



**OLYMPUS**<sup>®</sup>

Your Vision, Our Future

Integrated Annual Report 2017



**One**  
olympus  
Report

# One

CORPORATE PHILOSOPHY

## Social IN

### INtegrity

Integrity in Society

High Ethical Standards  
Respect for Human Rights

### INnovation

Creating Innovative Value

Delivering Innovative Value  
Working Environments with Vitality

### INvolvement

Social Involvement

Harmony with the Environment  
Contribution to Society

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.

**Medical**  
Business

**Scientific Solutions**

Business

### 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 satisfy these fundamental needs, felt by people around the world and throughout society, is Olympus' true mission, and one we will faithfully fulfill.



# Olympus



## MANAGEMENT POLICY

### To be the greatest “Business to Specialist” Company

We will strive to be the most valuable partner to experts and customers with high aspirations through the timely provision of appropriate solutions that meet their high-level needs.

### One Olympus

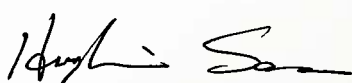
We will maximize the performance of the entire Olympus Group by sharing values and strategies and making full use of the management resources on a global and Groupwide basis.

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.



**Imaging**  
Business



**Hiroyuki Sasa**

President and Representative Director



### **Reinforcing Foundations Now to Achieve Sustainable Growth and Increased Earnings Capacity in the Future**

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Five years have passed since I became president, during which regaining trust and improving shareholder value have been my top priorities. Over this period, I bore witness to yearly improvements in our financial health, which had been in a state of crisis after the scandals, and saw our mainstay Medical Business achieve ongoing growth. It was two years ago when we implemented the matrix style operational structure. This structure gave rise to a greater amount of discussion that exceeds the boundaries of businesses and regions and has also begun enabling best practices in one business to be applied to others on a global basis.

There are still several areas where Olympus will need to improve in order to become a truly global company, including organizational operations, efficiency, and productivity. Our investors also expect us to issue returns that are suited to a global medical device manufacturer. As we look to ensure Olympus can continue to grow and develop passed the upcoming 100th anniversary of its founding, there is a need for us to solidify our current foundations and ensure that our corporate constitution is such that we will be able to win out against the competition. We therefore plan to make the investments necessary for reinforcing our foundations now, while we still have the financial leeway. We are also focused on establishing and implementing compliance frameworks that are suited to a truly global company and on ensuring high levels of transparency. Practicing good legal compliance and adhering to high ethical standards, we will aspire to help resolve social issues through our businesses and contribute to society by making people's lives healthier, safer, and more fulfilling around the world so that Olympus can always be an asset to society. Our task is clear. Uniting the entire Company under the mantra of One Olympus, we must exercise speed and perseverance, committing to our goals as we tackle the challenges that lie ahead. I will stand at the forefront as I lead Olympus, always firmly committed to living up to your expectations. I hope you will look forward to the future of Olympus with great anticipation.





*Shiro Hiruta*

**Shiro Hiruta**

Outside Director  
(Chairman of the Board)

## Constructing Global-Level Corporate Governance Structure and Ensuring Effectiveness

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In 2012, Olympus was reborn with a new management team and a Board of Directors comprising a majority of outside directors, also designated as independent directors, under the Company with Board of Company Auditors system. Positioned below the Board of Directors, the Company has three voluntarily established committees: the Nominating Committee, the Compensation Committee, and the Compliance Committee. At the time, the greatest challenge faced from a governance perspective was to create a structure that would enable the Company to recover from the state of crisis in which it was placed after the scandals, and this included having the Security on Alert Designation placed on the Company's stock removed. We were next tasked with advancing the selection and concentration of Olympus' businesses in pursuit of new growth, providing the additional challenge of ensuring the adequacy of the Company's medium-term management plan and the appropriateness of the systems for implementing this plan.

Looking at the regions in which Olympus does business, we will see that approximately 80% of sales currently come from outside of Japan. As such, achieving further growth will require management decisions based on a global perspective along with a corporate governance structure capable of overseeing these decisions. It will not be enough for Olympus to be a global company in form only. Rather, it must become a truly global company by establishing a uniform and global set of values representing the unyielding essence of Olympus and spreading it to and anchoring it in all corners of the organization. The Board of Directors, which will be responsible for governing this more global Olympus, will be required to fulfill its role on an increasingly global basis going forward, in terms of both structure and function. In order to enhance management and oversight, we will need to establish systems for maintaining an accurate understanding of global trends, including those related to environmental, social, and governance (ESG) concerns as well as those pertaining to politics, economies, cultures, religions, and values. This understanding should be utilized to tailor Olympus' businesses to each region of operation based on the values seen therein. To support these efforts, we will seek to clarify the authority and responsibilities for carrying out these activities while operating a flexible and diverse Board of Directors that is compatible with this structure. I am dedicated to playing my part in overcoming these challenges while engaging in active discussion on the matter at meetings of the Board of Directors.

## Management Structure



**Tetsuo Iwamura**  
Outside Director

**Susumu Kaminaga**  
Outside Director

**Takayuki Katayama**  
Outside Director

**Akihiro Taguchi**  
Director,  
Senior Executive Managing Officer

**Michijiro Kikawa**  
Outside Director

**Sumitaka Fujita**  
Outside Director

**Shiro Hiruta**  
Outside Director

**Hiroyuki Sasa**  
President and Representative Director

(As of June 28, 2017)





**Kiichi Hirata**

Director,  
Executive Managing Officer

**Masashi Shimizu**

Standing Audit &  
Supervisory Board Member

**Atsushi Iwasaki**

Outside Audit &  
Supervisory Board Member

**Yasuo Takeuchi**

Director,  
Vice President

**Haruo Ogawa**

Director,  
Senior Executive Managing Officer

**Nobuyuki Koga**

Standing Audit &  
Supervisory Board Member

**Katsuya Natori**

Outside Audit &  
Supervisory Board Member

# Innovation History

Olympus was born in 1919 with the purpose of manufacturing microscopes domestically. The Company succeeded in developing the world's first practical gastrocamera 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.

## Evolution of Medical Business

## Medical Equipment

### Development of World's First Practical Gastrocamera

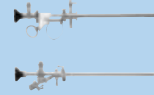
Olympus succeeded in creating a gastrocamera through joint development between the Company's R&D team and a physician in the Department of Gastroenterology of the University of Tokyo. The introduction of fiberscopes made it possible to see directly inside a patient's stomach in real time.

### Entry into Surgical Device Business

Predicting 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.

**2002**

Launched VISERA integrated video system and SonoSurg ultrasonic surgical system



**2006**

Launched VISERA Pro, integrated surgical video endoscope system

**1975**

Entered medical surgical endoscopy field

### Surgical Devices

### Gastrointestinal Endoscopes



**1950**

Developed world's first practical gastrocamera



**1964**

Introduced GTF fiber gastroscope



**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

## Scientific Solutions and Imaging Products



**1920**

Introduced Asahi 600x microscope



**1936**

Introduced Olympus' first camera, the Semi-Olympus I, marking entry into camera business



**1963**

Launched the Olympus Pen F, the world's first half-size SLR camera



**1968**

Launched Company's first industrial-use fiberscope, marking entry into industrial endoscope field



**2006**

Introduced OmniScan IX non-destructive testing system

### 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)

### 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 Gyrus Group PLC to strengthen surgical area of Medical Business



## Advent of Observation Using Specific Light Spectra

## Development of Endoscopic Surgery

## New Era of Videoscopes

The development of videoscopes, which feature imaging elements such as 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 healthcare professionals to view.

Olympus continued to release 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.

Olympus continued to accelerate the advance of technologies, such as narrow band imaging (NBI) technologies. As a result, endoscopes evolved from being mere observation tools to becoming medical devices capable of treatment and therapy.

**2011**

Introduced VISERA ELITE integrated surgical video endoscopy system



**2012**

Introduced THUNDERBEAT, world's first energy device to integrate both advanced bipolar and ultrasonic energy



**2013**

Launched 3D laparoscopy system and 3D laparoscope with world-first deflectable tip



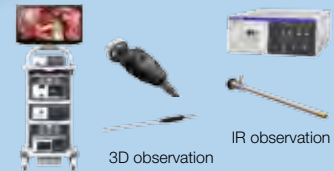
**2015**

Introduced VISERA 4K UHD surgical endoscopy system incorporating 4K technology



**2017**

Launched VISERA ELITE II surgical endoscopy system compatible with 3D and infrared (IR) observation functions



**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



**2012**

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



**2016**

Commenced sales of colonoscope with 170 degree field of vision and 110 times optical zoom



**2016**

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



**2016**

Entered into Japanese gastrointestinal obstruction market with launch of esophagus balloon dilators



**2009**

Introduced first Olympus mirrorless camera, OLYMPUS PEN E-P1



**2013**

Launched flagship mirrorless camera OLYMPUS OM-D E-M1



**2016**

Launched IPLEX NX industrial endoscope featuring the series' top levels of brightness and resolution



**2016**

Released FV3000 laser scanning confocal microscope that displays life phenomena with exceptional speed and accuracy



**2016**

Introduced VANTA, the first handheld X-ray fluorescence (XRF) analyzer compliant with IP65 water and dust resistance standards



## 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)  
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

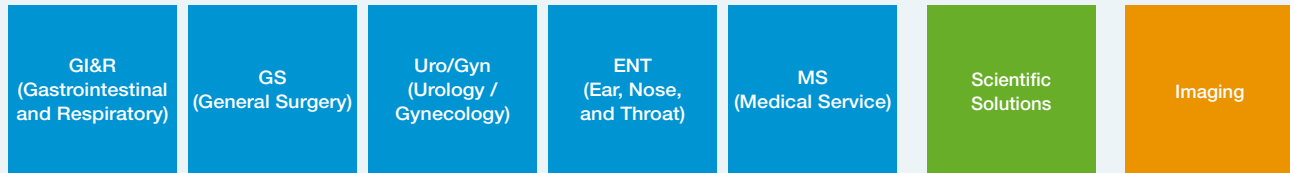
**2016** Increased production capacity (completed construction of new buildings) at medical endoscope development and production sites (Aizu, Shirakawa, and Aomori)  
Announced new medium-term management plan, 16CSP

# 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



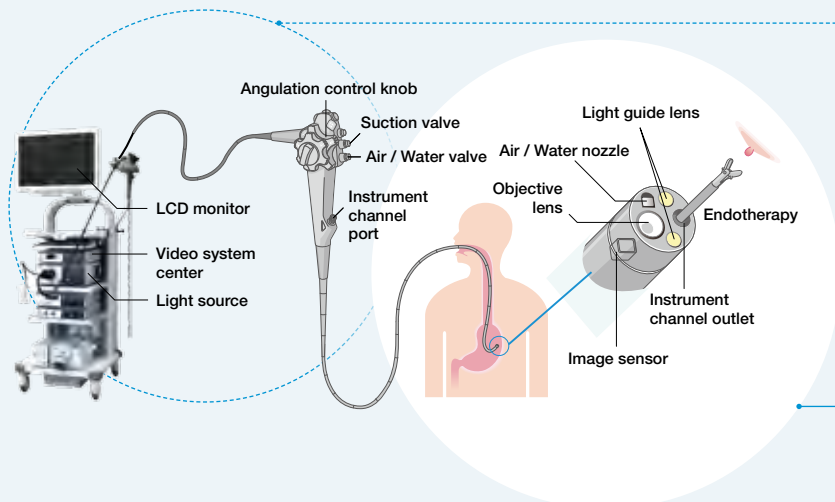
For more information on business units, please refer to "Review of Business Segments" beginning on page 40.

## Medical Business

### Gastrointestinal Endoscopes / Endotherapy Devices

#### Early Diagnosis

Example of early diagnosis of lesions with gastrointestinal endoscopes and minimally invasive therapy with endotherapy devices



#### Capital Products

##### Used in Organs

- Esophagus
- Stomach
- Colon
- Duodenum
- Bile duct
- Respiratory organs (lungs)

##### Flexible Endoscopes

Suitable for examination and treatment of internal organs by utilizing the flexibility of the insertion tube and distal end to insert the scope through the mouth or nose, for example

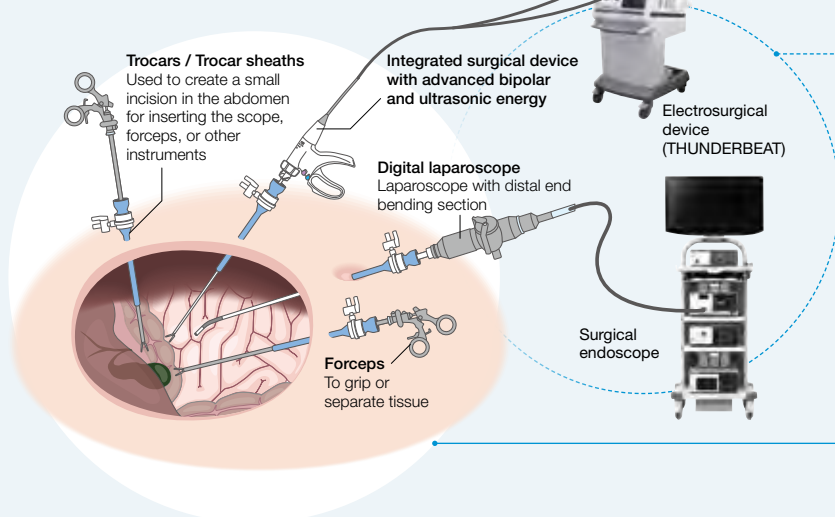
#### Single-Use Products

Expansion of lineup of single-use (disposable) products alongside endoscopes and other capital products

### Surgical Devices

#### Minimally Invasive Therapy

Examples of laparoscopic surgical equipment



#### Capital Products

##### Hospital Department

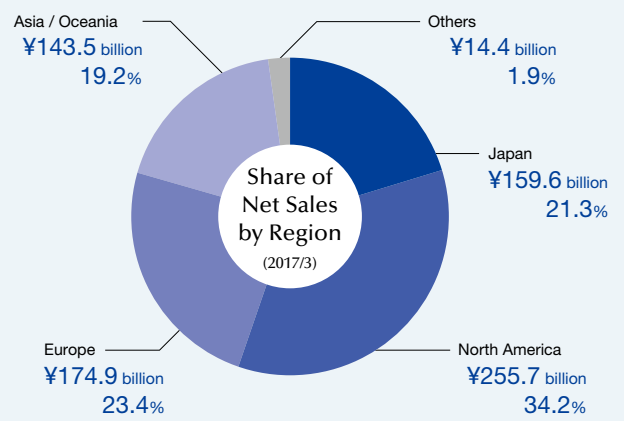
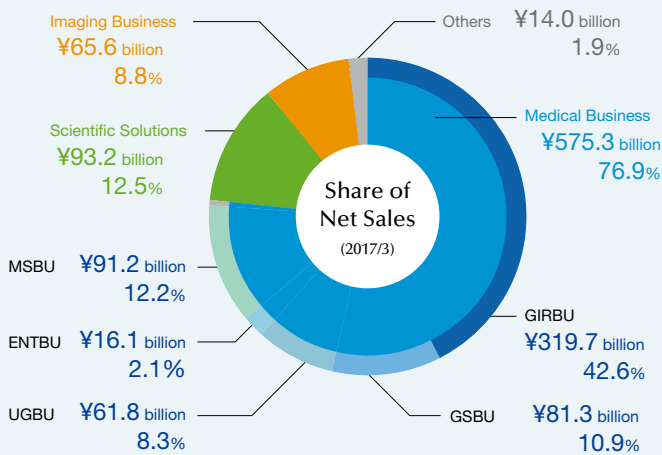
- Gastrointestinal surgery
- Bronchial surgery
- Urology
- ENT
- Gynecology

##### Rigid Endoscopes

Suitable for laparoscopic surgical procedures, such as laparoscopy and cystoscopy using a rigid endoscope made from a lens contained in a metal tube

#### Single-Use Products

Expansion of lineup of single-use (disposable) products alongside endoscopes and other capital products



	BU	GIRBU		
Scopes		Gastrointestinal videoscope Colonovideoscope	Duodenovideoscope	Bronchoscope
Diagnostic Instruments		Tissue sampling and spraying of diagnostic agents Biopsy forceps Washing pipe	Bile duct and pancreatic duct imaging Cannula	Cell and tissue sampling Cytology brush Aspiration needle
Clinical Instruments		Lesion resection, hemostasis Electrosurgical snare Electrosurgical knife Hemostasis clip	Stone removal, bile drainage Papillotomy Mechanical lithotripter Biliary stent	Lesion resection Electrosurgical snare

	BU	GSBU	UGBU	ENTBU
Scopes		Video laparoscope	Cystovideoscope Resectoscope Ureteroscope Hysteroscope	Rhinolaryngovideoscope Camera head scope Telescope
Surgical Treatment Devices		Ultrasonic coagulation and cutting device Electrosurgical unit	Electrosurgical unit	Debrider



# Value Creation Story

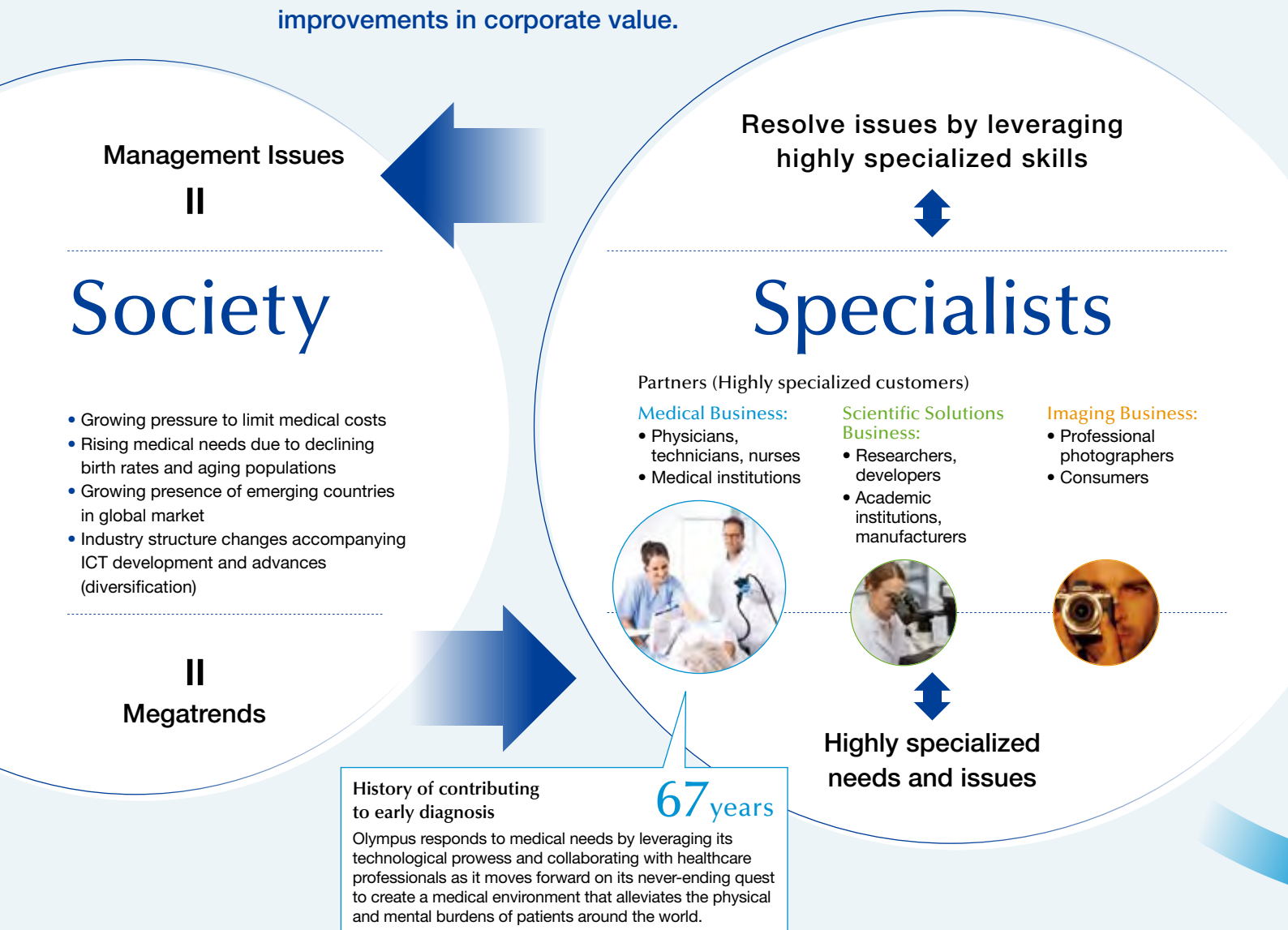
Olympus has committed itself to product creation activities based on an acute understanding of the needs of specialists, including healthcare professionals, researchers, and other highly specialized customers. The strengths accumulated through this process have been utilized to swiftly supply solutions and services that accurately address customer needs. Olympus will continue to contribute to a medical environment that cares for both the physical and mental health of people around the world while also creating value together with the specialists who are both its customers and its partners.

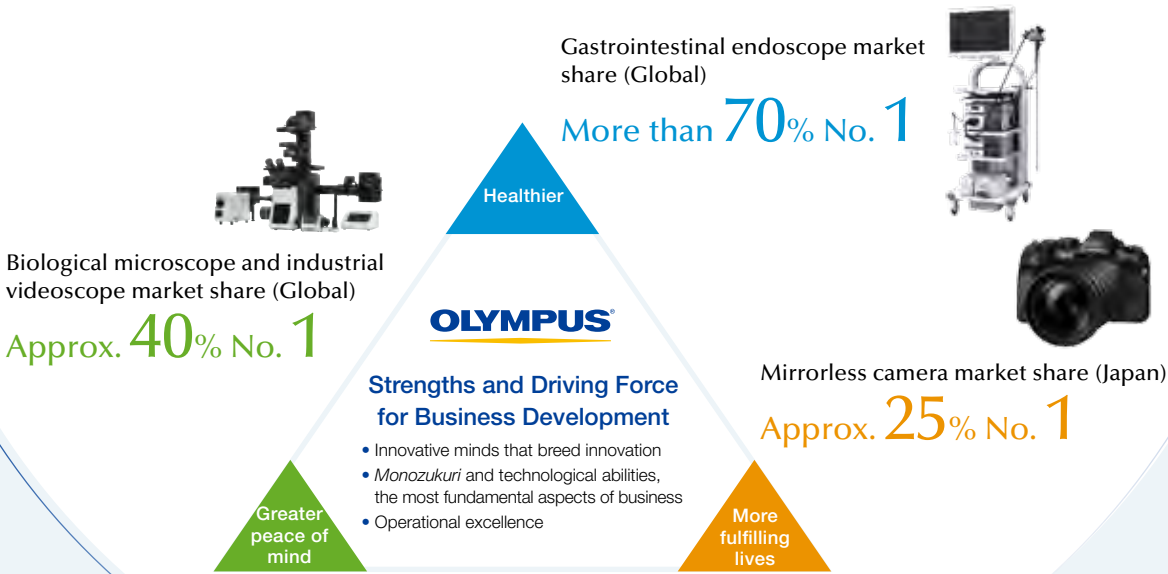
## Goals of Olympus (Management Policy)

### The greatest “Business to Specialist” Company

- We will strive to be the most valuable partner to experts and customers with high aspirations through the timely provision of appropriate solutions that meet their high-level needs.
- We will achieve this goal by utilizing our innovative thinking, expertise in advancing technology, operational excellence, and high ethical standards.
- Through these efforts as well as through sustainable growth, Olympus will meet the expectations of all stakeholders and act as a good corporate citizen.

Olympus will contribute to the resolution of social issues through its business to realize ongoing improvements in corporate value.





# Our Solutions

Create value together with specialists  
(customers and partners)



# Our Strengths

Competitive Edge Supporting Olympus in Creating Value

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### Editorial Policy

The Olympus Group strives to conduct disclosure in a manner that meets the information needs of its stakeholders. Our annual reports since 2016 have 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.

### 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.



## ▶ Topics from Fiscal 2017 and More Recently

Date	Field	Details
<b>2016</b>		
April	Scientific Solutions	Launched IPLEX NX industrial videoscope (simultaneous global launch)
April	Corporate	Inventors responsible for the development of an endoscopy system utilizing narrow band imaging (NBI) technologies awarded Prize for Science and Technology in the Development Category of the 2016 Commendation for Science and Technology by the Minister of Education, Culture, Sports, Science and Technology
April	Corporate	Completed new buildings at Aizu Olympus Co., Ltd., and Aomori Olympus Co., Ltd.
May	Corporate	Stopped implementing measures to prevent large-scale acquisitions of the Company's stock (takeover defense measures)
May	Imaging	M. Zuiko Digital ED 12–100mm f/4.0 IS PRO received Camera Grand Prix Japan 2016 "Lens of the Year" award
July	Corporate	Established endoscope training center in Thailand
July	Scientific Solutions	Released FV3000 laser scanning confocal microscope (staggered global launch)
July	Corporate	Nagano Olympus Co., Ltd., received GOOD FACTORY award from Japan Management Association
September	Scientific Solutions	Introduced VANTA handheld X-ray fluorescence (XRF) analyzer (staggered global launch)
October	Corporate	Transferred Nippon Outsourcing Corporation to The Longreach Group
November	Corporate	Employee of Nagano Olympus Co., Ltd., received Medal with Yellow Ribbon in Cabinet Office's Biannual Conferment of Decorations for autumn 2016
November	Corporate	Established regional business center for the Middle East and Africa in Dubai (operations commenced in April 2017)
December	Imaging	Launched OLYMPUS OM-D E-M1 Mark II mirrorless camera
December	Corporate	Absorbed Olympus Software Technology Corporation
<b>2017</b>		
February	Corporate	Dissolved capital alliance with Terumo Corporation
March	Medical	Released VISERA ELITE II surgical endoscopy system

April 2017

### Announced acquisition of Image Stream Medical, Inc., of the United States

Image Stream Medical, Inc. (ISM), is an operating room image management system integrator that is actively deploying solutions utilizing cutting-edge Internet protocol (IP) image transmission technologies in the U.S. market. This company has incorporated such solutions into the base systems of a number of large-scale hospitals.

Olympus has been providing systems that encompass everything from examination to treatment and surgery through means such as coordinating procedures in endoscopic therapy facilities, where gastrointestinal endoscopes are used, with those in operating rooms, where surgical endoscopes are used. The acquisition of ISM will bring with it the IP image transmission technologies and system integration operating foundations that this company has fostered in the medical field. These assets will be powerful tools for reinforcing Olympus' operating room system integration business, a goal put forth in 16CSP. Moreover, they will facilitate our efforts to contribute to society by making people's lives healthier, safer, and more fulfilling around the world through the provision of better medical environments.



Operating room of ISM head office

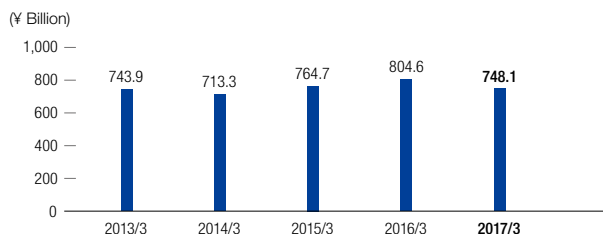
# Financial / Non-Financial Highlights

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

## Financial Highlights

### Net Sales

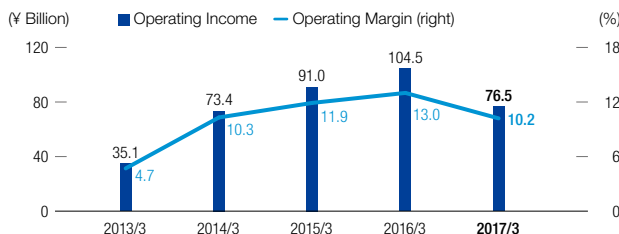
7% DOWN (YoY)



Foreign exchange influences placed downward pressure on net sales to the tune of ¥74.3 billion, and net sales decreased 7% year on year as a result. If the impacts of foreign exchange influences are excluded, net sales increased 2% due to positive growth in the Medical Business and the Scientific Solutions Business.

### Operating Income

27% DOWN (YoY)



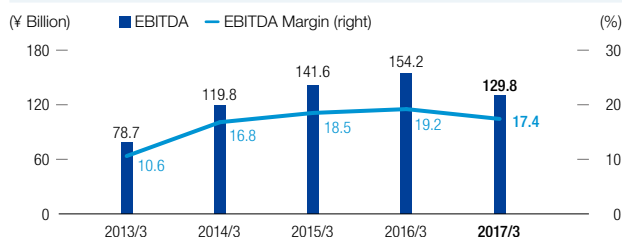
Although full-year operating income was achieved in the Imaging Business for the first time in seven years, consolidated operating income was down 27% year on year due to a ¥30.1 billion reduction attributable to foreign exchange influences. If the impacts of foreign exchange influences are excluded, operating income increased 2% year on year.

### EBITDA

16% DOWN (YoY)

### EBITDA Margin

1.8 points DOWN (YoY)



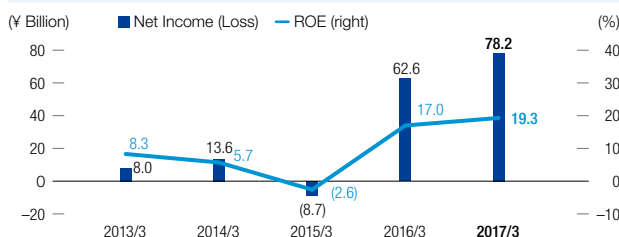
Earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 16% due to the decline in operating income. The EBITDA margin was 17.4%.

### Net Income (Loss)

25% UP (YoY)

### ROE

2.3 points UP (YoY)



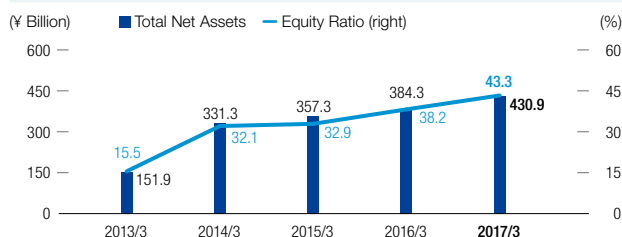
Despite the decrease in operating income, net income reached a new record high for the second consecutive year due to the recording of ¥25.1 billion in gain on available-for-sale securities, net. Return on equity (ROE) was 19.3%, greatly exceeding the target of 15%.

### Total Net Assets

12% UP (YoY)

### Equity Ratio

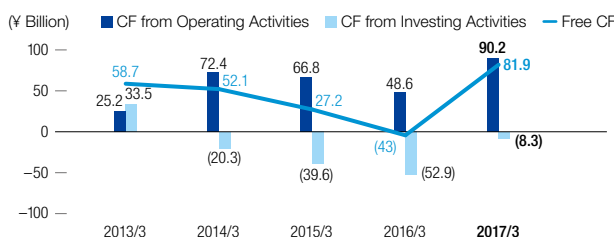
5.1 points UP (YoY)



The equity ratio rose 5.1 percentage points due to higher retained earnings resulting from record-breaking net income and reduced interest-bearing debt.

