series, which comprises measuring microscopes used in the manufacturing process for electronic components, while sales decreased slightly for non-destructive testing equipment among other products as a result of the fall in crude oil and other resource prices. Consequently, overall sales in the Scientific Solutions Business decreased. Operating income, meanwhile, was up due to efficiency gains through such means as cost cuts and the integration of sales bases.

#### Imaging Business

In the Imaging Business, consolidated net sales came to ¥78,284 million, down 1.5% year on year, while operating loss amounted to ¥2,064 million, compared with ¥11,710 million in the previous fiscal year.

In the mirrorless camera field, sales increased for the OM-D series and such offerings as OLYMPUS PEN-F, and overall sales were also boosted by contributions from the M. ZUIKO DIGITAL PRO series of high-performance interchangeable lenses for which the lineup was expanded to five models. Meanwhile, in the compact camera field, the Company continued to limit the number of units sold in response to market contraction. Consequently, overall sales in the Imaging Business decreased year on year. Operating loss declined, mainly due to the progress in reducing expenses.

#### Others

In the Others Business, consolidated net sales amounted to ¥15,759 million, down 31.5% year on year, and operating loss was ¥5,800 million, compared with ¥970 million in the previous fiscal year. In order to allocate management resources to our business domains in a more concentrated manner, we reorganized our non-core business domains. This initiative contributed to a decline in net sales for the Others Business, and operating loss increased, mainly reflecting investments in

the creation of new businesses in the medical and imaging technology fields.

### Fiscal 2017 Outlook

Looking ahead with respect to the global economy, concerns for a downturn in economic conditions are likely to intensify amid such developments as moves toward the normalization of monetary policy in the United States, slowing growth in China and other emerging countries, and falling resource prices. In the Japanese economy, opaque conditions are expected to continue in consideration of the risk of deteriorating corporate earnings stemming from the global economic slowdown and yen appreciation, the threat of a decrease in consumer confidence in conjunction with this trend, and other factors.

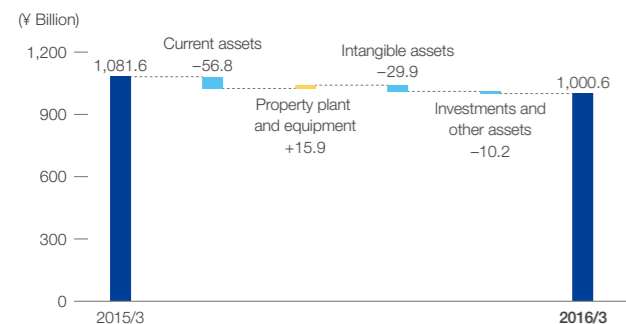
Given this environment, the Olympus Group formulated 2016 Corporate Strategic Plan (16CSP), a five-year, medium-term management plan that launched in fiscal 2017. With the basic policies of "Business to Specialist" Company and One Olympus, we will forge ahead with strengthening business foundations and developing an aggressive business portfolio for sustainable growth.

In the Medical Business, we aim to expand the scale of our operations primarily by providing value in terms of both early diagnosis and minimally invasive therapies through proactive investment in each of this segment's business units—namely, the GI&R (gastrointestinal and respiratory) Business Unit, the GS (general surgery) Business Unit, the Uro/Gyn (urology / gynecology) Business Unit, the ENT (ear, nose, and throat) Business Unit, and the MS (medical service) Business Unit. We will work to achieve dramatic growth in both the endotherapy device field and the surgical device field while maintaining our overwhelming competitive strengths in the gastrointestinal endoscope field and taking steps to improve profitability in the Medical Business by strengthening single-use device operations. In the Scientific Solutions Business, we will establish earnings foundations by promoting strategies oriented to customer groups while striving to expand our portfolio of products and solutions. In the Imaging Business, we will build a framework that ensures consistent earnings through further business restructuring and work to improve our responsiveness to the changing market and further reduce inventory risks.

**Financial Position**

**Total Assets**

As of March 31, 2016, total assets stood at ¥1,000,614 million, down ¥80,937 million from a year earlier. Total current assets were down ¥56,836 million due mainly to a decrease in cash and deposits, and total non-current assets declined ¥24,101 million following a decrease in net defined benefit assets and the impacts of amortization of goodwill.



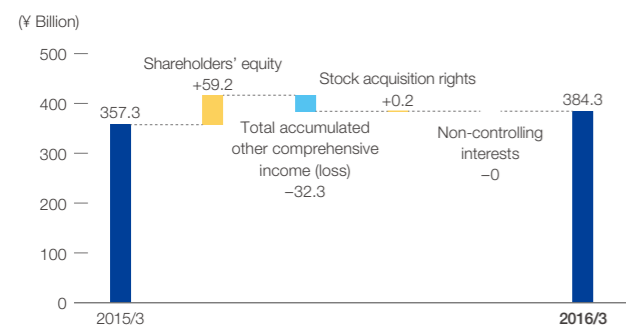
**Liabilities**

As of March 31, 2016, total liabilities amounted to ¥616,331 million, down ¥107,966 million from a year earlier. This decrease was due mainly to the rebound from the recording of provision for loss related to the investigation under U.S. Anti-kickback Act and the related Act of ¥58,883 million in fiscal 2015 as well as a ¥74,479 million reduction in short-term borrowings. These factors outweighed a ¥41,196 million increase in long-term debt, less current maturities.

**Total Net Assets and Equity Ratio**

Total net assets at the end of the fiscal year amounted to ¥384,283 million, up ¥27,029 million from the previous fiscal year-end. This rise was primarily due to the posting of net income, which offset the recording of total accumulated other comprehensive loss arising from fluctuations in foreign exchange and stock prices.

As a result of the above, the equity ratio increased from 32.9% at the end of the previous fiscal year to 38.2%.



**Cash Flows**

**Cash Flows from Operating Activities**

Net cash provided by operating activities was ¥48,621 million, down ¥18,190 million from the previous fiscal year. Major factors decreasing cash included loss related to the investigation under U.S. Anti-kickback Act and the related Act paid of ¥72,455 million and loss related to securities litigation paid of ¥13,975 million. Major factors increasing cash included income before income taxes and non-controlling interests of ¥70,800 million, loss related to the investigation under U.S. Anti-kickback Act and the related Act of ¥18,814 million, depreciation and amortization of ¥39,912 million, amortization of goodwill of ¥9,867 million, and loss related to securities litigation of ¥2,072 million.

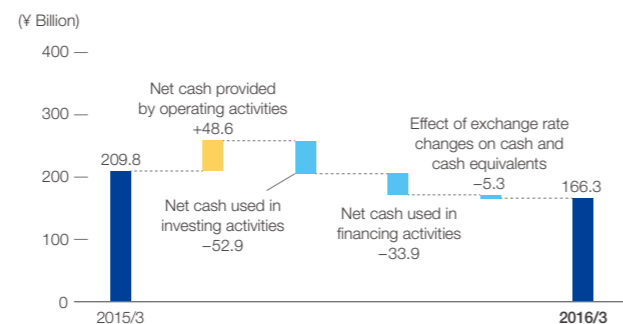
**Cash Flows from Investing Activities**

Net cash used in investing activities was ¥52,897 million, up ¥13,285 million from the previous fiscal year. Major factors decreasing cash included purchases of property, plant and equipment of ¥50,422 million and purchases of intangible assets of ¥5,987 million. Major factors increasing cash included sales of investment securities of ¥3,214 million.

**Cash Flows from Financing Activities**

Net cash used in financing activities was ¥33,870 million, down ¥36,315 million from the previous fiscal year. Major factors decreasing cash included repayments of long-term borrowings of ¥78,240 million and decrease in short-term borrowings of ¥23,820 million. Major factors increasing cash included proceeds from long-term borrowings of ¥73,886 million.

As a result, cash and cash equivalents at end of year amounted to ¥166,323 million, a decrease of ¥43,486 million compared with the end of the previous fiscal year.



**Risk Information**

The following are the main factors, other than management decisions, and risks inherent to operations that may give rise to changes in the Group's business performance. Forward-looking statements in this section are based on the Group's judgment as of the end of the fiscal year under review.

**Business Risks**

**(1) Risks Associated with Sales Activities**

- In the Medical Business, it is possible that healthcare policies may be amended in an unforeseeable and material manner due to healthcare system reforms or that some other significant change may occur in the medical industry. If the Olympus Group is unable to adapt to such environmental changes or obtain the licenses and approvals in various countries necessary for its business activities in a timely manner, earnings may be affected.
- In the Scientific Solutions Business, the supply of systems for research funded by the national budgets of countries accounts for a high proportion of earnings. The curtailment of these budgets for such reasons as macroeconomic changes may affect earnings.
- In the digital camera field of the Imaging Business, market conditions are growing ever harsher. If the market contracts more rapidly than anticipated, the Group may be unable to adequately counter the resulting sales decline with its restructuring measures, and earnings may be impacted as a result.

**(2) Risks Associated with Production and Development Activities**

- In the Imaging Business, production sites located in China and Vietnam function as core sites. Accordingly, fluctuations in foreign currency exchange rates could result in cost increases, which may affect earnings. In addition, the destabilization of conditions or the deterioration of public safety in China, or anti-Japan sentiment in this country among other factors, may affect production activities.
- The Group depends on certain specific suppliers for processes from development to production of products and components that cannot be developed and produced within the Group. Accordingly, procurement constraints resulting from conditions impacting these suppliers may affect production and supply capacity.
- Olympus products, including products consigned to outside suppliers, are manufactured in accordance with strict quality standards. Nevertheless, the occurrence of product defects may result in substantial costs, such as for product recalls, as well as loss of confidence in the Olympus Group, which may affect earnings.

- The Group is making continuous advances in the development of products that incorporate cutting-edge technologies. Nevertheless, technical progress is increasingly rapid, and the inability to sufficiently foresee market changes and develop new products that meet customer needs in a timely manner may affect earnings.
- The Group applies various intellectual property rights in its R&D and production activities and believes that these are rights owned by the Group or are rights for which the Group has legally obtained licenses. However, assertion by a third party that the Group has unknowingly infringed on intellectual property rights and the occurrence of a dispute may affect earnings.

**(3) Risks Associated with Business Partnerships and Corporate Acquisitions**

- Olympus has formed long-term strategic partnerships related to technologies and product development with leading companies in the industry. Inability to maintain such partnerships due to the occurrence of financial or other business-related issues with strategic partners, changes in goals, or other reasons may hinder the Group's business activities.
- Olympus may acquire companies for the purpose of business expansion. Inability to integrate acquired businesses in accordance with the Group's management strategies or inability to efficiently utilize the management resources of existing businesses or acquired businesses may affect the Group's operations, business performance, or financial position for such reasons as the recording of impairment of goodwill, loss on sales of businesses associated with business reorganizations, or expenses for business liquidation.
- As of March 31, 2016, the Olympus Group held listed stocks with a total value of ¥67,871 million and unlisted stocks with a total value of ¥1,324 million as investments for the purpose of facilitating business alliances. The stock price of listed stocks is determined based upon market principles. Accordingly, fluctuations in market trends could cause the value of these stocks to decline. For unlisted stocks, it is possible that the estimated value of these stocks could decline due to changes in the financial position of the company in question. Such price fluctuations could force the Group to record loss on valuation of investment securities, and the Group's earnings or financial position could be affected as a result.

**(4) Risks Associated with Financing**

The Group obtains financing by means of borrowings from financial institutions and other sources, and changes in conditions in financial markets may affect the Group's financing. In addition, an increase in financing costs as a result of such factors as deterioration in the Group's business performance may adversely affect the Group's financing.



**(5) Risks Associated with Leakage of Information**

The Group possesses important confidential information, such as technical information and personal information of customers and other interested parties. The Group has taken various measures to prevent leakage of such information outside the Group, including the preparation of internal regulations, thorough employee education, and the strengthening of security systems. Nevertheless, leakage of such information due to unforeseen circumstances may affect the Group's business performance or financial position as a result of such factors as damage to the Group's corporate value, loss of public trust, or the payment of compensation to customers or other interested parties affected by the leakage.

**(6) Risks Associated with Deferred Posting of Past Losses**

A case is pending in the Tokyo District Court in which the Company is charged with violations of the Securities and Exchange Act and the Financial Instruments and Exchange Act with respect to the Company's deferring of the posting of losses on investment securities, etc., since around the 1990s and the use, via multiple funds, of both the fees paid to financial advisors and funds to buy back preferred stock in relation to the acquisition of Gyrus Group PLC as well as the funds for the acquisition of three domestic companies (Altis Co., Ltd., NEWS CHEF, Inc., and Humalabo Co., Ltd.) to resolve unrealized losses on investment securities, etc., by deferring the posting of these losses. Furthermore, shareholders of the Company have filed legal complaints against the Company as a result of the Company's inappropriate financial reporting and are claiming damages and filing lawsuits against the Company, which may affect the Group's business performance or financial position. As of June 28, 2016, the following major lawsuits have been filed against the Company with pending claims totaling ¥76,974 million.

In regard to the pending lawsuits as of March 31, 2016, the Company recorded ¥567 million as provision for loss on litigation in current liabilities in consideration of the state of progress of lawsuits.

1. On June 28, 2012, 49 plaintiffs (of which one company withdrew its claim before the complaint was received), including the Teachers' Retirement System of the State of Illinois as well as non-Japanese institutional investors and pension funds that are shareholders of the Company, filed a complaint against the Company (the date the Company received the complaint was November 12, 2012). After a subsequent petition to change the object of claim and withdrawal of claim by several plaintiffs, the lawsuit has now been changed so that currently 45 plaintiffs are claiming compensation for damages of ¥20,828 million and 5% per annum interest on this amount for the period from November 8, 2011, up to the payment of the principal.

On March 27, 2015, an out-of-court settlement was reached with investors and others, including the plaintiffs, regarding this lawsuit for damages, under which the Company agrees to pay the counterparties a settlement package of up to ¥11,000 million in total, including the amount to be paid for lawsuit 3. below. As of May 2, 2016, ¥10,433 million of this amount had been paid.

2. On December 13, 2012, 68 plaintiffs, including the California Public Employees' Retirement System as well as non-Japanese investors and pension funds that are shareholders of the Company, filed a complaint against the Company (the date the Company received the complaint was March 29, 2013). After a subsequent petition to amend the complaint and withdrawal of claim by several plaintiffs, the lawsuit has been changed so that currently 59 plaintiffs are claiming compensation for damages of ¥5,749 million and 5% per annum interest on this amount for the period from October 14, 2011, up to the payment of the principal.
3. On June 27, 2013, 43 plaintiffs, including the California State Teachers' Retirement System as well as non-Japanese investors and pension funds that are shareholders of the Company, filed a complaint against the Company (the date the Company received the complaint was July 16, 2013). After a subsequent withdrawal of claim by a plaintiff and a merger between plaintiffs, the lawsuit has been changed so that currently 40 plaintiffs are claiming compensation for damages of ¥16,799 million and 5% per annum interest on this amount for the period from November 8, 2011, up to the payment of the principal.

On March 27, 2015, an out-of-court settlement was reached with investors, including the plaintiffs regarding this lawsuit for damages, under which the Company agrees to pay the counterparties a settlement package of up to ¥11,000 million in total, including the amount to be paid for lawsuit 1. above. As of May 2, 2016, ¥10,433 million of this amount had been paid.

4. On April 7, 2014, six plaintiffs, Mitsubishi UFJ Trust and Banking Corporation and five other trust banks, filed a complaint against the Company (the date the Company received the complaint was April 17, 2014) seeking damages of ¥27,915 million and the interest accrued to the damages incurred relating to each of the shares at the rate of 5% per annum for the period from the day immediately following the share acquisition trade date of each of the shares that incurred losses up to the payment of the incurred losses of the shares.

**(7) Risks Associated with Internal Control Systems, etc.**

The Olympus Group has developed a system for ensuring appropriate and reliable financial reporting and effective and efficient work processes, which it operates and continuously improves. However, it cannot be ignored that, regardless of the effectiveness of the internal control system constructed by the

Group, this system could fail to function effectively due to actions arising from malicious intent or gross negligence on the part of employees, changes in the business environment that were not envisaged at the time of the internal control system's construction, or other factors. Accordingly, it is possible that a violation of laws or regulations or some other incident could occur in the future. If such an incident were to occur, the Company may be obliged to pay fines resulting from government sanctions, penalties for criminal proceedings, or damages in civil lawsuits, or other expenses. Moreover, the Company may suffer an adverse impact on its business from a loss of social trust. Such events could have an adverse impact on the Company's operating results.

**(8) Risks Relating to Laws and Regulations**

The Company is developing its operations on a global scale in its various businesses, including the Medical Business, which is conducted in a regulated industry. The Company is subject to various laws and regulations, including medical industry related and antimonopoly laws in Japan as well as other countries and regions. In addition, the Company is subject to the anti-bribery provisions of the U.S. Foreign Corrupt Practices Act of 1977 (FCPA), the U.K. Anti-Bribery Act, and other anti-bribery laws in other countries and regions. We are also subject to various laws targeting fraud and abuse in the healthcare industry, including the Act against Unjustifiable Premiums and Misleading Representations of Japan and the Anti-kickback Act and the False Claims Act of the United States.

In the Medical Business, government-sponsored healthcare systems are being developed around the world. Accordingly, Group companies and their distributors and suppliers often do business with government-affiliated entities, healthcare providers, and officials. In addition, some Group companies as well as their distributors and suppliers operate in countries or regions in which there has been governmental corruption in the past, and in certain circumstances strict compliance with anti-bribery laws, such as those mentioned above, may conflict with local business customs and practices. Furthermore, the various laws and regulations targeting fraud and abuse in the healthcare industry are wide-ranging and subject to changing interpretation and application, which could restrict the sales or marketing practices of Group companies.

Violations of these laws and regulations may be punishable by criminal or civil fines, imprisonment, or exclusion from participation in certain national healthcare programs. Many of the Group's customers rely on reimbursement from public health insurance and other government programs to subsidize their medical expenditures. For this reason, if the Company's ability to participate in such programs were to be restricted as a result of legal violations, it could adversely affect the demand for Olympus products or the number of procedures performed using these products.

The Company strives to fully comply with these laws and regulations. However, if a legal violation were to occur, regardless of whether or not the violation was intentional, the Company's business activities, financial position, performance, cash flows, and stock price could be affected.

Furthermore, in February 2016, an overseas subsidiary of the Company agreed to enter into a deferred prosecution agreement with the U.S. Department of Justice in relation to alleged violations of the Anti-kickback Act, the False Claims Act, and the FCPA concerning past activities related to the Medical Business. If, in the future, the Company were to engage in conduct that violates these laws, it would not only receive sanctions related to said violations, but prosecution would also be carried out in relation to the alleged violation for which the deferred prosecution agreement was concluded. Such an occurrence may affect the Company's business, financial position, performance, cash flows, or stock price.

**(9) Risks Relating to Duodenoscopes**

In March and August 2015, the U.S. Department of Justice issued legal requests to subsidiary Olympus Medical Systems Corp. seeking information related to duodenoscopes manufactured and sold by the Group. As of June 28, 2016, civil lawsuits have been filed in the United States against the Group on the charge that the plaintiffs had been harmed as a result of Olympus Group duodenoscopes. Depending on the developments in these matters, the Group's performance and financial position may be affected.

**(10) Risks Relating to Kumamoto Earthquake**

The severe earthquake that occurred in Kumamoto Prefecture in April 2016 caused damages to some suppliers of the Company. It is therefore possible that difficulty may be faced in procuring certain parts, primarily those used in the Imaging Business, and the Group's performance may be affected as a result.

**(11) Other General Risks**

Through its domestic and overseas subsidiaries and affiliates, etc., the Company operates its various businesses around the world. These businesses may from time to time be subject to various investigations by domestic and overseas authorities, which may involve discussions with or reporting to authorities with respect to compliance with laws (for instance, response to investigations concerning compliance with the Antimonopoly Act or laws related to pharmaceuticals or medical devices or voluntary disclosure to the U.S. Department of Justice regarding compliance with the FCPA), and the results of such investigations and consultations may affect earnings. In addition, the occurrence of natural disasters, disease, wars, terrorist attacks, or other incidents or the occurrence of greater than expected interest rate increases or exchange rate fluctuations may affect earnings.

# Consolidated Balance Sheets

Olympus Corporation and Consolidated Subsidiaries  
As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and deposits (Notes 5 and 27)	¥ 209,875	¥ 166,554	\$1,473,929
Notes and accounts receivable (Notes 5 and 7)	148,127	140,666	1,244,832
Allowance for doubtful accounts	(4,269)	(6,590)	(58,319)
Lease receivables and leased investment assets (Notes 18 and 29)	31,683	33,565	297,035
Inventories (Note 8)	107,387	111,558	987,239
Deferred income taxes (Note 15)	40,341	38,461	340,363
Other current assets	44,384	36,478	322,815
Total current assets	577,528	520,692	4,607,894
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	16,073	22,832	202,053
Buildings and structures	127,751	136,344	1,206,584
Machinery and equipment	258,832	259,888	2,299,894
Leased assets	16,703	19,200	169,912
Construction in progress	5,595	9,799	86,716
	424,954	448,063	3,965,159
Less—Accumulated depreciation	(274,809)	(281,999)	(2,495,566)
Net property, plant and equipment	150,145	166,064	1,469,593
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 5 and 6)	72,263	71,141	629,566
Deferred income taxes (Note 15)	9,480	11,421	101,071
Goodwill	114,025	97,190	860,088
Net defined benefit assets (Note 12)	36,547	24,749	219,018
Other assets (Notes 18 and 29)	131,119	118,411	1,047,885
Allowance for doubtful accounts (Note 13)	(9,556)	(9,054)	(80,124)
Total investments and other assets	353,878	313,858	2,777,504
Total assets	¥1,081,551	¥1,000,614	\$8,854,991

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 5, 9 and 18)	¥ 29,118	¥ 6,656	\$ 58,903
Current maturities of long-term debt (Notes 5, 10 and 18)	72,017	50,000	442,478
Notes and accounts payable (Notes 5 and 11)	39,155	40,597	359,265
Other payables	37,450	36,762	325,327
Income taxes payable (Note 15)	12,612	9,120	80,708
Accrued expenses	83,391	90,438	800,336
Provision for warranty costs	5,116	6,314	55,876
Provision for loss on business liquidation	481	298	2,637
Provision for customer points program	—	207	1,832
Provision for loss on litigation	11,000	567	5,018
Provision for loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25)	58,883	—	—
Other current liabilities	25,570	25,666	227,132
Total current liabilities	374,793	266,625	2,359,512
<b>NON-CURRENT LIABILITIES:</b>			
Long-term debt, less current maturities (Notes 5, 10 and 18)	253,286	264,482	2,340,549
Deferred income taxes (Note 15)	39,160	28,386	251,204
Liabilities for retirement benefits (Note 12)	38,463	38,683	342,327
Other non-current liabilities	18,595	18,155	160,664
Total non-current liabilities	349,504	349,706	3,094,744
Total liabilities	724,297	616,331	5,454,256
<b>CONTINGENT LIABILITIES (Note 17)</b>			
<b>NET ASSETS (Note 16):</b>			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—342,671,508 shares as of March 31, 2015 and 2016	124,520	124,520	1,101,947
Capital surplus	90,940	90,940	804,779
Retained earnings	113,817	172,989	1,530,876
Treasury stock, at cost	(1,111)	(1,122)	(9,929)
Total shareholders' equity	328,166	387,327	3,427,673
Net unrealized holding gains on available-for-sale securities, net of taxes	24,764	24,947	220,770
Net unrealized losses on hedging derivatives, net of taxes	(8)	(7)	(62)
Foreign currency translation adjustments	15,285	(8,686)	(76,867)
Retirement benefits liability adjustments	(12,745)	(21,222)	(187,806)
Total accumulated other comprehensive income (loss)	27,296	(4,968)	(43,965)
Stock subscription rights	260	428	3,788
Non-controlling interests	1,532	1,496	13,239
Total net assets	357,254	384,283	3,400,735
Total liabilities and net assets	¥1,081,551	¥1,000,614	\$8,854,991

## Consolidated Statements of Operations

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Net sales	¥764,671	¥804,578	\$7,120,159
Cost of sales (Note 8)	274,820	269,341	2,383,549
Gross profit	489,851	535,237	4,736,610
Selling, general and administrative expenses (Note 19)	398,889	430,773	3,812,150
Operating income	90,962	104,464	924,460
Other income (expenses):			
Interest expense, net	(8,274)	(6,871)	(60,805)
Gain on available-for-sale securities, net	1,121	3,455	30,575
Foreign currency exchange loss, net	(1,669)	(3,704)	(32,779)
Equity in losses of affiliates, net	(2,791)	(2,675)	(23,673)
Legal settlement compensation received (Note 20)	—	72	637
Bank loans-related expenses in conjunction with repayment made prior to due date	(1,117)	—	—
Impairment loss on fixed assets (Note 21)	(119)	—	—
Loss on liquidation of business (Note 22)	(1,820)	(189)	(1,673)
Business restructuring expenses (Note 23)	—	(1,209)	(10,699)
Loss related to securities litigation (Note 24)	(6,816)	(2,072)	(18,336)
Soil improvement cost	(745)	—	—
Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25)	(53,866)	(18,814)	(166,496)
Other, net	(5,932)	(1,657)	(14,663)
Total	(82,028)	(33,664)	(297,912)
Income before income taxes and non-controlling interests	8,934	70,800	626,548
Income taxes (Note 15):			
Current	20,076	10,944	96,850
For prior periods (Note 26)	—	3,172	28,071
Deferred	(2,271)	(5,967)	(52,806)
Total	17,805	8,149	72,115
(Loss) income before non-controlling interests	(8,871)	62,651	554,434
Non-controlling interests	134	(57)	(505)
Net (loss) income	¥ (8,737)	¥ 62,594	\$ 553,929

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
(Loss) income before non-controlling interests	¥ (8,871)	¥ 62,651	\$ 554,434
Other comprehensive income (loss) (Note 30):			
Net unrealized holding gains on available-for-sale securities, net of taxes	12,928	183	1,619
Net unrealized (losses) gains on hedging derivatives, net of taxes	(7)	1	9
Foreign currency translation adjustments	28,759	(24,008)	(212,460)
Retirement benefits liability adjustments	(7,013)	(8,477)	(75,018)
Share of other comprehensive income of affiliates accounted for by the equity method	4	(4)	(35)
Total other comprehensive income (loss)	34,671	(32,305)	(285,885)
Comprehensive income	¥25,800	¥ 30,346	\$ 268,549
Total comprehensive income (loss) attributable to:			
Shareholders of Olympus Corporation	¥25,867	¥ 30,330	\$ 268,407
Non-controlling interests	¥ (67)	¥ 16	\$ 142

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2016

Millions of yen					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at April 1, 2014</b>	¥124,520	¥131,871	¥ 81,534	¥(1,098)	¥336,827
Cumulative effects of changes in accounting policies			89		89
Restated balance	124,520	131,871	81,623	(1,098)	336,916
Net loss			(8,737)		(8,737)
Transfer to retained earnings from capital surplus		(40,931)	40,931		—
Acquisition of treasury stock				(13)	(13)
Disposal of treasury stock					—
Net change in items other than those in shareholders' equity					—
Net changes during the year	—	(40,931)	32,194	(13)	(8,750)
<b>Balance at April 1, 2015</b>	¥124,520	¥ 90,940	¥113,817	¥(1,111)	¥328,166
Dividends			(3,422)		(3,422)
Net income			62,594		62,594
Acquisition of treasury stock				(12)	(12)
Disposal of treasury stock				1	1
Net change in items other than those in shareholders' equity					—
Net changes during the year	—	—	59,172	(11)	59,161
<b>Balance at March 31, 2016</b>	<b>¥124,520</b>	<b>¥ 90,940</b>	<b>¥172,989</b>	<b>¥(1,122)</b>	<b>¥387,327</b>

Millions of yen								
	Net unrealized holding gains on available-for-sale securities, net of taxes	Net unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at April 1, 2014</b>	¥11,836	¥(1)	¥(13,411)	¥ (5,732)	¥ (7,308)	¥115	¥1,650	¥331,284
Cumulative effects of changes in accounting policies								89
Restated balance	11,836	(1)	(13,411)	(5,732)	(7,308)	115	1,650	331,373
Net loss					—			(8,737)
Acquisition of treasury stock					—			(13)
Disposal of treasury stock					—			—
Net change in items other than those in shareholders' equity	12,928	(7)	28,696	(7,013)	34,604	145	(118)	34,631
Net changes during the year	12,928	(7)	28,696	(7,013)	34,604	145	(118)	25,881
<b>Balance at April 1, 2015</b>	¥24,764	¥(8)	¥ 15,285	¥(12,745)	¥27,296	¥260	¥1,532	¥357,254
Dividends					—			(3,422)
Net income					—			62,594
Acquisition of treasury stock					—			(12)
Disposal of treasury stock					—			1
Net change in items other than those in shareholders' equity	183	1	(23,971)	(8,477)	(32,264)	168	(36)	(32,132)
Net changes during the year	183	1	(23,971)	(8,477)	(32,264)	168	(36)	27,029
<b>Balance at March 31, 2016</b>	<b>¥24,947</b>	<b>¥(7)</b>	<b>¥ (8,686)</b>	<b>¥(21,222)</b>	<b>¥ (4,968)</b>	<b>¥428</b>	<b>¥1,496</b>	<b>¥384,283</b>

Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at April 1, 2015</b>	\$1,101,947	\$804,779	\$1,007,230	\$(9,832)	\$2,904,124
Dividends			(30,283)		(30,283)
Net income			553,929		553,929
Acquisition of treasury stock				(106)	(106)
Disposal of treasury stock				9	9
Net change in items other than those in shareholders' equity					—
Net changes during the year			523,646	(97)	523,549
<b>Balance at March 31, 2016</b>	<b>\$1,101,947</b>	<b>\$804,779</b>	<b>\$1,530,876</b>	<b>\$(9,929)</b>	<b>\$3,427,673</b>

Thousands of U.S. dollars (Note 1)								
	Net unrealized holding gains on available-for-sale securities, net of taxes	Net unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at April 1, 2015</b>	\$219,150	\$(71)	\$ 135,265	\$(112,788)	\$ 241,556	\$2,301	\$13,558	\$3,161,539
Dividends					—			(30,283)
Net income					—			553,929
Acquisition of treasury stock					—			(106)
Disposal of treasury stock					—			9
Net change in items other than those in shareholders' equity	1,620	9	(212,132)	(75,018)	(285,521)	1,487	(319)	(284,353)
Net changes during the year	1,620	9	(212,132)	(75,018)	(285,521)	1,487	(319)	239,196
<b>Balance at March 31, 2016</b>	<b>\$220,770</b>	<b>\$(62)</b>	<b>\$ (76,867)</b>	<b>\$(187,806)</b>	<b>\$ (43,965)</b>	<b>\$3,788</b>	<b>\$13,239</b>	<b>\$3,400,735</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2016