### Free Cash Flows (FCF)

¥86.2 billion UP (YoY)



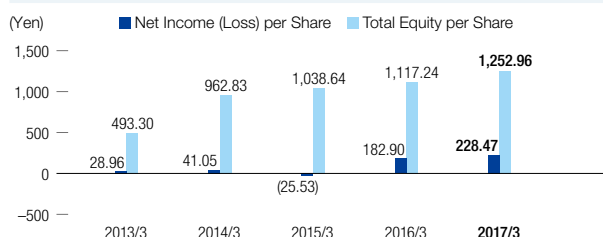
Net cash provided by operating activities amounted to ¥90.2 billion, which, combined with proceeds from sales and redemption of investment securities of ¥42.2 billion, resulted in positive free cash flow of ¥81.9 billion.

### Net Income (Loss) per Share

¥45.57 UP (YoY)

### Total Equity per Share

¥135.72 UP (YoY)



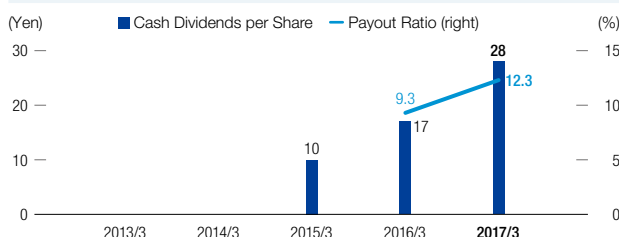
Net income per share amounted to ¥228.47 as a result of record-breaking net income. Total equity per share increased ¥135.72 year on year.

### Cash Dividends per Share

¥11 UP (YoY)

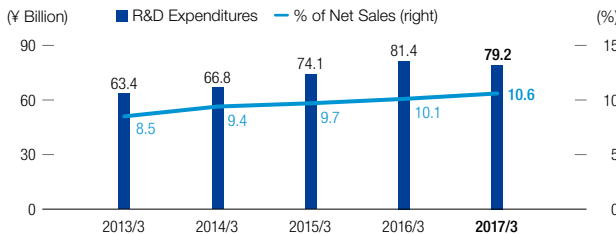
### Payout Ratio

3.0 points UP (YoY)





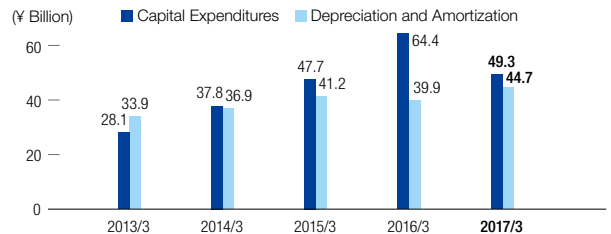
In fiscal 2017, cash dividends per share were raised by ¥11 billion on year, to ¥28 per share. The dividend payout ratio was 12.3%. (The Company adopts the policy of increasing cash dividend payments to target a total return ratio of 30%.)

**R&D Expenditures** 3% DOWN (YoY)   
**Percentage of Net Sales** 0.5 point UP (YoY) 



R&D expenditures were conducted in fields featuring growth potential, primarily in the Medical Business. One investment target was the VISERA ELITE II surgical endoscopy system that was launched in certain regions in March 2017. We conduct investments targeting a ratio of R&D expenditures to net sales of between 9% and 10%.

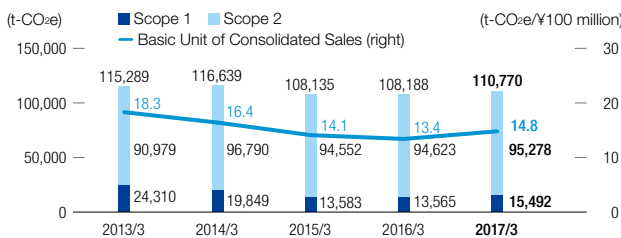
**Capital Expenditures** 23% DOWN (YoY)   
**Depreciation and Amortization** 12% UP (YoY) 




Capital expenditures amounted to ¥49.3 billion and were primarily directed at bolstering production equipment and upgrading existing facilities at the Aomori and Vietnam factories, which manufacture endotherapy devices for the Medical Business. Depreciation and amortization increased 12% year on year as result of the start of operations at a flagship endoscope factory at which expansion work was completed during fiscal 2016.

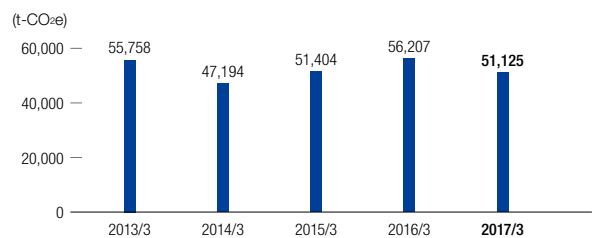
## Non-Financial Highlights

**Greenhouse Gas (GHG) Emissions\*1,2** Increased 2.4% (YoY) 



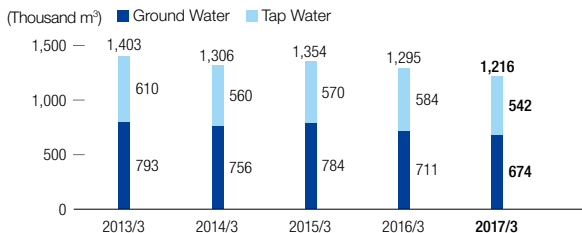
The majority of the energy consumed by Olympus is in the form of electricity. In order to reduce electricity use, we are promoting energy-saving activities in daily operations, utilizing renewable energy, implementing eco-friendly measures when constructing new buildings, and developing manufacturing technologies that use less energy and resources. In this manner, the Company is working to reduce the environmental impact of its manufacturing operations.

**Transportation-Related GHG Emissions** Reduced 9.0% (YoY) 



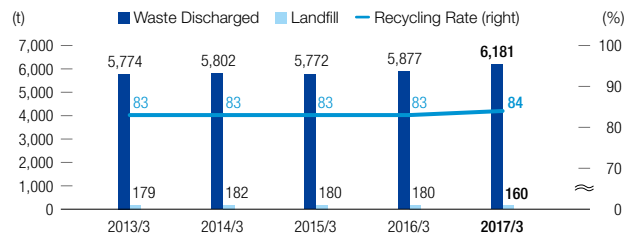
Olympus is working to reduce CO<sub>2</sub> emissions from logistics by lowering transportation loads through the reduction of product and packaging weights, improving transportation efficiency, and accelerating the modal shift toward transportation methods that produce less CO<sub>2</sub>.

**Water Use\*3** Reduced 6.1% (YoY) 



Olympus uses water to wash product components. To reduce water use, the Company is continuously 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.

**Waste Emissions\*3** Increased 5.2% (YoY) 



Olympus continues to pursue higher resource productivity in its manufacturing activities through efforts at 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.

\*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

\*3. Scope: Olympus Corporation and its domestic and overseas subsidiaries (excluding certain North American production bases and small companies)



## Message from the President

“What must Olympus do to survive in a rapidly changing operating environment?”

We must take this to heart as we accelerate the implementation of strategies on a global basis.



**Hiroyuki Sasa**

President and Representative Director

## Operating Environment

Fiscal 2017 was a year characterized by the rapid and frequent occurrence of new developments. Such new developments over the year included the drop in the prices of crude oil and resources, the Kumamoto earthquakes, the United Kingdom's decision to leave the European Union, and the presidential election in the United States. In addition, a yen appreciation trend persisted from the beginning of the fiscal year. Each one of these changes had at least some impact on Olympus' businesses. Given the large portion of our sales that comes from overseas, we are particularly sensitive to foreign exchange rate fluctuations. This year made especially clear the need to implement measures to counter foreign exchange influences over the medium-to-long term.

Despite these changes, the overarching trends we had recognized in the global operating environment when formulating the 16CSP medium-term management plan remain relatively unchanged. These trends include growth in the global economy, the declining of birth rates and aging of populations around the world, and the growing presence of emerging countries in the global market. Looking at the operating environments of individual businesses,

a prominent trend in the mainstay Medical Business is the implementation of more rigorous medical field regulations in the North American market, the largest market for the Medical Business, and in other parts of the world. Meanwhile, in the Scientific Solutions Business, the drop in resource prices is causing stagnancy in related markets. As a result, capital expenditure is currently limited in the industrial field, despite our projection for medium-to-long-term market growth in this field. Nonetheless, we view overall market conditions in the Scientific Solutions Business to be recovering. The Imaging Business, however, was able to achieve full-year operating income for the first time in seven years, even while it suffered the impacts of the Kumamoto earthquakes. Although we were successful in transitioning to a cost structure that will enable this business to stably generate income, we will still have to face the ongoing contraction of the overall camera market.

It is clear that Olympus will be unable to survive this highly uncertain operating environment without increasing its resilience to change. We must take this to heart as we accelerate the implementation of strategies on a global basis.

## Review of the First Year of the 16CSP Medium-Term Management Plan

Performance in the first year of 16CSP was impacted by the strong yen, and I therefore am forced to admit that the start this plan got off to was not as smooth as had been anticipated. Nevertheless, our commitment to achieving the targets set out for the final year of 16CSP, four years from now, is unwavering. We will make the necessary investments while focusing on productivity and efficiency improvements, striking a balance with performance as we muster our collective strengths to advance initiatives to move us toward these goals.

Personally, I would say that, in fiscal 2017, we did succeed in achieving performance that was more or less in line with our plans. The basis for this decision includes the ability to transition to a structure that will enable the Imaging Business to generate

operating income, which had been an ongoing challenge faced by management up until now. I must also note that return on equity and the equity ratio, indicators for which targets have been set, both improved in line with our expectations. Conversely, from the perspective of business profitability and growth potential, I cannot ignore how the start of 16CSP was slower than had been anticipated due to such factors as the negative impacts of foreign exchange rates. This is thus an area in which I recognize the need to make swift rectifications. However, I do not mean to say that trends in foreign exchange rates will influence our overall mission. We should not be tempted to limit selling, general and administrative expenses purely for the purpose of securing profits. Rather, it is absolutely essentially that we pursue future growth by investing in

### Evaluation of First Year of 16CSP

Key Points	Evaluation	One-Year Progress (Fiscal 2017)
Key Performance Indicators	Good	<ul style="list-style-type: none"> <li>Increased ROE to 19% (up 2 pts. year on year), higher than the target of 15%</li> <li>Achieved equity ratio of 43% (up 5 pts. from Mar. 31, 2016), made improvements to financial position moving us toward target of 50%</li> <li>Posted slow growth in operating margin (profitability) and EBITDA (business growth) primarily due to impacts of foreign exchange influences</li> </ul>
Strategic Measures (Priority Strategies 1-3)	Excellent	<ul style="list-style-type: none"> <li>Introduced major new products in Medical, Scientific Solutions, and Imaging businesses to fuel business growth</li> <li>Enhanced network of endoscope training centers centered on emerging countries (Thailand for Southeast Asia, Dubai for the Near and Middle East) to lay groundwork for sustainable growth in the future</li> <li>Commenced massive reforms entailing reorganization, consolidation, and establishment of Medical Business repair bases in areas centered on Europe and the United States</li> <li>Ramped up initiatives in the operating room integration business through the acquisition of Image Stream Medical, Inc., to drive surgical device field growth</li> </ul>
Corporate Constitution Reinforcement, Structural Reforms (Priority Strategies 4-6)	Good	<ul style="list-style-type: none"> <li>Started Business Process Reengineering Project to improve productivity, profitability, and efficiency</li> <li>Entrenched mind-set based on matrix style of business operation and began cross-business application of best practices</li> <li>Reinforced global management system by appointing senior managers from subsidiaries in Europe and the Americas to executive management team</li> <li>Kicked off Global Brand Project for reforming corporate culture</li> <li>Began establishing internal control framework to serve as foundation for enhancement of global and Groupwide corporate governance</li> <li>Assembled Global Compliance Operation Team to entrench compliance awareness on a global scale</li> <li>Reinforced quality and regulatory assurance function frameworks and organizations through massive staff expansion</li> </ul>

# Medium-Term Management Plan **16CSP**

(For five years from fiscal 2017 to fiscal 2021)

## Ideal Vision

Grow into a strong global player in the medical field

## Management Policies

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

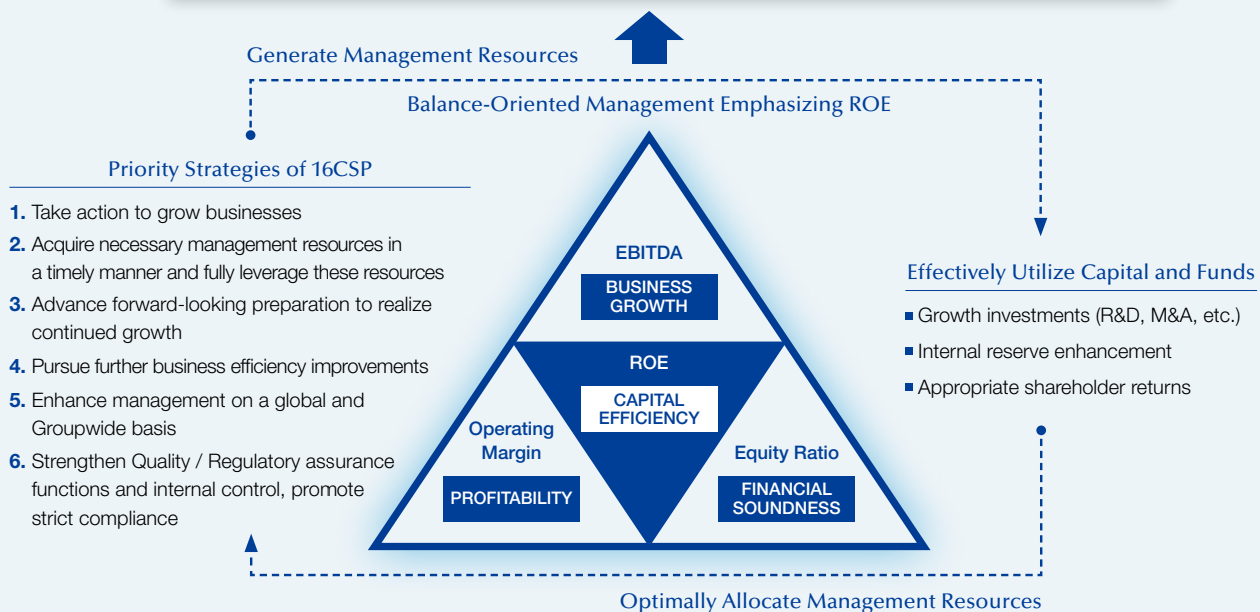
Based on these policies, we will meet and exceed the expectations of all stakeholders through ongoing growth while acting as a good corporate citizen\* to contribute to society by making people’s lives healthier, safer, and more fulfilling around the world.

\* Olympus defines a good corporate citizen as a company that adheres to social norms, makes appropriate contributions to society, and fulfills other basic expectations as normal parts of everyday action

## Management Goals

After securing an appropriate level of financial soundness, we will constantly achieve ROE (capital efficiency) of 15% through balanced improvements in profitability and business growth and double the bottom EPS (earnings) over the next five years.

KPI	Capital Efficiency: ROE <b>15%</b>	Profitability: Operating Margin <b>15%</b>
	Business Growth: EBITDA <b>Double-digit</b> growth	Financial Soundness: Equity Ratio <b>50%</b>



## Progress on Management Goals

KPI	FY2016 (Results) (JGAAP)	FY2017 (Results) (JGAAP)	FY2017 (Results) (IFRS)	FY2021 (Targets)
ROE	17%	19%	11%	15%
Operating Margin	13%	10%	10%	15%
EBITDA	¥154.2 billion (+10%)	¥129.8 billion (-16%)	¥124.0 billion	¥240.0 billion (Double-digit growth)
Equity Ratio	38%	43%	41%	50%



innovation so that we can continue providing society with new value. These investments will be indispensable to the survival of our business and to the improvement of our corporate value. Conducting decisive investments when we stand to gain an

advantage is crucial to winning out against the competition. As such, we will seek to augment cash generation capabilities and control costs through the efficient utilization of management resources as we take the necessary action to achieve our targets.

## Targeting of Higher Levels to Become a Truly Global Company and Continue Growing over the Next 100 Years

One of the priority strategies of 16CSP is to enhance management on a global and Groupwide basis. In our quest to become a truly global company, we have put forth the concept of One Olympus, which embodies our policy of sharing values and strategies on a global and Groupwide basis. A large step forward in developing critical systems for supporting this policy came when we underwent the transition to a matrix style operational structure. Two years have passed since this transition, over which we have seen the steady entrenchment of the mind-set of the matrix style of business operation. In addition, we have been making progress in the cross-business application of superior initiatives, successful undertakings, and other best practices, and the steady changes occurring during this period have become palpable.

In April 2017, we instituted a new executive management team. With choosing members for this new team, we took steps to reinforce our global management system by appointing non-Japanese senior managers from subsidiaries in Europe and the Americas as executive officers. These two individuals have distinguished track records in their respective regions. Our decision to invite these two to join the executive management team was a human resource maneuver that will be important and meaningful to our efforts to compete with overseas rivals as a global company.

Becoming a truly global company will require that we target a higher stage as we strengthen our various systems. Therefore, accomplishing this objective will entail reworking organizational structures and chains of command and reporting to better match the matrix style of business operation. In addition, we will need to furnish a global and Groupwide management framework that will allow for more rapid decision making and strategy execution coupled with more effective control of risks pertaining to

management. As one measure to this end, we began establishing an internal control framework in fiscal 2017. This basic framework for internal control will be formulated based on a series of discussions among management and will serve as the foundation for our efforts to strengthen global and Groupwide corporate governance. At the same time, we will seek to effectively assess and control risks that threaten the Company's ability to realize its corporate philosophy and vision or that have the potential to impede the strategies of 16CSP. We will need to sufficiently examine those risks that could have a particularly large impact on the accomplishment of our targets. However, if we overexert ourselves in controlling smaller risks, Olympus could lose momentum, which in turn would impact its strategies. The internal control framework therefore incorporates general principles on the extent to which specific risks should be controlled. Looking ahead, we will seek to entrench understanding regarding the matrix style of business operation on a global scale while making speedy decisions. Turning now to the Medical Business, the pillar supporting our growth, it is not enough that we only address current regulations. Instead, we will need to strengthen our compliance systems in this business with an eye to the regulations that could be enacted 10 years from now. We have been enhancing compliance divisions across the globe, starting in the United States and then expanding these efforts to other regions, and making our regulations and standards more rigorous as part of this undertaking. Nevertheless, given the central position of the Medical Business at Olympus, we recognize that there is a need to further bolster our compliance system and to enhance quality and regulatory assurance systems on a global basis in light of the implementation of more rigorous medical field regulations.

## Business Process Reengineering Project for Growing into a Stronger Company

A major issue faced by Olympus is that it lacks efficiency in comparison with other global medical equipment manufacturers. If we are to accomplish our targets, it will require us to grow into a stronger company. This objective should be accomplished by reforming cost structures to improve profitability, all with operational efficiency at the forefront of our minds. The Business Process Reengineering Project is the plan through which we will approach this endeavor. As we advance this project, it will also be important to reform our corporate culture by encouraging employees to remain appropriately aware of the dangers surrounding us based on an understanding of conditions both inside and outside of the Company. The success of the Business Process Reengineering Project will hinge on the ability of each and every employee to carry out their work with increased efficiency and to improve their skills in order to work more

productively. In fiscal 2017, the project was only just in the phase of analyzing the areas in which improvements should be pursued, formulating plans, and establishing promotional systems. Fiscal 2018 will thus see us transition to the phase in which we implement business process restructuring measures and begin reaping their benefits. There is no end to the pursuit of efficiency, and it will always be a theme of extreme importance. Our efforts on this front will not produce results overnight. Still, we are thoroughly dedicated to improving operational efficiency and productivity through a drastic, global review of our operating processes. In this manner, we will heighten the productivity and profitability of each employee to build a strong business infrastructure and low-cost structures for supporting management. (For details on the Business Process Reengineering Project, please refer to "Special Feature 1" on page 21.)

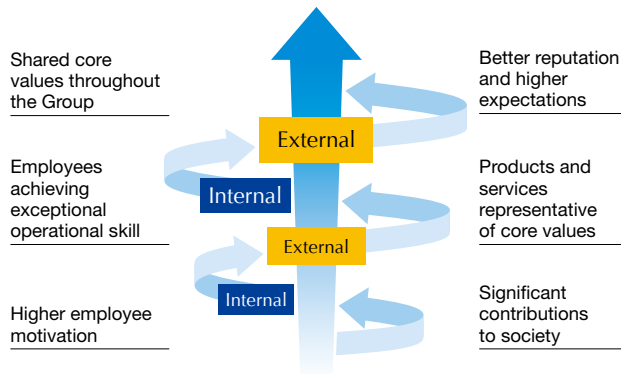
**Global Brand Project for Nurturing Corporate Culture**

We have put forth clear management strategies in 16CSP. However, no matter how well thought out a strategy may be, it will be doomed to fail if employees are not dedicated to corporate value and do not embody the corporate culture and exercise it in their daily work and actions. Olympus prides itself on its core values and its corporate culture. Articulating these aspects of Olympus, sharing them throughout the Group, and nurturing these principles will be an important step on our path to being a truly global company. It was based on this realization that we started up the Global Brand Project in March 2017. Through this project, we hope to reexamine Olympus' corporate culture and brand to redefine its core values and then spread these to the entire Group.

When every employee at Olympus fully understands the corporate value and raison d'être of the Company, reflecting this understanding in their work and their actions, we will be able to contribute to society with operational excellence and unparalleled products and services. These contributions will in turn lead to a higher reputation and increased performance for Olympus. Employee motivation will likely rise together with our reputation and performance, inspiring employees to practice even higher degrees of operational excellence, which will drive improvements in corporate value. This process will thus result in the "Spiraling Up" concept, and this is a concept that we are passionate about creating and sustaining. True brand value is found in the

intangible operational excellence that is cultivated through the "Spiraling Up" concept. Moreover, we see a brand as more than just a communication tool or an advertising strategy. To Olympus, its brand is a symbol of what we aspire to and how we will act based on this aspiration. The Olympus brand is, of course, formed through its products and services. However, it is our goal to make the Olympus brand into something transcendent, not simply a shorthand for certain products but rather a representation of the value of our cherished concept of One Olympus. If we can accomplish this, I am confident that the Olympus brand will be elevated to a higher and more esteemed status.

**"Spiraling Up" is Olympus' key underlying concept for strengthening corporate value**



**Corporate Value Improvement from Catering to Social and Contemporary Needs**

Aspects of 16CSP for which stakeholders have high evaluations include how it has positioned the Medical Business, a growth business, as the driver for the growth of Olympus. Stakeholders also have praise for how the Company is one of the few in the world from which they can expect strong, organic growth in the future. The Medical Business is central to 16CSP. There are two main areas of concern with regard to this business, which are whether or not Olympus will be able to achieve improvements in overall profitability and if the Company can attain strong growth in the surgical device field in line with its plans. Let me say that achieving our plans will require Olympus to transform into a Company that can win out against the competition in the global medical equipment market, where we will face numerous powerful rivals that dwarf the Company in terms of scale.

Our gastrointestinal endoscope operations are a core business within the Medical Business, due in part to their ability to address the social issue represented by the move to curtail medical expenses. In this business, constructing a model that is responsive to changes in the operating environment is a matter of strategic importance. We cannot anticipate a rise in hospital numbers going forward, despite the increase in procedure numbers that is expected to accompany the aging of populations going forward. Accordingly, we feel that it will be vital for Olympus to develop a unique procedure-based Medical Business model to respond to the social needs resulting from this trend. One step toward creating such a model will be to expand our

single-use device operations. We thus plan to go about bolstering our lineups of endotherapy devices, which are used in examinations and treatments by gastrointestinal endoscopes, and energy devices, which are used in surgical procedures. The unique business model that will be constructed through this process is expected to drive Companywide earnings growth. Once this model has been put in place, we will pursue ongoing growth as we continuously live up the expectation for Olympus to make social contributions by providing value to society through its business activities.

Changes in foreign exchange rates and other aspects of the operating environment are anticipated going forward. However, the operating environment will also present significant growth opportunities for Olympus. I am confident that Olympus possesses the market position and brand image necessary to take advantage of these opportunities. To guarantee that Olympus is able to make the most of these opportunities, we will effectively implement the strategies of 16CSP while aligning all employees, both in Japan and overseas, along a single vector characterized by a keen awareness of the corporate culture we emphasize, which is distinguished by diversity and teamwork, a willingness to take on challenges, a sense of speed, a broad perspective, and adherence to high ethical standards. Committed to prevailing as a team and acting quickly, we will take on the challenges to come as a united One Olympus and thereby build a strong corporate constitution and achieve ongoing growth.

# CxO Messages

Under 16CSP, Olympus put forth the policy of sharing values and strategies on a global and Groupwide basis, and it plans to strengthen management from these perspectives.

In this section, we will take a look at messages from each of the corporate officers who make up the CxO system overseeing this management. Each officer will explain their strategies and the role they intend to play in their area of responsibility.



CFO  
▶ P.21



CCO  
▶ P.25



CMAO  
▶ P.26



CQO  
▶ P.27



CIO  
▶ P.28



CAO  
▶ P.30



CTO  
▶ P.31



CMO  
▶ P.32



CSMO  
▶ P.33



## Message from the CFO

We will fully utilize our management resources while pursuing efficiency and promoting Group management based on global thinking.

### Yasuo Takeuchi

Director, Vice President and Chief Financial Officer

# Financial

## ▶ Role of the CFO in Overseeing the Regional Axis and Groupwide Operations

Generally speaking, the CFO of a company is expected to function as a sort of intermediary, forming a link between the president and business execution divisions. At Olympus, however, the CFO is also tasked with overseeing global management. The Company operates its business based on a matrix style operational structure. Although not clearly indicated, this structure also contains a regional axis of operations. Each region has its own administrative practices, laws, and rules,

and its own regional management oversees activities with this regard. And, of course, the regional axis is linked to the business and function axes. My role as CFO is to oversee the regional axis. To elaborate, we have a business unit structure for advancing business strategies on a global scale. It is my responsibility to ensure the effective management and operation of this structure in order to fully utilize our management resources.



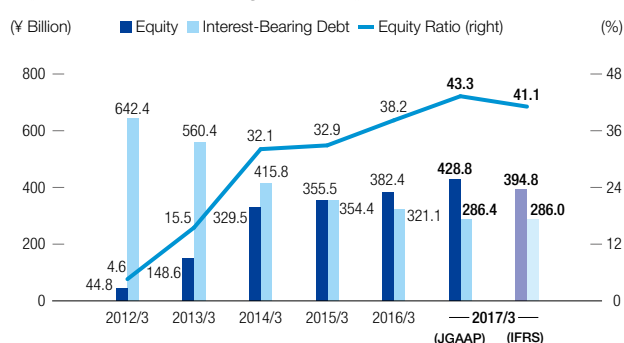
## Review of Financial and Capital Strategies in Fiscal 2017

### Progress of the Financial and Capital Strategies of 16CSP

Over the past five years, our primary focus has been the improvement of Olympus' financial position. We have thus moved ahead with initiatives centered on reconstructing management, emphasizing the improvement of return on equity (ROE) and equity capital through this process. Although the equity ratio had plummeted to 4.6% on March 31, 2012, following the series of scandals, the reductions to interest-bearing debt and other improvements to our financial position achieved through these activities led the equity ratio to climb above 40% on March 31, 2017. In this manner, we are making strong progress toward the target of over 50% described in 16CSP. The ongoing improvement of our financial position has contributed to a rise in the Company's credit ratings, with Rating and Investment Information, Inc., upgrading its issuer rating for Olympus to A-. Credit ratings are crucial to being able to easily procure funds from global capital markets. Accordingly, we seek to improve our ratings, and we are drafting and implementing financial strategies with an increased emphasis on procurement costs and on limiting capital costs. Moreover, we are balancing overseas assets and liabilities to instill an added degree of resilience to foreign exchange rate fluctuations into our financial position.

We aim to improve ROE by heightening profitability and effectively utilizing capital. In fiscal 2017, ROE was 19% (JGAAP), exceeding our target of 15% due in part to the recording of extraordinary income. Conversely, EBITDA, an indicator of business growth potential, showed negative growth due to the impacts of foreign exchange influences while the operating margin, a KPI of business profitability, showed a similar decline. Both indicators were relatively unchanged year on year when the impacts of foreign exchange influences are excluded.

### Equity / Interest-Bearing Debt / Equity Ratio

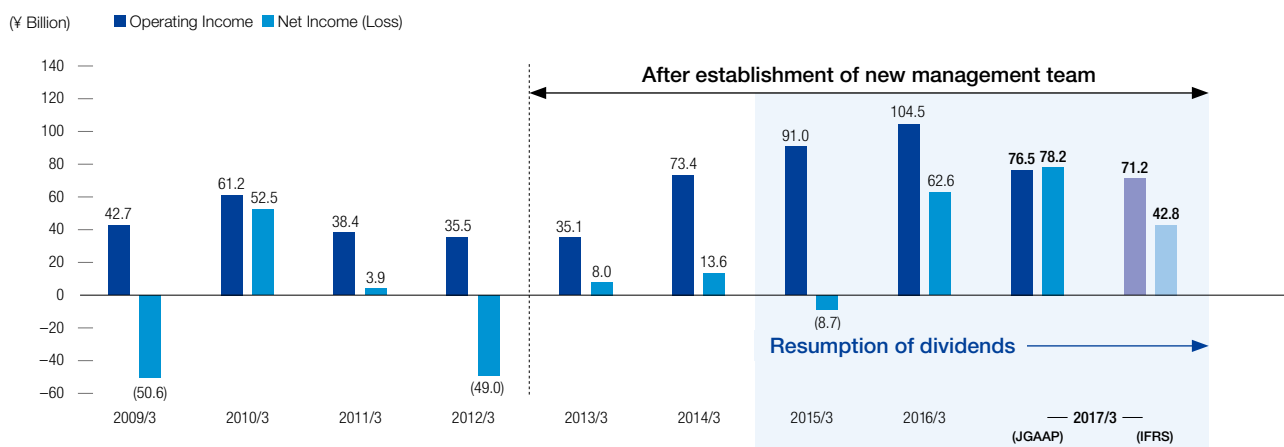


### Shareholder Returns

It was in fiscal 2015 that we resumed dividend payments after having refrained from making payments during the prior three years. We have continued to raise dividend payments each year thereafter. In fiscal 2017, we issued dividend payments of ¥28 per share, ¥11 higher than in fiscal 2016, making for a dividend payout ratio of 12%. The constitution of Olympus is currently such that it is effective in generating income. The basis for this claim can be seen in the consistently strong performance of the Medical Business, the fact that we now have an idea when we will be able to eliminate risks for extraordinary losses, and the Company's ability to rewrite its record for net income in two consecutive years. In 16CSP, we put forth our

intent to target a total return ratio of 30% while prioritizing financial base reinforcement and growth investments. However, it is not as though we see the level of 30% as sufficient. Rather, we plan to increase shareholder returns in conjunction with the improvement of equity capital. We do not believe that there is one exact level that is ideal for the dividend payout ratio. It is instead important to determine what investments the Company needs to make at any given time and to decide the appropriate dividend payout ratio based on the priorities at that time. The most effective use of capital will vary from time to time. It will therefore be necessary to consider the balance between various potential capital uses as we seek to issue returns that live up to shareholders' expectations.

### Consolidated Performance



## Performance in Fiscal 2017 and Highlights of Financial and Capital Strategies

In fiscal 2017, sales and income were down year on year due to the impacts of the strong yen. However, year-on-year increases of 2% were posted for both net sales and operating income when foreign exchange influences are excluded. Earnings continued to be driven by the mainstay Medical Business. However, perhaps a more significant highlight of our performance in fiscal 2017 was that the Imaging Business, which has represented an ongoing challenge for management, was able to achieve full-year operating income for the first time in seven years. In addition, we reviewed the stocks held by the Company for purposes other than pure investment, choosing to sell several of these stocks, including our holding in Terumo Corporation. These sales generated extraordinary income. Combined with the benefits of lower tax expenses, this extraordinary income contributed to our achieving net income of ¥78.2 billion (JGAAP), breaking previous records for the second consecutive year.

In regard to management resource allocations, we prioritized the allocation of resources to the Medical Business and other growth fields. In addition, we have nearly completed the reorganization of non-core business domains, and we now have a clear vision of when the reorganization will be complete. R&D

expenditures were conducted selectively by carefully discerning the anticipated benefits of each investment. Expenditures of this nature outside of the Medical Business were therefore lower than in the previous fiscal year. For capital expenditures, our policy is to aggressively invest in the augmentation of manufacturing equipment and repair bases centered on the Medical Business. In fiscal 2017, capital expenditures were conducted to expand and renovate the buildings of the Aomori and Vietnam factories, which primarily manufacture endotherapy devices. Looking ahead, we plan to reorganize, consolidate, and establish repair bases in Europe, the United States, and other overseas regions.

The basic strategy of 16CSP is to target organic growth. However, we will also proactively examine potential mergers and acquisitions as necessary to facilitate and accelerate the advancement strategies. In the surgical device field, for example, we are stepping up efforts to achieve our lofty goal of double-digit growth, despite the presence of European and U.S. rivals that have a larger market share than Olympus. The acquisition of Image Stream Medical, Inc. (acquisition cost of approximately ¥9.0 billion), of the United States, which was announced in April 2017, was a strategic move taken to enhance our ability to compete with our European and U.S. rivals.

## Capital Cost and ROE Policies

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 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 Olympus will have to reach in order to stand shoulder-to-shoulder with other global medical equipment manufacturers and continue growing indefinitely.

Moreover, we believe that responding to the expectations 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%		$\frac{\text{Net income}}{\text{Equity capital}}$		<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)	FY2017 (Results)	FY2021 (Targets)
Profitability	$\frac{\text{Ratio of net income to net sales}}{= \frac{\text{Net income}}{\text{Net sales}}}$		7.8%	10.5%	<b>Approx. 10%</b> <ul style="list-style-type: none"> <li>Increase operating margin</li> <li>Improve balance of other income and expenses</li> </ul>
Asset efficiency	$\frac{\text{Total asset turnover}}{= \frac{\text{Net sales}}{\text{Total assets}}}$		0.8 times	0.8 times	<b>Approx. 0.9 times</b> <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	2.3 times	<b>Approx. 2.0 times</b> <ul style="list-style-type: none"> <li>Manage financial leverage</li> <li>Conduct BS-based management</li> </ul>

## Tasks to Be Accomplished in Surviving Global Competition

I am keenly aware of how vital it will be to emphasize global thinking in our endeavors going forward if we are to achieve sustainable growth. In addition, we will need to create a transnational organizational structure and fully utilize our management resources with maximum efficiency on a global scale. The ideal form for Olympus' organization should see an appropriate amount of authority delegated to overseas



subsidiaries while the head office manages and controls global operations. In other words, rather than simply reinforcing headquarters functions for domestic operations, we will need to globally strengthen headquarters functions. We cannot create an ideal organization with headquarters functions run entirely by Japanese people without an understanding of the cultures and thought processes of specific countries. For example, it is important that we work to appoint individuals of non-Japanese nationalities, aiming to have such individuals come to represent a certain portion of the management team of our Tokyo head office within the next several years. If we cannot accomplish this, we will be unable to realize the thinking and make the decisions that will be necessary to compete on the global stage. The Board of Directors at Olympus has changed greatly over the past five years, as has our style of business operation. Diversity will no doubt be incredibly important going forward. As we practice global and Groupwide management going forward, I will seek to fulfill the role of promoting diversity.

### Voluntary Adoption of International Financial Reporting Standards (IFRS) in Fiscal 2018

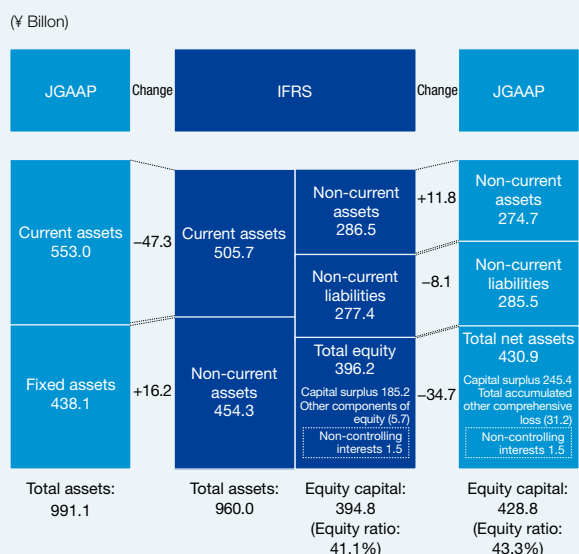
#### Impact on the Consolidated Statements of Operations for Fiscal 2017

- IFRS operating profit ¥5.3 billion lower than JGAAP operating income
- IFRS profit attributable to owners of parent ¥35.4 billion lower than JGAAP net income attributable to owners of the parent

(¥ Billion)	FY2017 (Results)		Change	Major Reasons for Differences
	JGAAP	IFRS		
Revenue (IFRS) / Net sales (JGAAP)	748.1	740.6	-7.5	1. Deduction of certain promotion expenses
Operating profit (IFRS) / Operating income (JGAAP)	76.5	71.2	-5.3	2. Reclassification of line items 3. Stop on amortization of goodwill 4. Recording of R&D expenditures as assets 5. Change in method of calculating retirement benefits
Profit before tax (IFRS) / Income before provision for income taxes (JGAAP)	81.7	62.5	-19.2	6. Impacts of 3.-5. above and effects of gains on sales of investment securities being recorded under total accumulated other comprehensive income instead of comprehensive loss
Profit attributable to owners of parent (IFRS) / Net income attributable to owners of the parent (JGAAP)	78.2	42.8	-35.4	7. Impacts of 6. above and tax expense adjustments related to differences from JGAAP

#### Impact on the Consolidated Balance Sheets for Fiscal 2017

- Consolidated total assets: ¥31.0 billion lower
- Consolidated equity capital: ¥34.0 billion lower (equity ratio 2 pts. lower)





### Message from the CCO

In pursuit of unsurpassed integrity, I continuously aim to enhance global compliance programs and practices; nurture the trust of our stakeholders; and ensure the Company always does the right thing, the right way.

**Caroline West**  
Chief Compliance Officer

# Compliance

#### Role under 16CSP

- Establishing and enforcing policies, procedures and directives.
- Strengthening our global compliance framework, harmonizing requirements among regions, and adapting programs for local use.
- Providing continuous education and embedding Compliance in all facets of Olympus' businesses and activities.

#### Tasks and Measures

- Recognizing and adapting to regional differences; different challenges, laws, cultures, and different levels of compliance risk.
- Embedding Compliance in all facets of Olympus' businesses and activities.
- Monitoring compliance risks and preventing potential violations of the law.

I assumed the role of Global Chief Compliance Officer for Olympus Corporation in April 2016, confident in the Company's commitment to supporting integrity in all of its business activities.

Over the past year, we made progress in globalizing our compliance efforts, including enhancing our collaboration and communication among compliance professionals in the regions. We have developed and launched a quarterly global department newsletter, and established a centralized platform where the regions can collaborate and efficiently share materials and best practices. We hold quarterly meetings at different regional sites in order to assure that the regional teams understand that they are part of a truly global network. We have sponsored internal training that has brought department members to other regions for learning. We established a Global Compliance Operations team which provides support to all of the regions and enables the regions to further harmonize compliance globally where appropriate, while still respecting the cultural and business structure differences that can alter the manner of implementation.

Our aim to partner with the businesses has also progressed, as have our efforts to establish mechanisms to integrate compliance in everyday business activities. By proactively partnering with the businesses, we can continue to educate our colleagues on compliance policies, help them identify areas of risk, and establish the resources and guidance needed within

their areas of responsibility. This strong partnership with the businesses will enable us to work together to solve problems before they happen.

Initiatives we are working on this year that will help advance our compliance goals include implementing a more standardized compliance risk assessment tool; leveraging our capabilities to aggregate data and standardize reporting; improving our monitoring capabilities; and reviewing and enhancing methods to allow concerns to be reported. I am pleased with the progress thus far and am confident that we will experience continued success as we set our sights on new goals.

#### Global Compliance PDCA Cycle







### Message from the CMAO

Leveraging Olympus' highly specialized capabilities, we will seek to create and communicate value from both medical and scientific perspectives. This is how we will contribute to the ongoing development of medicine and to the maximization of value for customers through our products and services.

**Koji Ando**

Head of Medical Affairs Office

# Medical Affairs

#### Role under 16CSP

- Maximize product and service value by establishing and proving viability of medical evidence, providing efficient and high-quality medical training, and supporting the academic activities of medical and research associations
- Collaborate with healthcare professionals in a highly ethical and transparent manner to contribute to the ongoing development of medicine



#### Tasks and Measures

- Focus on creating medical evidence and proving economic benefits for the medical field in developed countries looking to limit annual social welfare spending and on providing efficient and high-quality training to help enhance the medical systems of emerging countries
- Optimize global resources to improve efficiency and growth potential of the Medical Business

### Medical Affairs Core Competencies—Medical Evidence Establishment, Healthcare Professionals Training, and Support for Academic Activities

Endoscopic medicine is an area of the medical field in which Japan leads the world. Olympus is committed to aiding in the early diagnosis of cancer and contributing to the realization of minimally invasive therapies that place lower physical burdens on patients. We are going about this by developing and spreading the use of endoscopes. Olympus' medical affairs function assists in these efforts by providing three core competencies. The first of these competencies is the establishment of medical evidence. Today, we are witnessing such changes in social trends as a reluctance to devote government funds to healthcare spending and patients' becoming more involved in choosing their treatment methods. Amidst these trends, it is becoming increasingly more important for us to be able to prove the medical value of our products and services and solicit the economic benefits they provide for the medical field. Accordingly, we are advancing clinical research to demonstrate the high medical and efficiency benefits of our products and services with medical evidence. We thereby aim to help create medical environments that offer safety and peace of mind to patients around the world.

The second core competency is the provision of training opportunities for healthcare professionals in order to contribute to higher quality of life for patients. The number of endoscopists in Japan is around 30,000 while the country has a total population of 120 million. Conversely, Indonesia has a population of 250 million people, but only about 500 endoscopists. The training opportunities we proactively offer to healthcare professionals in emerging countries help cultivate endoscopists. We view these activities as an important duty that Olympus must fulfill as a

leading global endoscope manufacturer to help patients live at peace and in good health. In order to properly fulfill this duty, it is also crucial for us to support the academic activities of medical and research associations in order to standardize and spread the techniques necessary for developing and refining endoscopic examination and treatment procedures. Providing this support is our third medical affairs function core competency.

### Maximizing Value for Patients

At Olympus, we seek to develop a deep understanding of the unmet medical needs of healthcare professionals from both medical and scientific perspectives. For this reason, the Company employs individuals with physician, veterinarian, and nurse qualifications as well as individuals with specialized knowledge on disease trends and statistics. The insight of these employees is utilized on a global basis to enable Olympus to exercise high levels of specialization. The evolution of medical device technologies differs from the development of pharmaceuticals as new medical devices can fundamentally change how people in the medical field practice their craft. Cutting-edge technology development, equipment enhancements, and new procedure creation are thus carried out through a collaborative process between healthcare professionals and companies. Olympus is therefore working to establish and maintain frameworks for impartial and highly transparent collaboration with healthcare professionals in order to ensure that its activities are always supported by the trust of society. We have a history of collaboration with academia spanning over half a century. By leveraging the expertise gained over the course of this history, we aim to play a leading role in maximizing the value for patients that is born out of the development and spread of endoscopic medicine.



### Message from the CQO

Listen to customer feedback, constantly seek value that customers truly needed, accurately understand and comply with related product regulations, and continue to provide high-quality products and services to customers.

**Ken Yoshimasu**

Head of Quality & Regulatory Group

# Quality

#### Role under 16CSP

- We will establish quality management systems on a Groupwide basis and roll out measures with regard to quality assurance (QA) and regulatory assurance (RA) while striving to improve product quality at all bases



#### Tasks and Measures

- With the aim of strengthening the compliance systems as well as the QA and RA systems of the Olympus Group in order to maintain customer satisfaction, we will make active efforts to reinforce each work process and establish foundations to support these processes
- To improve product quality and comply with legal regulations in each business, it is especially imperative for us to formulate specific improvement plans for each function and base and have those functions and bases press on with said plans

#### Fulfilling Our Mission to Provide Safe, Effective, and High-Quality Products and Services

We have established the Olympus Group Quality Policy with a view to providing safe, effective, and high-quality products and services to society by clearly defining the quality activities based on “Social IN,” our corporate philosophy. This policy is disseminated via quality management systems to all functions and facilities within the Olympus group.

Our basic approach for quality management systems involves listening to customer feedback and responding to the true needs of our customers. We are focusing on accurately understanding and complying with the applicable regulations on a global basis to continue to provide safe and effective products as well as on providing necessary information to our customers in a prompt and appropriate manner. To this end, each employee is responsible for the quality of his or her own work as well as for helping maintain a high standard of quality within the Group. Accordingly, employees should ask themselves such questions as “Is the quality of my work sufficient?” “Is there room for improvement?” and “Why?” In order to provide safe products and top-quality services, it is important for each employee to have the self-awareness to respond to internal and external information with integrity and continue to refine that approach. We believe that such a high level of awareness is the best way to create high-quality products and maintain the assurance and trust from our stakeholders.

To realize our goals, we have strengthened our quality assurance and regulatory assurance functions—from both organizational and quality and regulatory perspectives—in line

with 16CSP. Increased human resources centering on the Quality and Regulatory Division in the medical business will strengthen regulatory compliance, product registration function and post-market surveillance safety management. Also from technology development to manufacturing and post-market activities, each process, rule, and procedure is under continuous monitoring for revision and improvements and will contribute to the overall improvement of the quality management system as a whole.

With each employee having a strong awareness of the Olympus Group Quality Policy and actively participating in improvement plans, we will continue to provide high-quality products and services to our customers.

#### Olympus Group Quality Policy

The Olympus Group will listen to the voices of our customers based on our “Social IN” corporate philosophy, which provides the basis for all corporate activities, and will constantly pursue true value to continue to provide customers with high-quality products and services.

1. We will take actions always from the viewpoint of our customers.
2. We will listen to the requests from our customers and look for their true needs and provide them with high-quality products that are useful for society.
3. We will comply with the related laws, regulations, social norms, and the in-house criteria to ensure the safety and security of our products and services for our customers.
4. We will establish a quality management system to pursue higher quality in all our business processes and make continual improvements, thereby winning more trust of our customers and increasing their satisfaction.
5. We will provide information about the quality and safety of our products and services to our customers in a prompt and appropriate manner.



### Message from the CIO

We will support Olympus' management through structural reforms (reinforcement and streamlining of functions) as well as awareness and corporate culture reforms, thereby bolstering our business base and core strengths to support Olympus' management and win out against global competition. This is how we will contribute to sustainable growth.

**Yasushi Sakai**

Chief Improvement Officer

# Improvement

#### Role under 16CSP

- Realize highly efficient and high-value-added operations on a level worthy of our status as the greatest "Business to Specialist" Company and establish a corporate culture that continuously evolves and grows with the Company and its employees



#### Tasks and Measures

- Make improvements to business and management structures, governance contributing to profitability, corporate organizations and human resource management systems, and awareness and corporate culture necessary to achieving targets
- Review all processes and systems for every function and region from a Companywide perspective to eliminate inefficiencies, reinforce functions, and cultivate a mind-set oriented toward change in order to bolster our business base and core strengths to win out against global competition

#### Mission of Bolstering Business Base and Core Strengths for Winning Out against Global Competition

Olympus strives to become a top-tier medical device company. As the highest authority for work process innovation, my role in accomplishing this goal will be to bolster our business base and core strengths, which includes such important infrastructure elements as IT and supply chain management. A business base and core strengths that enable us to win out against global competition will be essential to sustainable growth. We will also need to develop a business platform from which employees can carry out highly efficient and high-value-added operations. My mission is thus to establish a corporate culture that continuously evolves and grows with the Company and its employees.

#### Reason behind Timing of Business Process Reengineering

Olympus' business environment is transforming at breakneck speed, as indicated by the changes in market needs and structures and accelerated technological innovation. The expansion of our business scale and the ongoing implementation of more rigorous regulatory affair requirements are causing a continuous increase in the workload we must manage. In addition, the intensification of competition is, for example, placing additional pressure on us to introduce new products on a shorter cycle. Based on this reality, it will be vital for us to establish a business base for supporting the rapid reinforcement of management and business structures and swifter decision-making procedures. We will also need to foster core strengths that address the increasing load of ever more complex procedures. Accomplishing these tasks will be absolutely essential to achieving our targets.

#### Start of Business Process Reengineering Project Targeting Further Growth in July 2016

In July 2016, we started the Business Process Reengineering Project (BPR) project with the aim of bolstering our business base and core strengths. Realizing the importance of accurately understanding the issues we face, we began by conducting a study to analyze the current situation at Olympus from the perspectives of productivity and organizational structure. This study revealed that, compared with major competitors, we were overemphasizing individual optimization in terms of productivity in several cases and that our organizational structure's complexity and other features were slowing down decision making. Based on our newfound understanding of the Company's situation, we identified issues warranting improvement, which can be broadly classified into four areas. The first area is to make our business and management platform more robust and efficient. In this area, we will adopt an overall optimization perspective in reinventing the operating processes and IT systems that were originally developed from an individual optimization perspective in order to increase management speed and efficiency. The second area is to implement governance systems to sustain high profitability. By systematizing and tracking performance in relation to targets and key performance indicators, we will operate our business with an even higher focus on profitability. Further improvements in profitability will be pursued through careful investment prioritization and management that emphasizes total costs. The third area is to build stronger and more effective corporate organizations and human resource management systems. From this perspective, we will seek to accelerate management through the development

of efficient organizations and the clear separation of roles and responsibilities. At the same time, we will build frameworks for the cultivation and optimal positioning of human resources, our greatest management resource. The fourth area is to transform our cultural DNA and working styles. Accordingly, we will be reforming our cultural DNA in order to foster powerful core strengths that can continue evolving.

We have identified and are implementing specific business process reengineering initiatives for addressing issues in these four areas. These initiatives include those promising short-term benefits that will be carried out over the first half of the period of 16CSP as well as those that will be advanced over the medium-to-long term to realize benefits over this time frame. Each of these initiatives will need to be successfully completed if Olympus is to continue growing in the difficult operating environment to be faced going forward.

The system necessary for advancing the BPR project has been put in place. For example, a steering committee comprising members from around the world has been established to promote reforms on a global scale. In addition, the members of the Executive Management Committee have been placed in charge of specific initiatives as “initiative owners,” adding an increased element of responsibility to the project through strong

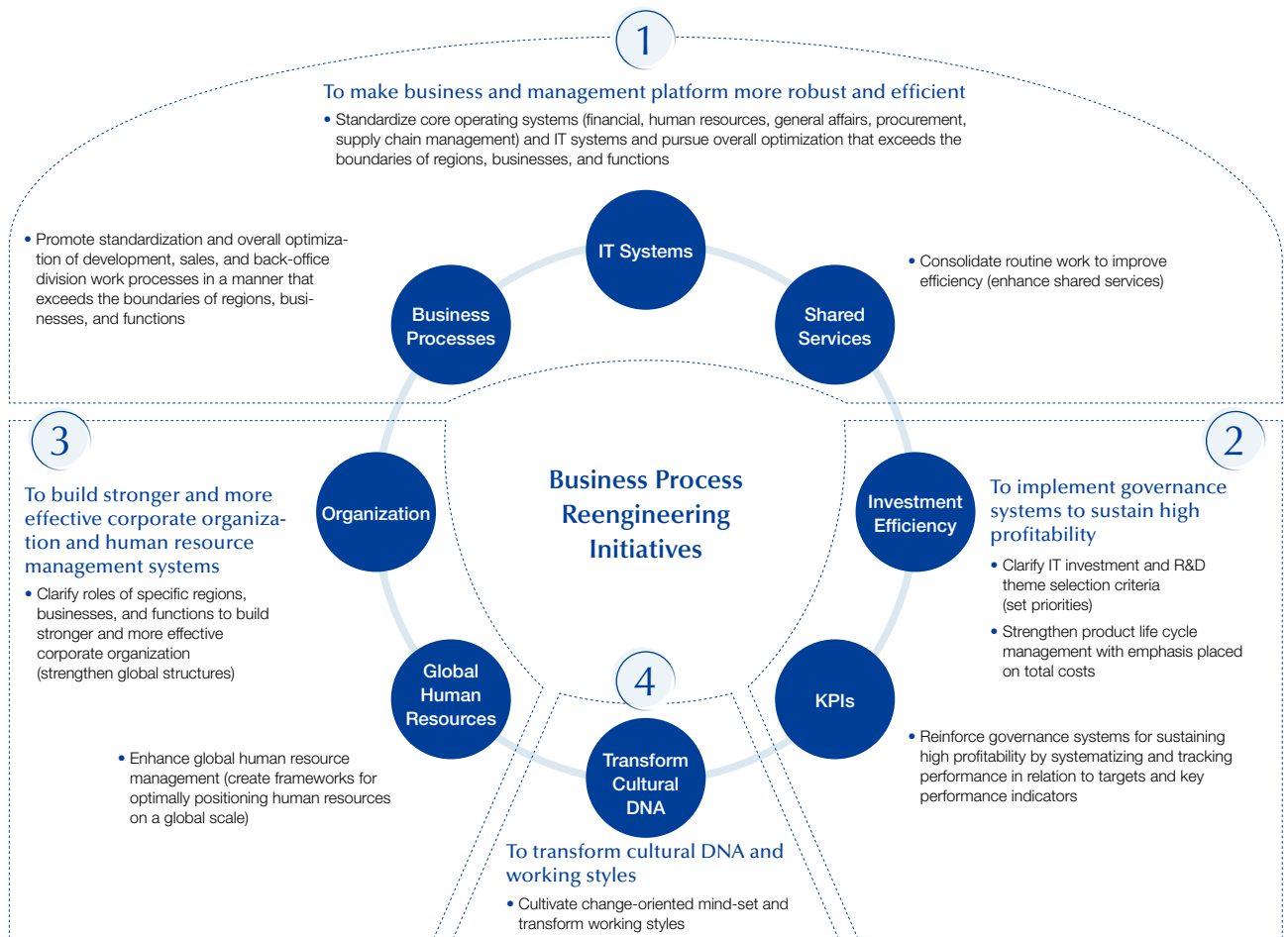
leadership. Dedicated organizations in charge of promoting business process reengineering initiatives have been created to support the implementation of the project’s various initiatives and carefully monitor progress based on clear targets. With this system in place, the initiatives of the BPR project will be carried out under a sound governance framework and the strong leadership of the owners and leaders.

### Ongoing Evolution and Growth of Corporate Culture

Olympus is committed to completing the BPR project to accomplish the targets of 16CSP. In addition, we aim to realize highly efficient and high-value-added operations on a level worthy of our status as the greatest “Business to Specialist” Company and establish a corporate culture that continuously evolves and grows with the Company and its employees.

The foundation for completing the BPR project will be formed through the establishment of a new corporate culture and organizational cultures. Reforming the awareness of all employees will be crucial to this undertaking. Luckily, Olympus employees view the project as an opportunity for growth and are also strongly committed to carrying out this project while remaining aware of the dangers surrounding us and as acting as a united One Olympus.

## Business Process Reengineering Initiatives







### Message from the CAO

I have been charged with responsibility for our administrative functions, giving me jurisdiction over Olympus' human resource, legal affairs, and facility management functions. Managing these functions in an optimal manner across all regions of operation, I will seek to contribute to the realization of our vision of always being the greatest "Business to Specialist" Company.

**Kiichi Hirata**

Chief Administrative Officer

# Administrative

#### Role under 16CSP

- **Human resource function:**  
Optimize positioning of human resources on a global basis and work toward vision contained in management strategy
- **Legal affairs function:**  
Address legal requirements, manage risks, and reinforce crisis response systems to facilitate Groupwide business expansion and growth
- **Facility management function:**  
Strengthen facility management systems from a global perspective considering the facilities of various functions connected to business expansion and growth



#### Tasks and Measures

- **Human resource function:**  
Consolidate management of human resource information and fill important function positions with optimal human resources from a global management perspective
- **Legal affairs function:**  
Develop human resources and strengthen organizations to enhance strategic legal affairs functions, manage legal risks at both the global and regional levels, and reinforce internal controls
- **Facility management function:**  
Continuously cultivate specialized human resources and develop IT systems from a medium-to-long-term perspective to further strengthen global facility management

### Olympus' Vision Realized by Optimally Positioning Human Resources through Global Human Resource Strategies

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. We fixed this issue, however, with the shift to a matrix style of business operation during fiscal 2016. This move collected the human resources and training personnel who 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.

Olympus is expected to produce innovative minds and deliver impeccable levels of quality to contribute to society by making people's lives healthier, safer, and more fulfilling around the world. To help achieve this objective, we strive to help heighten the skills and specialized talents of the people who work at Olympus while actively providing them with opportunities to gain experience and exercise the strengths they have accumulated. Moreover, it is our goal to ensure that employees can feel pride, knowing that their ideas and successes make direct contributions to the Company and to society. Such a favorable work environment will create a virtuous cycle. We therefore aim to establish a human resource function that can contribute to the generation of such a cycle by implementing human resource strategies and measures not only at domestic affiliates but also on a global and Groupwide basis.

### Optimal Global Management by Legal Affairs and Facility Management Functions

At the same time, we will enhance the global legal affairs function to allow for more flexible responses to operating environment changes while also facilitating Groupwide management of legal risks (information collection, analysis, and response) and strategic responses to legal crises. Based on such management and responses, we will offer legal advice and support with regard to both management strategies and business strategies. For the facility management function, we will adopt a medium-to-long-term perspective toward developing the R&D and manufacturing function bases that will underpin our efforts to provide Olympus quality on a global scale. From this perspective, we will forge ahead with the installation of the necessary equipment and infrastructure for realizing the Group's vision.

Currently, more than 70% of sales come from overseas, and I therefore feel that Olympus is the type of company that can grow by developing its business from a global standpoint. Accordingly, work related to human resources 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 who choose it.



### Message from the CTO

Olympus will further build upon its core competencies while implementing a core technology management strategy in order to breed business innovation that gives form to dreams with new ideas and technologies. Through these efforts, we will create value for customers the likes of which have never been seen before.

**Haruo Ogawa**

Chief Technology Officer / Head of R&D Group

# Technology

#### Role under 16CSP

- Create, strengthen, and utilize core technologies and construct cross-Company technology platforms capable of supporting these core technologies
- Optimize and standardize upstream to downstream product development processes and increase development efficiency
- Strategically develop human resources capable of supporting the above efforts and build a lively working environment

#### Tasks and Measures

- Address the appearance of the so-called “innovator’s dilemmas” resulting from new technological revolutions and improve development efficiency by adapting technologies for use in other fields
- Move away from previous Japan-centric R&D activities to advance global R&D activities that incorporate bases in Europe and the United States

#### Improvement of Development Efficiency in Existing Businesses

The improvement of development efficiency is an important task to be addressed with regard to research and development and will thus be crucial to the process reform project. One specific measure with this regard will be the prioritization of R&D themes. To facilitate this process, we will set return on investment as a KPI and assign priorities to themes that are of strategic importance. At the same time, we will move ahead with the standardization of work processes. By clarifying the issues we face with regard to upstream development element technologies and production technologies and prioritizing the resolution of these issues, we will target massive improvements in efficiency at the product development phase. I expect that these efforts will be able to shave a couple of percentage points off of the ratio of R&D expenditures to sales in existing businesses during the final year of 16CSP.

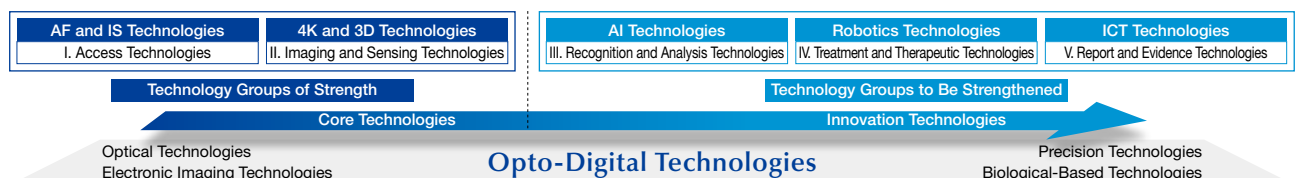
#### Innovation That Does Not Lag behind New Technological Revolutions

The money saved by improving development efficiency will be designated as our “innovation budget,” which we will use to fund cutting-edge development projects for driving further growth. Furthermore, we plan to establish, relatively quickly, an organization for determining the innovations that will be necessary for Olympus’ future. In this organization, we will assemble

a team of Company engineers with expertise in advanced technologies in the pursuit of innovation.

The 16CSP defines five core technology groups based on customer workflows. Olympus currently boasts strength with regard to group I, which consists of autofocus and other technologies, and group II, which comprises 4K and 3D technologies. In fact, we have a portfolio of around 18,000 patents in these two areas. Conversely, groups III, IV, and V all represent areas in which we must strengthen our capabilities going forward. In group III, for example, we aim to use AI technologies to increase the ability of our products to recognize and analyze images retrieved via endoscopes or other devices. Our focus in group IV will be the utilization of robotics technologies for endoscopic and laparoscopic surgery. Meanwhile, we will take advantage of ICT and IoT technologies in group V to log data from medical devices and analyze this data to potentially create solutions businesses that provide customers with valuable information. In these undertakings, it will be crucial for us to form outside alliances with regard to AI, robotics, and IoT technologies. If our innovation activities lag behind new technological revolutions, we will face massive risks in the future. For this reason, we will not limit ourselves to internal efforts. Rather, we will devote funds as necessary to rapidly accelerate the pace of our global R&D activities.

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





### Message from the CMO

The Manufacturing Group will achieve competitiveness in terms of its products, technologies, techniques, management frameworks, human resources, and organizational capacities on a global basis to establish Olympus as the world's No. 1 medical equipment manufacturing group.

**Shigeo Hayashi**

Head of Manufacturing Group

# Manufacture

#### Role under 16CSP

- Create global production structure with a view to 10 years from now and enhance technological and on-site capabilities to achieve the value required by business divisions with regard to quality, costs, and delivery



#### Tasks and Measures

- Build strong, global manufacturing functions to address operating environment changes, risks, and threats and thereby ensure Olympus can reliably supply products that satisfy customers

#### Creation of a Global Production System and Enhancement of Repair Bases with a View to 10 Years from Now

Under 16CSP, the Manufacturing Group will pursue globally optimized production\* by building upon its core competencies at all production bases with a view to 10 years from now.

Olympus aims to maintain the dominating No. 1 position of its gastrointestinal endoscopes and other high-value-added products. We will accomplish this goal by reinforcing our product creation capabilities through the integration of development and manufacturing. As one facet of these activities, we will enhance factories utilizing labor-intensive models in Asia and other regions to bolster production capacity and heighten cost competitiveness for mass-produced items.