	Millions of yen	2016	Thousands of U.S. dollars (Note 1) 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Income before income taxes and non-controlling interests	¥ 8,934	¥ 70,800	\$ 626,548
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	41,219	39,912	353,204
Impairment loss on fixed assets (Note 21)	119	—	—
Amortization of goodwill	9,421	9,867	87,319
Bank loans-related expenses in conjunction with repayment made prior to due date	1,117	—	—
Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25)	53,866	18,814	166,496
Loss on liquidation of business	1,820	—	—
(Decrease) increase in provision for retirement benefits	(914)	2,712	24,000
Increase in prepaid pension cost	(7,501)	(5,500)	(48,673)
Loss related to securities litigation	6,816	2,072	18,336
(Decrease) increase in provision for warranty costs	(3,580)	1,420	12,566
Interest income	(644)	(1,021)	(9,035)
Interest expense	8,918	7,892	69,841
Equity in losses of affiliates, net	2,791	2,675	23,673
Gain on available-for-sale securities, net	(1,121)	(3,455)	(30,575)
Decrease in provision for loss on business liquidation	(3,679)	(177)	(1,566)
(Increase) decrease in accounts receivable	(13,020)	2,006	17,752
Increase in inventories	(7,214)	(7,008)	(62,018)
(Decrease) increase in accounts payable	(5,740)	1,965	17,389
Increase (decrease) in other payables	3,772	(1,572)	(13,912)
Increase in accrued expense	7,672	5,179	45,832
Increase in non-current lease receivables	(3,772)	(5,083)	(44,982)
Other, net	6,460	12,011	106,292
Sub-total	105,740	153,509	1,358,487
Interest and dividends received	2,247	2,362	20,903
Interest paid	(9,055)	(7,987)	(70,681)
Bank loans-related expenses in conjunction with repayment made prior to due date paid	(1,117)	—	—
Loss related to securities litigation paid (Note 24)	(4,716)	(13,975)	(123,673)
Loss related to the investigation under U.S. Anti-kickback Act and the related Act paid (Note 25)	—	(72,455)	(641,195)
Income taxes paid	(26,288)	(12,833)	(113,566)
Net cash provided by operating activities	66,811	48,621	430,275
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Deposits in time deposits	(312)	(217)	(1,920)
Withdrawals from time deposits	1,002	35	310
Purchases of property, plant and equipment	(35,955)	(50,422)	(446,212)
Purchases of intangible assets	(5,143)	(5,987)	(52,982)
Purchases of investment securities	(328)	(271)	(2,398)
Sales of investment securities	1,157	3,214	28,442
Net increase from sales of investments in subsidiaries resulting in changes in scope of consolidation (Note 28)	254	—	—
Proceeds from loans receivable	29	25	221
Payment for transfer of business	(798)	—	—
Other, net	482	726	6,424
Net cash used in investing activities	(39,612)	(52,897)	(468,115)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term borrowings	7,977	(23,820)	(210,796)
Proceeds from long-term borrowings	1,545	73,886	653,858
Repayments of long-term borrowings	(77,061)	(78,240)	(692,389)
Payments for acquisition of treasury stock	(12)	(13)	(115)
Dividends paid to shareholders	—	(3,422)	(30,283)
Dividends paid to non-controlling shareholders	(46)	(53)	(469)
Other, net	(2,588)	(2,208)	(19,541)
Net cash used in financing activities	(70,185)	(33,870)	(299,735)
Effect of exchange rate changes on cash and cash equivalents	1,451	(5,340)	(47,257)
Net decrease in cash and cash equivalents	(41,535)	(43,486)	(384,832)
Cash and cash equivalents at beginning of year	251,344	209,809	1,856,717
Cash and cash equivalents at end of year (Note 27)	¥209,809	¥ 166,323	\$1,471,885

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

Olympus Corporation and Consolidated Subsidiaries

## 1. Summary of Significant Accounting Policies

### (a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Olympus Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards (IFRS).

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

Solely for the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted with some expanded descriptions and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

On November 8, 2011, based on the finding of the independent Third-Party Committee, the Company announced that it had deferred recognition of losses on securities investments from around the 1990s and was using a number of non-consolidated funds (collectively, the "Funds") for the acquisition transactions for three domestic subsidiaries (Altis Co., Ltd., NEWS CHEF, Inc. and Humalabo Co., Ltd., hereinafter, collectively, the "Three Domestic Subsidiaries") and Gyrus Group PLC (Gyrus) to settle such losses.

Based on such findings of the investigation of the independent Third-Party Committee, it was determined that the Company substantially controlled the Funds, which had losses on securities investments and had not previously been consolidated for the purpose of deferring recognition of losses.

The consequences of these findings were reflected in the current and prior year financial statements, including the following:

- Upon discovery of the illegitimate payments to external collaborators, the Company recorded a non-current receivable and off-setting allowance for doubtful accounts of the Funds (Note 13 "Allowance for doubtful accounts").
- As an indirect consequence of these events, the Company has been investigated by various authorities and received various claims in connection with various lawsuits brought against the Company (Note 17 "Contingent liabilities").

In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classification used in the 2016 consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the exchange rate of ¥113 to US\$1.00, the approximate rate of exchange prevailing at March 31, 2016. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### (b) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. For the year ended March 31, 2016, the accounts of 118 (133 in 2015) subsidiaries have been included in the consolidated financial statements.

The Company consolidates all significant investees which were controlled through substantial ownership of majority voting rights or existence of certain conditions.

The financial statements of some subsidiaries are consolidated by using their financial statements as of or year ended March 31, which are prepared solely for consolidation purposes. Some subsidiaries are consolidated using their financial statements as of their respective fiscal year-end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in certain unconsolidated subsidiaries and affiliated companies in which the Company has significant influence, but less than a controlling interest, are accounted for by the equity method. For the years ended March 31, 2015 and 2016, 4 affiliates were accounted for by the equity method. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a significant decline in the value of such investments, the Company has written down the investments. The differences between acquisition cost and underlying net equity at the time of acquisition (goodwill) are amortized on the straight-line method in the range of mainly 5 to 20 years.

**(c) Cash and Cash Equivalents**

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase and subject to insignificant risk of change in value are considered to be cash and cash equivalents.

**(d) Securities**

In accordance with the accounting standard for financial instruments, the Company and its consolidated subsidiaries classified their securities into two categories.

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair values are stated at fair value and those with no fair values at cost. Unrealized gains and losses on available-for-sale securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of securities sold is computed using the moving-average method.

**(e) Derivative and Hedge Accounting**

Accounting standards for financial instruments require companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains and losses unless derivative financial instruments meet the criteria for hedge accounting.

When derivative financial instruments are used as hedges and meet hedging criteria, the Company and consolidated subsidiaries defer recognition of gains and losses resulting from changes in fair value of derivative financial instruments until the related losses and gains on the hedged items are recognized.

**(f) Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value.

**(g) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is mainly computed by the straight-line method at rates based on the estimated useful lives of the relevant assets. The effective annual rates of depreciation for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016
Buildings and structures .....	9.1%	6.9%
Machinery and equipment .....	32.7%	26.7%

**(h) Allowance for Doubtful Accounts**

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount sufficient to cover probable losses on collection of receivables. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the historical percentage of write-offs.

**(i) Common Stock and Bond Issuance Expenses**

Common stock and bond issuance expenses are charged to income as incurred.

**(j) Provision for Warranty Costs**

A provision for warranty costs is provided to cover the cost of all services anticipated to be incurred during the entire warranty period based on the warranty contracts and past experience.

**(k) Retirement Benefits**

The Company and its consolidated subsidiaries provided an allowance for employees' retirement benefits as of the balance sheet date based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 5 years) which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized by the straight-line method over periods (mainly 5 years) which are shorter than the average remaining years of service of the employees.

The retirement allowance for directors and corporate auditors was recorded at an amount to be paid in accordance with the internal rules if all eligible directors and corporate auditors were to have resigned their offices as of the balance sheet date.

Provision for retirement benefits presented in the non-current liabilities of the consolidated balance sheets included retirement allowance for directors and corporate auditors as of March 31, 2015 and 2016.

**(l) Provision for Loss on Business Liquidation**

Provision for loss on business liquidation is recorded for estimated losses arising from the business liquidations to be carried out by certain consolidated subsidiaries of the Company.

**(m) Provision for Customer Points Program**

Provision for customer points program represents sales allowances for redemption of points granted to customers, which is recognized at the amount expected to be incurred in the future.

**(n) Provision for Loss on Litigation**

Provision for loss on litigation is recorded for estimated losses on pending litigation.

**(o) Provision for Loss Related to the Investigation under U.S. Anti-kickback Act and the Related Act**

Provision for loss related to the investigation under U.S. Anti-kickback Act and the related Act is recorded for estimated losses arising from an investigation by the U.S. Department of Justice relating to potential issues concerning the Company's medical business under the Anti-kickback Act and the False Claims Act in the United States.

**(p) Research and Development**

Expenses relating to research and development activities are charged to income as incurred.

**(q) Lease Transactions**

Noncancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

Leased assets are depreciated over the term of the lease based on the straight-line method with no residual value.

The accounting treatment for finance lease contracts that do not transfer ownership to lessee which commenced on or before March 31, 2008 follows the same method as for operating lease transactions.

**(r) Income Taxes**

The Company recognizes tax effects of temporary differences between the financial reporting and the tax bases of assets and liabilities by using the enacted tax rates and laws which will be in effect when differences are expected to reverse.

The Company and certain consolidated subsidiaries adopted the consolidated taxation system, which allows companies to make tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

**(s) Consumption Taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

**(t) Translation of Foreign Currency Financial Statements**

In accordance with the accounting standards for foreign currency translations, the balance sheet accounts of the foreign consolidated subsidiaries are translated at exchange rates as of the balance sheet date. Net assets excluding minority interests are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates for each corresponding fiscal year. Differences arising from translation are presented as "Foreign currency translation adjustments" in a separate component of net assets.

## 2. Changes in Accounting Policies

### Revised Accounting Standard for Business Combinations

Effective April 1, 2015, the Company applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013), etc. With the application of such standards, the Company adopted the method of recording the difference resulting from a change in the Company's ownership interest in a subsidiary in the situation where the Company retains control as capital surplus, and the method of recording acquisition-related costs as expenses for the fiscal year in which the costs are incurred. Additionally, for business combinations carried out on or after the beginning of the fiscal year ended March 31, 2016, the Company adopted the method of retrospectively adjusting the provisional amounts recognized at the acquisition date when the accounting for the business combination is completed in the following fiscal year. These methods shall be applied prospectively.

Furthermore, the presentation for "net income" and other related items in statements of operations was changed, and the presentation of "minority interests" was changed to "non-controlling interests" in accordance with the revised standards. To reflect these changes, the Company reclassified its consolidated financial statements for the fiscal year ended March 31, 2015.

In addition, in the consolidated statements of cash flows for the fiscal year ended March 31, 2016, the Company adopted the method of recording cash flows from the purchase or sales of an investment in a subsidiary that do not affect the scope of consolidation as "Cash flows from financing activities." Moreover, the method of recording cash flows relating to costs arising from the purchase of an investment in a subsidiary that affect the scope of consolidation and costs arising from the purchase or sales of an investment in a subsidiary that do not affect the scope of consolidation as "Cash flows from operating activities" was adopted.

Application of the Accounting Standard for Business Combinations, etc. was in line with the transitional accounting treatment provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company applied the said standard, etc. prospectively from the beginning of the fiscal year ended March 31, 2016 other than the changes in balance sheet and statements of operations presentation described above.

The effect of the adoption of these standards was immaterial to the consolidated financial statements and per-share data for the fiscal year ended March 31, 2016.

## 3. Changes in Depreciation Method

Effective April 1, 2015, the Company and its consolidated subsidiaries in Japan (collectively, the "Group in JPN") changed the method for depreciating property, plant and equipment (excluding lease assets) from the declining balance method to the straight-line method.

The Company announced "Medium-Term Vision" as the basic strategy in June 2012 to rebuild the business portfolio and ensure the optimal allocation of management resources. To achieve this, the "Medical Business," "Scientific Solutions Business" (formerly the "Life Science and Industrial Business"), and the "Imaging Business" were designated as core business domains. The Company has had a clear policy of investing management resources strategically with a special focus on the "Medical Business" as a main business.

As part of this strategy, the Company implemented management integration and shifted to a new management structure in April 2015, thereby transitioning from the in-house company system consisting of three highly independent businesses, the "Medical Business," the "Scientific Solutions Business," and the "Imaging Business," to the business operation structure that facilitates concentrated allocation of management resources in the "Medical Business." Triggered by this shift, the Company reevaluated the reasonableness of its depreciation method to better reflect the pattern of consumption of the estimated future benefits to be derived from those assets being depreciated.

The "Medical Business" has been the Company's core business and the majority of the Group in JPN' property, plant and equipment currently belong to the "Medical Business." In the process of reorganizing locations of product lines of the "Medical Business", the Group in JPN plans to maintain stable productions in Japan in high-value-added business fields such as gastrointestinal endoscopes while transferring production lines of certain medical therapeutic devices to overseas' operations. Furthermore, from the fiscal year ended March 31, 2016, the new buildings in the main production sites in Japan will successively start operations, and, the majority of depreciation expenses will be derived from the depreciation expenses of the buildings. Given this situation, the Company expects to maintain stable long-term usage of its property, plant and equipment in Japan, and, therefore, decided to change the method of depreciation by uniformly applying the straight-line method.

As a result of this change, operating income, income before income taxes and non-controlling interests increased by ¥3,637 million (\$32,186 thousand) respectively for the fiscal year ended March 31, 2016. In addition, net assets per share, net income per share and fully diluted net income per share increased by ¥10.63 (\$0.094), ¥10.63 (\$0.094) and ¥10.62 (\$0.094) respectively.

## 4. New Accounting Standard Not Yet Applied

Revised "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016)

### Outline:

When responsibility for providing practical guidelines on the accounting and auditing treatment of recoverability of deferred tax assets (limited to the portion related to accounting treatment) was transferred from the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ, the ASBJ partially revised the requirement criteria for entity categorization and the treatment of net deferred tax assets regarding guidance for the recoverability of deferred tax assets mainly prescribed in JICPA Audit Committee Report No. 66 ("Auditing Treatment for Determining the Recoverability of Deferred Tax Assets"). The ASBJ has mainly adhered to the basic framework for categorization of entities and for estimating the recoverability of deferred tax assets by category. In addition, implementation guidelines are described in this guidance for entities adopting "Accounting Standard for Tax Effects" (Business Accounting Council (Japan)) and assessing deferred tax assets.

The effective date is April 1, 2016. The Company is currently evaluating the impact of adoption of the revised "Implementation Guidance on Recoverability of Deferred Tax Assets" on the Company's consolidated financial statements.

## 5. Financial Instruments

### Overview

#### (1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries (collectively, the "Group") raise funds through bank borrowings and issuance of bonds. The Group manages temporary cash surpluses through low-risk financial assets. Furthermore, the Group raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

#### (2) Types of financial instruments and related risk

Trade receivables—notes and accounts receivable—are exposed to credit risk in relation to customers. In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the creditworthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies. In principle, the foreign currency exchange risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships including equity participation and the investment trust fund.

Substantially all trade payables—notes and accounts payable—have payment due dates within one year. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign exchange contracts are arranged to reduce the risk.

Short-term borrowings, long-term debt, bonds and lease obligations are raised mainly for the purpose of making capital investments. The repayment dates of these debts extend up to 7 years from the balance sheet date. The debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for certain debt-bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to reduce interest rate fluctuation risk deriving from interest payable for short-term borrowings, long-term borrowings and bonds bearing interest at variable rates.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 31 "Derivative financial instruments."

**(3) Risk management for financial instruments****(a) Monitoring of credit risk (the risk that customers or counterparties may default)**

In accordance with the internal policies of the Group for managing credit risk arising from trade receivables, each related division monitors the creditworthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

As of March 31, 2016, the carrying values of the financial assets represent the maximum credit risk exposures of the Group.

**(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)**

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for loans payable and bonds bearing interest at variable rates, the Group may also enter into interest rate swap transactions.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained by taking into account their fair values and relationships with the issuers.

In executing derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transaction data are submitted to the director in charge of treasury function and the Board of Directors for their review.

**(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)**

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis and keeps its liquidity in hand over a certain ratio of consolidated sales in order to manage liquidity risk.

**(4) Supplementary explanation of the estimated fair value of financial instruments**

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values. In addition, the notional amounts of derivatives in Note 31 "Derivative financial instruments" are not necessarily indicative of the actual market risk involved in derivative transactions.

**Estimated Fair Value of Financial Instruments**

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2015 and 2016 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (refer to 2 below).

Millions of yen			
As of March 31, 2015	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
1) Cash and deposits .....	¥209,875	¥209,875	¥ —
2) Notes and accounts receivable .....	148,127	148,127	—
3) Investment securities.....	67,483	67,483	—
<b>Total.....</b>	<b>¥425,485</b>	<b>¥425,485</b>	<b>¥ —</b>
<b>Liabilities:</b>			
1) Notes and accounts payable.....	¥ 39,155	¥ 39,155	¥ —
2) Short-term borrowings.....	29,118	29,118	—
3) Bonds, including current maturities .....	55,000	55,669	669
4) Long-term borrowings, including current maturities .....	270,303	275,195	4,892
<b>Total.....</b>	<b>¥393,576</b>	<b>¥399,137</b>	<b>¥5,561</b>
<b>Derivatives*.....</b>	<b>¥ (1,254)</b>	<b>¥ (1,254)</b>	<b>¥ —</b>

Millions of yen			
As of March 31, 2016	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
1) Cash and deposits .....	¥166,554	¥166,554	¥ —
2) Notes and accounts receivable .....	140,666	140,666	—
3) Investment securities.....	67,871	67,871	—
<b>Total.....</b>	<b>¥375,091</b>	<b>¥375,091</b>	<b>¥ —</b>
<b>Liabilities:</b>			
1) Notes and accounts payable.....	¥ 40,597	¥ 40,597	¥ —
2) Short-term borrowings .....	6,656	6,656	—
3) Bonds, including current maturities .....	55,000	55,614	614
4) Long-term borrowings, including current maturities .....	259,482	268,603	9,121
<b>Total.....</b>	<b>¥361,735</b>	<b>¥371,470</b>	<b>¥9,735</b>
<b>Derivatives*.....</b>	<b>¥ 217</b>	<b>¥ 217</b>	<b>¥ —</b>

Thousands of U.S. dollars			
As of March 31, 2016	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
1) Cash and deposits .....	\$1,473,929	\$1,473,929	\$ —
2) Notes and accounts receivable .....	1,244,832	1,244,832	—
3) Investment securities.....	600,628	600,628	—
<b>Total.....</b>	<b>\$3,319,389</b>	<b>\$3,319,389</b>	<b>\$ —</b>
<b>Liabilities:</b>			
1) Notes and accounts payable.....	\$ 359,265	\$ 359,265	\$ —
2) Short-term borrowings.....	58,903	58,903	—
3) Bonds, including current maturities .....	486,726	492,159	5,433
4) Long-term borrowings, including current maturities .....	2,296,301	2,377,018	80,717
<b>Total.....</b>	<b>\$3,201,195</b>	<b>\$3,287,345</b>	<b>\$86,150</b>
<b>Derivatives*.....</b>	<b>\$ 1,920</b>	<b>\$ 1,920</b>	<b>\$ —</b>

\* The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing a net liability position.

**Notes:**

1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

**Cash and deposits and Notes and accounts receivable**

Since these items are settled in a short period of time, their carrying value approximates fair value.

**Investment securities**

The fair value of stocks is based on quoted market prices. The fair value of debt securities and investment trust fund is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6 "Securities."

**Notes and accounts payable and Short-term borrowings**

Since these items are settled in a short period of time, their carrying value approximates fair value.



**Bonds**

The fair value of bonds is based on the present value of the total of principal and interest discounted by an interest rate determined by taking into account the remaining period of each bond and current credit risk.

**Long-term borrowings**

The fair value of long-term borrowings is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

**Derivative transactions**

Please refer to Note 31 "Derivative financial instruments."

## 2) Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
1) Non-listed equity securities .....	¥ 226	¥ 177	\$ 1,566
2) Others .....	1,843	1,147	10,150
<b>Total .....</b>	<b>¥2,069</b>	<b>¥1,324</b>	<b>\$11,716</b>

Because no quoted market price is available and estimating their future cash flow is deemed to be prohibitively expensive, it is extremely difficult to determine the fair value, and therefore the above financial instruments are not included in the above table.

## 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2015 and 2016

As of March 31, 2015	Millions of yen			
	Within a year	Over a year but within five years	Over five years but within ten years	Over ten years
Cash and deposits .....	¥209,829	¥ —	¥ —	¥ —
Notes and accounts receivable.....	148,127	—	—	—
Investment securities:				
Held-to-maturity debt securities:				
1) National and local government bonds.....	—	—	—	—
2) Corporate bonds.....	—	—	—	—
Other marketable securities with maturities:				
1) Corporate bonds.....	—	—	—	—
2) Other.....	382	1,269	—	—
<b>Total .....</b>	<b>¥358,338</b>	<b>¥1,269</b>	<b>¥—</b>	<b>¥—</b>

As of March 31, 2016	Millions of yen			
	Within a year	Over a year but within five years	Over five years but within ten years	Over ten years
Cash and deposits .....	¥166,516	¥ —	¥ —	¥ —
Notes and accounts receivable.....	140,666	—	—	—
Investment securities:				
Held-to-maturity debt securities:				
1) National and local government bonds.....	—	—	—	—
2) Corporate bonds.....	—	—	—	—
Other marketable securities with maturities:				
1) Corporate bonds.....	—	—	—	—
2) Other.....	648	308	—	—
<b>Total .....</b>	<b>¥307,830</b>	<b>¥308</b>	<b>¥—</b>	<b>¥—</b>

As of March 31, 2016	Thousands of U.S. dollars			
	Within a year	Over a year but within five years	Over five years but within ten years	Over ten years
Cash and deposits .....	\$1,473,593	\$ —	\$ —	\$ —
Notes and accounts receivable.....	1,244,832	—	—	—
Investment securities:				
Held-to-maturity debt securities:				
1) National and local government bonds.....	—	—	—	—
2) Corporate bonds.....	—	—	—	—
Other marketable securities with maturities:				
1) Corporate bonds.....	—	—	—	—
2) Other.....	5,735	2,726	—	—
<b>Total .....</b>	<b>\$2,724,160</b>	<b>\$2,726</b>	<b>\$—</b>	<b>\$—</b>

## 4) Repayment schedule for bonds, long-term borrowings, lease payables and other interest-bearing debt with maturities at March 31, 2015 and 2016

As of March 31, 2015	Millions of yen					
	Within a year	Over a year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings.....	¥ 29,118	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds .....	—	30,000	—	25,000	—	—
Long-term borrowings.....	72,017	23,025	57,117	54,721	48,205	15,218
Lease payables .....	2,481	2,462	1,745	1,015	366	185
<b>Total .....</b>	<b>¥103,616</b>	<b>¥55,487</b>	<b>¥58,862</b>	<b>¥80,736</b>	<b>¥48,571</b>	<b>¥15,403</b>

As of March 31, 2016	Millions of yen					
	Within a year	Over a year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings.....	¥ 6,656	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds .....	30,000	—	25,000	—	—	—
Long-term borrowings.....	20,000	55,000	53,663	81,804	—	49,015
Lease payables .....	3,253	2,742	1,972	1,225	409	18
<b>Total .....</b>	<b>¥59,909</b>	<b>¥57,742</b>	<b>¥80,635</b>	<b>¥83,029</b>	<b>¥409</b>	<b>¥49,033</b>

Note: Repayment dates of security deposits included in other interest-bearing debt are not determined.

As of March 31, 2016	Thousands of U.S. dollars					
	Within a year	Over a year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings.....	\$ 58,903	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds .....	265,487	—	221,239	—	—	—
Long-term borrowings.....	176,991	486,726	474,894	723,929	—	433,761
Lease payables .....	28,788	24,265	17,451	10,841	3,619	159
<b>Total .....</b>	<b>\$530,169</b>	<b>\$510,991</b>	<b>\$713,584</b>	<b>\$734,770</b>	<b>\$3,619</b>	<b>\$433,920</b>

**6. Securities**

The following tables summarize acquisition cost and book value of securities with fair value as of March 31, 2015 and 2016:

## Available-for-sale securities

## Securities with book value exceeding acquisition cost

	Millions of yen			Thousands of U.S. dollars		
	2015	2016		2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities.....	¥34,047	¥67,018	¥32,971	¥27,787	¥62,112	¥34,325
Others .....	—	—	—	—	—	—
<b>Total .....</b>	<b>¥34,047</b>	<b>¥67,018</b>	<b>¥32,971</b>	<b>¥27,787</b>	<b>¥62,112</b>	<b>¥34,325</b>

## Securities with book value not exceeding acquisition cost

	Millions of yen			Thousands of U.S. dollars		
	2015	2016		2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities.....	¥527	¥465	¥(62)	¥6,700	¥5,759	¥(941)
Others .....	—	—	—	—	—	—
<b>Total .....</b>	<b>¥527</b>	<b>¥465</b>	<b>¥(62)</b>	<b>¥6,700</b>	<b>¥5,759</b>	<b>¥(941)</b>

Note: In the year ended March 31, 2015, the Company recognized impairment loss of ¥2 million on available-for-sale securities with fair value. No impairment loss was recorded on available-for-sale securities for the year ended March 31, 2016.

The Company recognizes an impairment loss when the fair market value of marketable and investment securities declines to less than 50% of the acquisition cost at the end of the period. In addition, an impairment loss is also recognized when the fair market value declines more than 30% but less than 50%, and the recovery of the fair market value is not expected due to market conditions, trends of earnings and other key measures.

The following table summarizes sales of available-for-sale securities and the aggregate gain and loss for the years ended March 31, 2015 and 2016:

	Millions of yen			Thousands of U.S. dollars		
	2015	2016	2016	2015	2016	2016
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
Equity securities.....	¥568	¥122	¥455	¥3,152	¥2,296	¥ —
Others.....	103	0	27	33	1	183
Total.....	¥671	¥122	¥482	¥3,185	¥2,297	¥183
	\$27,894	\$20,319	\$ —	\$28,186	\$20,327	\$1,619

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2015 and 2016 were as follows:

	Book value		
	Millions of yen	Thousands of U.S. dollars	
	2015	2016	2016
Investments in unconsolidated subsidiaries and affiliates .....	¥2,711	¥1,946	\$17,221
Total.....	¥2,711	¥1,946	\$17,221

## 7. Notes and Accounts Receivable

Notes and accounts receivable as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unconsolidated subsidiaries and affiliates .....	¥ 46	¥ 24	\$ 212
Trade.....	148,081	140,642	1,244,620
Total.....	¥148,127	¥140,666	\$1,244,832

## 8. Inventories

Inventories as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Finished goods.....	¥ 57,179	¥ 54,245	\$480,044
Work in process and raw materials .....	50,208	57,313	507,195
Total.....	¥107,387	¥111,558	\$987,239

Write-downs of inventories for the years ended March 31, 2015 and 2016, net of the amount of the reversal, were included in the following account:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cost of sales .....	¥5,883	¥5,230	\$46,283

## 9. Short-Term Borrowings

Short-term borrowings consisted principally of bank loans. The annual interest rates on these borrowings ranged from 0.50% to 5.04% and from 0.82% to 1.72% as of March 31, 2015 and 2016, respectively.

## 10. Long-Term Debt

Long-term debt as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
(Unsecured long-term debt)			
2.15% yen bonds, due July 2018 .....	¥ 25,000	¥ 25,000	\$ 221,239
1.94% yen bonds, due March 2017.....	20,000	20,000	176,991
1.98% yen bonds, due September 2016.....	10,000	10,000	88,496
2.53% loan from a Japanese bank, due September 2017 .....	35,000	35,000	309,735
2.70% loan from a Japanese bank, due July 2018 .....	33,100	33,100	292,920
2.33% loan from a Japanese bank, due September 2015 .....	23,000	—	—
1.89% loan from a Japanese bank, due March 2016.....	20,000	—	—
2.65% loan from a Japanese bank, due September 2018 .....	20,000	20,000	176,991
2.49% loan from a Japanese bank, due September 2016 .....	20,000	10,000	88,496
1.99% loan from a Japanese bank, due September 2016 .....	—	10,000	88,496
2.64% loan from a Japanese bank, due August 2017.....	20,000	2,000	17,699
2.14% loan from a Japanese bank, due August 2017.....	—	18,000	159,292
2.25% loan from a Japanese bank, due September 2019 .....	20,000	20,000	176,991
1.58% loan from a Japanese bank, due May 2015 .....	17,000	—	—
2.28% loan from a Japanese bank, due May 2019.....	18,000	18,000	159,292
2.00% loan from a Japanese bank, due May 2019 .....	10,000	10,000	88,496
2.04% loan from a Japanese bank, due May 2021 .....	15,000	15,000	132,743
2.82% loan from a foreign bank, due March 2023 .....	—	16,902	149,575
2.91% loan from a foreign bank, due February 2023 .....	—	16,902	149,575
2.78% loan from a foreign bank, due March 2020 .....	—	23,663	209,407
2.70% loan from a foreign bank, due March 2020 .....	—	10,141	89,743
Other loans from foreign banks.....	216	211	1,867
Other loans from Japanese banks .....	12,618	563	4,983
(Secured long-term debt)			
Other loans from Japanese banks .....	6,369	—	—
	325,303	314,482	2,783,027
Less—current maturities.....	(72,017)	(50,000)	(442,478)
Total.....	¥253,286	¥264,482	\$2,340,549

As of March 31, 2016, the aggregate annual maturities of long-term debt were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017.....	¥ 50,000	\$ 442,478
2018.....	55,000	486,726
2019.....	78,663	696,133
2020.....	81,804	723,929
2021.....	—	—
2022 and thereafter .....	49,015	433,761
Total .....	¥314,482	\$2,783,027

## 11. Notes and Accounts Payable

Notes and accounts payable as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unconsolidated subsidiaries and affiliates .....	¥ 667	¥ 1,749	\$ 15,478
Trade.....	38,488	38,848	343,787
Total .....	¥39,155	¥40,597	\$359,265

## 12. Retirement Benefit Plans

Employees of the Company and certain consolidated subsidiaries have defined funded pension plans, defined contribution plans and unfunded retirement allowance plans. The Company and certain consolidated subsidiaries have cash balance plans by applying a point pension system to defined contribution pension plans.