Based on this approach, we undertook the redevelopment of the three Tohoku factories in Japan, and these efforts have already contributed to an increase in production capacity of roughly 30%. Our medical device production system in Nagano was also strengthened. Overseas, we commenced construction of a new building at the Vietnam plant to further guarantee a stable supply of mass-produced items. In addition, production bases in Canada were reorganized to make way for the establishment of a new industrial field-product factory that we began building in this country. Repair bases are also being enhanced. Europe saw the start of operations of the new building at our repair base in Portugal. Meanwhile, in the United States we started constructing a new base in Bartlett, Tennessee, which will be our second base in this country after the one in San Jose, California. In this manner, we have been making smooth progress in reinforcing our global network of production and repair bases.

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

#### Augmentation of Massive Strength of Technological and On-Site Capabilities

Creating truly competitive products requires us to differentiate our products from those of competitors in terms of functionality, quality, cost, and other factors. We continue to augment technological and on-site capabilities for exactly this purpose.

In regard to our technological capabilities, we are differentiating ourselves from our rivals by incorporating our unique material development and processing techniques into production equipment developed by the Company. The combination of this equipment and the sophisticated minute adjustment techniques of our highly skilled engineers will make for a product creation prowess that the competition will never be able to imitate. As for our on-site capabilities, we are promoting the ongoing cultivation of frameworks and on-site cultures that allow operating sites to implement self-improvements. This objective will be accomplished by utilizing our plant consulting and human resource development methodologies based on the 5Ss (sort, set in order, shine, standardize, and sustain) and the Toyota Production System. No matter how technologies may advance, it will always be people that find issues and implement improvements on-site. Product creation at Olympus is underpinned by our people.

Going forward, we will seek to respond to the changing operating environment by stepping up initiatives to ensure safe and reliable products by prioritizing quality, address the shrinking workforce in Japan, and establish business continuity plans with provisions for earthquakes and other disasters. Furthermore, we will strive to establish Olympus as the world's No. 1 medical equipment manufacturing group so that we can continue to supply products and services that satisfy customers in a timely manner.



### Message from the CSMO

For Olympus, a “Business to Specialist” Company, we will seek to develop sales and marketing functions that are capable of realizing strong sales capabilities by understanding the needs of specialists and swiftly providing the value and solutions sought by these customers.

### Akihiro Taguchi

Head of Sales & Marketing Group /  
Medical Business Managing Officer

# Sales & Marketing

#### Role under 16CSP

- Cultivate sales force members who are specialists at sales to strengthen sales and marketing functions in order to contribute to the accomplishment of 16CSP earnings targets in each business so that Olympus can always be the greatest “Business to Specialist” Company

#### Tasks and Measures

- Enhance sales capabilities to facilitate the “Business to Specialist” operations of each business and seek to ensure the rigorous compliance expected of a global company
- Formulate standards for sales procedures that promote uniform processes on a global scale in order to improve sales productivity and increase the amount of sales per sales force member

#### Cultivation of Sales Specialists to Realize Strong Sales Capabilities

Two years have passed since the establishment of the sales and marketing functional organization, and our mission is now clearer than ever. Looking at potential future megatrends, we can anticipate the continuation of population aging and birth rate declines, global curtailment of healthcare expenses, implementation of more stringent regulations in various countries, and advances in ICT and the IoT. There can thus be no doubt that our operating environment will be changing and growing more complex. The point of origin for Olympus, its fundamental strengths, can be found in its technological capabilities and its product prowess. However, the coming era will differ from those prior to it in that simply making superior products will not be a guarantee of sales. Rather, in the coming era, companies will need strong sales capabilities so that the value of their products can be effectively explained to customers. For this reason, our sales forces will need to be able to develop an understanding of the needs of specialists in order to swiftly provide the value and solutions sought by these customers. In this manner, we must realize strong sales capabilities by having the members of our sales forces raise their own capabilities to become specialists themselves.

#### Improvement of Sales Productivity through the Standardization of Global Procedures

As our operating environment changes and becomes more complex, the range of tasks we must handle will increase. This situation will necessitate that we improve productivity, given Olympus’ focus on organic growth. We therefore set up 16 working groups, which are charged with the task of heightening the amount of sales per sales force member. With this clear mission in mind, we will formulate shared global standards for sales procedures to pursue improved productivity.

Good customer management is crucial to effectively understanding customers and providing the value they seek, and this rings true for any business. However, the definition of customers is not fixed. In Olympus’ Medical Business, for example, although its main customers used to be healthcare practitioners, group purchasing organizations (GPOs) and integrated delivery networks (IDNs) are now becoming increasingly important types of customers in North America. As new customers emerge, it is necessary for our customer management practices to evolve to meet the differing needs of these customers. At the same time, the Medical Business is branching out from its installation-based model, which centers on endoscopes, to also adopt a procedure-based model, which focuses on endotherapy devices. We will therefore need to maintain an understanding of circumstances related to customers in both businesses. In the installation-based model, it is important to be aware of annual budget situations, including the execution of budgets. Meanwhile, the procedure-based model requires that we possess information on the procedures used at specific hospitals and departments, the frequency with which these procedures are performed, and the number of procedures to be conducted in the future. In light of these differing needs, it is absolutely essential that we pursue standardization on a global basis to increase overall efficiency. This standardization should not be limited to customer management. Global standardization is also necessary with regard to procedures for tracking performance indicators and sales activities; managing demo products, loaners, and other assets; and strengthening sales force skills to cater to specialists. If we are able to achieve this standardization, it will no doubt contribute to strong sales capabilities for each member of our sales force as well as for the entire Company, which will be united under the One Olympus concept.



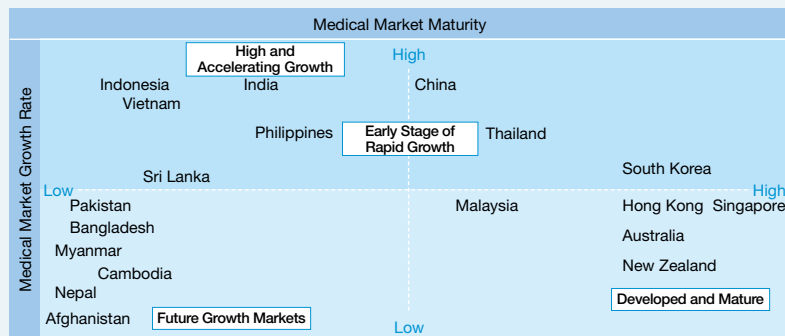
# Special Feature 2: Expansion of Businesses in Growth-Driving Emerging Countries

## Long-Term Initiatives Targeting Sustainable Growth

Under 16CSP, initiatives to expand operations in emerging countries have been positioned as an important component of Olympus' growth strategies. When viewed from a medium-to-long-term perspective, there is substantial room for the expansion of markets in emerging countries, meaning that these markets will be integral to the ongoing growth of the Company. Increasing the number of physicians capable of safely using endoscopes will be key to Olympus' growth. We aim to facilitate this increase by bolstering training support. At the same time, we are reinforcing service systems to cater to the rising demand for endoscope repair services. Through these efforts, we will pursue dramatic growth.

### Major Strategies in Emerging Countries (16CSP)

- Formulate and advance strategies for exploring specific markets (China, the ASEAN region, India, the Middle East, Africa) from a strategic, long-term perspective
- Position China as a priority market and create Companywide systems to support the drafting of measures for this market based on various risk factors
- Construct business foundations for ensuring faithful legal compliance regardless of political issues
- Reinforce endoscope repair service systems



Source: Olympus Corporation (based on publicly available data)

#### Developed and Mature

Concentrate on single-use products, systems, and service operations in all fields

**High- and Accelerating-Growth** Emergence of government-spearheaded medical initiatives driving rapid medical market growth

Step up initiatives in all areas of surgical device field (maximize console installations)

**Early Stage of Rapid Growth** Medical market growth in conjunction with economic growth

Reinforce GI field foundations while establishing surgical device foundations by focusing efforts on surgical device and urology fields

#### Future Growth Markets

Accelerate development of GI field foundations and stabilize quality, cost, and delivery (QCD) aspects of service operations

### Market Environment and Outlook for Emerging Countries in Asia

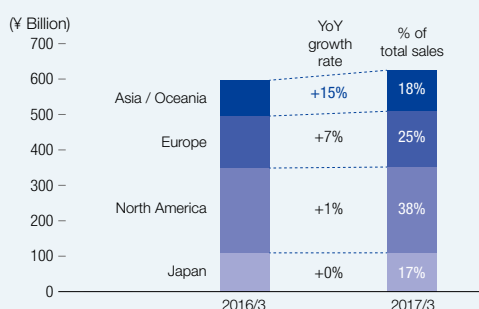
- Increasing medical needs in conjunction with rapid population aging; rising pressure to limit medical costs
- Large populations, numerous patients, lack of physicians in comparison with patients
- Lower use of endoscopes in comparison with Japan, Europe, and the United States; massive latent demand
- Medical infrastructure under development, significant room to improve upon medical techniques
- Lingering instability in macroeconomic environment
- Continuation of political issues and regulation reinforcement in numerous countries

Country	Number of Endoscopists per Million People
China	22
Singapore	28
Malaysia	17
Philippines	4
Indonesia	2
Vietnam	6
Thailand	4
India	5
(Reference) Japan	250
(Reference) South Korea	120

Source: Olympus Corporation (based on publicly available data)

### Olympus' Market Presence

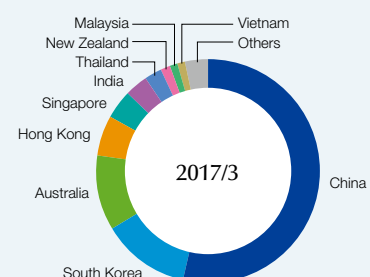
#### 1. Medical Business Sales by Region (Excluding Foreign Exchange Influences)



#### 16CSP Net Sales CAGR Target

Asia / Oceania	10-15%
Europe	5-6%
North America	7-8%
Japan	5-6%

#### 2. Distribution of Sales by Country in Asia / Oceania





## Key to Growth of Emerging Markets — Enhancement of Training for Healthcare Professionals



Promote industry-academia-government collaboration projects out of T-TEC Southeast training hub to spread endoscopic early diagnosis procedures and minimally invasive therapies

### Takaharu Yamada

Head of GIR Business, Asia Pasific Medical Sales Division,  
Olympus Corporation of Asia Pacific Limited

(FY2010–FY2017: Division Manager, Medical Division, Olympus (Thailand) Co., Ltd.)  
(FY2016–FY2017: Chairman of Pharmaceutical-Medical Working Party, Chemical Division, Japanese Chamber)

In July 2016, the Thai-Training and Education Center (T-TEC) was established to provide training to healthcare professionals in Thailand, joining the ranks of existing training centers in Shanghai, Beijing, and Guangzhou (China). We chose to locate this new training center in Bangkok due to its superior transportation access, and we hope to use this center as a venue primarily for training healthcare professionals in Southeast Asia. By promoting the spread of early diagnosis and minimally invasive therapies and other endoscopic procedures in various specialized fields,

including the gastroenterology, general surgery, and gynecology fields, Olympus will contribute to higher economic benefits for the medical field and improved quality of life for patients throughout society.



T-TEC

### Ongoing Pursuit of Key Success Factors for Medical Systems Group Unique to Emerging Countries

Although emerging countries have large populations and thus high numbers of patients, the use of endoscopes is still lower than in developed countries, and there is still significant room to increase the number of physicians trained in endoscopic procedures in comparison with patient numbers. Spreading the use of endoscopic procedures and training physicians in emerging countries are key success factors for market growth. However, advancing activities in emerging countries requires a medium-to-long-term perspective that takes geopolitical risks into consideration. On the whole, the Southeast Asian market continues to grow, but conditions vary on a

country-to-country basis. In addition, it is difficult to maintain a consistently high level of growth each year, regardless of the country. In Thailand, for example, businesses have been heavily impacted by issues such as political instability and natural disasters over the past five or six years. Olympus (Thailand) Co., Ltd., meanwhile, has achieved steady growth since its establishment in 1999 by continuing to pursue the accomplishment of these key success factors whenever possible. The successes of this company have led to the establishment of other Medical Business companies in the neighboring countries of Vietnam and Malaysia.

### High Surgical Endoscope Market Share in Thailand Won by Leveraging Strengths of Gastrointestinal Endoscopes to Forge Bonds of Trust with Physicians

In Thailand, Olympus boasts a high share in both the market for surgical endoscopes in addition to the market for its mainstay gastrointestinal endoscopes. This achievement is in part due to the fact that the majority of physicians who perform gastrointestinal endoscopic procedures in this country are also surgeons. Accordingly, our success in the gastrointestinal endoscope market has resulted in our forging strong bonds of trust with surgeons, which has in turn led to success in the surgical endoscope market.

Such success and trust were not won with superior products alone; the quality support we are able to provide as a manufacturer that conducts its own sales activities was also a

factor. Our staff of Thai nationals takes pride in Olympus' position as a total endoscope solutions provider. They thus feel a strong sense of purpose in working together with healthcare professionals in order to contribute to a better quality of life for patients. The activities of this dedicated staff have grown into collaborative projects with academic organizations as well as with the Thai and Japanese governments.



## Industry-Academia-Government Collaboration Project for Spreading Endoscopic Surgery Procedures and Training Physicians

Our efforts to train physicians in emerging countries gain a powerful driving force when we are able to collaborate with medical associations and national, government, and other public institutions. One example of such collaborative efforts was a project for cultivating surgeons in the Mekong region (Thailand, Vietnam, Cambodia, Myanmar, and Laos) as part of a human resource development program spearheaded by the Ministry of Economy, Trade and Industry (METI) of Japan. Through this project, Olympus provided support beginning in 2015 for the establishment of a nonprofit organization (NPO) in Thailand known as the Mekong Endo-Surgery Development Association (MESDA),\* which was completed in July 2016. This undertaking represented an initiative in line with the Japanese government's policy of deploying Japanese medical techniques internationally through public-private partnership.

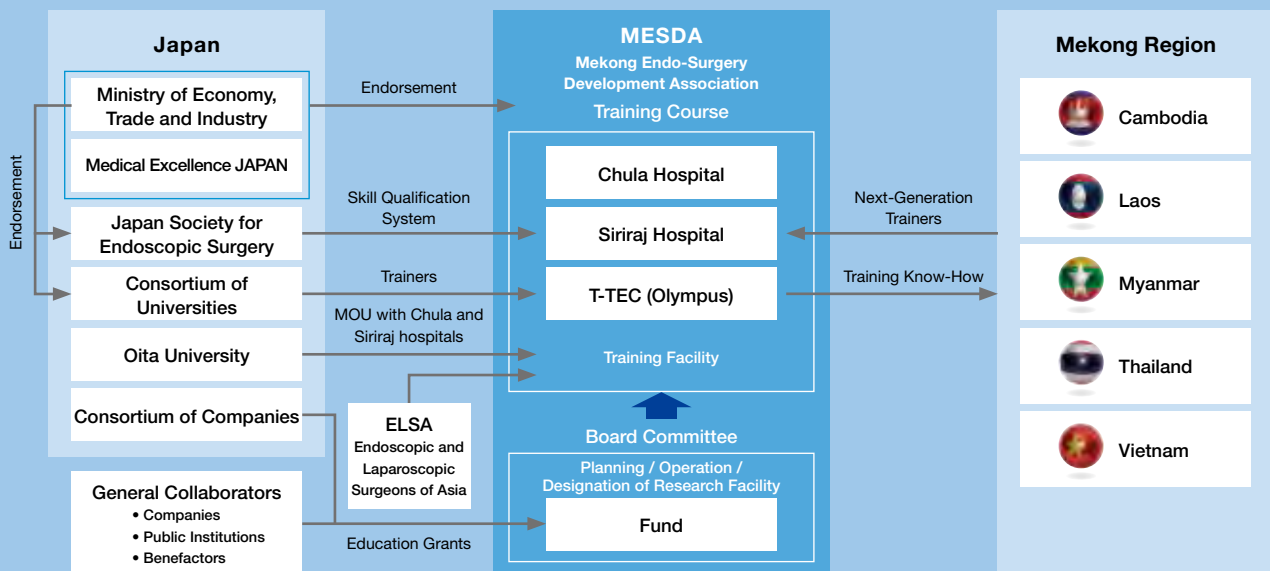
MESDA consists of an all-Japanese team aimed at spreading the use of endoscopic surgery procedures and training physicians in the Mekong region. By providing local physicians with ongoing training and education on Japan's world-leading endoscopic surgery procedures, MESDA strives to entrench these procedures in the medical landscape. Goals of these efforts include improving technical proficiency at conducting these procedures and ensuring they can be performed safely as well as increasing physicians' knowledge. Furthermore, MESDA has

established a industry-academia-government partnership model that has been praised as a training model applicable outside of the medical field. Japan is home to numerous companies boasting exceptional technologies developed by continuously addressing medical needs. The products of these technologies can be seen by looking at a single hospital operating room. Here, one will see numerous innovations in terms of both equipment and techniques that contribute to higher-quality procedures. MESDA was formed based on the desire to utilize the medical environment in Japan as a tool for contributing to the improvement of medical services in the Mekong region, an undertaking that is too big for a single company alone.

Positioning Thailand as a hub for its activities, MESDA invites surgeons with the potential to become future trainers for the Mekong region to designated training facilities to undergo training in its Train the Trainer program. Along with major university hospitals in Thailand, T-TEC has been identified as a designated training facility. Based on its initiatives in Thailand, MESDA is moving forward with similar activities in emerging countries outside of Asia. In addition to contributing to the development of medicine, these activities will drive the expansion of Olympus' businesses while fueling their ongoing growth.

\* An NPO that consists of an all-Japanese team supported by a consortium for helping train Asian endoscopists with members such as Japan's Ministry of Economy, Trade and Industry, Medical Excellence JAPAN, the Japan Society for Endoscopic Surgery, and medical and other Japanese universities as well as by a consortium consisting of Japanese companies operating in Thailand

### MESDA Operation Model



#### Industry

The provision of grants by companies supportive of MESDA's activities enables them to be advanced while maintaining transparency. Furthermore, through coordination with the Pharmaceutical-Medical Working Party under the Chemicals Division of the Japanese Chamber of Commerce, Bangkok, a consortium of companies was formed to support MESDA, making it possible to take advantage of opportunities for market participation.

#### Government

Support for NPOs is compatible with the government's impartiality policies. Following the initial period of providing start-up support, government can contribute to the development of frameworks that enable MESDA to continue operating independently by providing endorsement.

#### Academia

Endorsement from the Japanese government enables academic associations and universities to support MESDA as a national project. In addition, Japan's first university consortium tasked with supporting medical training in emerging countries was assembled to spur forward MESDA's activities with an all-Japanese medical team.

# Opinion



**Masafumi Inomata**  
Medical Department Professor  
(Lecturer on gastric system and pediatric surgery),  
Oita University



## What do you see as the potential for the spread and development of endoscopic surgery procedures in emerging countries?

In emerging countries, economic growth is bringing about changes in lifestyle patterns, resulting in a shift in the leading cause of death from infectious diseases to cancer. Endoscopes are absolutely essential to the early diagnosis and treatment of cancer, but there is a severe lack of endoscopists in emerging countries. As minimally invasive therapies using endoscopes are of high demand among patients, an increase in endoscopists would directly contribute to the growth of the market. Looking at colorectal cancer, for example, roughly 60% of patients in Japan receive treatment via endoscopic surgery procedures, but this figure is only around 6% in Thailand. The situation is similar throughout the Mekong region, with the vast majority of patients being forced to undergo highly invasive open surgery. Cholecystectomies are among the most common surgical procedures performed using endoscopes. Today, approximately 95% of cholecystectomies conducted in Japanese are done through endoscopic surgery. Emerging countries have the benefit of being able to immediately introduce highly advanced medical procedures and equipment, which took years to become entrenched in Japan. These life-saving innovations can spread swiftly throughout these countries.

However, spreading such procedures and equipment will require the appropriate infrastructure to be put in place, and this includes insurance systems on the national and academic association levels. Government initiatives exist in Japan for supporting the spread of high-quality Japanese medical procedures and equipment in emerging countries. The scope of these initiatives is being expanded to include not only Thailand and other Mekong region countries but also Russia, India, and the Middle East. Industry-academia-government partnerships have the potential to accelerate this spread. However, even the most cutting-edge medical device can endanger a patient's life if used by a physician that lacks the necessary skills. For this reason, training and guidance are essential to ensuring safety.



## What are your hopes for Olympus?

The main reason I keep using Olympus products is that the Company continues to make products tailored to the needs of doctors like myself. Olympus' R&D divisions are exceptional at giving us the products and improvements we desire. This is a feat that cannot be accomplished with technological capabilities alone; an intimate knowledge of doctors' needs is also required. I hope that Olympus will continue to maintain a long-term perspective, looking five to 10 years down the line, as it develops products based on input from the medical field. I also have high praise for the management capabilities of Olympus' local overseas marketing departments. There is only so much that we doctors can do. If a country is to independently spread the use of a certain medical procedure, it is not enough to only cultivate physicians capable of using it. Rather, it is crucial that local personnel be hired and trained so that they can work together in promoting this spread. It can be expected that such medical procedures will be introduced in various emerging countries going forward. I have great hopes for the central role Olympus will play in this process.





## At a Glance

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 nondestructive testing equipment, and the Imaging Business, which sells digital cameras. These three businesses constitute the business domains of Olympus.

### Consolidated Performance (FY2017)

Net Sales

**¥748.1 billion**

YoY (after foreign exchange adjustment): +2%

Operating Income

**¥76.5 billion**

YoY (after foreign exchange adjustment): +2%

EBITDA

**¥129.8 billion**

YoY: -16%

Net Income

**¥78.2 billion**

YoY: +25%

ROE

**19.3%**

YoY: +2.3pts

FCF

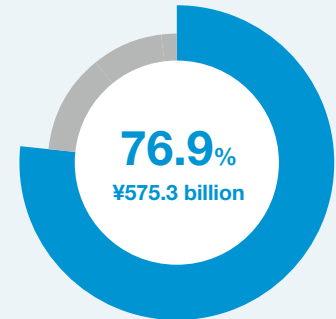
**¥81.9 billion**

YoY: +¥86.2 billion

#### Medical Business



Share of Net Sales



#### Scientific Solutions Business



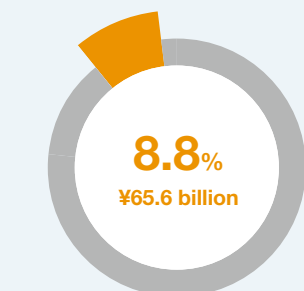
Share of Net Sales



#### Imaging Business



Share of Net Sales



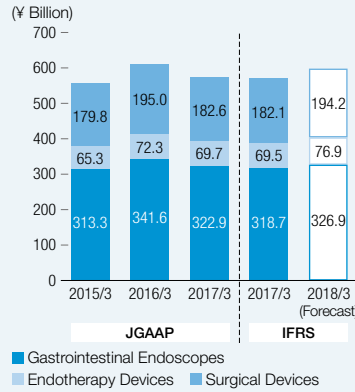
#### Others

Share of Net Sales **1.9%**  
¥14.0 billion

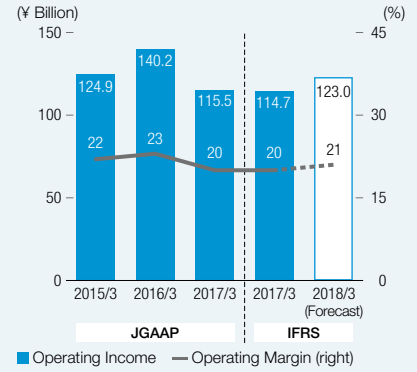
### Business Description

In the Medical Business, Olympus supplies various types of medical equipment, including gastrointestinal endoscopes that contribute to the 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.

### Net Sales



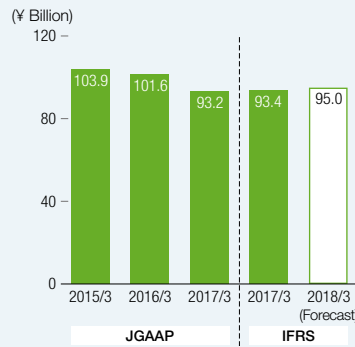
### Operating Income / Operating Margin



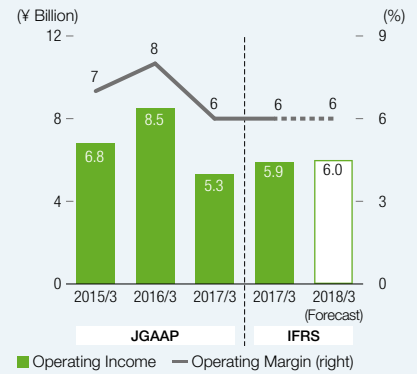
### Business Description

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.

### Net Sales



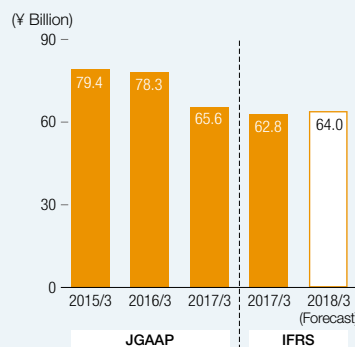
### Operating Income / Operating Margin



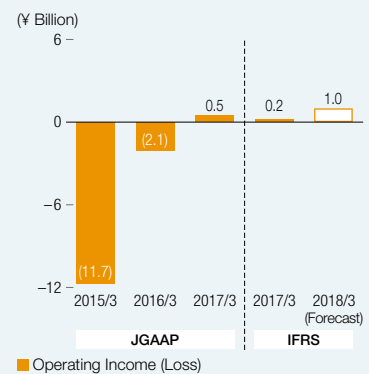
### Business Description

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.

### Net Sales



### Operating Income (Loss)



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



Business Management Officer, Medical Business **Akihiro Taguchi**

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.

- More than 70% share of global gastrointestinal endoscope market
- Technological capabilities that led to development of world's first practical gastrocamera 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
- 3D, 4K, and other products differentiated with high resolution and quality

Strengths	Weaknesses
S	W
O	T
Opportunities	Threats

- Position as follower in surgical device field after European and U.S. companies
- Limited systems for acquiring clinical evidence on medical and economic benefits
- 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
- Rise in illness case numbers due to population aging

- 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 on 10 years in the future.

## Overall Strategy for Medical Business

The Medical Business aims to help realize the vision put forth by 16CSP: "Olympus contributes to society by making people's lives healthier, safer, and more fulfilling around the world." Focused on the two types of value provided by early diagnosis and minimally invasive therapies, the Medical Business will continue to enhance the already exceptional technologies, products, services, and solutions it provides in order to expand its operations.

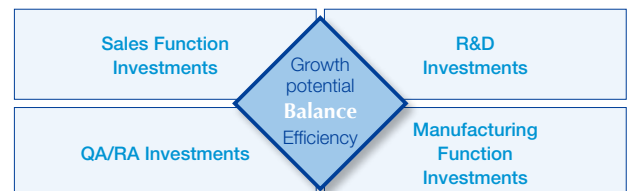
Olympus Medical Equipment for Everything from Diagnosis and Endoscopic Therapy to Surgery



### Investment Policy

The Medical Business is Olympus' growth driver, and we therefore intend to conduct the investments necessary for each of its functions. We will strengthen the sales, R&D, manufacturing, and quality and regulatory assurance functions and also conduct efficient investments to increase 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 an eye to 10 years from now. In Japan, the principal site of gastrointestinal endoscope manufacturing, new facilities at our Aizu,

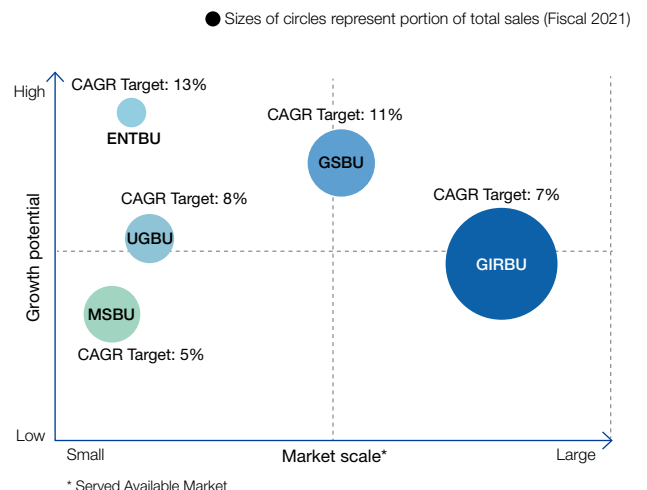
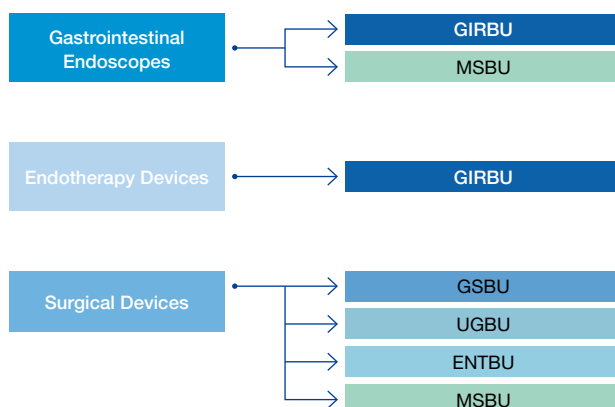
Shirakawa, and Aomori factories have already been constructed. Looking ahead, we will continue to transfer the manufacture of certain endotherapy devices from Aomori to Vietnam. In North America, meanwhile, we will expand manufacturing lines and pursue increased efficiency with regard to energy devices and other products at our Brooklyn Park plant.



## Business Portfolio Strategy

The prior three divisions of the Medical Business have been reorganized to form five business units. We will target increased sales and profits by concentrating investment on these five business units.