Directors and corporate auditors of several domestic consolidated subsidiaries have unfunded retirement allowance plans.

The amounts of pension payments and retirement allowances are generally determined on the basis of length of service and basic salary at the time of termination of service.

It is the Company's policy to fund amounts required to maintain sufficient plan assets to provide for accrued benefits.

The changes in retirement benefit obligation during the years ended March 31, 2015 and 2016 were as follows (excluding retirement benefit obligation for the consolidated subsidiaries adopting the simplified method):

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Retirement benefit obligation at April 1	¥171,637	¥192,261	\$1,701,424
Cumulative effects of changes in accounting policies	(142)	—	—
Restated balance at April 1	171,495	192,261	1,701,424
Service cost	6,230	6,626	58,637
Interest cost	4,713	4,913	43,478
Actuarial loss	14,925	7,605	67,301
Retirement benefit paid	(5,486)	(6,282)	(55,593)
Transfer to defined contribution plans in foreign subsidiary	(11,553)	—	—
Prior service cost	6	—	—
Effect of foreign exchange translation	9,939	(8,220)	(72,743)
Effect of changing from simplified method to standard method	1,888	88	779
Other	104	45	398
Retirement benefit obligation at March 31	¥192,261	¥197,036	\$1,743,681

The changes in plan assets during the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Plan assets at April 1	¥175,196	¥191,399	\$1,693,798
Expected return on plan assets	7,795	8,433	74,628
Actuarial gain (loss)	13,662	(8,987)	(79,531)
Contributions by the Company	5,568	5,276	46,690
Retirement benefit paid	(5,113)	(5,757)	(50,947)
Transfer to defined contribution plans in foreign subsidiary	(11,553)	—	—
Effect of foreign exchange translation	5,996	(6,128)	(54,230)
Other	(152)	(23)	(204)
Retirement benefit obligation at March 31	¥191,399	¥184,213	\$1,630,204

The changes in retirement benefit obligation for the consolidated subsidiaries adopting the simplified method were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Provision for retirement benefits at April 1	¥ 2,633	¥1,019	\$9,018
Retirement benefit expense	242	205	1,815
Retirement benefit paid	(88)	(63)	(558)
Effect of changing from simplified method to standard method	(1,676)	(88)	(779)
Other	(92)	—	—
Liability for retirement benefits at March 31	¥ 1,019	¥1,073	\$9,496

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Funded retirement benefit obligation	¥ 181,425	¥ 183,471	\$ 1,623,637
Plan assets at fair value	(191,399)	(184,213)	(1,630,204)
	(9,974)	(742)	(6,567)
Unfunded retirement benefit obligation	11,856	14,638	129,540
Net liability for retirement benefits in the balance sheet	1,882	13,896	122,973
Liability for retirement benefits	38,429	38,645	341,991
Net defined benefit assets	(36,547)	(24,749)	(219,018)
Net amount	¥ 1,882	¥ 13,896	\$ 122,973

Liabilities for retirement benefits presented in the consolidated balance sheets included liabilities related to employees, directors and corporate auditors.

The components of retirement benefit expense for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Service cost	¥ 6,230	¥ 6,626	\$ 58,637
Interest cost on projected benefit obligation	4,713	4,913	43,478
Expected return on plan assets	(7,795)	(8,433)	(74,628)
Amortization of actuarial loss	427	1,185	10,487
Amortization of prior service cost	(1,897)	(930)	(8,230)
Retirement benefit expense for consolidated subsidiaries adopting the simplified method	211	205	1,814
Amortization of changing from simplified method to standard method	212	—	—
Other	94	157	1,389
Retirement benefit expense	¥ 2,195	¥ 3,723	\$ 32,947

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Prior service cost	¥1,930	¥ 921	\$ 8,150
Actuarial loss	2,245	14,385	127,301
Total	¥4,175	¥15,306	\$135,451

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Unrecognized prior service cost	¥ (791)	¥ 130	\$ 1,150
Unrecognized actuarial loss	13,103	27,488	243,257
Total	¥12,312	¥27,618	\$244,407

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2016 was as follows:

	2015	2016
Bonds	40%	36%
Stocks	29%	22%
General accounts	28%	33%
Other	3%	9%
Total	100%	100%

The expected return on assets has been estimated based on the current and anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2015	2016
Discount rate	mainly 1.5%	mainly 0.4%
Expected rate of return on plan assets	mainly 4.0%	mainly 4.0%

The contributions to the defined contribution plans by the Company and its consolidated subsidiaries were ¥4,638 million and ¥5,150 million (\$45,575 thousand) in the years ended March 31, 2015 and 2016, respectively.

### 13. Allowance for Doubtful Accounts

The non-current allowance for doubtful accounts primarily represents an allowance recorded upon restatement and consolidation of the Funds as discussed in Note 1 "Summary of significant accounting policies" (a) "Basis of presenting consolidated financial statements." Illegitimate payments for fees to external collaborators of ¥7,211 million and ¥7,211 million (\$63,814 thousand) were recorded as a non-current receivable and included in non-current other assets on the balance sheets as of March 31, 2015 and 2016, respectively. The Company did not agree to the fees and is seeking collection of the amounts paid, however, collection of such amounts was determined to be doubtful and a full allowance was recorded against the non-current receivable.

### 14. Stock Option Plans

A summary of information regarding the consolidated subsidiaries' stock option plans for the years ended March 31, 2015 and 2016 is as follows:

	First series of stock subscription rights	Second series of stock subscription rights	Third series of stock subscription rights
Qualified beneficiaries .....	5 directors, 20 executive officers	5 directors, 20 executive officers	5 directors, 19 executive officers
Class and number of shares for which new subscription rights were offered.....	Common stock 40,100	Common stock 41,000	Common stock 38,700
Grant date.....	August 26, 2013 From August 27, 2013 to August 26, 2043	July 11, 2014 From July 12, 2014 to July 11, 2044	July 13, 2015 From July 14, 2015 to July 13, 2045
Exercise period.....			
Number of unvested stock options:			
As of March 31, 2015 .....	—	—	—
Granted .....	—	—	38,700
Forfeited .....	—	—	—
Vested .....	—	—	38,700
As of March 31, 2016 .....	—	—	—
Number of vested stock options:			
As of March 31, 2015 .....	39,100	40,000	—
Vested .....	—	—	38,700
Exercised .....	400	—	—
Forfeited .....	—	—	300
As of March 31, 2016 .....	38,700	40,000	38,400
For stock options exercised during the year:			
Exercise price (yen) .....	¥1	¥1	¥1
Average price of common stock at the date of exercise (yen).....	¥4,835	¥—	¥—
Fair value per share at the grant date:			
Exercise price (yen) .....	¥2,940	¥3,625	¥4,490

The assumptions used to measure the fair value of stock options granted for the years ended March 31, 2015 and 2016 were as follows:

	Second series of stock subscription rights	Third series of stock subscription rights
Estimate method .....	Black-Scholes option pricing model	Black-Scholes option pricing model
Expected volatility (Note 1).....	48.81%	47.44%
Expected life (Note 2).....	15 years	15 years
Expected dividend (Note 3).....	¥0 per share	¥5 per share
Risk-free interest rate (Note 4).....	0.98%	0.82%

Notes:

1. Expected volatility for Second series of stock subscription rights was estimated based on the stock price data of the Company for 15 years from August 1999 to August 2014. Expected volatility for Third series of stock subscription rights was estimated based on the stock price data of the Company for 15 years from July 2000 to July 2015.
2. Because of the insufficient data and difficulty in making a reasonable estimate, the expected life was based on the assumption that the stock subscription rights would have been exercised at the midpoint of the exercise period.
3. Expected dividend for Second series of stock subscription rights was based on the dividend paid over the last two terms. Expected dividend for Third series of stock subscription rights was based on the dividend paid over the last two terms.
4. Risk-free interest rate represented the interest rate of Japanese Government Bonds (JGBs) corresponding to the expected life of the options.

### 15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants' tax and enterprise tax, which in the aggregate resulted in normal statutory tax rates of approximately 35.6% and 33.1% for the years ended March 31, 2015 and 2016, respectively. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the reconciliation between the statutory tax rates and the Company's effective tax rates for consolidated financial statement purposes for the years ended March 31, 2015 and 2016:

	2015	2016
Normal statutory tax rates.....	35.6%	33.1%
Non-deductible expenses .....	247.5	2.5
Non-taxable income.....	(2.5)	(0.6)
R&D tax credits.....	(12.8)	(2.2)
Effect of lower tax rates applied for foreign subsidiaries.....	(43.9)	(4.2)
Decrease in valuation allowance.....	(88.7)	(43.3)
Amortization of goodwill.....	37.5	4.6
Effect of reorganization of Group structure .....	—	17.0
Decrease in deferred tax assets and liabilities due to tax rate change.....	22.5	(0.2)
Other, net.....	4.1	4.8
Effective tax rates .....	199.3%	11.5%

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Inventories .....	¥ 6,962	¥ 7,722	\$ 68,336
Prepaid expenses .....	5,287	6,972	61,699
Accrued bonuses.....	6,033	6,339	56,097
Investments in consolidated subsidiaries.....	5,268	1,707	15,106
Unrealized intercompany profits .....	6,837	4,380	38,761
Depreciation of property, plant and equipment.....	6,438	5,297	46,876
Amortization of intangible assets.....	4,134	4,710	41,681
Liability for retirement benefits.....	11,738	12,759	112,912
Securities.....	7,366	4,526	40,053
Loss carryforwards .....	43,327	28,710	254,071
Other .....	38,355	33,129	293,178
Sub-total.....	141,745	116,251	1,028,770
Valuation allowance.....	(78,959)	(50,403)	(446,044)
Total deferred tax assets.....	62,786	65,848	582,726
Net defined benefit assets.....	(10,937)	(7,398)	(65,469)
Basis differences in assets acquired and liabilities assumed upon acquisition.....	(15,956)	(12,545)	(111,018)
Other .....	(26,751)	(25,747)	(227,850)
Total deferred tax liabilities .....	(53,644)	(45,690)	(404,337)
Net deferred tax assets.....	¥ 9,142	¥ 20,158	\$ 178,389

Following the enactment of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) on March 29, 2016 in the Japanese Diet, the corporation tax rates were changed for the fiscal years beginning on or after April 1, 2016. In line with these changes, the effective tax rate used to measure deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be reversed in the fiscal years beginning on April 1, 2016 and 2017, and to 30.6% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2018. As a result of these tax rate changes, deferred tax assets (net of deferred tax liabilities) decreased by ¥507 million (\$4,487 thousand), net unrealized holding gains on available-for-sale securities increased by ¥501 million (\$4,434 thousand) and retirement benefits liability adjustments of defined benefit plans decreased by ¥216 million (\$1,912 thousand) as of March 31, 2016, and deferred income tax expense increased by ¥792 million (\$7,009 thousand) for the year ended March 31, 2016.

## 16. Net Assets

Under the Japanese Corporate Law (the "Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

### (1) March 31, 2015

A summary of information regarding the consolidated statement of changes in net assets for the year ended March 31, 2015 was as follows:

#### Total number and class of shares issued and treasury stock

Class of shares	As of April 1, 2014 (Number of shares)	Increase (Number of shares)	Decrease (Number of shares)	As of March 31, 2015 (Number of shares)
Shares issued:				
Common stock .....	342,671,508	—	—	342,671,508
Treasury stock:				
Common stock (Note) .....	431,063	3,173	—	434,236

Note: The increase in the number of common stock in treasury includes 3,173 shares through the purchase of stock of less than one trading unit.

#### Share subscription rights

Please refer to Note 14 "Stock option plans."

#### Dividends paid

There were no dividends paid in the year ended March 31, 2015.

#### Dividends resolved during the year ended March 31, 2015 that will be effective after March 31, 2015

Resolution	Class of shares	Amount of dividends paid (Millions of yen)	Funds of distribution	Dividend per share (Yen)	Record date	Effective date
General Shareholders' Meeting (June 26, 2015)	Common stock	¥3,422	Retained earnings	¥10.00	March 31, 2015	June 29, 2015

### (2) March 31, 2016

A summary of information regarding the consolidated statement of changes in net assets for the year ended March 31, 2016 was as follows:

#### Total number and class of shares issued and treasury stock

Class of shares	As of April 1, 2015 (Number of shares)	Increase (Number of shares)	Decrease (Number of shares)	As of March 31, 2016 (Number of shares)
Shares issued:				
Common stock .....	342,671,508	—	—	342,671,508
Treasury stock:				
Common stock (Notes 1 and 2) .....	434,236	2,771	400	436,607

#### Notes:

- The increase in the number of common stock in treasury includes 2,771 shares through the purchase of stock of less than one trading unit.
- The decrease in the number of common stock in treasury includes 400 shares through the exercise of stock options.

#### Share subscription rights

Please refer to Note 14 "Stock option plans."

#### Dividends paid

Resolution	Class of shares	Amount of dividends paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General Shareholders' Meeting (June 26, 2015)	Common stock	¥3,422 (\$30,283 thousand)	¥10.00 (\$0.088)	March 31, 2015	June 29, 2015

#### Dividends resolved during the year ended March 31, 2016 that will be effective after March 31, 2016

Resolution	Class of shares	Amount of dividends paid (Millions of yen)	Funds of distribution	Dividend per share (Yen)	Record date	Effective date
General Shareholders' Meeting (June 28, 2016)	Common stock	¥5,818 (\$51,487 thousand)	Retained earnings	¥17.00 (\$0.150)	March 31, 2016	June 29, 2016

## 17. Contingent Liabilities

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted of ¥209 million and ¥123 million (\$1,088 thousand) as of March 31, 2015 and 2016, respectively. The Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥49 million and ¥34 million (\$301 thousand), respectively, and as guarantors of borrowings from banks to third parties, amounting to ¥3,798 million and ¥5,915 million (\$52,345 thousand), respectively, as of March 31, 2015 and 2016.

Concerning the Company's deferral of recognition of losses on securities investments, etc., the Company has damage claim or lawsuits filed against it mainly by shareholders. A provision for loss on litigation was provided as of March 31, 2016 at an amount considered necessary, however, there is a risk that the outcome may adversely affect the consolidated financial results in the future and an additional provision for loss on litigation may be necessary depending on the progress of the lawsuits and the damage claim.

The provision for loss on litigation amounting to ¥11,000 million and ¥567 million (\$5,018 thousand) as of March 31, 2015 and 2016, respectively, which was presented as the current liabilities in the consolidated balance sheets, was provided in connection with the lawsuits which were filed against the Company by the Teachers' Retirement System of the State of Illinois, etc. on June 28, 2012 and California State Teachers' Retirement System, etc. on June 27, 2013.

## 18. Pledged Assets

The following assets were pledged as collateral for long-term debt, current maturities of long-term debt and short-term borrowings as of March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease receivables and leased investment assets .....	¥14,781	¥—	\$—
Other assets.....	6,369	—	—
	¥21,150	¥—	\$—

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Long-term debt .....	¥ 6,369	¥—	\$—
Short-term borrowings.....	14,781	—	—
	¥21,150	¥—	\$—

## 19. Selling, General and Administrative Expenses

The following table summarizes the major components of selling, general and administrative expenses for the years ended March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Advertising and promotion expenses .....	¥ 42,906	¥ 40,945	\$ 362,345
Salaries and allowance .....	124,863	135,247	1,196,876
Bonuses .....	28,073	30,826	272,796
Retirement benefit expenses.....	4,659	7,130	63,097
Amortization of goodwill.....	9,421	9,867	87,319
Research and development expenses .....	35,697	41,753	369,496
Depreciation and amortization .....	29,794	30,550	270,354

The total of research and development expenses included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended March 31, 2015 and 2016 amounted to ¥74,101 million and ¥81,415 million (\$720,487 thousand), respectively.

## 20. Legal Settlement Compensation Received

Concerning the Company's deferral of recognition of losses on securities investments, etc., the Company previously filed lawsuits against 19 former directors, and in the fiscal year ended March 31, 2016, settlement was reached with 13 of the former directors. Accordingly, the Company received legal settlement compensation of ¥72 million (\$637 thousand) as monetary settlement in the case which was presented as "Legal settlement compensation received" in the consolidated statement of operations.

## 21. Impairment Loss on Fixed Assets

The losses on impairment of fixed assets that the Company and its consolidated subsidiaries recorded for the year ended March 31, 2015 were as follows:

Use	Type of assets	Location	Millions of yen
Idle properties.....	Buildings and structures	Aomori	¥119
Total .....			¥119

The Company and its consolidated subsidiaries mainly classify their assets for business use into groups based on business segment. However, assets to be disposed of and idle assets are classified as respective independent groups of assets.

Carrying amounts of idle properties were written down to their recoverable amounts, owing to substantial decline in the fair market values. The recoverable amounts were estimated by net realizable values of fixed assets which were calculated based on net selling price.

## 22. Loss on Liquidation of Business

(1) March 31, 2015

Loss on liquidation of business of ¥1,820 million recorded in the consolidated statement of operations for the year ended March 31, 2015 stems mainly from losses incurred due to the withdrawal from the business concerning E-Globaledge Corporation, a consolidated subsidiary.

(2) March 31, 2016

Loss on liquidation of business of ¥189 million (\$1,673 thousand) recorded in the consolidated statement of operations for the year ended March 31, 2016 stems from losses incurred due to the withdrawal from the business concerning Olympus Asset Management Limited, a consolidated subsidiary.

## 23. Business Restructuring Expenses

Business restructuring expenses of ¥1,209 million (\$10,699 thousand) for the year ended March 31, 2016 represent expenses incurred in restructuring operations in order to better cope with the shrinking market in which the Imaging Systems Business operates, and other changes in that regard.

## 24. Loss Related to Securities Litigation

The Company has received claims for compensation for damages from several individual and institutional investors for losses sustained as a result of the Company's false statements for the purpose of postponing recognition of losses in the Annual Securities Reports, Semi-Annual Securities Reports and Quarterly Securities Reports for the period from the year ended March 31, 2001 through the first quarter of the year ended March 31, 2012. "Loss related to securities litigation" represents losses relating to these claims for compensation for damages.

A breakdown of the losses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Settlement charge .....	¥6,760	¥2,072	\$18,336
Compensation for damage .....	56	—	—
Total .....	¥6,816	¥2,072	\$18,336

Settlement charge and compensation for damage included the amount of settlements paid for some of the claims for damages and damages and interest on delayed payment based on a court judgment.

## 25. Loss Related to the Investigation under U.S. Anti-Kickback Act and the Related Act

The Company's U.S. subsidiary, Olympus Corporation of the Americas ("OCA"), had been subject to investigation by the U.S. Department of Justice ("DOJ") relating to potential issues concerning its medical business over the years 2006 to 2011 under the Anti-kickback Act and the False Claims Act in the United States. The Company recorded ¥53,866 million as "Loss related to the investigation under U.S. Anti-kickback Act and the related Act" for the estimated loss based on the current status of the investigation for the year ended March 31, 2015.

On February 29, 2016, OCA entered into a Deferred Prosecution Agreement and a Civil Settlement Agreement in that regard with the DOJ.

Moreover, beginning in October 2011, OCA had also been subject to investigation by the DOJ relating to alleged violations of the U.S. Foreign Corrupt Practices Act ("FCPA") concerning the medical business of Olympus Latin America, Inc. ("OLA"), an indirect U.S. subsidiary of Olympus Corporation, and Olympus Optical do Brazil, Ltda. ("OBL"), a Brazilian subsidiary of OLA. On February 29, 2016, OLA and subsidiaries of Olympus Corporation (including OCA) entered into a Deferred Prosecution Agreement with the DOJ in that regard.

The Company recorded ¥18,814 million (\$166,496 thousand) for "Loss related to the investigation under U.S. Anti-kickback Act and the related Act" to reflect criminal penalties, civil fines and interest in that regard in light of the agreements for the year ended March 31, 2016.

## 26. Income Taxes for Prior Periods

With respect to transactions among group companies, the Company recorded estimated amounts of additional payment for corporate tax and other such obligations in "Income taxes for prior periods" for the year ended March 31, 2016 considering the Advanced Pricing Agreement submitted for approval regarding transfer price taxation.

## 27. Cash and Cash Equivalents

Reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits .....	¥209,875	¥166,554	\$1,473,929
Less-time deposits with maturities over three months .....	(66)	(231)	(2,044)
Cash and cash equivalents .....	¥209,809	¥166,323	\$1,471,885

## 28. Cash Flow from Sales of Investments in Subsidiaries Resulting in Changes in Scope of Consolidation

Details of assets and liabilities, and the reconciliation between the transaction price and proceeds from E-Globaleedge and 3 other companies, which have been excluded from consolidated subsidiaries due to the sale of shares during the year ended March 31, 2015 were as follows:

	Millions of yen
Current assets .....	¥ 3,050
Non-current assets .....	324
Current liabilities .....	(1,836)
Non-current liabilities .....	(120)
Minority interests .....	(6)
Loss on liquidation of business .....	(1,122)
Transfer price for business .....	290
Cash and cash equivalents .....	(36)
Proceeds from sales of investment securities in subsidiaries, net .....	¥ 254

## 29. Lease Transactions

Finance Lease Transactions (Lessee):

The Company and its consolidated subsidiaries lease certain machinery and equipment under the non-cancelable finance and operating leases. Finance leases that do not transfer ownership to lessees whose contract commenced on or before March 31, 2008 are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases as of or for the years ended March 31, 2015 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
As of March 31 (Equivalent amount)			
Acquisition cost .....	¥ 23	¥—	\$—
Accumulated depreciation .....	(21)	—	—
Accumulated loss on impairment .....	—	—	—
Net book value .....	¥ 2	¥—	\$—

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
As of March 31 (Future lease payments)			
Due within one year .....	¥ 2	¥—	\$—
Due after one year .....	—	—	—
Total .....	¥ 2	¥—	\$—
Balance of impairment loss account on leased assets included in the outstanding future lease payments .....	¥—	¥—	\$—

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
For the years ended March 31 (Lease payments and pro forma information)			
Lease payments .....	¥15	¥2	\$18
Equivalent of depreciation expense .....	13	1	9
Equivalent of interest expense .....	0	0	0

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using the interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Operating Lease Transactions (Lessee):

Future minimum lease payments under the non-cancelable operating leases subsequent to March 31, 2015 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due within one year	Due after one year	Total minimum lease payments	Due within one year	Due after one year	Total minimum lease payments
As of March 31, 2015	¥1,671	¥2,207	¥3,878			
As of March 31, 2016	¥1,619	¥4,009	¥5,628	\$14,327	\$35,478	\$49,805

Finance Lease Transactions (Lessor):

Leased investment assets recognized in the consolidated balance sheets as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease receivables and leased investment assets:			
Lease receivable components of leased investment assets .....	¥25,490	¥26,021	\$230,274
Estimated residual value .....	3,083	2,118	18,743
Interest income .....	(2,943)	(2,596)	(22,973)
Leased investment assets .....	¥25,630	¥25,543	\$226,044

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Other assets:			
Lease receivable components of leased investment assets .....	¥37,614	¥33,446	\$295,982
Estimated residual value .....	2,480	7,889	69,814
Interest income .....	(3,851)	(3,827)	(33,867)
Leased investment assets .....	¥36,243	¥37,508	\$331,929

The following table set forth amounts of lease receivables and leased investment assets to be collected subsequent to March 31, 2015 and 2016:

Millions of yen						
As of March 31, 2015	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease receivables and leased investment assets:						
Lease receivables .....	¥ 6,053	¥ —	¥ —	¥ —	¥ —	¥ —
Lease receivable components of leased investment assets.....	25,490	—	—	—	—	—
Other assets:						
Lease receivables.....	—	3,713	2,455	1,322	527	26
Lease receivable components of leased investment assets.....	—	16,998	12,102	7,337	1,076	101
Millions of yen						
As of March 31, 2016	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease receivables and leased investment assets:						
Lease receivables .....	¥ 8,022	¥ —	¥ —	¥ —	¥ —	¥ —
Lease receivable components of leased investment assets.....	26,021	—	—	—	—	—
Other assets:						
Lease receivables.....	—	4,255	2,545	1,441	722	11
Lease receivable components of leased investment assets.....	—	16,557	11,490	4,551	842	6
Thousands of U.S. dollars						
As of March 31, 2016	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease receivables and leased investment assets:						
Lease receivables .....	\$ 70,991	\$ —	\$ —	\$ —	\$ —	\$ —
Lease receivable components of leased investment assets.....	230,274	—	—	—	—	—
Other assets:						
Lease receivables.....	—	37,655	22,522	12,752	6,389	97
Lease receivable components of leased investment assets.....	—	146,522	101,681	40,274	7,451	53

#### Operating Lease Transactions (Lessor):

Future minimum lease payments under the non-cancelable operating leases having remaining terms in excess of one year were as follows:

Millions of yen		
As of March 31, 2015	Due within one year	Total minimum lease payments
	¥5,149	¥12,458
Millions of yen		
Thousands of U.S. dollars		
As of March 31, 2016	Due within one year	Total minimum lease payments
	¥5,189	¥10,610
	¥5,421	¥45,920
	¥47,973	\$93,894

### 30. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and corresponding tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes:			
Amount arising during the year.....	¥17,086	¥ 2,913	\$ 25,779
Reclassification adjustments for gains and losses included in net income.....	505	(1,883)	(16,664)
Amount before tax effect.....	17,591	1,030	9,115
Tax effect .....	(4,663)	(847)	(7,496)
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes .....	¥12,928	¥ 183	\$ 1,619
Net unrealized gains (losses) on hedging derivatives, net of taxes:			
Amount arising during the year.....	¥ 0	¥ (10)	\$ (88)
Reclassification adjustments for gains and losses included in net income.....	(7)	8	71
Amount before tax effect.....	(7)	(2)	(17)
Tax effect .....	—	3	26
Net unrealized gains (losses) on hedging derivatives, net of taxes .....	¥ (7)	¥ 1	\$ 9
Foreign currency translation adjustments:			
Amount arising during the year.....	¥28,651	¥(24,018)	\$(212,549)
Reclassification adjustments for gains and losses included in net income.....	108	10	89
Foreign currency translation adjustments.....	¥28,759	¥(24,008)	\$(212,460)
Retirement benefits liability adjustments:			
Amount arising during the year.....	¥ (5,224)	¥(13,035)	\$(115,354)
Reclassification adjustments for gains and losses included in net income.....	(1,470)	249	2,204
Amount before tax effect.....	(6,694)	(12,786)	(113,150)
Tax effect .....	(319)	4,309	38,132
Retirement benefits liability adjustments.....	¥ (7,013)	¥ (8,477)	\$(75,018)
Share of other comprehensive income (loss) of companies accounted for by the equity method:			
Amount arising during the year.....	¥ 4	¥ (4)	\$ (35)
Share of other comprehensive income (loss) of companies accounted for by the equity method.....	¥ 4	¥ (4)	\$ (35)
Total other comprehensive income (loss).....	¥34,671	¥(32,305)	\$(285,885)

### 31. Derivative Financial Instruments

The Company and its consolidated subsidiaries use derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Company and its consolidated subsidiaries are forward foreign exchange contracts, currency options, currency swaps and interest rate swaps. Almost all derivative transactions are used to hedge interest rates and foreign currency positions in connection with their business. Accordingly, market risk in these derivatives is largely offset by opposite movements in the underlying positions. Management assesses derivative transactions and market risks surrounding these transactions according to the Company's policy regarding derivative transactions. Contracts of derivative financial instruments are executed by finance departments of the Company or its subsidiaries.

The Company's and its consolidated subsidiaries' trade payables that are denominated in foreign currencies which meet specific matching criteria and have been hedged by forward foreign exchange contracts are translated at the foreign exchange rate stipulated in the contracts (special hedge accounting for forward foreign exchange contracts).

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential to be paid or received under the swap agreements is accrued and included in interest expense or income (special hedge accounting shortcut method for interest rate swaps).

The counterparties to the derivative financial instruments of the Company and its consolidated subsidiaries are substantial and credit worthy multinational commercial banks or other financial institutions that are recognized market makers. Neither the risks of counterparty non-performance nor the economic consequences of counterparty non-performance associated with these contracts are considered by the Company to be material.



The following table summarizes the underlying notional transaction amounts, fair values and unrealized gain (loss) for outstanding derivative financial instruments by risk category and instrument type as of March 31, 2015 and 2016:

Derivatives for which the hedge accounting is not applied

Millions of yen						
As of March 31, 2015	Notional amount	Fair value	Unrealized gain (loss)			
Forward foreign exchange contracts:						
To buy U.S. dollars .....	¥3,098	¥ 124	¥ 124			
To buy other currencies .....	6,872	(23)	(23)			
To sell U.S. dollars .....	8,548	(1,349)	(1,349)			
To sell other currencies .....	9,056	(225)	(225)			
Foreign exchange option contracts:						
Put option .....	7,630	208	208			
Foreign currency swap contracts:						
Receive British pounds / pay Euro .....	—	—	—			
Receive other currencies / pay other currencies .....	5,491	11	11			

Millions of yen			Thousands of U.S. dollars			
As of March 31, 2016	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To buy U.S. dollars .....	¥ 646	¥ 48	¥ 48	\$ 5,717	\$ 425	\$ 425
To buy other currencies .....	7,389	193	193	65,389	1,708	1,708
To sell U.S. dollars .....	6,642	117	117	58,779	1,035	1,035
To sell other currencies .....	14,301	(238)	(238)	126,558	(2,106)	(2,106)
Foreign exchange option contracts:						
Put option .....	4,869	84	84	43,088	743	743
Foreign currency swap contracts:						
Receive British pounds / pay Euro .....	3,790	(8)	(8)	33,540	(71)	(71)
Receive other currencies / pay other currencies .....	6,084	21	21	53,841	186	186

The fair values of foreign exchange option contracts and currency swap contracts are estimated by obtaining quotes from financial institutions. The fair value of forward foreign exchange contracts is estimated based on market prices for contracts with similar terms.

Derivatives for which the hedge accounting is applied

Millions of yen						
As of March 31, 2015	Notional amount	Fair value				
Forward foreign exchange contracts, accounted for by special hedge accounting:						
To buy U.S. dollars .....	¥ 6,599	*				
To buy other currencies .....	296	*				
To sell U.S. dollars .....	49,588	*				
To sell other currencies .....	26,128	*				
Interest rate swap contracts, accounted for by special hedge accounting shortcut method:						
Receive floating / pay fixed .....	208,000	**				

Millions of yen		Thousands of U.S. dollars			
As of March 31, 2016	Notional amount	Fair value	Notional amount	Fair value	
Forward foreign exchange contracts, accounted for by special hedge accounting:					
To buy U.S. dollars .....	¥ 4,992	*	\$ 44,177	*	
To buy other currencies .....	—	*	—	*	
To sell U.S. dollars .....	44,857	*	396,965	*	
To sell other currencies .....	27,665	*	244,823	*	
Forward foreign exchange contracts for forecasted transactions:					
To sell other currencies .....	1,109	(10)	9,814	(88)	
Interest rate swap contracts, accounted for by special hedge accounting shortcut method:					
Receive floating / pay fixed .....	148,000	**	1,309,735	**	

The fair value of forward foreign exchange contracts is estimated based on market prices for contracts with similar terms.