### Business Portfolio Strategy Diagram





## Priority Measures

1	Expand dominant GI market share and improve profitability while realizing substantial growth in ET and surgical business operations	<ul style="list-style-type: none"> <li>Continuing on from the former medium-term management plan</li> </ul>
2	Shift from installation-based Medical Business model to procedure-based Medical Business model	<ul style="list-style-type: none"> <li>Enhancement of sales and marketing, R&amp;D, and manufacturing function initiatives to expand single-use device operations</li> </ul>
3	Expand operations in emerging countries	<ul style="list-style-type: none"> <li>Countries with sufficient medical infrastructure: Position as growth driver and continue appropriate investment</li> <li>Countries without sufficient medical infrastructure: Contribute to medical infrastructure development</li> </ul>
4	Strengthen ability to respond to GPOs / IDNs*1	<ul style="list-style-type: none"> <li>Respond to market structure changes exemplified by growing presence of GPOs / IDNs in North America</li> <li>Propose value as One Olympus with unified R&amp;D, manufacturing, and service functions</li> <li>Establish processes for acquiring GPO / IDN contracts and strengthen project management</li> </ul>
5	Strengthen QA/RA*2 functions	<ul style="list-style-type: none"> <li>Reinforce global quality management systems with eye toward external requirements expected 10 years from now</li> <li>Strengthen global QA and RA systems in consideration of future business development</li> <li>Reinforce medical affairs function</li> </ul>
6	Improve productivity	<ul style="list-style-type: none"> <li>Improve productivity of all functions (R&amp;D, manufacturing, sales and marketing, and service)</li> </ul>

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

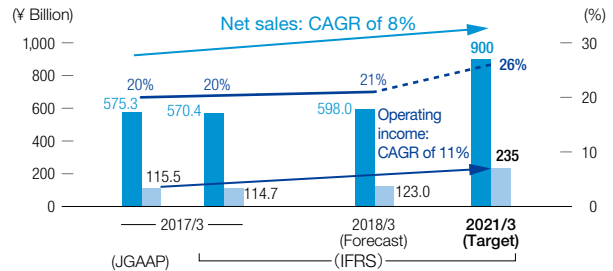
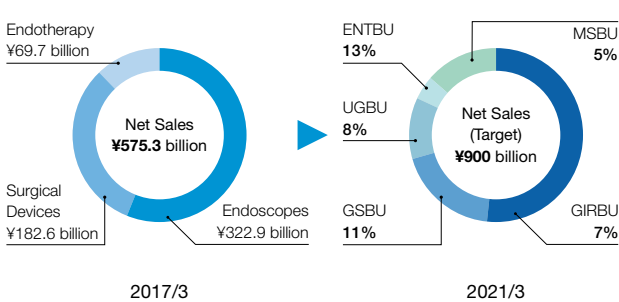
### Accomplishments in Fiscal 2017 and Future Measures (Tasks)

Accomplishments
<ul style="list-style-type: none"> <li>Double-digit sales growth and strong performance in Asia and Oceania in gastrointestinal endoscope field</li> <li>Smooth progress in expansion under procedure-based Medical Business model:                             <ul style="list-style-type: none"> <li>Strong performance with double-digit sales growth for THUNDER-BEAT energy device in principle regions in surgical device field</li> <li>Impressive growth in Japan, the United States, and Europe in the endotherapy device field achieved by bolstering sales forces and expanding product lineups</li> </ul> </li> <li>Systematic expansion of endoscope training centers for growing operations in emerging countries (establishment of training center in Thailand to serve Southeast Asia and in Dubai to serve the Middle East and Africa)</li> </ul>

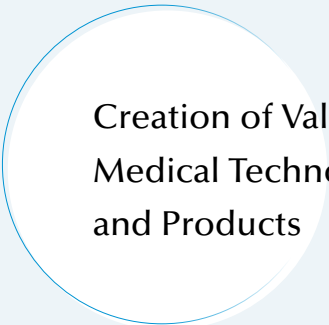
Future Measures (Tasks)
<ul style="list-style-type: none"> <li>Pursuit of ongoing sales growth while gastrointestinal endoscope products are in the later stages of their product cycles by implementing various sales measures to promote scope upgrades and by launching high-value-added products</li> <li>Expansion of market share in surgical endoscope field by approaching institutions using competitors' products with Olympus' strategic 4K systems and introducing new products (VISERA ELITE II)</li> <li>Strengthening of manufacturing function through cost reductions and production system initiatives aimed at minimizing the impacts of foreign exchange influences</li> <li>Shortening of new product launch cycles through increased coordination between development and manufacturing functions</li> </ul>

## KPI (16CSP)

### Medical Business Portfolio and Performance Forecasts (CAGR)



Note: Fiscal 2017 net sales and operating income are set to decrease due to the negative impacts of yen appreciation.



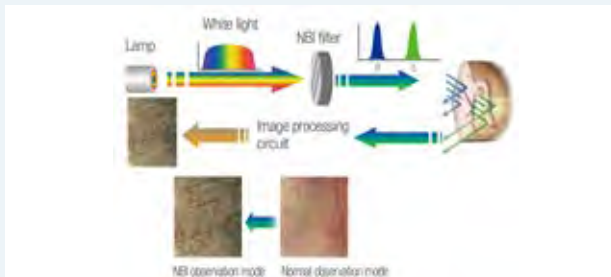
## Creation of Value with Medical Technologies and Products

Olympus' endoscopes continue to be forged through an ongoing process of discussion with healthcare professionals so that the fastidious attention to detail of the Company's development engineers can be used to respond to the desires of the medical field. On this page, we will introduce the major characteristics of Olympus' latest gastrointestinal and surgical endoscopy systems and some of the value they create.

### EVIS EXERA III / EVIS LUCERA ELITE Gastrointestinal Endoscopy Systems

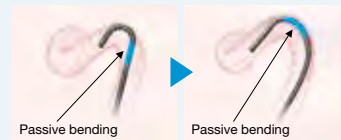
#### Improved Observation Capabilities: Contributions to Early Diagnosis and Treatment of Cancer Realized through Refinement of Proprietary NBI Optical Digital Technology

Narrow band imaging (NBI) is a technology that utilizes optical mechanisms to enhance the visualization of lesions. The ongoing refinement and spread of this technology continues to make large contributions to the advancement of endoscopic diagnosis procedures. Cancer and other tumors use capillary vessels to gather the energy needed to undergo cellular multiplication. Hemoglobin in blood vessels absorbs significant amounts of narrow-band blue light. NBI is a technology that utilizes a specialized optical filter to produce narrow spectrum light with a wavelength that is easily absorbed by hemoglobin. This process highlights capillary vessels on the surface of mucous membranes, thereby making it easier to discover lesions, which could be very difficult to find using previous methods.



#### Increased Ease of Colonoscopy Insertion: Lower Burden for Both Physicians and Patients

For physicians, inserting a colonoscopy into the recesses of the colon is an incredibly difficult procedure that requires substantial skill. Maneuvering a scope through the sharp S-curves of the rectum and the left and right colonic flexures is particularly taxing. Olympus' colonoscopes feature passive bending, high force transmission, and flexibility adjustment functions that support smooth scope insertion during colonoscopies and thereby help reduce discomfort for patients and improve examination efficiency.



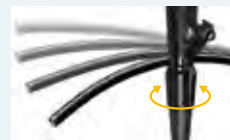
#### Passive Bending

Scopes are designed to bend naturally if they make contact with the intestinal wall, helping scopes be smoothly guided passed curvatures.



#### High Force Transmission

Enhancements have been made to scopes to allow for pushing, pulling, and bending force exerted through the handheld controller to be more easily transmitted to the tip of the scopes, thereby improving the ease of insertion.



#### Flexibility Adjustment

By rotating a ring on the handheld controller, the endoscopist can adjust the flexibility of the insertion portion of the scope to their desired level.

### New VISERA ELITE II Surgical Endoscopy System

#### Improved Observation Capabilities: New Infrared Observation Functions Joining 3D Observation Functions

Infrared observation is a technique for which research is advancing in the medical field, although its application to endoscopes is relatively new. This technique entails administering a specialized chemical and then shining light (far-red light) onto the site in order to observe the fluorescence that is produced (fluorescence from substances with a strong capacity to absorb far-red light), making it possible to view substances present in the depths of tissue. Infrared observation is anticipated to make it easier to discern organs and tissue that can be difficult to view through endoscopic observation using standard light and to support visualization of the distribution of blood flow and lymph flow, thereby helping determine the appropriate scope of resection. Various clinical research projects are being advanced by healthcare professionals to examine these potential benefits. Specifically, infrared observation is anticipated to be viable for

use in the evaluation of blood flow at the site of intestinal anastomosis, which is thought to be related to anastomotic leaks; observation of the bile ducts in hepato-biliary-pancreatic field procedures; and identification of lymph ducts.

**The color mode button**

**The observation mode button**

**Observation modes changeable with controller buttons**

**Normal Light Observation**  
The color mode button can be used when conducting observation under white light. Pressing this button while observing white light images will change the color tone of the image.

**Infrared observation mode 1 (infrared observation image superimposed on base image)**

**Infrared observation mode 2**

MEDICAL BUSINESS

# Gastrointestinal and Respiratory Business Unit (GIRBU)

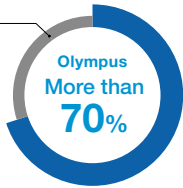


The GIRBU advances the Company's core business, which supports Olympus with its share of more than 70% of the global gastrointestinal endoscope market. We will continue to expand this business while improving profitability. At the same time, we will actively invest in boosting our share of the endotherapy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

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

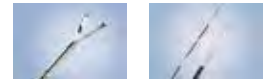
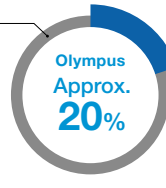
### Endoscope Field

FUJIFILM  
HOYA



### Endotherapy (ET) Field

Boston Scientific  
Cook Medical



\*1. ERCP: Endoscopic Retrograde Cholangio Pancreatography  
\*2. EMR: Endoscopic Mucosal Resection  
ESD: Endoscopic Submucosal Dissection

## Operating Environment / Risks and Opportunities

### Operating Environment

Developed countries	<ul style="list-style-type: none"> <li>Rising case numbers due to aging population and higher cancer prevention awareness</li> <li>Ongoing increase in need for endoscopic therapies</li> <li>Higher requirements for quality and efficiency</li> <li>Increased concern for disinfection and sterilization processes</li> </ul>
Emerging countries	<ul style="list-style-type: none"> <li>Wider range of business opportunities accompanying economic growth</li> <li>Need for training to spread procedure usage</li> </ul>

### Strengths of Business Unit

- Dominating global market share for gastrointestinal endoscopes
- High-quality, global repair service infrastructure network
- Comprehensive training facilities and programs

### Focuses for Business Growth

- Maintenance of endoscope market share and improvement of profitability
- Expansion of operations in field peripheral to endoscopes
- Investment in endotherapy devices and expansion of market share for these products
- Contributions to development of endoscopic medicine in emerging countries

### Opportunities

- Rising case numbers due to aging population and higher cancer prevention awareness
- Projected increase in number of lung cancer patients, particularly in emerging countries
- Higher global awareness of cleaning, disinfection, and sterilization

- Potential for requirements for high-level disinfection and sterilization to become more stringent in response to infection issues
- Price competition resulting from global trend toward reducing healthcare costs
- More stringent cleaning, disinfection, and sterilization requirements

### Risks

## Business Strategies / Priority Measures

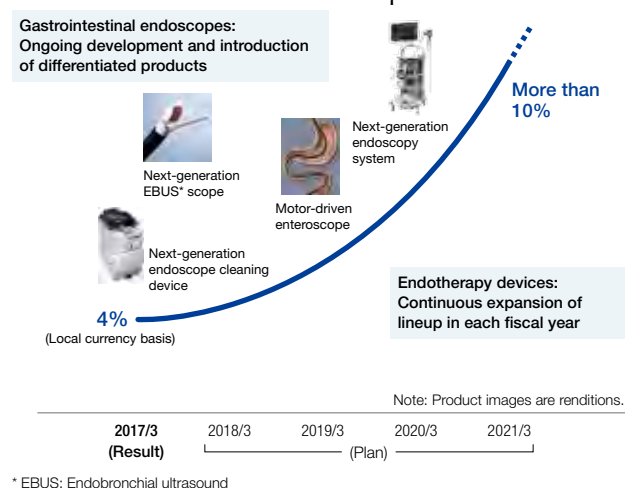
1	Secure Strong Market Leader Position in Gastrointestinal Endoscope Business and Improve Profitability through Selection and Concentration
2	Expand Business in Respiratory, CDS, Endoscopic Ultrasound, Capsule Endoscopy, and IT Fields
3	Realize Business Growth in Emerging Markets
4	Expansion of Endotherapy Device Business (Single-Use Devices)

### Accomplishments in Fiscal 2017 and Future Measures (Tasks)

#### ① Secure Strong Market Leader Position in Gastrointestinal Endoscope Business and Improvement 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. At the same time, we will work to improve profitability by boosting the efficiency of R&D, manufacturing, and sales functions. In fiscal 2017, performance was solid in the gastrointestinal endoscope field, with double-digit sales growth being recorded in China and other parts of Asia and Oceania. 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 and treatments with Olympus endoscopes to be performed with increased efficiency. For example, during the period of 16CSP, we plan to systematically introduce scopes designed specifically for certain procedures to address such needs. In the latter half of the period, we are scheduled to launch next-generation platform systems for gastrointestinal endoscopes, which will accelerate growth during the second half of the plan.

#### GIRBU Growth Rates and Product Expansion Plans



#### ② Expansion of Endotherapy Device Business (Single-Use Devices)

In North America, the largest market for endotherapy devices, we achieved double-digit sales growth for these devices for the third consecutive year. This accomplishment was a result of initiatives such as enhancing product lineups and reorganizing sales forces. 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 continuously develop differentiated products and acquire lineups of competitive products while 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.

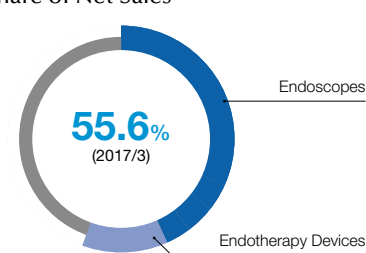
## KPI (16CSP)

Net Sales: CAGR of 7%		
Field	Target	Market Scale (Growth Forecasts)
Endoscopes	CAGR: 6%	¥350 billion–¥370 billion (CAGR: 4%–6%)
Endotherapy Devices	CAGR: 9%	¥370 billion–¥390 billion (CAGR: 4%–6%)

#### Net Sales

GIRBU:  
¥319.7 billion  
(2017/3)

#### Share of Net Sales





MEDICAL BUSINESS

# General Surgery Business Unit (GSBU)



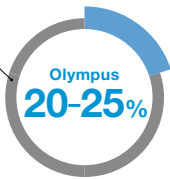
Head of General Surgery Business Unit  
**Tomohisa Sakurai**

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.

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

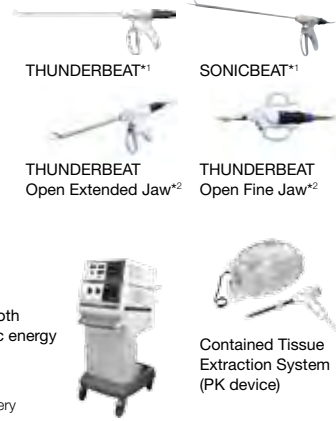
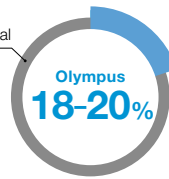
### Surgical Imaging

STORZ  
Stryker  
Richard Wolf  
Arthrex



### Surgical Energy Devices

ETHICON  
Medtronic  
Applied Medical



\*1. For laparoscopic surgery and open surgery  
\*2. For open surgery

## Operating Environment / Risks and Opportunities

### Operating Environment

Surgical imaging	<ul style="list-style-type: none"> <li>■ Growing maturity of 3D device market over the medium term, normalization of imaging sensors and data transferring technology compatible with 4K systems, and acceleration of full 4K system introduction</li> <li>■ Ramped up R&amp;D activities related to special light imaging technologies by companies for soliciting unique value to customers</li> </ul>
Surgical energy devices	<ul style="list-style-type: none"> <li>■ Maturity to progress in European, Japanese, and then Chinese markets while the United States remains the largest market for energy devices</li> </ul>

### Strengths of Business Unit

- Only manufacturer to provide both the surgical imaging devices and the energy devices necessary for endoscopic surgery
- High-resolution and high-quality 3D, 4K, and other systems
- Operating room integration field business foundations reinforced through acquisition of Image Stream Medical, Inc.

### Focuses for Business Growth

- Growth greatly exceeding market growth rate
- Establishment of new de facto standard in surgical imaging market
- Development of single-use device business model

### Opportunities

- Rising demand for increasing clinical and economic efficacy
- Growing demand for minimally invasive therapy due to increased detection of early stage diseases through early diagnosis
- Expansion of minimally invasive therapy markets in emerging countries

- Greater emphasis on cost performance stemming from growing pressure to limit healthcare costs
- Focus on centralized purchasing through IDNs and GPOs
- Entry into market by low-cost manufacturers

### Risks

## Business Strategies / Priority Measures

1	Establish New De Facto Standard in Surgical Imaging Market
2	Fully Leverage Strengths of Olympus in Gastrointestinal Endoscope Field
3	Secure No. 3 Position in Energy Device Market and Encroach upon No. 2 and No. 1 Positions
4	Establish Single-Use Device Business Model

### Accomplishments in Fiscal 2017 and Future Measures (Tasks)

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

Fiscal 2017 sales growth in the surgical imaging market was slower than had been anticipated. Factors behind this slow growth included the increasing complexity of the purchase decision-making processes at hospitals as well as the larger amounts of time these institutions have been devoting to comparing products from different companies. However, progress in the implementation of our strategies and priority measures was on schedule. Specifically, the newly introduced VISERA ELITE II—the next-generation successor of a mainstay surgical endoscopy system—was developed as a differentiated product that is compatible with 3D scopes, which support swift and accurate surgeries, and infrared observation and otherwise incorporates the needs of physicians to the greatest degree possible. Following up on the release of the VISERA ELITE II in the European and Japanese markets, this product will be systematically introduced into the North American and Chinese markets going forward. In regard to our 4K surgical endoscopy system, a strategic product developed by Sony Olympus Medical Solutions Inc., we have made steady progress in soliciting this product to customers that have mainly used rival products, encouraging them to convert to Olympus products. Both the VISERA ELITE II and the 4K surgical endoscopy system are equipped with functions and technologies that differentiate them from competitors' offerings and have thus won strong praise from healthcare professionals. By soliciting the value of these products, we aim to raise their level of recognition in the market and thereby expand our market share while establishing these products as the new de facto standard for 3D and 4K systems in the surgical imaging market.

### Characteristics and Benefits of the Newly Introduced VISERA ELITE II

#### 1. Improved usability

- All-in-one system
- Space saving realized through integration of processor, light source, and 3D image processor and intuitive controls via low-cost LCD touch panel

#### 2. Higher observation capabilities

- New infrared observation function\*
- Increased NBI brightness
- Higher resolution (Enhanced coloring of bleeding sites, more natural colors, etc.)

#### 3. Multipurpose platform

- Compatible with a wide range of hospital departments (Efficient operation within hospitals through diverse scope lineup and extensive range of observation modes)

#### VISERA ELITE II



\* For details on the infrared observation function, please refer to page 43.

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

The energy device business is anticipated to grow at a startling pace, thereby driving the growth of the Company. Olympus aims to expand its share in the energy device market by broadening its device portfolio and shortening the product development cycle. THUNDERBEAT, a strategic product, continues to deliver strong performance, with double-digit sales growth in principal regions in fiscal 2017. THUNDERBEAT is an energy device that integrates advanced bipolar and ultrasonic energy. As a platform, THUNDERBEAT is compatible with our lineup of THUNDERBEAT products, which includes instruments for laparoscopic surgeries and for open abdominal and chest surgeries, as well as with the SONICBEAT ultrasonic energy device and the bipolar PK device. THUNDERBEAT is thus a shared platform that can be utilized to approach a wide range of clinical departments. Looking ahead, we will continue expanding our energy device market share by bolstering our lineup of products through the development of devices that are compatible with various surgeries and procedures while also growing our single-use device operations.

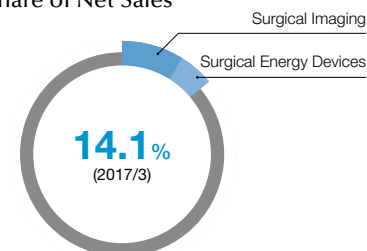
## KPI (16CSP)

Net Sales: CAGR of 11%		
Field	Target	Market Scale (Growth Forecasts)
Surgical Imaging	CAGR: 10%	¥260 billion–¥290 billion (CAGR: 2%–4%)
Surgical Energy Devices	CAGR: 14%	¥160 billion–¥180 billion (CAGR: 3%–5%)

### Net Sales

GSBU:  
¥81.3 billion  
(2017/3)

### Share of Net Sales



MEDICAL BUSINESS

# Urology / Gynecology Business Unit (UGBU)



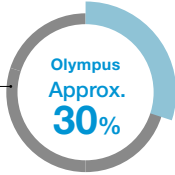
Head of Uro / Gyn Business Unit **Minoru Okabe**

The UGBU 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.

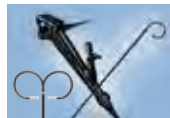
## Global Market Share / Competitors (As estimated by the Company)

### Urology

Karl Storz  
Richard Wolf  
Boston Scientific  
Cook Medical  
CR Bard



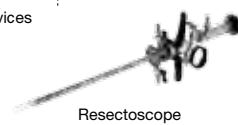
Flexible ureteroscope



Flexible cystoscope



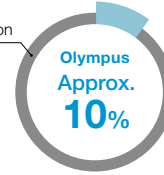
Stone treatment devices (single-use)



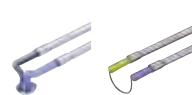
Resectoscope

### Gynecology

Karl Storz  
Richard Wolf  
Johnson & Johnson



Flexible hysteroscope



Therapeutic electrodes

## Operating Environment / Risks and Opportunities

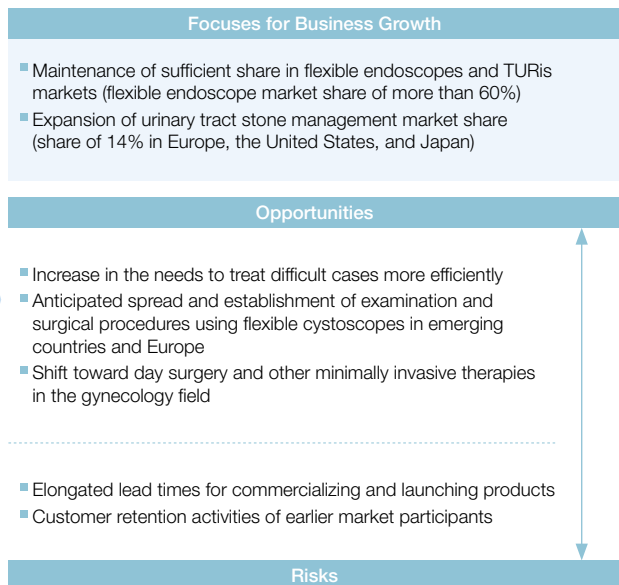
### Operating Environment

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 day surgery and prevention of reoccurrence</li> <li>Approx. 1.8 million stone treatment procedures conducted annually; number of high-efficacy endoscopic treatments (ureteroscopic lithotripsy) rising (compound annual growth rate: 4%)</li> </ul>
Gynecology	<ul style="list-style-type: none"> <li>Previously, no competitor with an overwhelming gynecology market share, with the field mostly served by multi-specialty companies offering a wide range of products, including those outside of the gynecology field, but potential for massive companies to enter the market through M&amp;A activities and drive the consolidation of the market</li> </ul>

### Strengths of Business Unit

- Robust TURis\* product lineup and high installation base share
- Competitive diagnosis (NBI) and treatment (TURis) technologies
- Superiority in terms of rigid endoscope and high-frequency resection device technologies that can be applied to the gynecology field

\* TURis: Transurethral Resection in Saline



## Business Strategies / Priority Measures

1	Urology: Secure Dominant Shares in Markets for Flexible Endoscopes and TURis Products That Leverage Technological Prowess of Olympus
2	Urology: Strengthen Urinary Tract Stone Management Business Operations to Expand Market Share
3	Gynecology: Increase Market Share by Leveraging Existing Products and Technologies

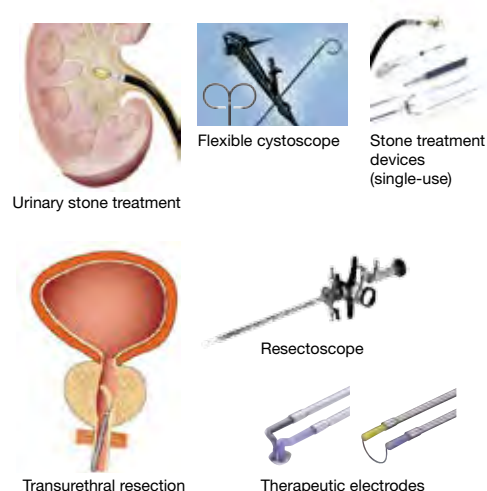
Accomplishments in Fiscal 2017 and Future Measures (Tasks)

### ① Urology: Secure Dominant Shares in Markets for Flexible Endoscopes and TURis\* Products That Leverage Technological Prowess of Olympus / Strengthen Urinary Tract Stone Management Business Operations to Expand Market Share

Olympus boasts an unrivaled competitive edge and dominant market shares for cystoscopes, which are used in the diagnosis of bladder tumors, and flexible ureteroscopes, which are used for treating urinary tract stones and kidney stones. For cystoscopes, we won this share by utilizing the strength of the NBI we originally developed for use in gastrointestinal endoscopes, whereas our share for flexible ureteroscopes was achieved by taking advantage of our small diameter scope technologies. In addition, the top market share for bipolar electrodes for benign prostatic hypertrophy and bladder tumor resection has been claimed with the high-performance, high-frequency technologies we have accumulated in surgical energy device operations.

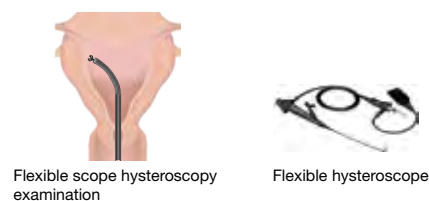
In fiscal 2017, strong performance was seen in all regions centered on bipolar electrodes for benign prostatic hypertrophy and bladder tumor resection, leading to double-digit growth in overall sales for the UGBU and resulting in performance that exceeded our forecasts. Case numbers for both of these treatments are displaying an upward trend. Seeking to take advantage of this trend to drive the ongoing growth of bipolar electrode sales during the second half of 16CSP, we will continue to reinforce the competitiveness of our products while also strengthening customer contact points and sales capabilities. We will also enhance our ability to cater to the needs of GPOs and IDNs while improving support for healthcare professionals to promote the spread of procedures. In addition, we will leverage our high share of the ureteroscope market to grow sales of stone treatment devices (single-use), which are used with flexible ureteroscopes to treat urinary tract stones.

\* TURis: Transurethral Resection in Saline



### ② Gynecology: 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 expand our market share in areas in which we can exploit our superior technologies and competitive products to grow sales. At the same time, we will pursue further sales growth by responding to customer needs through the launch of new transcervical resection in saline (TCRiS) bipolar electrodes and other enhancements to our product portfolio.



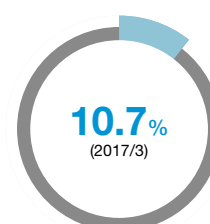
## KPI (16CSP)

Net Sales: CAGR of 8%		
Field	Product	Target
Urology	Flexible Scopes	Acquire and maintain dominating No. 1 share (more than 60%)
	TURis Electrodes	CAGR: 6%
	Stone Treatment Devices (single-use)	Share: 14% (Europe, U.S., and Japan)
Gynecology	TCRiS Electrodes	Share: 5% (U.S.)

Net Sales

UGBU:  
¥61.8 billion  
(2017/3)

Share of Net Sales





MEDICAL BUSINESS

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

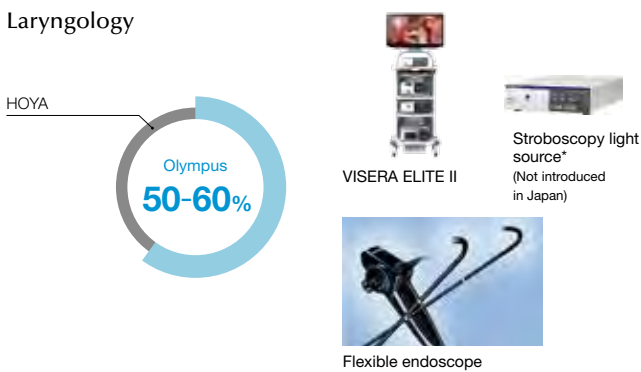


Head of ENT Business Unit  
**Georg Schloer**

The ENTBU 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.

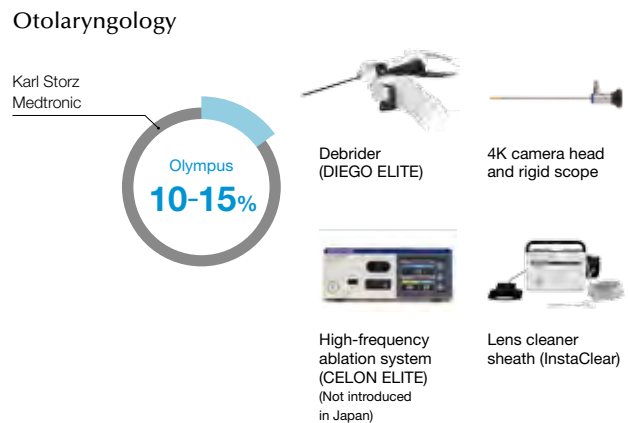
## Global Market Share / Competitors (As estimated by the Company)

### Laryngology



\* Uses stroboscopic light to examine vocal cord movement and determine the presence of polyps

### Otolaryngology



## Operating Environment / Risks and Opportunities

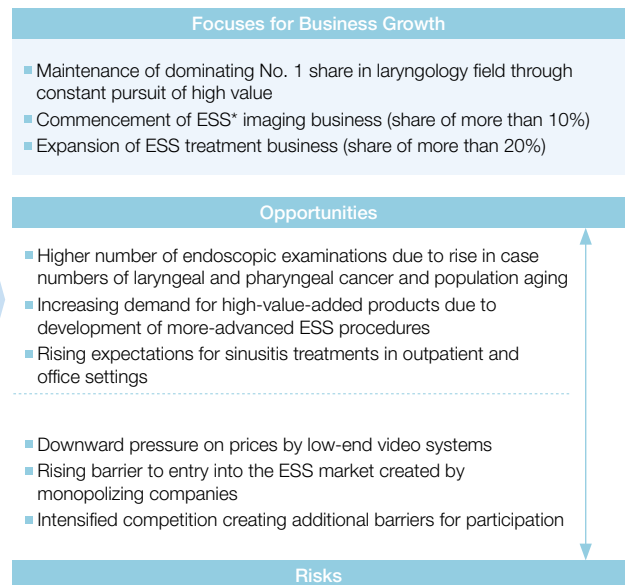
### Operating Environment

Laryngology	<ul style="list-style-type: none"> <li>Improved recognition of NBI benefits</li> <li>Rising needs for early diagnosis</li> </ul>
Otolaryngology	<ul style="list-style-type: none"> <li>Increased needs for high-resolution, wide-color-spectrum images through HD and 4K systems</li> <li>Sinus surgeries and procedures using debridors commonplace in developed countries</li> </ul>

### Strengths of Business Unit

- Competency with regard to imaging devices and endoscopes in particular
- Wide-ranging R&D resources in imaging technology field
- Extensive product portfolio in rhinology and otology fields

\* ESS: Endoscopic Sinus Surgery



## Business Strategies / Priority Measures

1	Laryngology: Expand ENT Flexible Endoscope Operations Centered on “Videonization”
2	Otolaryngology: Acquire ESS Operations
3	Establish Global Sales Systems

### Accomplishments in Fiscal 2017 and Future Measures (Tasks)

#### ① Expansion of ENT Flexible Endoscope Operations Centered on “Videonization”

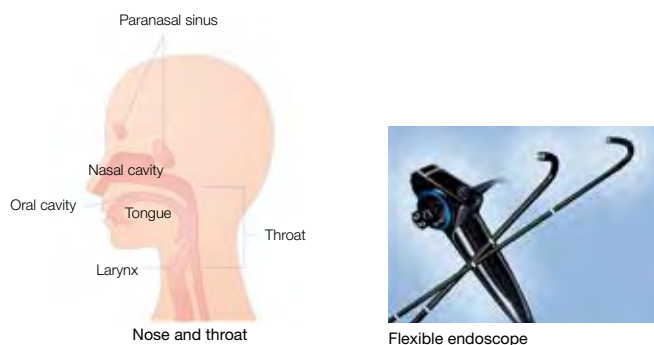
As a result of our global efforts to solicit the medical benefits of narrow band imaging (NBI), the transition from fiberscopes to videoscopes progressed smoothly, contributing to year-on-year increases in both sales volumes and amounts.