The fair value of interest rate swap contracts is estimated by obtaining quotes from financial institutions.

\* Forward foreign exchange contracts are accounted for as part of accounts receivable and accounts payable. Therefore, the fair value of the contracts is included in the fair value of underlying accounts receivable and accounts payable.

\*\* Interest rate swap contracts are accounted for as part of long-term debt. Therefore, the fair value of the contracts is included in the fair value of underlying long-term debt.

## 32. Segment Information

### 1. Overview of reportable segments

The reportable segments of the Olympus Group are components of the Company whose separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing the performance.

Each business division of the Olympus Group formulates comprehensive strategies for Japan and abroad with respect to products and services handled and deploys business activities.

Accordingly, being composed of segments, based on these business divisions, that are categorized according to products and services, the Olympus Group has the following four reportable segments: Medical Business, Scientific Solutions Business, Imaging Business and Others.

The "Medical Business" manufactures and sells gastrointestinal endoscopes, surgical endoscopes, endotherapy devices and other products. The "Scientific Solutions Business" manufactures and sells biological microscopes, industrial microscopes, industrial endoscopes, non-destructive testing equipment and other products. The "Imaging Business" manufactures and sells digital cameras, voice recorders and other products. The "Others" business manufactures and sells biomedical materials and conducts system development and other business activities.

From the first quarter ended June 30, 2015, in conjunction with changes in the Company's organization, a new business previously classified under the Imaging Business (a new cross-functional business field aiming for a combination of medical systems and scientific solutions based on the engineering technology, electronic and imaging technology, network technology and manufacturing technology accumulated in the Imaging Business, and growth in this form) was included in "Others." The segment information for the fiscal year ended March 31, 2015 was restated to reflect such change in the segment classification.

### 2. Method of calculating amounts of net sales, profit (loss), assets, liabilities and other items by segment

The accounting methods for the reportable business segments are generally the same as the methods described in Note 1 "Summary of significant accounting policies." Segment profit is based on operating income. Internal sales or transfers among segments are based on actual market prices.

As noted under "Changes in Accounting Policies," with respect to the change in the method of depreciation of property, plant and equipment, effective April 1, 2015, the Company and its consolidated subsidiaries in Japan changed the method for depreciating property, plant and equipment (excluding lease assets) from the declining balance method to the straight-line method.

As a result of this change, each segment income for the fiscal year ended March 31, 2016 increased by ¥1,664 million (\$14,726 thousand) in the Medical Business segment, and ¥297 million (\$2,628 thousand) in the Scientific Solutions Business segment, while segment loss in the Imaging Business segment, the Others segment, and in Adjustments decreased by ¥621 million (\$5,496 thousand), ¥51 million (\$451 thousand) and ¥1,004 million (\$8,885 thousand), respectively.

### 3. Information concerning net sales, profit (loss), assets and other items by reportable segment

Millions of yen							
For the year ended March 31, 2015							
	Medical	Scientific Solutions	Imaging	Others	Total	Adjustments	Consolidated Total
Net sales:							
Third parties .....	¥558,348	¥103,880	¥ 79,437	¥23,006	¥764,671	¥ —	¥ 764,671
Intersegment .....	155	79	18	604	856	(856)	—
Total .....	558,503	103,959	79,455	23,610	765,527	(856)	764,671
Segment profit (loss) .....	124,894	6,837	(11,710)	(970)	119,051	(28,089)	90,962
Assets .....	673,058	88,282	79,422	14,193	854,955	226,596	1,081,551
Depreciation and amortization .....	28,850	5,260	2,594	540	37,244	3,975	41,219
Amortization of goodwill .....	8,715	677	—	29	9,421	—	9,421
Increase in segment property, plant and equipment and intangible assets .....	36,801	3,911	3,291	1,001	45,004	2,739	47,743

Millions of yen

For the year ended March 31, 2016							
	Medical	Scientific Solutions	Imaging	Others	Total	Adjustments	Consolidated Total
Net sales:							
Third parties .....	¥608,927	¥101,608	¥78,284	¥15,759	¥804,578	¥ —	¥ 804,578
Intersegment .....	0	74	10	445	529	(529)	—
Total .....	608,927	101,682	78,294	16,204	805,107	(529)	804,578
Segment profit (loss) .....	140,220	8,482	(2,064)	(5,800)	140,838	(36,374)	104,464
Assets .....	642,788	80,865	65,741	13,282	802,676	197,938	1,000,614
Depreciation and amortization .....	30,416	4,472	1,685	517	37,090	2,822	39,912
Amortization of goodwill .....	9,252	598	—	17	9,867	—	9,867
Increase in segment property, plant and equipment and intangible assets ....	46,430	5,645	3,091	888	56,054	8,391	64,445

Thousands of U.S. dollars

For the year ended March 31, 2016							
	Medical	Scientific Solutions	Imaging	Others	Total	Adjustments	Consolidated Total
Net sales:							
Third parties .....	\$5,388,735	\$899,186	\$692,779	\$139,459	\$7,120,159	\$ —	\$7,120,159
Intersegment .....	0	655	88	3,940	4,683	(4,683)	—
Total .....	5,388,735	899,841	692,867	143,399	7,124,842	(4,683)	7,120,159
Segment profit (loss) .....	1,240,885	75,062	(18,265)	(51,328)	1,246,354	(321,894)	924,460
Assets .....	5,688,389	715,619	581,779	117,540	7,103,327	1,751,664	8,854,991
Depreciation and amortization .....	269,168	39,575	14,912	4,575	328,230	24,974	353,204
Amortization of goodwill .....	81,876	5,292	—	151	87,319	—	87,319
Increase in segment property, plant and equipment and intangible assets ....	410,885	49,956	27,354	7,858	496,053	74,257	570,310

## Notes:

- Segment profit (loss) is adjusted to agree with operating income on the consolidated financial statements.
- The deduction of ¥(856) million and ¥(529) million (\$4,683 thousand) for the years ended March 31, 2015 and 2016, respectively, in internal sales or transfer among segments represents elimination of transactions among segments.
- Adjustments for segment profit (loss) include ¥(28,089) million and ¥(36,374) million (\$321,894 thousand) for the years ended March 31, 2015 and 2016, respectively, of corporate general administration and research and development center expenses, which are not allocable to the reportable segments.
- Adjustments for segment assets include ¥226,596 million and ¥197,938 million (\$1,751,664 thousand) as of March 31, 2015 and 2016, respectively, of corporate assets, which are not allocable to the reportable segments.
- Adjustments for depreciation and amortization include ¥3,975 million and ¥2,822 million (\$24,974 thousand) for the years ended March 31, 2015 and 2016, respectively, of depreciation and amortization for corporate assets, which are not allocable to the reportable segments.
- Adjustments for increase in segment property, plant and equipment and intangible assets includes ¥2,739 million and ¥8,391 million (\$74,257 thousand) for the years ended March 31, 2015 and 2016, respectively, of the increase in corporate assets, which are not allocable to the reportable segments.

## 4. Related information

## (a) Sales by destination

Net sales to third parties by countries or areas grouped according to geographic classification for the years ended March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Japan .....	¥161,432	¥163,070	\$1,443,097
North America .....	249,896	282,108	2,496,531
Europe .....	195,223	195,606	1,731,027
Asia .....	139,274	145,986	1,291,912
Other areas .....	18,846	17,808	157,592
	¥764,671	¥804,578	\$7,120,159

Note: Each destination is determined by geographic adjacency.

- North America includes the United States and Canada.  
 Europe includes Germany, the United Kingdom, France and other countries.  
 Asia includes Singapore, Hong Kong, China, South Korea, Australia and other countries.  
 Other areas include Central and South America, Africa and others.

## (b) Property, plant and equipment by geographic location

Property, plant and equipment by countries or geographic areas as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Japan .....	¥ 57,179	¥ 81,970	\$ 725,398
America .....	44,881	37,925	335,619
Europe .....	28,024	28,505	252,257
Asia .....	20,061	17,664	156,319
	¥150,145	¥166,064	\$1,469,593

Note: Each geographic location is determined by geographic adjacency.

- America includes the United States, Canada, Mexico and Brazil.  
 Europe includes Germany, the United Kingdom, France and other countries.  
 Asia includes Singapore, Hong Kong, China, South Korea, Australia and other countries.

## (c) Sales by major customer

Sales by major customer for the years ended March 31, 2015 and 2016 have been omitted due to the absence of a customer with sales volume which exceeds 10% of consolidated net sales.

## (d) Impairment losses on fixed assets of ¥119 million for the year ended March 31, 2015 was attributed to Corporate as "Adjustments and eliminations."

## (e) Outstanding balances of goodwill by reportable segment as of March 31, 2015 and 2016 were as follows:

	Millions of yen				
	2015				
	Medical	Scientific Solutions	Imaging	Others	Consolidated Total
Outstanding balance of goodwill .....	¥111,205	¥2,749	¥—	¥71	¥114,025

	Millions of yen				
	2016				
	Medical	Scientific Solutions	Imaging	Others	Consolidated Total
Outstanding balance of goodwill .....	¥95,122	¥2,013	¥—	¥55	¥97,190

	Thousands of U.S. dollars				
	2016				
	Medical	Scientific Solutions	Imaging	Others	Consolidated Total
Outstanding balance of goodwill .....	\$841,788	\$17,814	\$—	\$486	\$860,088

## (f) Amortization of negative goodwill by reportable segment

There was no amortization of negative goodwill for the years ended March 31, 2015 and 2016.

## 33. Amounts per Share

Net income (loss) per share is computed by dividing income (loss) available to common shareholders by the average number of common shares outstanding for each fiscal year. Diluted income (loss) per share is similar to basic net income (loss) per share except that the average of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. For the year ended March 31, 2015, although there was dilutive potential common shares, diluted net income per share was not presented due to the recording of a net loss.

Net assets per share are computed based on the net assets excluding stock subscription rights and non-controlling interests and the number of shares of common stock outstanding at the year-end.

For the years ended March 31	Yen		U.S. dollars
	2015	2016	2016
Net income (loss):			
Basic .....	¥(25.53)	¥182.90	\$1.619
Diluted .....	—	182.84	1.618
As of March 31			
		Yen	U.S. dollars
Net assets .....	¥1,038.64	¥1,117.24	\$9.887

The bases for calculation are as follows:

(1) Basic and diluted net income (loss) per share

For the years ended March 31	Number of shares	
	2015	2016
Average number of shares for basic net income (loss).....	342,238,820	342,235,989

(2) Net assets per share

As of March 31	Number of shares	
	2015	2016
Number of shares of common stock used for the calculation of net assets per share .....	342,237,272	342,234,901

As of March 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Total net assets.....	¥357,254	¥384,283	\$3,400,735
Amounts deducted from total net assets:			
Stock acquisition rights.....	260	428	3,788
Non-controlling interests .....	1,532	1,496	13,239
Net assets attributable to shares of common stock .....	¥355,462	¥382,359	\$3,383,708

### 34. Related-Party Transactions

(1) Related-party transactions

There were no related-party transactions to be disclosed for the years ended March 31, 2015 and 2016.

(2) Note about significant related party

A summary of financial statements regarding all affiliated companies accounted for by the equity method, including Sony Olympus Medical Solutions Inc., for the year ended March 31, 2015 as follows:

	Millions of yen	
	2015	2016
Total current assets.....	¥17,666	
Total non-current assets .....	3,453	
Total current liabilities.....	15,738	
Total non-current liabilities.....	3,726	
Total net assets.....	1,655	
Net sales .....	33,609	
Loss before income taxes.....	(4,352)	
Net loss.....	(5,108)	

In the fiscal year ended March 31, 2016, all affiliated companies accounted for by the equity method, including Sony Olympus Medical Solutions Inc., decreased in materiality, thus information for the fiscal year ended March 31, 2016 is omitted.

### 35. Business Combinations

#### Transactions under Common Control

On April 1, 2015, the Company succeeded to the medical systems business of its wholly owned subsidiary Olympus Medical Systems Corp. (except for part of the manufacturing functions and part of the functions for responding to the laws and regulations for medical devices in each country) based on an absorption-type company split, and merged its wholly owned subsidiary Olympus Imaging Corp. based on an absorption-type merger. In addition to the above reorganization, the Company also conducted an absorption-type merger with its wholly owned subsidiary Olympus Intellectual Property Services Co., Ltd. These actions were in accordance with resolutions of a Board of Directors' meeting held on December 19, 2014.

#### 1. Overview of transactions

(1) Absorption-type company split

(i) Name and description of business involved in combination

Name of business	Medical systems business
Description of business	Manufacture and sales of medical endoscopes and other medical devices (except for part of the manufacturing functions and part of the functions for responding to the laws and regulations for medical devices in each country)
Total assets	¥143,544 million (\$1,270,301 thousand)
Liabilities	¥106,397 million (\$941,566 thousand)
Net assets	¥37,147 million (\$328,735 thousand)

(ii) Date of business combination

April 1, 2015

(iii) Legal form of business combination

Absorption-type company split in which Olympus Medical Systems Corp. becomes a splitting company and the Company becomes a succeeding company

(iv) Name of company after combination

Olympus Corporation

(2) Absorption-type merger

(i) Name of companies involved in the merger and description of their business

Names of companies	Olympus Imaging Corp.
Description of business	Manufacture and sales of digital cameras and others
Total assets	¥39,298 million (\$347,770 thousand)
Liabilities	¥30,485 million (\$269,779 thousand)
Net assets	¥8,813 million (\$77,991 thousand)

Olympus Intellectual Property Services Co., Ltd.

Description of business	Research, analysis and management related to intellectual property rights
Total assets	¥269 million (\$2,381 thousand)
Liabilities	¥156 million (\$1,381 thousand)
Net assets	¥113 million (\$1,000 thousand)

(ii) Date of business combination

April 1, 2015

(iii) Legal form of business combination

Absorption-type merger in which the Company is a surviving company, and Olympus Imaging Corp. and Olympus Intellectual Property Services Co., Ltd. are absorbed companies

(iv) Name of company after combination

Olympus Corporation

(3) Description of transaction including purpose of the transaction

The Company sought to promote its "Medium-Term Vision," further advance One Olympus to achieve further growth under its next medium- and long-term management plan, and achieve optimal allocation and maximum utilization of Companywide management resources. To these ends, the Company reviewed its business unit structure and other aspects in the Medical Business and the Imaging Business, and consequently conducted reorganization between itself and two companies: namely, the medical systems business unit, Olympus Medical Systems Corp., and the imaging business unit, Olympus Imaging Corp. Moreover, in addition to the above reorganization, the Company also took steps to streamline the Group's intellectual property operations, and strengthen their functions, by conducting an absorption-type merger with its wholly owned subsidiary Olympus Intellectual Property Services Co., Ltd. at the same time.

#### 2. Outline of accounting treatment applied

These transactions were treated as transactions under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

### 36. Subsequent Event

#### Granting of Share-Based Compensation Stock Options

The Company made a resolution at its Board of Directors' meeting held on June 28, 2016 to allot stock acquisition rights (The fourth series of stock acquisition rights of Olympus Corporation) as share-based compensation stock options to Directors (excluding Outside Directors) and Executive Officers for the purpose of incentivizing them to work for medium-to-long-term performance improvement and corporate value enhancement.