In fiscal 2018, we will continue to differentiate Olympus from its rivals. At the same time, we will seek to reinforce ENT business foundations by achieving ongoing growth in videoscope sales through the introduction of new, high-value-added products.

#### ② Acquisition of ESS Operations

Our ESS treatment device (DIEGO ELITE) has been developing a strong reputation for its high-value-added functions, thereby driving the expansion of single-use device operations. At the same time, Olympus’ ESS field imaging operations have also been showing smooth growth. Contributions to this growth came from the introduction of a 4K camera system (capital products), which is garnering praise for its high levels of precision and wide spectra of colors, and the launch of InstaClear (single-use device), a lens cleaning sheath that is used to quickly clean the tips of lenses during procedures.

In fiscal 2018, we will continue soliciting the differentiated performance of DIEGO ELITE, the 4K camera system, and InstaClear while simultaneously building upon our distinctive strengths from the perspectives of “See & Treat.” Furthermore, both capital product and single-use device operations will be expanded. Through these efforts, we will seek to bolster our ESS operating foundations.



Flexible endoscope

Laryngeal and pharyngeal region examinations are conducted by inserting flexible endoscopes via the nasal cavity.



Clogged paranasal cavities are cleared by making incisions with debriders, while observing the site via endoscopes, to extract the pus that has accumulated in the cavity.

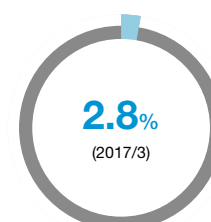
## KPI (16CSP)

Net Sales: CAGR of 13%		
Field	Product	Target
Laryngology	Flexible Scopes	Maintain dominant No. 1 share by pursuing even higher levels of product and service value
Otolaryngology	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%

### Net Sales

ENTBU:  
¥16.1 billion  
(2017/3)

### Share of Net Sales



MEDICAL BUSINESS

# Medical Service Business Unit (MSBU)



Head of Medical Service Business Unit

Yoshihito Shimizu

We recognize the Medical Service Business Unit as supplying a core competency of Olympus that supports the Medical Business. This business unit will continuously strengthen customer contact points to provide ongoing support for the overall growth of the Medical Business. Specifically, we aim to further enhance relationships with customers and grow our medical service business. To this end, we will allocate the management resources necessary for establishing and reinforcing service system foundations in emerging countries that are projected to grow rapidly while providing services matched to various customer needs.

## Business Strategies / Priority Measures

- 1 Expansion of Service Contracts\*1
- 2 Reinforcement of Surgical Device Field Services
- 3 Deployment of Efficient Repair Services and Improvement of Productivity

### Accomplishments in Fiscal 2017 and Future Measures (Tasks)

Olympus has continued working 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 respond to various customer needs and realize high levels of customer satisfaction. In addition, we will enhance endoscopic medicine support services.

In fiscal 2017, the first year of 16CSP, performance was strong in all regions, leading to growth in line with our expectations. Seeking to develop even more appealing service contracts, we enhanced our service contract management systems and began performing analyses of data on the frequency of use cases prior to product failures\*2 in order to facilitate preventive medicine activities. In regard to services for the surgical device field, our efforts are focused on services that contribute to improvements in device operating rates. At the same time, we are undertaking a reform of our base network centered on Europe and the United States, which includes reorganizing, consolidating, and establishing new repair bases. We commenced operations at a new repair base in Portugal in April 2017, and the construction of our second repair base in North America is currently underway in Tennessee State of the United States. In the future, we are planning the sequential start-up of new repair bases in the Middle East (Dubai) and Asia. Coordination will be pursued with the manufacturing function in order to maximize the benefits of the consolidation of repair bases as we move ahead with the reorganization and reinforcement of our repair functions. Although repair bases will be consolidated, service bases will be maintained to function as contact points with customers in order to improve efficiency, quality, and profitability while also enabling us to provide services that thoroughly satisfy our customers.

Medical equipment repair and service sites:  
**Approx. 200** worldwide  
 Of which, major repair sites:  
**50** worldwide  
 (As of June 30, 2017)

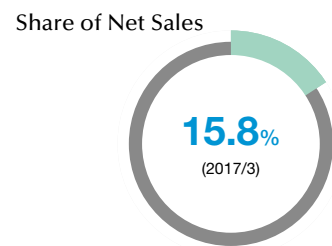


\*1. Service contracts: Single- or multiple-year contracts providing service coverage including free repair, priority access to loaners, regular inspection, and preventive maintenance training  
 \*2. Frequency of use cases prior to product failures: Data usable for planning preventive maintenance training based on customer use patterns

## KPI (16CSP)

Net Sales: CAGR of 5%		
Field	Target	Key Points
Service Contract	CAGR: 6%	<ul style="list-style-type: none"> <li>• Increase number of service contracts</li> <li>• Expand service operations for surgical devices</li> </ul>
General Repairs	CAGR: 0.5%	

Net Sales  
**MSBU:**  
**¥91.2 billion**  
 (2017/3)



# SCIENTIFIC SOLUTIONS BUSINESS



Head of Scientific Solutions Business Unit **Toshihiko Okubo**

We will help make people's lives healthier, safer, and more fulfilling around the world by supplying innovative products and services for supporting scientific research, pathological diagnoses, and inspections of manufacturing and social infrastructure.

During the first year of 16CSP, the Scientific Solutions Business completed its transition from an organizational structure optimized with regard to individual product lines to an entirely optimized organizational structure focused on customer segments. We have thus entered into the stage in which we will be executing customer segment-oriented strategies. By allocating the newly consolidated management resources to customer segments in a focused manner, we will pursue further growth and profitability improvement.

- 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
- Creation of business opportunities and improvement of efficiency through organizational structure based on customer segments

- 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

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

- Large foreign exchange rate movements
- 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

## Operating Environment and Business Opportunities

In the short term, we are witnessing improvements in conditions for the semiconductor and electronic components industries due to increased demand in relation to smartphones and the Internet of Things (IoT). Trends surrounding capital investment are also showing an upturn thanks to increases in resource prices. In the medium-to-long term, we anticipate growth in the Scientific Solutions Business to be driven in part by market expansion stemming from investment in aviation,

transportation, and other social infrastructure. Solutions for the drug discovery and regenerative medicine fields will also contribute to this growth.

Meanwhile, we aim to improve business efficiency and reinforce our earnings foundation in the Scientific Solutions Business by advancing business restructuring. At the same time, we will invest in growth fields over the medium-to-long term to expand earnings.








## Overview of Scientific Solutions Business and Direction of Strategies

The Scientific Solutions Business provides microscopes, which Olympus has been manufacturing since its inception. These microscopes are used in various fields, whether for conducting pathological examinations related to cancer diagnosis, assisting advanced life science or new material research, or performing quality control on manufacturing lines. Furthermore, the industrial endoscopes and non-destructive testing

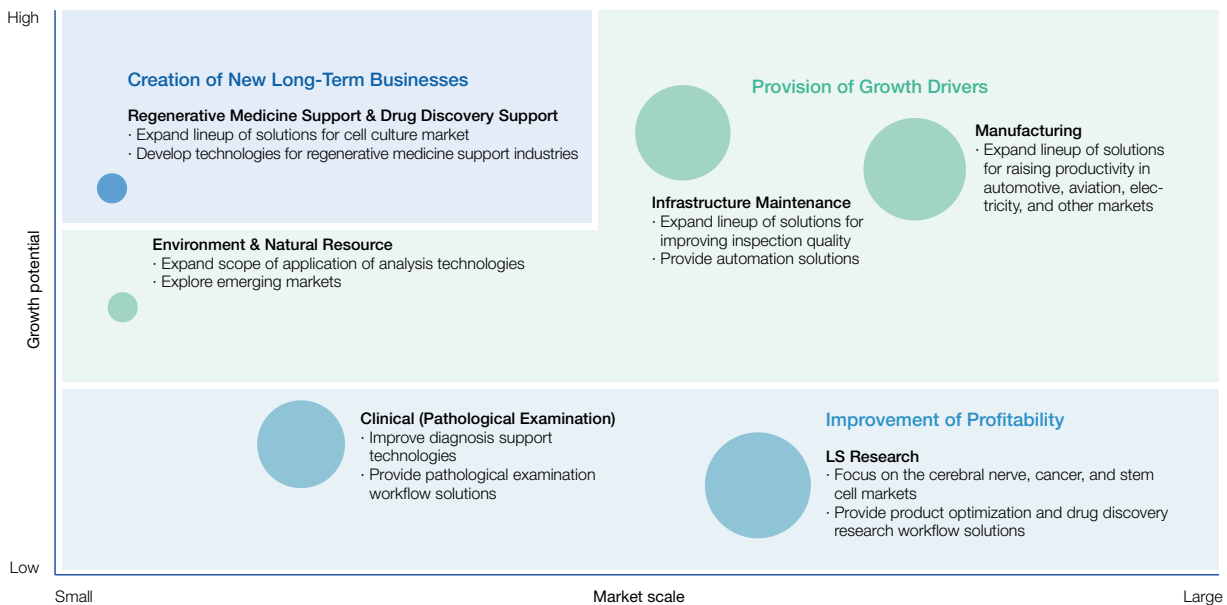
equipment offered in this business are used in inspections and maintenance of social infrastructure, underpinning the safety and efficiency of such activities. Under 16CSP, the Scientific Solutions Business is shifting the focus of its strategies from product lines to customer segments in order to selectively concentrate its resources on growth fields in the pursuit of business expansion and higher profitability.

### Operating Environment and Share Direction of Business

		Product Lines				
Field	Biological Microscopes	Industrial Microscopes	Industrial Videoscopes	Non-Destructive Testing Equipment	X-ray Fluorescence (XRF) Analyzers	
Share	30-40%	20-30%	35-45%	30-40%	25-35%	
Competitors	Nikon, Zeiss, Leica	Nikon, Zeiss, Leica	GE	GE	Thermo Fisher	
Products						
Customer Segment	LS Research					
	Regenerative Medicine Support & Drug Discovery Support					
	Clinical (Pathological Examination)					
	Infrastructure Maintenance					
	Manufacturing					
	Environment & Natural Resource					

### Direction of Business Development by Customer Segment

● Sizes of circles represent portion of total sales

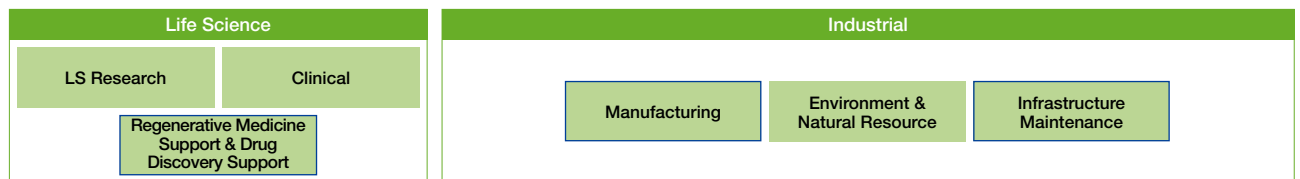


## Priority Measures

1	Realize Continuous Organic Growth and Keep Operating Margin Consistently above 10% through Initiatives Tailored to Customer Segments	<ul style="list-style-type: none"> <li>Grow using existing products</li> <li>Improve profitability by optimizing expenses in existing businesses</li> </ul>
2	Actively Expand Portfolios Targeting Customer Segments from Which Particular Growth Can Be Anticipated in Consideration of Company Strengths and Market Growth Potential	<ul style="list-style-type: none"> <li>Expand lineup of solutions that contribute to increased inspection quality, productivity, and efficiency for customers</li> </ul>
3	Broaden Scope of Development of Drug Discovery and Regenerative Medicine Solutions to Further Long-Term Growth	<ul style="list-style-type: none"> <li>Conduct up-front investments in future growth</li> </ul>

## Accomplishments in Fiscal 2017 and Future Measures (Tasks)

Accomplishments	Future Measures (Tasks)
<ul style="list-style-type: none"> <li>Contributions to performance primarily during second half of fiscal year from strategic products introduced into our biological microscope, industrial endoscope, and X-ray fluorescence (XRF) analyzer product lines</li> <li>Proactive expansion of product portfolio for manufacturing, infrastructure maintenance, and other customer segments in which we can anticipate market growth and leverage Company strengths</li> <li>Strong performance in component business supplying components that utilize advanced optical technology and are meant to be embedded in other equipment and for non-destructive testing equipment designed to be incorporated into automated inspection processes</li> </ul>	<ul style="list-style-type: none"> <li>Realization of sales and income growth for existing product lines by expanding market share through the development of new products and sales methods that cater to customer segments</li> <li>Advancement of R&amp;D ventures to expand portfolio and implementation of other strategies for creating new sales opportunities</li> <li>Investment in long-term growth in the regenerative medicine support and drug discovery support fields, which are anticipated to see market growth in conjunction with future advancement of research</li> </ul>



**Contributions to Life Science and Medical Research**  
By supplying biological microscopes, Olympus supports basic life science research for purposes such as gaining knowledge about diseases. In the future, we will conduct research and development of microscope products based on the needs of users in support of regenerative medicine and drug development, and subsequently create new demand for these products in such growth markets.



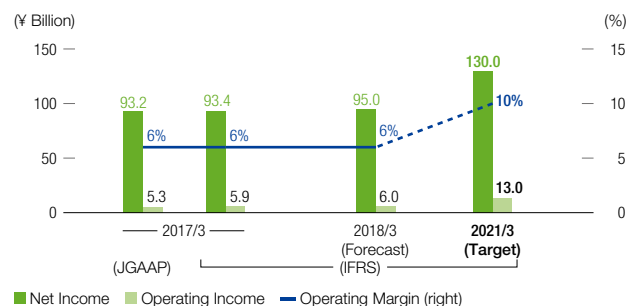
**Contributions to Improved Efficiency and Quality in Industry**  
Olympus provides various inspection, measurement, and analysis solutions, including those for use in quality inspections in the steelmaking, automotive, and aircraft industries as well as for use with the delicate electronic components 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 (16CSP)

<b>Net Sales: ¥130 billion Operating Margin: 10%</b> (FY2021)		
Indicator	Target	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> </ul>
Operating Income (Operating Margin)	¥13 billion (10%)	<ul style="list-style-type: none"> <li>Product and technology portfolio expansion targeting additional sales growth</li> </ul>



# IMAGING BUSINESS



Head of Imaging Business Unit **Masamichi Handa**

We will provide people with joy and make their lives more fulfilling through the supply of mirrorless cameras and other innovative products.

The Imaging Business has successfully transitioned to a cost structure that enabled it to achieve profitability. Our next step will be to continue structural reforms to ensure that we can stably generate income. Looking ahead, we will strive to supply products and services that are uniquely Olympus by identifying customers' photography needs and stepping up the development, manufacture, and sale of high-value-added products.

- 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)

- Small shares of massive U.S. and Chinese markets

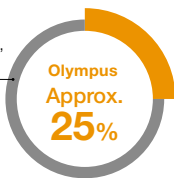
Strengths	Weaknesses
S	W
O	T
Opportunities	Threats

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

- Intensified competition in mirrorless camera market
- Further evolution of smartphones and tablets

## Domestic Market Share (Mirrorless cameras)

Canon, Nikon, Sony, Panasonic, etc.



## Digital Cameras



Mirrorless interchangeable-lens cameras, compact digital cameras, digital camera-related products, digital camera lens barrels, optical components

## Others



IC recorders, binoculars

## 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 continue generating income, despite the reduced sales. We are also enhancing earnings structures by strengthening sales of high-margin interchangeable lens products.

## Priority Measures

1	Advance Ongoing Business Structure Reforms	<ul style="list-style-type: none"> <li>Focus on the development of high-value-added mirrorless cameras (primarily OM-D series) and interchangeable lenses (PRO series) boasting competitive prices</li> <li>Develop systems that allow for improved efficiency in new product manufacturing start-ups and mass production by transferring production to Vietnam</li> <li>Increase the procurement of finished units and establish systems for Companywide purchasing</li> </ul>
2	Improve Responsiveness to Market Changes	<ul style="list-style-type: none"> <li>Monitor the market scale and Olympus' share to respond to changes in conditions by improving sales function efficiency and advancing the selection and concentration of target market segments</li> </ul>
3	Minimize Inventory Risks	<ul style="list-style-type: none"> <li>Reduce product supply lead times and lower risks associated with overdependence on certain regions to shorten inventory turnover periods</li> </ul>
4	Contribute to Olympus as Groupwide Technology Driver	<ul style="list-style-type: none"> <li>Establish comprehensive range of technologies for 4K and 8K video, development of devices necessary for recording at these resolutions, and optimization of interface with outputs (monitors)</li> <li>Apply advanced digital, low-cost manufacturing, and mobile technologies—which are created through the process of developing and manufacturing OM-D series cameras and PRO series lenses—to other businesses</li> </ul>

## Accomplishments in Fiscal 2017 and Future Measures (Tasks)

Accomplishments
<ul style="list-style-type: none"> <li>Achievement of profitability through structural reforms                             <ul style="list-style-type: none"> <li>Selection and concentration of sales channels</li> <li>Transference of production to the Vietnam plant (phase 1), reduction in ratio of manufacturing costs to net sales</li> </ul> </li> <li>Reinforcement of earnings foundation                             <ul style="list-style-type: none"> <li>Revision of cost structures through streamlining of development processes</li> <li>Improvement of product quality through enhancement of quality assurance systems</li> <li>Optimization of inventory levels (¥23.7 billion on March 31, 2015 → ¥13.6 billion on March 31, 2017)</li> </ul> </li> <li>On-schedule introduction of OM-D E-M1 Mark II and three M. ZUIKO PRO series lenses due to concentration on development of mirrorless cameras</li> </ul>

Future Measures (Tasks)
<ul style="list-style-type: none"> <li>Ongoing advancement of structural reforms to maintain profitability                             <ul style="list-style-type: none"> <li>Reinforcement of sales function after streamlining through selection and concentration (monitoring and response to changes in conditions)</li> <li>Expansion of production capacity and improvement of efficiency at Vietnam factory (phase 2 measures to be advanced after production transference)</li> </ul> </li> <li>Ongoing development and manufacturing of high-value-added products and technologies and implementation of marketing and sales strategies based on specialist needs</li> </ul>

## Triple Honors at the Camera Grand Prix 2017 Awards and Receipt of XXVII TIPA Awards

Awards were received by the OM-D E-M1 Mark II mirrorless camera and the M. Zuiko Digital ED 12–100mm f/4.0 IS PRO high-magnification interchangeable zoom lens in the Camera Grand Prix 2017 Awards and the XXVII TIPA Awards.



Named "Lens of the Year" in Camera Grand Prix 2017 and received "Best CSC Telephoto Zoom Lens" award in XXVII TIPA Awards



Named "Camera of the Year" and received "Readers Award" in Camera Grand Prix 2017 Awards and "Best Mirrorless CSC Professional" award in XXVII TIPA Awards



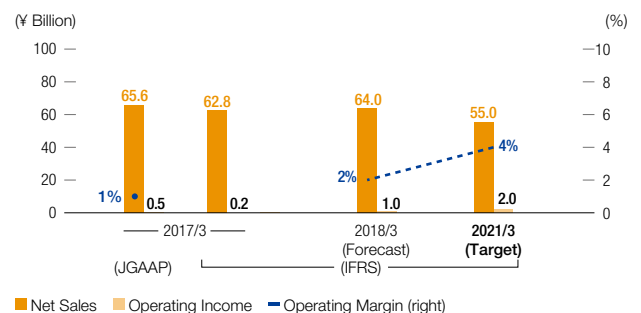
Yukihiko Sugita  
Head of Imaging Development Headquarters (right)



Development team for the OM-D E-M1 Mark II mirrorless camera and the M. Zuiko Digital ED 12–100mm f/4.0 IS PRO

## KPI (16CSP)

Maintain profitability by improving earnings structures		
Indicator	Target	Key Points
Net Sales	¥55 billion	<ul style="list-style-type: none"> <li>Achieved full-year operating income for the first time in seven years</li> </ul>
Operating Income (Operating Margin)	¥2 billion (4%)	<ul style="list-style-type: none"> <li>Increased portion of sales from mirrorless cameras despite lower net sales</li> </ul>





# Management Resources Supporting Our Competitive Edge

## R&D Activities

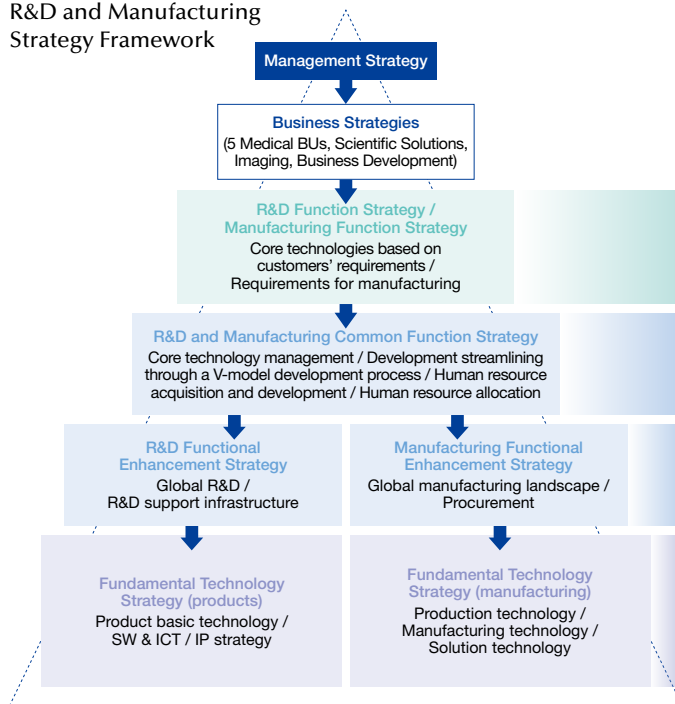
Product innovation at Olympus, and the eventual commercialization of all Olympus products, is rooted in the Company's policy of developing advanced technologies with the next 10 years in mind. New ideas and new technologies from Olympus lead to brighter futures for individuals and society.

### 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



### Relationship between R&D Strategy Framework and Management Targets

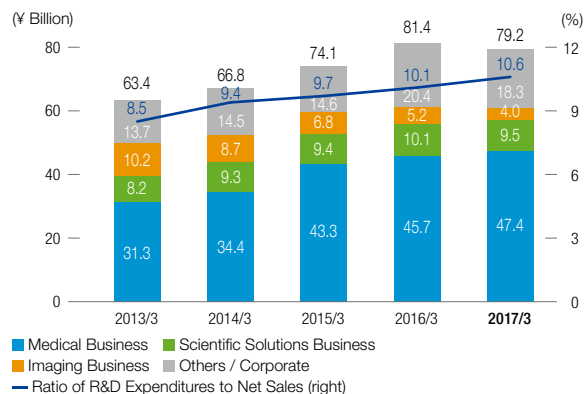
Strategy Framework	Relationship to Management Targets				
	Capital efficiency (Development efficiency improvement)	Profitability (Cost of sales ratio reduction)	Business growth (Sales expansion)	Business growth (Preparations for new businesses)	
Business field technology development function strategies	Medical		○	○	
	Scientific Solutions				
	Imaging				
Functional enhancement strategies		○	○		
Fundamental technology strategies	Basic technology	○			○
	Production technology		○	○	○
	Manufacturing technology		○		
	Solution technology	○			

### Overview of R&D Activities

In fiscal 2017, total R&D expenditures decreased 2.7% year on year, to ¥79.2 billion, and the ratio of R&D expenditures to net sales rose 0.5 percentage point, to 10.6%. The R&D function of Olympus aims to provide technical support to the Medical Business and other businesses and to continue to evolve the Company's core technologies. We conducted more than 80%\* of R&D expenditures in the Medical Business. These expenditures were used to fund the development and subsequent launch of products including the VISERA ELITE II, a surgical endoscopy system compatible with infrared observation functions, and THUNDERBEAT Type S, a new THUNDERBEAT model that features enhanced tissue-sealing capabilities.

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

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



## Intellectual Property Activities

Olympus formulates its intellectual property strategies based on 16CSP, the medium-term management plan launched in April 2016, and is advancing intellectual property activities that facilitate its management and business activities. The following are examples of major intellectual property activities.

### Overview of Intellectual Property Strategies

#### Management of Intellectual Properties for Core Technologies

Olympus' core technology management strategy for research and development activities categorizes core technologies linked to customer value into five technology groups based on customer workflows. The Company's core technology management practices are designed to provide balanced support for five technology groups with regard to intellectual properties. In addition to acquiring intellectual property rights for technologies developed by Olympus, we implement other initiatives for creating a strong patent portfolio, which includes incorporating technologies developed by other companies, and for securing freedom in business activities.

#### Enhancement of Global Functions

The United States is a country of critical importance to Olympus' businesses. We are therefore enhancing our global intellectual property functions with the aim of acquiring more extensive intellectual property rights and increasing our ability to respond to patent disputes in this country. In addition, we are revising our governance schemes related to coordination between the intellectual property functions of local subsidiaries to further strengthen the intellectual property activities of the entire Group and ensure swift and accurate responses to changes in the environment regarding corporate intellectual properties.

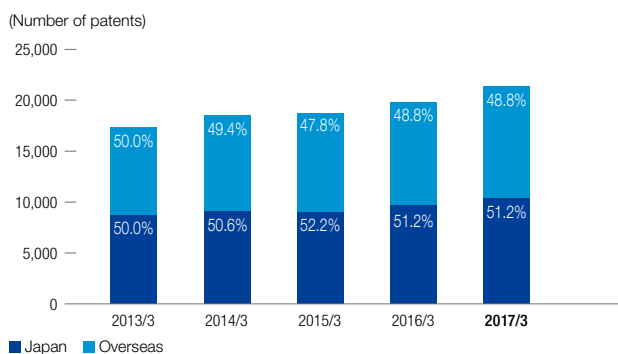
### Patent Portfolio

The following graphs detail the status of Olympus' patent portfolio on March 31, 2017.

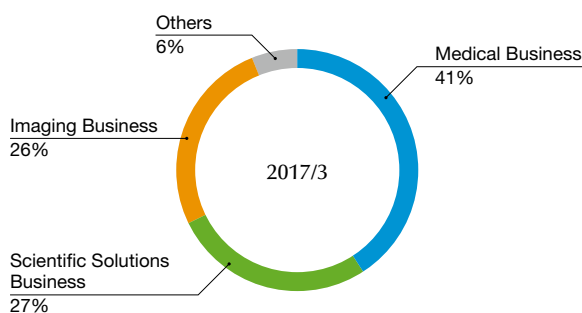
In addition to deploying the aforementioned intellectual property strategies, we defined the policy of increasing the number of patents held overseas in conjunction with the globalization of Olympus' business activities. As a result of related efforts, the number of patents held overseas on March 31, 2017, was 7% higher than a year earlier. In addition, patents held overseas represented approximately 50% of the Company's total patent

portfolio, while roughly 40% of Company's patents were associated with the Medical Business. Both ratios were unchanged from the previous fiscal year. This situation was a result of our acquiring intellectual property rights that will make greater contributions to business development while also disposing of certain rights in the Medical Business for which value has been diminished. We thereby sought to create an effective and waste-free patent portfolio while maintaining upkeep fees for intellectual property rights at an appropriate level.

#### Number of Patents Held in Japan and Overseas



#### Share of Patent Applications by Business Portfolio



### TOPIC

The head inventor responsible for the development of an endoscopy system that utilizes Olympus' narrow band imaging (NBI) technologies, which contributes to the early detection of cancer, was awarded the Medal with Purple Ribbon as part of the Cabinet Office's Biannual Conferment of Decorations in spring 2017. The Medal with Purple Ribbon is awarded to individuals who have contributed to academic and artistic developments. In addition, two developers responsible for the creation of a super-resolution microscope based on confocal microscopes were presented with a Prize for Science and Technology in the Development Category of the 2017 Commendation for Science and Technology by the Minister of Education, Culture, Sports, Science and Technology.



Kazuhiro Gono (right)  
Medical Element  
Development  
Department 1



Shinichi Hayashi (left)  
Katsuyuki Abe (right)  
Optical System  
Development  
Department 2

## 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 resource systems on merits and achievements and focus on fostering all employees while encouraging independent skill development.

#### Basic Policy on Human Resource Systems

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

##### Vision

##### Management

Management will continuously strengthen the potential of the organization by helping individual members reach their full potential through training and guidance that are 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).

### Emphasized Corporate Culture

We believe creating an organization that is able to respond to change requires this organization to be capable of assembling a diverse range of people, with different nationalities, genders, upbringings, and cultures, and combining their various strengths. Accordingly, Olympus has defined five characteristics it seeks to share and encourage in all employees, both in Japan and overseas, to guide its efforts to unite diverse human resources.



### Major Initiatives

#### 1. Global Human Resource Strategy and Human Resource Development

Olympus is currently formulating a global human resource strategy to facilitate efforts to realize the optimal positioning of human resources on a global scale. As part of this strategy, we have already appointed human resources from a diverse range of nationalities to such positions as executive officers and division managers at the Olympus Group's headquarters in Japan.

In addition, Olympus has re-invented its Companywide training systems in Japan to further its efforts to cultivate globally competent human resources among domestic staff. Looking ahead, we will continue investment in human resource development aiming to optimally utilize these resources on a Groupwide basis, which will include actively appointing human resources from overseas to fill posts in Japan.

#### 2. Promotion of Diversity

As one facet of our efforts to promote diversity in Japan, 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 in April 2016. Based on this plan, we have expanded the range of employees to which our telecommuting system is available, and we are

providing Work-Life Integration training for management with an eye to systematically cultivating female employees as well as management candidate cultivation training aimed at promoting female employees to management positions. In addition, the dedicated Diversity Promotion Group has been established, and we are thus working to strengthen diversity promotion systems.

Overseas subsidiaries are also advancing initiatives for utilizing diverse human resources. Specific initiatives include the drive to develop a workplace environment that is more conducive to various employees working together as part of diversity and inclusion programs at our U.S. subsidiaries. These programs include encouraging the hiring and promotion of employees with diverse cultural backgrounds, taking steps to deepen employee understanding regarding other cultures, supporting employees attempting to work while raising children, and

introducing systems providing flexibility in working times and locations. Meanwhile, subsidiaries in Germany are receiving consultation from a third-party specialist firm on how to assist employees seeking to balance their work with child-rearing or providing long-term care to family members. Subsidiaries in the United States and the United Kingdom have worked to address this issue by establishing daycare centers, each of which are attended by between 80 and 90 children, to offer aid to working parents.



Daycare center at U.K. subsidiary



Daycare center at U.S. subsidiary

### Performance

	2016/3	2017/3
Ratio of female managers	1.4%	1.9%
Ratio of female full-time employees	13%	14%
Ratio of female new graduate hires	19%	25%

### 3. Promotion of Health and Productivity Management

It is Olympus' goal to foster a corporate culture in which all employees are in good physical and mental health and are filled with vitality in order to help every employee enjoy a healthier and happier life. We are therefore deploying measures to support the health improvement efforts of employees through coordination with the Health Insurance Association. In fiscal 2016, we began the "Mind and Body Vitality Project," which promotes activities with an emphasis on (1) prevention of lifestyle-related diseases,

(2) early detection of cancer, and (3) prevention of mental health disorders. In addition, overseas subsidiaries are promoting employee health through various initiatives of their own. Examples of these initiatives include early cancer detection campaigns, lifestyle disease prevention and improvement seminars, establishment of physical and mental health consultation venues, and provision of financial aid for enrollment in fitness gyms and participation in sports activities.