- (1) Date of rights granted  
July 13, 2016
- (2) Number of stock acquisition rights to be issued
- |   |     |
|---|-----|
| Directors (excluding Outside Directors) | 124 |
| Executive Officers                      | 271 |
| Total                                   | 395 |
- (3) Class and number of shares to be issued upon exercise of stock acquisition rights  
39,500 shares of common stock of the Company
- (4) Qualified beneficiaries  
24 in total (5 Directors and 19 Executive Officers of the Company)
- (5) Exercisable period of the stock acquisition rights  
From July 14, 2016 to July 13, 2046
- (6) Proceeds upon exercise of stock acquisition rights  
The amount is determined by multiplying the exercise price of ¥1 per share by the number of shares granted.
- (7) Method to calculate amount to be paid in for stock acquisition rights granted  
The amount to be paid in shall be determined by the Board of Directors of the Company based on the fair value calculated using the Black-Scholes model as of the date of stock acquisition rights granted. The said amount shall be offset against the remuneration claims with the same amount of each Director and Executive Officer.
- (8) Amount to increase common stock upon exercise of stock acquisition rights  
The amount of the increase in common stock in the case that shares are issued due to the exercise of the stock acquisition rights shall be determined by multiplying the maximum increase in common stock, etc., calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Accounting of Companies by 0.5. If any fractional amounts less than ¥1 arise as a result of this calculation, the said amounts will be rounded up to the nearest yen.  
The amount of the increase in legal capital surplus in the case that shares are issued due to the exercise of offered stock acquisition rights shall be determined by deducting the increase in common stock stipulated above from the maximum increase in common stock, etc.

## Independent Auditor's Report



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### Independent Auditor's Report

The Board of Directors  
Olympus Corporation

We have audited the accompanying consolidated financial statements of Olympus Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Olympus Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### Emphasis of Matters

- We draw attention to Note 3 of the consolidated financial statements, which describes that, effective April 1, 2015, the Company and its consolidated subsidiaries in Japan changed the method for depreciating property, plant and equipment (excluding lease assets) from the declining balance method to the straight-line method.
- We draw attention to Note 17 of the consolidated financial statements, which describes that, concerning the Company's deferral of recognition of losses on securities investments, etc., the Company has damage claim or lawsuits filed against it mainly by shareholders. A provision for loss on litigation was provided as of March 31, 2016 at an amount considered necessary, however, there is a risk that the outcome may adversely affect the consolidated financial results in the future and an additional provision for loss on litigation may be necessary depending on the progress of the lawsuits and the damage claim.

Our opinion is not qualified in respect of these matters.

#### Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 28, 2016  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

# Olympus Group Companies

(As of June 30, 2016)

Total number of companies: 122 (Head office, 118 subsidiaries, and 3 affiliates)

## Principal Business Bases

### Olympus Corporation

Shinjuku Monolith,  
3-1 Nishi-Shinjuku 2-chome,  
Shinjuku-ku, Tokyo 163-0914, Japan  
Tel: +81-3-3340-2111  
Fax: +81-3-3340-2062  
http://www.olympus-global.com/en/

### Olympus Corporation of the Americas Olympus America Inc.

3500 Corporate Parkway,  
P.O. Box 610, Center Valley,  
PA 18034-0610, U.S.A.  
Tel: +1-484-896-5000  
http://www.olympusamerica.com/

### Olympus Europa SE & Co. KG

Wendenstrasse 14-18,  
20097 Hamburg, Germany  
Tel: +49-40-23-77-30  
http://www.olympus-europa.com/

### Olympus Corporation of Asia Pacific Limited

L43, Office Tower, Langham Place,  
8 Argyle Street, Mongkok, Kowloon, Hong Kong  
Tel: +852-2481-7812

## Head Office, Consolidated Subsidiaries, and Affiliated Companies

### Domestic

#### Olympus Corporation

(Tokyo)  
Manufacture and sales of precision machinery  
and instruments

#### Olympus Medical Systems Corp.

(Tokyo)  
Some management of medical products

#### Olympus Medical Science Sales Corp.

(Tokyo)  
Manufacture of medical equipment

#### Nagano Olympus Co., Ltd.

(Nagano)  
Development and manufacturing of life science  
products and industrial products  
Manufacturing of medical products

#### Aizu Olympus Co., Ltd.

(Fukushima)  
Development and manufacture of medical and  
industrial endoscopes

#### Aomori Olympus Co., Ltd.

(Aomori)  
Development and manufacture of medical  
endoscope related products

#### Shirakawa Olympus Co., Ltd.

(Fukushima)  
Development and manufacture of medical  
endoscopy systems

#### TmediX Corporation

(Tokyo)  
Offering of procedure-based financial programs  
Management consultation of medical  
professionals in the endoscopy field  
Development, manufacturing, and sales of  
medical products  
Sales and leasing of specially controlled medical  
devices

#### Olympus Software Technology Corp.

(Tokyo)  
Development of software for Olympus products

#### Olympus Digital System Design Corp.

(Tokyo)  
Research and development of sophisticated  
digital system design technology

#### Olympus Terumo Biomaterials Corp.

(Tokyo)  
Research and development and manufacture  
and sales in the biomaterials field

#### Olympus Memory Works Corp.

(Tokyo)  
Planning, production, and sales of  
network-related products and services

#### Olympus Logitex Co., Ltd.

(Kanagawa, Osaka)  
Distribution center

#### Olympus-Supportmate Corp.

(Tokyo)  
Provision of cleaning services  
Promotion of employment in the Olympus Group  
companies for the disabled

#### AVS Co., Ltd.

(Tokyo)  
Domestic and international sales of medical  
devices for human and veterinary use

#### Olympus Systems Co., Ltd.

(Tokyo)  
Information system services  
Consulting for textile and apparel industries

#### Sony Olympus Medical Solutions Inc.

(Tokyo)  
Development of medical products

(4 others)

### Overseas

#### Olympus Corporation of the Americas

(Pennsylvania, U.S.A.)  
Regional business center in the U.S., Canada,  
and Latin America

#### Olympus America Inc.

(Pennsylvania, U.S.A.)  
Head office operations in the U.S.

#### Olympus Latin America, Inc.

(Florida, U.S.A.)  
Sales and service of medical endoscopes  
and microscopes in Latin America

#### Gyrus ACMI, Inc.

(Massachusetts, U.S.A.)  
Development, manufacture, and sales  
of medical devices

#### Olympus Scientific Solutions Americas Corp.

(Massachusetts, U.S.A.)  
Holding company and sales of non-destructive  
testing devices

#### Olympus Scientific Solutions Technologies Inc.

(Massachusetts, U.S.A.)  
Manufacture of non-destructive testing products

#### Olympus NDT Canada Inc.

(Québec, Canada)  
Manufacture and service of advanced UT  
and ECT instruments and systems

#### Olympus Europa SE & Co. KG

(Hamburg, Germany)  
Regional business center, and marketing and  
sales of all product lines in Europe

#### Olympus Winter & Ibe GmbH

(Hamburg, Germany)  
Development, manufacture, and sales of medical  
rigid endoscopes and peripheral instruments

#### Olympus Soft Imaging Solution GmbH

(Münster, Germany)  
Development, manufacture, and sales of  
complete microscope system solutions

#### Olympus Deutschland GmbH

(Hamburg, Germany)  
Sales of all product lines in Germany

#### Olympus KeyMed (Medical & Industrial Equipment) Ltd.

(Essex, U.K.)  
Sales of all product lines, and development  
and manufacture of endoscopes and related  
equipment

#### Olympus France S.A.S.

(Rungis Cedex, France)  
Sales of all product lines in France

#### Olympus Moscow Limited Liability Company

(Moscow, Russia)  
Sales of all product lines and service  
of digital cameras and medical endoscopes  
in Russia and CIS

#### Olympus Corporation of Asia Pacific Limited

(Hong Kong)  
Regional business center in Asia and Oceania

#### Olympus Hong Kong and China Limited

(Hong Kong)  
Marketing of imaging and medical products  
in Hong Kong region

#### Olympus (Shenzhen) Industrial Ltd.

(Shenzhen, China)  
Manufacture of imaging products

#### Olympus (China) Co., Ltd.

(Beijing, China)  
Head office operations in China, Micro-Imaging  
System Division, Industrial Endoscope Dept.

#### Olympus (Guangzhou) Industrial Ltd.

(Guangzhou, China)  
Manufacture of imaging products

#### Olympus (Beijing) Sales & Service Co., Ltd.

(Beijing, China)  
Sales and service of medical equipment in China

#### Olympus Trading (Shanghai) Limited

(Shanghai, China)  
International trading; distribution center in China;  
distribution and after-sales service of medical  
equipment

#### Olympus Korea Co., Ltd.

(Seoul, South Korea)  
Sales of imaging products and medical  
endoscopes in South Korea

#### Olympus Singapore Pte Ltd

(Singapore)  
Sales of all product lines in the ASEAN region,  
India, and Pakistan

#### Olympus (Malaysia) Sdn. Bhd.

(Petaling Jaya, Malaysia)  
Sales of imaging products in Malaysia

#### Olympus (Thailand) Co., Ltd.

(Bangkok, Thailand)  
Marketing, sales, and service of all product lines  
in Thailand

#### Olympus Vietnam Co., Ltd.

(Dong Nai, Vietnam)  
Manufacture of medical endoscopes and  
imaging products

#### Olympus Medical Systems Vietnam Co., Ltd.

(Hanoi, Vietnam)  
Service of medical endoscope related products  
in Vietnam

#### Olympus Medical Systems India Private Limited

(Haryana, India)  
Marketing, sales, and service of medical  
equipment in India

#### Olympus Australia Pty Ltd

(Victoria, Australia)  
Sales and service of medical and industrial  
endoscopes, microscopes, and UT and ECT  
instruments in Australia, New Zealand, Papua  
New Guinea, Tahiti, and the South Pacific region

#### Olympus Imaging Australia Pty Ltd

(New South Wales, Australia)  
Sales and service of imaging products in  
Australia, New Zealand, Papua New Guinea,  
Tahiti, and the South Pacific region

#### Olympus New Zealand Limited

(Auckland, New Zealand)  
Sales and service of endoscopes and  
microscopes in New Zealand

(70 others)

# Corporate Information

## Company Outline

(As of March 31, 2016)

Company Name:	Olympus Corporation
Established:	October 12, 1919
President and Representative Director:	Hiroyuki Sasa
Head Office:	Shinjuku Monolith, 3-1 Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-0914, Japan
Capital:	¥124,520 million
Consolidated Headcount:	33,336 (Excludes temporary employees, average of 1,257 for fiscal 2016)
Non-Consolidated Headcount:	6,492
Website:	<a href="http://www.olympus-global.com/en/">http://www.olympus-global.com/en/</a>

## Board of Directors, Audit & Supervisory Board Members, and Executive Officers

(As of July 1, 2016)

Representative Director	President	Executive Officers
Hiroyuki Sasa	Hiroyuki Sasa	Hitoshi Kawada Representative Director and President, Olympus Software Technology Corporation
	Vice President	Naohiko Kawamata Division Manager, Solution Technology Division, Manufacturing Group Division Manager, Procurement Division
Directors	Yasuo Takeuchi Chief Financial Officer (CFO)	Nobuyuki Koga Division Manager, Corporate Service Division
Yasuo Takeuchi		Hisao Yabe Medical Manufacturing Improvement Division
Akihiro Taguchi	Senior Executive Managing Officers	Masamichi Handa Head of Imaging Business Unit
Haruo Ogawa	Akihiro Taguchi Head of Sales Group, Business Management Officer, Medical Business	Ken Yoshimasu Head of Quality and Regulatory Group
Kiichi Hirata	Shigeo Hayashi Head of Manufacturing Group	Masahito Kitamura Division Manager, CSR Division, Medical Affairs & CSR Office
Outside Directors	Haruo Ogawa Chief Technology Officer (CTO), Head of R&D Group	Tetsuo Kobayashi Deputy Chief Regional Representative Officer, Americas
Shiro Hiruta	Executive Managing Officers	Toshihiko Okubo Head of Scientific Solutions Business Unit Division Manager, Scientific Solutions Global Marketing Division, Sales & Marketing Group
Sumitaka Fujita	Yasushi Sakai Chief Improvement Officer (CIO)	Mitsuhiro Hikosaka Assistant to Division Manager, Human Resources Division
Keiko Unotoro	Akira Kubota Head of Medical Affairs & CSR Office	Yoshihito Shimizu Head of Medical Service Business Unit
Takayuki Katayama	Nobuhiro Abe Chief Regional Representative Officer, Asia Pacific	Katsuhiko Inadomi Division Manager, Imaging Business Unit
Susumu Kaminaga	Kiichi Hirata Chief Administrative Officer (CAO)	Hidenao Tsuchiya Deputy Chief Compliance Officer
Michijiro Kikawa		Yoshitake Saito Head of Business Development Office
Standing Audit & Supervisory Board Members		Katsuyuki Saito Head of Gastrointestinal and Respiratory Business Unit
Takashi Saito		
Masashi Shimizu		
Outside Audit & Supervisory Board Members		
Katsuya Natori		
Atsushi Iwasaki		

## Stock Information

(As of March 31, 2016)

Securities Identification Code:	7733
Stock Exchange Listing:	Tokyo Stock Exchange
Fiscal Year:	From April 1 to March 31
General Meeting of Shareholders:	June
Share Trading Unit:	100
Number of Shares Issued:	342,671,508
Number of Shareholders:	25,651
Transfer Agent for Common Stock:	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

### Depository and Transfer Agent for American Depositary Receipts:

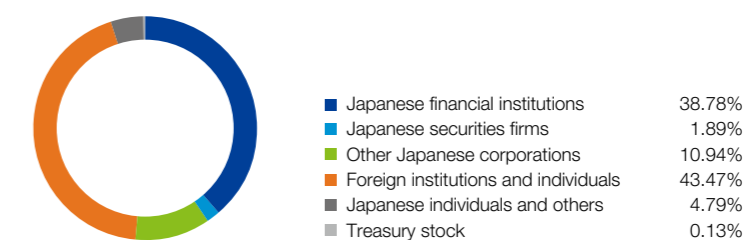
The Bank of New York Mellon 101 Barclay Street, New York, NY 10286, U.S.A. Tel: +1-201-680-6825 U.S. toll free: 888-269-2377 (888-BNY-ADRS) <a href="http://www.adrbnymellon.com">http://www.adrbnymellon.com</a>	Ratio (ADR:ORD): 1:1 Exchange: OTC (Over-the-Counter) Symbol: OCPNY CUSIP: 68163W109
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### Principal Shareholders

	Number of shares held	Percentage of shares outstanding (%)
The Master Trust Bank of Japan, Ltd. (trust accounts)	19,980,100	5.84
Sony Corporation	17,243,950	5.04
Japan Trustee Services Bank, Ltd. (trust accounts)	16,349,000	4.78
State Street Bank and Trust Company	14,422,150	4.21
Nippon Life Insurance Company	13,286,618	3.88
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,286,586	3.88
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company ReTrust Portion, Sumitomo Mitsui Banking Corporation Pension Trust)	11,404,000	3.33
Sumitomo Mitsui Banking Corporation	8,350,648	2.44
JP Morgan Chase Bank 385147	5,944,700	1.74
GIC PRIVATE LIMITED	5,622,439	1.64

Note: The percentage of shares outstanding is calculated after deducting treasury stock (436,607 shares).

### Shareholder Distribution



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