## External Recognition

### Japan

#### Inclusion in 2017 Excellent Enterprise of Health and Productivity Management—White 500 Selection

Olympus is strategically practicing health and productivity management with a constant focus on employee health management. As a result of these efforts, in February 2017 the Company was chosen for selection in the 2017 Inclusion in Excellent Enterprise of Health and Productivity Management—White 500, which is jointly compiled by the Ministry of Economy, Trade and Industry, and Nippon Kenko Kaigi, out of recognition for the excellence it has exhibited in this area. Going forward, Olympus will continue to contribute to society by creating a workplace environment that helps improve the health and vitality of employees and their families and by supporting customer health through its business activities.



#### 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 has designated Olympus as a "Kurumin" certified company.



### Overseas

#### Receipt of Two Awards by Olympus Europa

German subsidiary Olympus Europa SE & Co. KG received two awards related to healthcare during fiscal 2017. The first award was the Felix Burda Award,\*1 which was presented to this company by Felix Burda Stiftung, a foundation that promotes cancer prevention healthcare programs. The second award was the No. 1 ranking in the 2017 Corporate Health Award,\*\*2 the most prestigious corporate health award in Germany.



\*1. Most prestigious award for colorectal cancer prevention initiatives targeting companies in Germany, Austria, Switzerland, and the Netherlands

\*\*2. Award program rating companies based on criteria including overarching concept of a healthy life, ongoing health promotion activities, welfare systems, and management's commitment to health programs; in 2017, 13 organizations were awarded the No. 1 ranking from among 304 organizations in 13 categories; Olympus' program was named "Top of the Tops"





### Discussion between a Long-Term Investor and an Outside Director (Chairman of the Board of Directors)

## Path to Creation of Global-Level Governance Structure Targeted by Olympus and Enhancement of Effectiveness

### Akitsugu Era

Director, Head of Investment Stewardship at BlackRock Japan  
BlackRock Japan Co., Ltd.

### Difference between Olympus' Past and Current Board of Directors

#### Hiruta

When Olympus instated the new management team in 2012 in wake of the series of scandals, the Company's first priority was to establish a corporate governance structure that would allow it to recover from the state of crisis in which it was placed after the scandals and to ensure the effectiveness of this structure. Comparing the past structure with the current one, a major difference we will see is that the Board of Directors comprises a majority of outside directors who are also designated as independent directors. Another major difference is that, although Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan, it has also voluntarily established three independent committees—namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee—which are all chaired by outside directors and membered by a majority of such directors. What I want to emphasize here is how Olympus implemented its governance system while also providing support from the Board of Directors, which entailed improving the capabilities of the staff of each function.

Olympus then moved on to a new stage for governance during which it shifted its focus toward growth strategies. In this stage, the Company adopted a forward-looking perspective as it reorganized its operations, discerning those businesses that would be continued and those from which it would withdraw, and drastically reallocating management resources to growth fields. As such, one focus of Olympus was constructing an optimal executive management system for supporting those efforts. On the governance front, one positive change that arose from the process was the fact that briefings, which are attended by outside directors as well as Audit & Supervisory Board members, are now always held prior to meetings of the Board of Directors. These briefings provide an opportunity for us to point out areas in which the materials and information provided are lacking and for exchanges of opinion to be conducted between outside directors. Representing a majority of the Board of Directors, outside directors must be well versed

on the internal information needed to judge the effectiveness of operational execution and also have an effective understanding of the circumstances within the Company if they are to make responsible decisions. To facilitate such understanding, Olympus regularly holds forums for making announcements regarding internal manufacturing activities and for reporting on the progress of R&D projects. All directors attend these forums to receive the information necessary for making judgments. As a result, over the past five years there has not been one case in which differences of opinion arose due to a lack of information.

#### Era

I understand it was quite challenging to recover the trust of stakeholders after the accounting scandals came to light. At the time, a report issued by the Third Party Committee indicated that the root cause of the scandals could be identified in the Company's excessively top-down-oriented management style of the Company and in its corporate culture. This likely means that there was no one in the Company who was willing to speak out against management. Have you observed any significant changes in Olympus' current corporate culture in comparison to when you initially assumed your position?

#### Hiruta

Olympus' corporate culture is changing steadily. For example, the Board of Directors now follows a procedure in which opinions are solicited from relevant specialized divisions with regard to important agenda items and attached to proposals before they are introduced or discussed at meetings of the Board. Looking at these changes, I can see the great improvements that are taking place in Olympus' corporate culture. These improvements are founded on an overarching culture that has been fostered within Olympus. In this culture, rather than feeling as though they are unable to speak out against management, business execution divisions see no need to speak up, instead devoting themselves to carrying out the instructions issued by senior management.

Olympus seeks to create a corporate governance structure that is suited to a truly global company, and the Company is working to establish such a structure and enhance its effectiveness. We arranged for a discussion to be held between a long-term investor of Olympus and the chairman of the Board of Directors on the governance structure targeted by the Company, which is entering into a new stage, and what is necessary for this structure to be effective.



## Shiro Hiruta

Outside Director (Chairman of the Board of Directors)  
Olympus Corporation

### Era

I noticed that the Board of Directors at Olympus met 23 times a year, nearly twice the frequency of an average Japanese company. What was the focus and agendas of these meetings?

### Hiruta

The greatest duty of outside directors is to check the strategies put forth by the executive management team to determine whether or not they effectively reflect changes in economic and social trends and address possible future trends. We must also offer advice from this perspective. For example, it is possible that the executive management team might seek to expand a certain business based on the assumption that people's sensibilities

and the operating environment will remain unchanged.

However, viewed from the differing perspective of an outside director, it might be apparent that this business should be exited. Accordingly, we can contribute to Olympus' growth by providing advice on business plans based on new values that differ from the logic and values seen within the Company. As the next step in the evolution of the functions currently carried out by outside directors, I hope to see finance, human resource, and other business execution divisions within Olympus rise to a level at which they are able to break away from their conventional values and frameworks to judge the appropriateness of their activities from a third-person perspective.

## Cultivation of Human Resources for Supporting Future Management

### Era

This evolution also appears to be closely related to how Olympus will grow its next generation of leaders from a long-term perspective. How much discussion has been held with regard to management succession plans?

### Hiruta

In addition to improving the level of its business execution divisions, Olympus seeks to enhance the management capabilities it can exercise as a team. To this end, we are shifting to an executive management system that is capable of cultivating a management team in which the officers responsible for the business and function sides of operations under the matrix style organizational structure are able to view overall business operations from various perspectives. Succession plans will need to be formulated going forward based on consideration of what role each officer is playing in this framework and what roles they will be expected to perform in the future.

### Era

You mentioned how the ideal form of management changes based on the Company's business status. Do you feel that the role of president has also changed or may change in the future?

### Hiruta

The fundamental mission of the president, I feel, remains

unchanged. When evaluating candidates for the position of president, it is important to judge their individual personalities and whether or not they have the career and mind-set necessary to effectively respond to the changing operating environment.

### Era

So, the qualifications for the role of president role are subject to change depending on the direction of the business and the operating environment, and the candidates should be examined based on their fundamental qualities.

### Hiruta

What is important is for candidates to possess the qualities necessary to the specific era. Companies must maximize their corporate value by contributing to society. The mission of the president is to lead their company to accomplish this task, and this mission has not changed one bit over the years. When it actually comes time to choose a new president, we will need to choose a successor by examining candidates from this perspective.

### Era

The Company's approach is much clear to me now. The fact that such discussions are taking place at the Board level is reassuring for investors.

## Governance and Challenges of Olympus in the Next Stage

Era

Since 2012, Olympus' corporate governance structure has undergone a massive overhaul, and the majority of the Board of Directors are now non-executive directors. There have also been changes in the qualifications of the members of the Board during this process. Today, many of Olympus' non-executive directors have management experience as leaders of prominent companies. And of course, Mr. Hiruta, you are one such director. Has there been any change in the Company's policy regarding the skill sets of members of the Board?

Hiruta

Breaking the evolution of governance at Olympus into stages, the first stage was characterized by a drive to recover from the state of crisis seen after the scandals while the second stage was represented by the shift toward growth strategies. The third stage that lies before us will entail a transition to a global management structure. During the first stage, it was necessary for Olympus to fill its Board of Directors with individuals possessing experience as certified public accountants and lawyers. In the following growth strategy stage, individuals with corporate management experience were desirable. As Olympus seeks transition to a global management structure, it will, of course, need directors with experience in global expansion. At the same time, however, it will be important for the Board of Directors to be diverse in terms of senses of value. I see no problem with the membership of the Board of Directors changing as necessitated by the mission of and the priorities for the governance structure at any given time.

Era

Is Olympus currently at the stage of transitioning to a global management structure?

Hiruta

At the moment, Olympus is moving toward the third stage of its

growth. Roughly 80% of the Company's sales currently come from overseas, and it is therefore becoming ever more important for Olympus to shift toward corporate governance systems that are suited to a global company. This is especially true given how these systems will be vital to developing global operations that incorporate various senses of value. Accordingly, we recognize that the most pressing corporate governance issues facing Olympus at this moment are the establishment of executive management and a corporate governance structure from a global perspective. Addressing these issues will be crucial to ensuring more robust growth in the future.

Era

Olympus has expressed its intent to further incorporate diversity into management. BlackRock also recognizes the importance of diversity. What is difficult about diversity is determining the appropriate balance of different forms of diversity. It is important to focus not only on genders and nationalities (non-Japanese), but also on thoughts and values. However, diversity of thoughts and values is often very difficult to recognize, particularly for an outsider. How are these matters discussed within Olympus?

Hiruta

In the end, it will be necessary to incorporate a more diverse range of individuals into the Board of Directors, perhaps appointing female or non-Japanese directors with varied career backgrounds. However, Olympus is not yet at that stage. At its current stage, it is more important to focus on the diversity of the executive management team. Increasing the diversity of the Board of Directors should be considered as necessary from the perspective of what is required of the Board in order to provide effective oversight for an increasingly global executive management team.

## Perspective, Evaluation Criteria, and Necessary Information Needed for Investors to Weigh Judge Long-Term Corporate Value

Era

Investors entrust capital to companies and management, expecting that this capital will be used to enhance corporate value. Institutional investors, including myself, often have a diversified portfolio and invest in a number of companies. Because of this, unfortunately, we are often unable to meet with the entire management team at the companies in which we invest. This is why we emphasize the importance of corporate governance. If a company is able to articulate its policies, strategies, and the progress of its initiatives regarding management and corporate governance structures, investors will be able to place further confidence in the company upon investing. I feel that the perspective of investors in evaluating the long-term value of companies is quite similar to that of management. However, in the case of investors, these evaluations are made from outside. Therefore, in order for investors and managers to be aligned in their perspectives, it is important for companies to actively provide information to investors in a comprehensive manner.

Factors that investors are interested in understanding include the set of values that direct business decisions and the business models that have been established based on these values. More specifically, we crave information on business characteristics, industry positioning, and how various management resources, such as people, technologies, and capital, are organically utilized in order to create value to differentiate the company from its competitors. Furthermore, information on how the company formulates, executes, and monitors strategies and plans, including the management targets and key performance indicators used in these processes, is also of great interest to investors. We also are interested in understanding the company's view on the balance between execution and oversight, including its ideal board structure. If such important matters are explained along with the rationale for these decisions, it would help investors to determine the appropriate time frame and indicators to be used when analyzing the company, and would also cultivate further mutual understanding among companies and investors.

## Hiruta

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For companies, it is important to address changes in the operating environment while constantly returning back to their basic values when practicing management. At the most fundamental level, I do see corporate earnings as something that can be created by reducing costs or raising selling prices. You see, companies are legal entities when viewed from society. For this reason, a crucial part of management is to always remain aware of a company's dignity. This dignity is tied to a company's ability to contribute to the resolution of social issues. The larger a company's contribution to society, the greater the value of its existence will be. Moreover, society will repay companies for their contributions in the form of corporate earnings. If management remains mindful of this mechanism, corporate value will improve. The degree to which this perspective is ingrained in management is exceptionally important given the ever-present risk of unforeseen circumstances arising in society. However, it does go a little too far to say, for example, that companies should preface all of their activities on the United Nations' Sustainable Development Goals (SDGs). Still, it is prudent for companies to align themselves with the vision of these goals and utilize their own unique potential to pursue corporate activities that are congruent with that vision. Looking at Olympus' Medical Business, for example, initiatives that could be considered for addressing environmental, social, and governance (ESG) issues include seeking means of contributing to the global curtailment of healthcare expenses or helping increase worldwide employment opportunities while making these contributions. Sufficient discussion with this regard has not yet been carried out among the Board of Directors or the executive management team. This is something that will need to be done going forward.

## Era

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From a social contribution standpoint, Olympus' core business seems to be providing a solution to societal issues. Such contributions can actually be achieved by focusing on

core business operations. Is this point strongly recognized by the Company?

## Hiruta

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Olympus has not yet effectively determined how its business can be linked to the 17 SDGs or to ESG issues. However, social contribution is an underlying part of the Company's corporate culture. As such, we naturally found ourselves engaging in extensive discussion about whether our plans would actually contribute to the global curtailment of healthcare expenses at meetings of the Board of Directors when formulating the medium-term management plan.

## Era

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Rising health care costs are becoming a major social issue not just in Japan, but also around the world. I think it will be increasingly important for the Company to connect the dots between such social issues and business solutions. How is the direction of the business being discussed among the Board and what are your thoughts on this point?

## Hiruta

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When formulating 16CSP, discussions were held about what goals the Company should target. Through these discussions, we reached the conclusion that Olympus differs from conventional business-to-consumer and business-to-business companies. Olympus is suited to providing technologies, products, and services that are ideal for enabling specialists to masterfully practice their craft. We thus determined that our aim should be to entrench this perspective throughout our various businesses. Olympus will no longer be able to survive by deploying products made for individual customers; it will need to dedicate itself to serving specialists, to become a "Business to Specialist" Company. This rings true for all of Olympus' business, whether they deal in cameras, microscopes, or industrial equipment. Discussion led us to decide that the Company should grow its business by supplying specialists with the best possible tools for their craft, and that business directives should be formulated accordingly. It was based on this decision that Olympus chose to adopt becoming a "Business to Specialist" Company as its goal.

## Era

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I had wondered why Olympus chose to focus on specialists, rather than focusing on a "Business to Doctor" approach, but the explanation you provided added clarity to this point. I think it would be beneficial for Olympus to further disclose information and explain the backgrounds of such discussions and decisions. It is difficult for external stakeholders to appropriately understand the rationale of such decisions unless a briefing on the decision making process is provided. Proactive information disclosure can change how investors view a particular company. If Olympus continues to actively disclose information on topics including what we discussed today, it would be helpful to the Company in earning trust from investors. I also look forward to supporting Olympus by providing feedback as an investor.






## Olympus' Corporate Governance

### 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 value through its business activities. We call this corporate philosophy "Social IN" and have made it the underlying principle, for all of our activities. Guided by this principle, we will work for our shareholders and other stakeholders in order to realize ongoing corporate growth and medium-to-long-term improvements in corporate value.

Olympus has been continuously 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.



**Corporate Governance Policy:**  
<https://www.olympus-global.com/company/governance/policy.html>

### 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, six of whom are outside directors, representing a majority. 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 position of chairman of the Board of Directors is filled by a director who does not have business execution responsibilities. 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 officer system, which segregates the decision-making function and supervisory function of the Board of Directors from the business execution function of 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 Articles of Incorporation stipulate that the number of directors is not to exceed 15. Directors are to be appointed by a majority vote at the general meeting of shareholders when more than one-third of the shareholders able to exercise voting rights are in attendance.

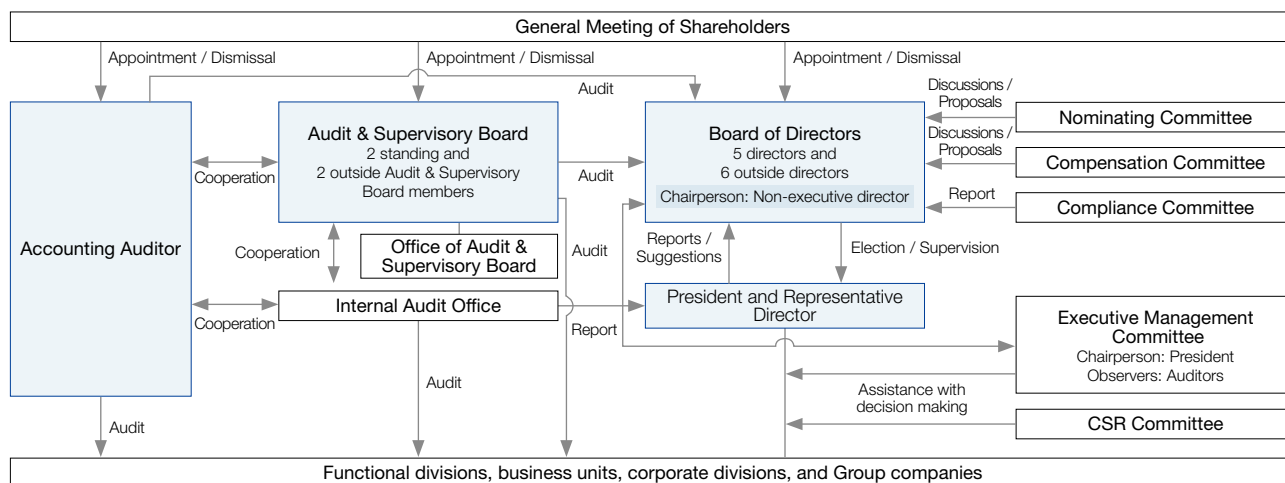
#### Voluntarily Established Committees

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, 2017)

Format	Board of Company Auditors system
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 Each Board and Committee

Name	Chairperson	Outline	Times conducted (FY2017)
Board of Directors	Non-executive director	The Board of Directors approves important management proposals made by the president, the highest authority for executive management, and exercises appropriate oversight of business execution (meets once per month, in principle).	23
Audit & Supervisory Board	Standing Audit & Supervisory Board member	The Audit & Supervisory Board monitors and supervises the execution of duties by directors and oversees the Company's management systems. It also shares opinions with the accounting auditor in relation to annual audit plans, matters pertaining to annual financial results, and year-end audit reports (meets once per month, in principle).	24
Executive Management Committee	President	The Executive Management Committee consists of members who include the president and heads of functional organizations as well as Audit & Supervisory Board members, who attend meetings of this committee as observers. These members discuss important management matters to aid the president in decisions related to these matters (meets three times a month, in principle).	46
Nominating Committee	Outside director	The Nominating Committee comprises at least three directors selected by the Board of Directors and discusses the nomination of directors and Audit & Supervisory Board members as well as matters related to human resources.	11
Compensation Committee	Outside director	The Compensation Committee is composed of at least three directors selected by the Board of Directors and discusses matters related to director compensation.	11
Compliance Committee	Outside director	The Compliance Committee examines important matters related to Group compliance and internal control systems as well as compliance-related matters for which the Board of Directors requests advice. The findings are reported to the Board of Directors.	4
CSR Committee	Executive officer	The CSR Committee checks and issues reports on CSR plans, measures, and initiative progress and also deliberates on matters as deemed necessary by the chairman. The results of these activities are reported to the president and the Executive Management Committee (meets twice a year, in principle).	2

## Policies for Holding Stocks for Purposes Other Than Pure Investment and Exercise of Related Voting Rights

The Company holds shares of listed stock for purposes other than pure investment in cases in which such holdings have been deemed viable for contributing to improved corporate value over the medium-to-long term after verifying the medium-to-long-term economic rationality of such holdings and the outlook for the future. Each year, the Board of Directors reviews major holdings of this nature and verifies the rationality and necessity of such holdings based on the risks and returns that can be expected from said holdings over the medium-to-long term.

Based on this verification, the Board of Directors reassesses the purpose and rationality of these holdings. The Company exercises its rights as a shareholder in relation to stocks held for purposes other than pure investment by voting on all applicable proposals. In this voting, the Company decides whether to vote in favor of or against each proposal based on the circumstances surrounding the management of the company in question as evaluated from the perspective of improving the corporate value of this company over the medium-to-long term.

## Outside Directors and Audit & Supervisory Board Members

Olympus has strengthened the corporate governance structure by appointing six 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 two outside Audit & Supervisory Board members out of the four 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 six 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 FY2017)	
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	
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.	17/18	
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.	18/18	
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.	18/18	
Tetsuo Iwamura*	Mr. Iwamura was appointed so that his extensive experience and diverse knowledge as a business manager at Honda Motor Co., Ltd., may be applied to the Company's management.	Appointed from FY2018	

Outside Audit & Supervisory Board members	Reason for appointment	Attendance at meetings of the Board of Directors and the Audit & Supervisory Board	
		Attendance at meetings of the Board of Directors (Met 23 times in FY2017)	Audit & Supervisory Board (Met 24 times in FY2017)
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.	23/23	24/24
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.	16/18	16/17

\* Independent officers

## Standards for Judging the Independence of Outside Directors and Outside Audit & Supervisory Board Members

The Company has established its Standards for the Independence of Outside Directors and Outside Audit & Supervisory Board Members in order to put forth clear policies for judging the independence of outside directors and outside Audit & Supervisory Board members. Prior to the decision by the Board of Directors, the Nominating Committee, which is

membered by a majority of outside directors, evaluates the independence of each candidate and provides its opinions and advice to the Board of Directors in order to aid in its decision.



**Corporate Governance Report:**  
[https://www.olympus-global.com/company/governance/pdf/report\\_of\\_corporate\\_governance\\_2017.pdf](https://www.olympus-global.com/company/governance/pdf/report_of_corporate_governance_2017.pdf)

## Strengthening of Audit and Supervisory Functions

Olympus has adopted the Company with Board of Company Auditors system. To guarantee the strength of monitoring 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, 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.

## Initiatives for Realizing Effective Corporate Governance

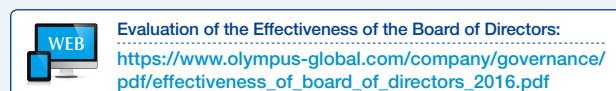
Since the institution of the new management team in 2012, Olympus has been continuously strengthening its corporate governance system and enhancing its effectiveness, positioning these tasks as top management priorities.

### Initiatives for Strengthening Corporate Governance System (Changes)

Structure of Board of Directors	Internal Control / Compliance	Corporate Officer Compensation
<b>Prior to institution of new management team</b> • Directors: 15 (3 of whom were outside directors)		
<b>April 2012, institution of new management team</b> • Directors: 11 (6 of whom were outside directors)	<b>April 2012–</b> • Chief compliance officer appointed • Compliance committee chaired by outside director established • Internal whistle-blower system that is Compliance Helpline (external)-enhanced	<b>June 2013</b> • Stock option system introduced
<b>June 2015</b> • Directors: 10 (5 of whom were outside directors)	<b>April 2016–</b> • Internal Control Department established	
<b>June 2016–Present</b> • Directors: 11 (6 of whom are outside directors)		<b>June 2017</b> • Restricted share and performance-linked share-based compensation systems introduced

### 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 has been instituting annual analyses and evaluations of the overall effectiveness of the Board of Directors since 2015. 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:  
[https://www.olympus-global.com/company/governance/pdf/effectiveness\\_of\\_board\\_of\\_directors\\_2016.pdf](https://www.olympus-global.com/company/governance/pdf/effectiveness_of_board_of_directors_2016.pdf)

### 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 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.

### Evaluation Items, Issues, and Status of Improvement

Evaluation Items	
1. Fulfillment of the functions of the Board of Directors	4. Support system for outside directors
2. Composition and actual operation of the Board of Directors	5. Expectations for the roles of corporate auditors
3. Important committees	6. Relationships with investors and shareholders
Issues Identified in Fiscal 2016 <b>Operation of the Board of Directors</b> (1) Revision of agenda items for Board of Directors' meetings (2) Improvement of proposal and report documents (3) Operation procedure improvements  <b>Promotion of diversity within the Company</b> • Appointment of non-Japanese executive officers	Status of Improvement in Fiscal 2017 <b>Operation of the Board of Directors</b> (1) Revised rules of the Board of Directors to delegate authority for certain items to executive officers (2) Created and utilized templates to facilitate formulation of documents that are easy to understand while providing a sufficient level of information (3) Entrenched practice of reviewing materials prior to meetings, facilitated understanding through pre-meeting briefings, and limited explanations on Board of Directors' meeting days to main points to secure sufficient time for more in-depth discussions  <b>Promotion of diversity within the Company</b> • Appointed non-Japanese senior managers of subsidiaries in the Americas and Europe as executive officers to reinforce global executive management team

### Issues Identified in Fiscal 2017

- More active discussions, particularly with regard to the ideal form of global management (including the ideal form of the Board of Directors)
- Methods for incorporating a wider range of viewpoints into committees

The issues listed to the left were identified in fiscal 2017. The Board of Directors will pursue higher levels of effectiveness by formulating and instituting measures to address these issues while continuing to implement prior improvement measures.



## 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.

### Corporate Officer Compensation in Fiscal 2017

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)	372	267	61	44	—	6
Audit & Supervisory Board members*	56	56	—	—	—	2
Outside officers	104	104	—	—	—	11

\* Excluding Outside Audit & Supervisory Board members

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

The Company introduced a performance-linked share-based compensation system in June 2017. Compensation for directors, excluding outside directors, comprises monthly salaries, bonuses provided as a short-term incentive plan, and restricted share and performance-linked share-based compensation provided as a long-term incentive plan. Monthly salaries are set according to the base compensation for each position and factors such as the degree of contribution to the Company by each individual director. The amount of the total bonus is decided upon taking into consideration consolidated operating income (excluding other income and other expenses) for the applicable fiscal year. Restricted share compensation is provided on the condition that the individual will continue to serve as a director of the Company over a predefined period, whereas performance-linked share-based compensation is linked to the achievement of predetermined performance targets. These systems issue common shares of the Company's stock to applicable directors as a form of compensation that is separate from monthly salaries and bonuses. The goals of these systems are to provide incentives for directors to work toward the ongoing improvement of

corporate value and to have directors further share value with shareholders. The total of restricted share compensation and performance-linked share-based compensation approved at the general meeting of shareholders for fiscal 2017 is up to ¥500 million and 150,000 shares, 82% of which will be attributable to performance-linked share-based compensation. Outside directors only receive monthly salaries and are not eligible for bonuses, restricted share compensation, or performance-linked share-based compensation. Audit & Supervisory Board members only receive monthly salaries, which are determined through discussion among Audit & Supervisory Board members, and are not eligible for bonuses, restricted share compensation, or performance-linked share-based compensation.

### Compensation of Directors (Excluding Outside Directors) by Type

Type of compensation		Ratio
Fixed compensation:	Monthly salaries	50%
	Short-term incentives Bonuses	25%
Variable compensation:	Restricted share compensation	6%
	Long-term incentives Performance-linked share-based compensation	19%
Total		100%

Note: Ratios of compensation by type assume 100% of all performance targets have been accomplished.

The following formulas will be used for calculating the compensation to be paid to directors in fiscal 2018.

#### Calculation Method for Director Bonuses

- Total Value of Remuneration = [(Consolidated operating income (excluding other income and other expenses) in fiscal 2018 – ¥30.0 billion) × 0.2706% × (Total sum of "officer points" for all applicable directors ÷ 663) (rounded to the nearest ¥10,000)]
- 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)

#### Calculation Method for Performance-Linked Share-Based Compensation

Upon the conclusion of a defined three-year period, a number of common shares of the Company's stock will be issued to directors that is equivalent to a predetermined amount after that amount has been adjusted within the scope of 0%–150% based on the degree to which performance targets for the three-year period were accomplished.

- Total Value of Shares to Be Issued = [(Total net income over three-year period – ¥129.5 billion) × 0.053715% + (Average net sales growth over three-year period – 3.1%) × ¥962,419,355] × (Total sum of "officer points" for all applicable directors ÷ 663)
- Total Number of Shares to Be Issued  
The total number of shares to be issued will be determined by dividing the total value of shares to be issued calculated in **1.** above by the closing price for common shares of the Company's stock on the Tokyo Stock Exchange on the day prior to the resolution by the Board of Directors on the allocation of said common shares of the Company's stock (if the stock exchange did not conduct transactions on this day, the closing price from the most recent day on which transactions were conducted will be used)
- Number of Shares to Be Issued to Individual Directors = Total number of shares to be issued ÷ Total sum of "officer points" for all applicable directors × "Officer points" of the individual

### Officer Points

Chairman	President and Representative Director	Director, Vice President	Director, Senior Executive Managing Officer	Director, Executive Managing Officer	Director, Managing Officer
165	210	147	108	90	76

## 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 rules, 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 the 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 rules, working for risk management as the Olympus Group, and implementing related education and training.

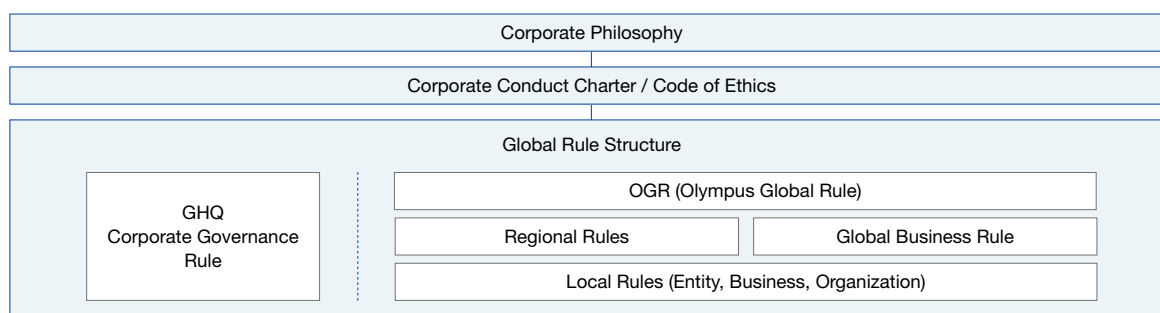
- 3 The CSR Committee shall report and deliberate on plans and measures in relation to risk management and make efforts to establish and maintain a risk management system at the Olympus Group. Moreover, pursuant to the internal Rules on Risk Management and Crisis Response, each department in charge in 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 rules 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.

### Global Framework of Internal Rules

Olympus has established a platform for managing internal rules in order to ensure the ongoing improvement of management quality from the perspective of global governance and management.



## Basic Policy on 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 2017.

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
Conference on governance	1	Meetings held by outside directors to explain governance-related issues
Facility tours and study sessions	4	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	6	Meetings for institutional investors in which the president and the CFO visit overseas sites
Conferences held by securities companies (including overseas conferences)	9	Participation in and meetings at conferences held by securities companies in Japan and overseas
Meetings for individual investors	10	Meetings held at branch offices of securities companies
Individual meetings with institutional investors and analysts	652	Individual meetings held with the president, the CFO, and/or investor relations division representatives (including meetings conducted at overseas IR roadshows and conferences)

### Outside Evaluation

#### NIKKEI Annual Report Awards

- FY2014 / FY2015 / FY2016: "Award for Excellence"



#### ISS\* QualityScore

- Rated 1 overall and 1 in score by category as of June 3, 2017 (of 450 total companies, only 5 rated 1 overall)

\* Institutional Shareholder Services: Organization that provides corporate governance rating services for listed Japanese companies; the corporate governance risks of applicable Japanese companies are rated from 1 to 10 (with 1 being the best rating) based on disclosed information

#### Inclusion in ESG Indexes (As of July 2017)

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- Morningstar Socially Responsible Investment Index



#### CDP

- Scored A- in climate change by CDP, an international nongovernmental organization promoting the realization of a sustainable economy



# 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

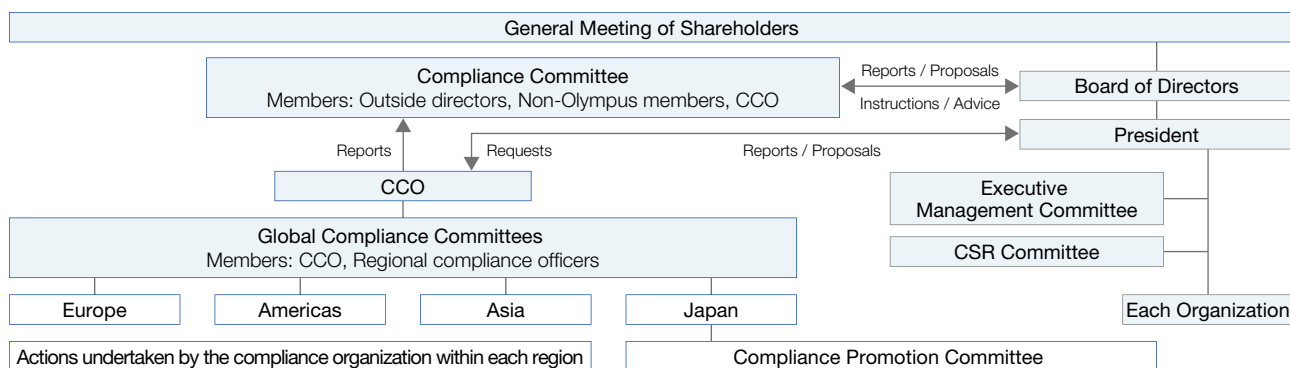
due to its provision of items related directly to people's lives, Olympus is committed to maintaining impeccable levels of product safety and quality. The Company has also established its own internal rules to ensure compliance with the various regulations in place in countries worldwide, and it is promoting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



## Emergence of Compliance Data Analytics

Data analytics is a fundamental element of an effective compliance program and Olympus Corporation of the Americas (OCA) is embarking on a strategy to implement and embed data analytics within compliance operations. Narrowing in on high-risk areas and harnessing leading technologies, the OCA Compliance Department is focused on and well-equipped to execute this plan. Key to the overall strategy is empowering and equipping compliance leadership with timely and actionable insights into complex data repositories. Developing dynamic, interactive, compelling, and accessible data visualizations will enable on-demand discovery of insightful information. Operationally, data analytics is useful in improving overall effectiveness and efficiency as it relates to compliance monitoring and testing capabilities. Utilizing data analytic technology, routine testing practices will be standardized and automated yielding significant gains in testing depth and coverage, and implementation of

continuous monitoring. While OCA is pioneering the emergence of compliance data analytics, looking ahead this strategy and model can be implemented in other regions.





## Risk Management

### Promotion of Risk Management

Olympus has established the internal Rules on Risk Management and Crisis Response based on which it develops global risk management systems to mitigate business risks.

#### Risk Management

The Olympus Group seeks to comprehensively identify the risks faced in its business activities. Initiatives to mitigate risks are implemented prioritizing those risks with the potential to severely impact operations, and periodic monitoring of the progress of these initiatives is carried out.

For its operations in Japan, Olympus has adopted a top-down approach toward reinforcing risk management. In Europe, we reconstructed risk management frameworks to conform to the requirements of our revised quality management systems. Measures for ensuring more effective risk management in the Americas included redesigning risk

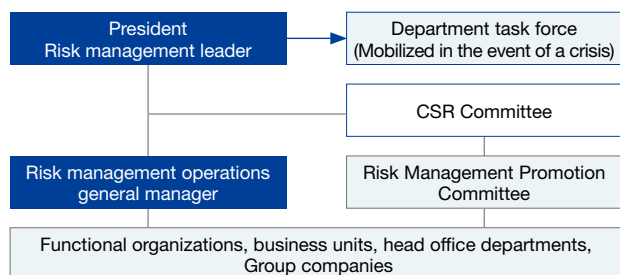
management promotion systems and risk assessment standards. As shared initiatives for both Europe and the Americas, we updated IT tools, established manuals, implemented training, and took other steps to enhance risk management.

#### Crisis Management

As crisis management measures, we continue to refine risk management processes and carry out training and drills to enhance preparedness for risks that threaten to have a particularly large impact on the Company, such as large-scale earthquakes and cyber-attacks.

A specific measure implemented in fiscal 2017 was a disaster response drill carried out by both management and frontline employees to guarantee that we can furnish a smooth initial response to emergency situations in Japan. Furthermore, our business continuity plan was reviewed and revised based on our overall experience with the April 2016 Kumamoto Prefecture earthquakes.

To strengthen the Company's resilience to cyber-attacks, we used our annual Information Security Month as an opportunity to globally distribute messages on the subject from senior management. In addition, information security events were held during this month, including targeted attack e-mail drills and training aimed at all officers and employees and carried out on an individual region basis.



### Major Business Risks

Risks and Potential Impacts	Risk Overview
Risks that impact earnings	<ul style="list-style-type: none"> <li>■ Risks associated with sales activities               <ul style="list-style-type: none"> <li>• Medical Business: Unexpected operating environment changes or inability to obtain licenses and approvals in a timely manner</li> <li>• Scientific Solutions Business: Shrinking government budgets or reduced supply of systems for research</li> <li>• Imaging Business: Rapid market contractions that exceed anticipations</li> </ul> </li> <li>■ Risks associated with production and development activities               <ul style="list-style-type: none"> <li>• Product defects or issues with new product development or intellectual property rights</li> </ul> </li> <li>■ Other general risks</li> </ul>
Risks that impact production activities, manufacturing, or supplies	<ul style="list-style-type: none"> <li>■ Risks associated with production and development activities               <ul style="list-style-type: none"> <li>• Overseas production: Foreign exchange rate movements, destabilization of conditions at the national level, deterioration of public safety</li> <li>• Procurement: Procurement constraints for products or parts for which the Company is dependent on specific suppliers</li> </ul> </li> </ul>
Risks that impact performance or financial position	<ul style="list-style-type: none"> <li>■ Risks associated with business partnerships and development acquisitions</li> <li>■ Risks associated with leakage of information</li> <li>■ Risks associated with deferred posting of past losses</li> <li>■ Risks associated with internal control systems, etc.</li> <li>■ Risks relating to duodenoscopes in the United States</li> </ul>
Risks that impact financing	<ul style="list-style-type: none"> <li>■ Risks associated with financing</li> </ul>
Risks that restrict sales or marketing practices	<ul style="list-style-type: none"> <li>■ Risks relating to laws and regulations               <ul style="list-style-type: none"> <li>• Changes in legal interpretations or applications affecting the healthcare industry</li> </ul> </li> </ul>
Risks that impact operations, financial position, performance, cash flows, or stock prices	<ul style="list-style-type: none"> <li>■ Risks relating to laws and regulations               <ul style="list-style-type: none"> <li>• Restrictions on reimbursement under public health insurance or on access to government medical subsidies</li> <li>• Sanctions relating to violations of the Anti-kickback Act, the False Claims Act, or the Foreign Corrupt Practices Act of the United States</li> <li>• Prosecutions related to alleged violations for which deferred prosecution agreements were concluded</li> </ul> </li> </ul>

For more information, please refer to "Risk Information" beginning on page 85.

# CSR Management

## Approach to CSR

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

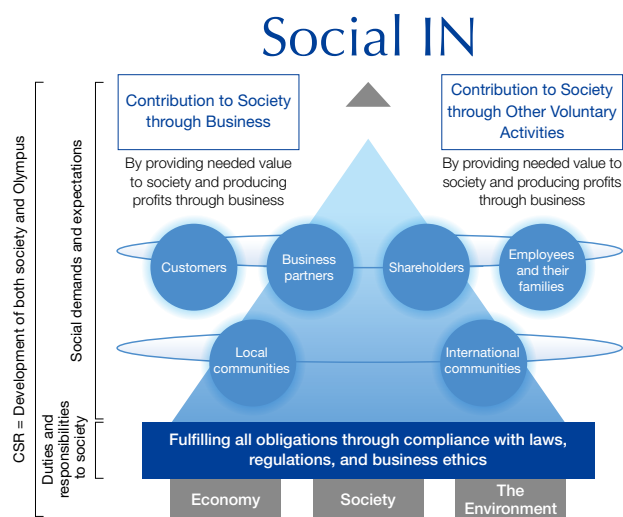
We believe that to justify the continuing existence of Olympus as a company and to help people enjoy healthier and happier lives, we must fulfill our responsibilities through dialogue with all stakeholders (persons and organizations with which we interact through our business activities), including customers, 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:**  
<https://www.olympus-global.com/csr/>

## CSR Concept of the Olympus Group



## CSR Promotion Structure

To realize “Social IN,” our CSR-enhanced corporate philosophy, Olympus established the CSR Committee in fiscal 2010. Under the umbrella of this CSR Committee, the Company has set up a number of promotion committees to plan and advance individual CSR-related initiatives.

The CSR Committee meets at least twice a year and is chaired by Division Manager in charge of the CSR. Members include managers from each functional organization. Olympus aims to spread and entrench CSR throughout the Group by having the CSR Committee support the decisions made by the president, who is ultimately responsible for CSR, and overseeing the promotion and progress of important matters.

## CSR Committee and Promotion Committees



## CSR in Procurement Activities (Supply Chain)

### Policy on Procurement

The Olympus Group aims to strengthen supply chain management within the context of business continuity and sustainable value creation in its three business segments: the Medical Business, the Scientific Solutions Business, and the Imaging Business.

In 2005, Olympus formulated the Olympus Group Procurement Policy based on its “Social IN” corporate philosophy. Since then, Olympus has disclosed its basic stance on procurement both internally and externally through its website and training sessions, while strengthening compliance with laws, regulations, and social norms. We have also drawn up the “Request to Suppliers” as a guideline for complying with laws, regulations, and social norms, including respect for human

rights and the elimination of antisocial forces, prohibiting corruption and bribes, promoting fair and just transactions, and taking the environment into consideration.

### System and Framework

Share business strategies and procurement policy	Once a year, the Procurement Policy Meeting is held for the purpose of sharing the business strategies and procurement policy of the Olympus Group.
Supplier survey	Once a year, Olympus conducts a web-based survey of its main suppliers in Japan and overseas with which it has ongoing business transactions.

## Environmental Management

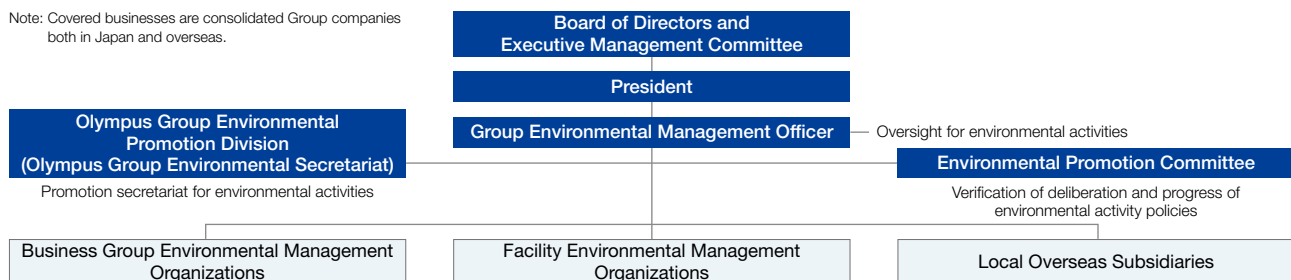
### System to Promote Environmental Management

We have established a unit to promote environmental management within each of our business units and Group companies, while the Olympus Group Environmental Promotion Division is tasked with fostering environmental management across the Group. Progress on these activities is reviewed by the Board of Directors and the Executive Management Committee, and measures are taken across the Group to achieve our predefined environmental targets.

Moreover, our major production facilities, as well as logistics and sales subsidiaries in Japan and overseas, have ISO 14001 certification, and we are continuously improving our environmental management system through audits and by other means.

**Promotion of Environmental Management:**  
[https://www.olympus-global.com/csr/download/pdf/csr\\_report\\_2017\\_56\\_59.pdf](https://www.olympus-global.com/csr/download/pdf/csr_report_2017_56_59.pdf)

Note: Covered businesses are consolidated Group companies both in Japan and overseas.



### Environmental Risk Management

Violations of laws and regulations related to chemical substances contained in products, effluent from production bases, and soil and groundwater contamination are serious environmental risks that can shut down operations, generate recovery costs, reduce corporate value, or otherwise affect Olympus' management. Therefore, we maintain and revise rules and regulations for regulatory compliance, educate environmental promoters, monitor and improve on-site operating practices, and work to reduce environmental risks.

Moreover, we are pursuing measures to combat climate change risks. These measures include keeping tabs on regulatory information on energy conservation and CO<sub>2</sub> reduction and addressing catastrophic floods attributable to the diversification of suppliers. Olympus also sees the business opportunities

presented by environmental risks and actively develops and sells eco-friendly products as well as products that contribute to the resolution of environmental issues accordingly.

<b>Control of Chemical Substances Used in Products</b>	The Company verifies that products do not contain environment-related substances in accordance with its control rules for environment-related substances used in Olympus Group products, which have been established based on the chemical substance regulations of each country of operation.
<b>Management of Wastewater</b>	In each of our businesses, we have installed a wastewater equipment manager and set voluntary standards stricter than the laws and regulations in each region. By routinely measuring water quality, we rigorously maintain water quality.
<b>Prevention of Soil and Groundwater Contamination</b>	In the redevelopment of our facilities, we are voluntarily investigating soil and groundwater. We are also taking countermeasures based on reports that have been presented to and consultations with government.

### Summary of Results of Activities in Fiscal 2017

	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>Acquired ISO 14001:2015 certification at Olympus Logitex Co., Ltd., and Vietnam plant</li> <li>Trained ISO auditors (210 individuals)</li> </ul>	Implement environmental management system based on ISO 14001:2015
	Compliance with laws and regulations	Continued improvement of processes for complying with environmental laws	<ul style="list-style-type: none"> <li>Established global pollution control regulations</li> <li>Continued implementation of regulations related to products and facilities</li> <li>Conducted education programs on pollution control, chemical substance management, and waste management (41 participants 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	<ul style="list-style-type: none"> <li>Created eco-friendly products in all business areas (16 new products, 572 products in total)</li> </ul>	Continuously 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)	<ul style="list-style-type: none"> <li>Energy consumption rate: Improved by 9%</li> <li>Implemented eco-friendly measures at new buildings at three Tohoku factories</li> </ul>	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 greenification activities at bases worldwide</li> <li>Continued coral planting and nature school (4 times) initiatives from fiscal 2017</li> </ul>	Advance ongoing environmental contribution activities

# Environmentally Conscious Technologies of the Olympus Group

The various environmentally conscious technologies are embedded in each stage of the life cycles of the Olympus products.



## Video System Center OTS-S200/OTV-S300

Downsizing the product and extending the life of the light source by using the LED light



## System Microscope BX53M Series

Low electricity consumption and extending life of light source by using the LED light



## Interchangeable Lens Camera OM-D E-M1 Mark II

Reducing electricity consumption in use and standby mode



## Handheld XRF Analyzer Vanta

Accurate and non-destructive alloy identification and element analysis for scrap sorting and hazardous elements screening of soil and consumer goods, etc.



## Industrial Videoscope IPLEX NX

High-quality images for enabling users to clearly identify trouble spots and defective areas of car engines, jet engines of airplanes and wind turbines etc.



## Purchasing green electricity by the subsidiaries in Europe

In Europe, OEKG and OKM and OSTE (Hamburg) have purchased the green electricity generated by solar energy, wind energy, and hydropower, etc. (The green electricity certificates)



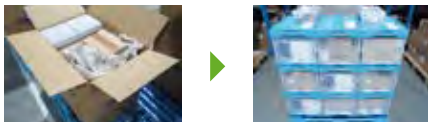
## Environmentally conscious buildings and equipment in each site

The environmental conscious buildings have been built and the environmental conscious equipment has been installed in the manufacturing sites, and renewable energy such as solar power and geothermal energy are being consumed in Olympus Group.



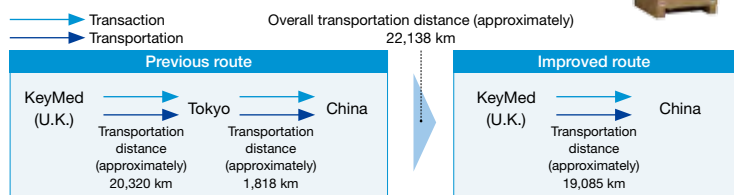
## Discontinuing use of cushioning material and carton boxes

Reducing the amount of packaging materials by discontinuing use of cushioning materials and carton boxes by using the folding returnable containers (only in Japan)



## Improving efficiency of transportation

Reducing transportation costs and emissions by changing transportation route of the trolley (mobile endoscopic workstation) made by OKM to Shanghai into the shorter one which directly goes to Shanghai from London not via OT (Tokyo).





# Directors and Audit & Supervisory Board Members

(As of June 28, 2017)

## Directors

### 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)

### 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)  
Chief Regional Representative Officer (present)

### 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)

### 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)

### 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)

### 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 Counsellor Adviser, Asahi Kasei Corporation  
Apr. 2015 Director, ORION ELECTRIC Co., LTD. (present)  
Jun. 2016 Counsellor, Asahi Kasei Corporation (present)

(Important concurrent position)  
Director, ORION ELECTRIC Co., LTD.

### 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 Holdings, Inc.)  
Apr. 2012 Director, the Company (present)

(Important concurrent positions)  
Director, Furukawa Electric Co., Ltd.  
Chairman, Japan Association for CFOs

### 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.

#### 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.

#### 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)

#### Outside Director

### Tetsuo Iwamura

(Date of birth: May 30, 1951)  
Apr. 1978 Joined Honda Motor Co., Ltd.  
Jun. 2000 Director, Honda Motor Co., Ltd.  
Apr. 2003 President and Director, Honda South America Ltda.  
President and Director, Moto Honda da Amazonia Ltda.  
President and Director, Honda Automoveis do Brasil Ltda.  
Jun. 2006 Managing Director, Honda Motor Co., Ltd.  
Apr. 2007 President and Director, Honda North America, Inc.  
President and Director, American Honda Motor Co., Inc.  
Jun. 2008 Senior Managing Director, Honda Motor Co., Ltd.  
Apr. 2011 Senior Managing Officer and Director, Honda Motor Co., Ltd.  
Jun. 2011 Senior Managing Officer, Honda Motor Co., Ltd.  
Apr. 2012 Executive Vice President, Executive Officer, Honda Motor Co., Ltd.  
Jun. 2012 Representative Director, Honda Motor Co., Ltd.  
Apr. 2013 Risk Management Officer, Honda Motor Co., Ltd.  
Apr. 2014 Corporate Brand Officer, Honda Motor Co., Ltd.  
Chairman and Director, American Honda Motor Co., Inc.  
Jun. 2017 Director, Olympus (present)

## Audit & Supervisory Board Members

#### Standing Audit and Supervisory Board Member

### Nobuyuki Koga

(Date of birth: September 14, 1955)  
Apr. 1978 Joined Olympus Corporation  
Apr. 2002 President and Representative Director, Shirakawa Olympus Co., Ltd.  
Apr. 2006 General Manager, Human Resources Dept., Olympus Corporation  
Jun. 2009 Executive Officer, Olympus Corporation  
Director, Olympus Medical Systems Corp.  
Jul. 2009 Division Manager, Manufacturing Service Division, Olympus Medical Systems Corp.  
Apr. 2010 President and Representative Director, Aizu Olympus Co., Ltd.  
Apr. 2014 Division Manager, Corporate Service Division, Olympus Corporation  
Jun. 2017 Audit and Supervisory Board Member, Olympus (present)

#### 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)

#### 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)  
Mar. 2015 Director, MODEC, INC. (present)  
Apr. 2016 Supervisory Director, Global One Real Estate Investment Corp. (present)

#### (Important concurrent positions)

Chief, Natori Law Office  
Director, MODEC, INC.  
Supervisory Director, Global One Real Estate Investment Corp.

#### 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.

# 10-Year Financial / Non-Financial Data

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

	2008/3	2009/3	2010/3
<b>Net sales</b>	1,128,875	980,803	883,086
<b>Selling, general and administrative (SG&amp;A) expenses</b>	396,678	418,558	347,125
Percentage of net sales (%)	35.1%	42.7%	39.3%
Percentage of net sales excluding R&D expenditures (%)	29.3%	35.5%	32.3%
<b>Operating income</b>	112,826	42,722	61,160
Percentage of net sales (%)	10.0%	4.4%	6.9%
<b>Ordinary income*<sup>1</sup></b>	97,312	25,679	46,075
<b>Net income (loss)</b>	54,625	(50,561)	52,527
Percentage of net sales (%)	4.8%	—	5.9%
<b>EBITDA margin*<sup>2</sup> (%)</b>	14.0%	12.8%	13.3%
EBITDA margin (Medical Business)* <sup>3</sup> (%)	31.1%	27.0%	29.2%
<b>R&amp;D expenditures</b>	65,928	70,010	61,850
Percentage of net sales (%)	5.8%	7.1%	7.0%
<b>Capital expenditures*<sup>4</sup></b>	50,070	55,632	34,323
<b>Depreciation and amortization</b>	37,497	44,594	43,099
<b>Amortization of goodwill</b>	7,899	37,881	12,918
<b>Average exchange rate</b>			
Yen / U.S. dollar	114.28	100.54	92.85
Yen / Euro	161.53	143.48	131.15
<b>Financial indicators</b>			
Total assets* <sup>5</sup>	1,217,172	1,038,253	1,104,528
Total net assets* <sup>5</sup>	244,281	110,907	163,131
Equity ratio (%)	19.1%	10.0%	14.1%
Interest-bearing debt	656,756	642,839	661,481
Net debt	533,475	505,763	454,698
Inventories	110,379	95,540	89,959
Inventory turnover period (months)	1.2	1.2	1.3
Cash and cash equivalents at end of year	119,842	132,720	203,013
Cash flows from operating activities	88,204	36,864	76,245
Cash flows from investing activities	(274,104)	(15,964)	(20,967)
Cash flows from financing activities	134,401	(3,751)	17,355
Return on equity (ROE) (%)	24.4%	(30.2%)	40.6%
Return on assets (ROA) (%)	9.3%	4.1%	4.9%
Net income (loss) per share (yen)	202.11	(188.85)	194.90
Total equity per share (yen)	861.58	387.31	576.63
Price earnings ratio (PER)* <sup>6</sup> (times)	14.9	—	15.4
Price book-value ratio (PBR) (times)	3.5	4.1	5.2
Outstanding market value (billions of yen)	8,193	4,286	8,138
Cash dividends per share (yen)	40	20	30
<b>Non-financial indicators</b>			
Number of employees* <sup>7</sup>	35,772	36,503	35,376
(Average number of temporary employees)	(—)	(—)	(—)
Overseas employees as a percentage of employees (%)	65.4%	62.1%	63.3%
Percentage of women in managerial roles* <sup>8</sup> (%)	0.9%	0.8%	0.9%
Percentage of employees with disabilities* <sup>9</sup> (%)	1.6%	1.7%	1.8%

\*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

	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3
	847,105	848,548	743,851	713,286	764,671	804,578	748,050
	349,306	348,287	343,121	367,011	398,889	430,773	414,855
	41.2%	41.0%	46.1%	51.5%	52.2%	53.5%	55.5%
	33.3%	33.8%	37.6%	42.1%	42.5%	43.4%	44.9%
	38,379	35,518	35,077	73,445	90,962	104,464	76,487
	4.5%	4.2%	4.7%	10.3%	11.9%	13.0%	10.2%
	23,215	17,865	13,046	50,913	72,782	90,898	62,149
	3,866	(48,985)	8,020	13,627	(8,737)	62,594	78,191
	0.5%	—	1.1%	1.9%	—	7.8%	10.5%
	9.9%	9.5%	10.6%	16.8%	18.5%	19.2%	17.4%
	26.9%	26.6%	29.0%	29.7%	29.1%	29.5%	27.4%
	67,286	61,356	63,379	66,796	74,101	81,415	79,178
	7.9%	7.2%	8.5%	9.4%	9.7%	10.1%	10.6%
	32,699	37,961	28,109	37,810	47,743	64,445	49,347
	34,188	33,787	33,899	36,850	41,219	39,912	44,658
	11,619	11,103	9,683	9,457	9,421	9,867	8,642
	85.72	79.08	83.10	100.24	109.93	120.14	108.38
	113.12	108.98	107.14	134.37	138.77	132.58	118.79
	1,019,160	966,526	960,239	1,027,475	1,081,551	1,000,614	991,062
	115,579	48,028	151,907	331,284	357,254	384,283	430,880
	11.0%	4.6%	15.5%	32.1%	32.9%	38.2%	43.3%
	648,787	642,426	560,390	415,831	354,421	321,138	286,357
	435,226	442,338	330,780	163,710	144,546	154,584	86,926
	92,929	102,493	99,307	98,595	107,387	111,558	124,064
	1.3	1.4	1.6	1.7	1.6	1.6	1.9
	210,385	198,661	225,782	251,344	209,809	166,323	199,431
	30,469	30,889	25,233	72,388	66,811	48,621	90,194
	19,003	(35,735)	33,455	(20,273)	(39,612)	(52,897)	(8,305)
	(37,359)	(5,761)	(42,436)	(39,693)	(70,185)	(33,870)	(44,244)
	2.9%	(62.3%)	8.3%	5.7%	(2.6%)	17.0%	19.3%
	0.4%	(4.9%)	0.8%	1.4%	(0.8%)	6.0%	7.9%
	14.39	(183.54)	28.96	41.05	(25.53)	182.90	228.47
	421.37	167.76	493.30	962.83	1,038.64	1,117.24	1,252.96
	160.8	—	76.4	80.2	—	23.9	18.7
	5.5	8.1	4.5	3.4	4.3	3.9	3.4
	6,277	3,673	6,758	11,274	15,300	14,992	14,666
	30	—	—	—	10	17	28
	34,391	34,112	30,697	30,702	31,540	33,336	34,687
	(5,336)	(5,009)	(2,240)	(2,978)	(1,374)	(1,257)	(1,298)
	62.4%	62.1%	62.4%	62.5%	63.2%	63.3%	63.7%
	0.9%	0.8%	0.8%	1.1%	1.2%	1.2%	1.6%
	1.8%	1.9%	1.9%	2.0%	2.1%	1.9%	2.1%

\*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.

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

## Analysis of Business Results

### Company Overview

In the global economy during fiscal 2017, the U.S. economy continued to recover owing to increases in consumer spending and improvements in the job market, and the trend in both Europe and China also proved to be one of moderate improvement. However, the outlook remains uncertain due to factors that include policy developments following on from the change of the government administration in the United States and the decision of the United Kingdom to leave the European Union. In the Japanese economy, the trend of moderate improvement continued amid the improvements in corporate earnings supported by the ongoing depreciation of the yen since the presidential election in the United States.

Amid this business environment, the Olympus Group launched the newly formulated 2016 Corporate Strategic Plan (16CSP), a five-year medium-term management plan that took effect in fiscal 2017. Under this plan, the Company has been forging ahead with strengthening business foundations and developing an aggressive business portfolio for sustainable growth with the basic policies of “Business to Specialist” Company and One Olympus.

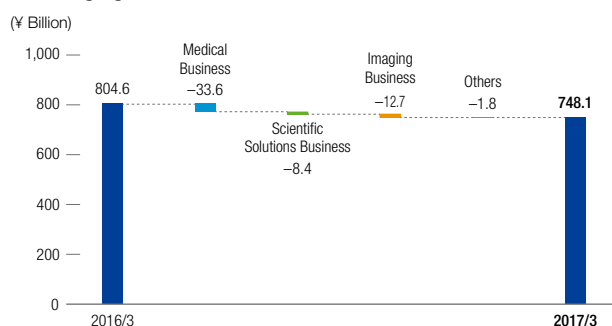
In the Medical Business, we moved forward with efforts geared toward expanding staff numbers as needed to fortify production and maintenance systems while enhancing quality assurance and regulatory assurance measures. We also promoted the development of new mainstay products in the surgical device field. In the Scientific Solutions Business, we proceeded with organizational development efforts to facilitate the shift toward customer group-oriented strategies and also released new products that included laser scanning confocal microscopes and industrial videoscopes. In the Imaging Business, in addition to introducing new products, such as the OLYMPUS OM-D E-M1 Mark II, a new flagship mirrorless camera model, we accelerated structural reform measures for streamlining operations by narrowing down our focus sales areas and cutting costs.

During fiscal 2017, the Olympus Group invested ¥79,178 million in research and development and spent ¥49,347 million on capital expenditures. With respect to foreign exchange, the yen appreciated against both the U.S. dollar and the euro in comparison with the previous fiscal year. The average exchange rate during the year was ¥108.38 against the

U.S. dollar (¥120.14 in the previous fiscal year) and ¥118.79 against the euro (¥132.58 in the previous fiscal year). These rates placed downward pressure on consolidated net sales and operating income to the extent of ¥74,281 million and ¥30,069 million year on year.

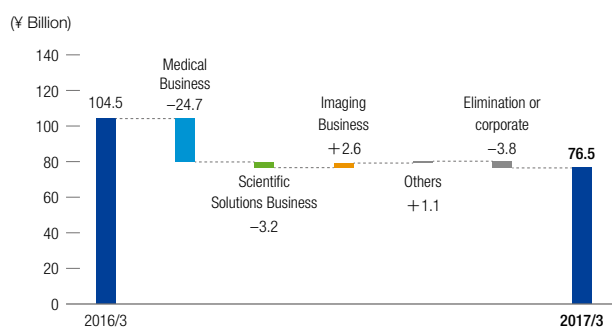
### Net Sales

Consolidated net sales decreased 7.0% year on year, to ¥748,050 million, due to appreciation of the yen and other factors that lowered sales in the three core business domains of the Medical Business, the Scientific Solutions Business, and the Imaging Business.



### Operating Income

Operating income was down 26.8% year on year, to ¥76,487 million, as a result of lower net sales.



### Net Income (Loss)

Net income increased 24.9% year on year, to ¥78,191 million, a considerable improvement over the previous fiscal year resulting from the recording of extraordinary income of ¥27,757 million, which included gain on sale of investment securities and counteracted the impacts of the decline in operating income.

### Performance by Segment

#### Medical Business

In the Medical Business, consolidated net sales totaled ¥575,285 million, down 5.5% year on year, and operating income was ¥115,482 million, down 17.6%. The decrease in net sales in the Medical Business was a result of yen appreciation. When the impacts of foreign exchange influences

are excluded, net sales rose 4% year on year.

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, surgical endoscopy systems equipped with 4K technologies and 3D laparoscopy systems saw solid sales performance,



while sales continued to grow for the THUNDERBEAT integrated energy device, which features both advanced bipolar and ultrasonic energy. In the endotherapy device field, favorable sales were seen for the VisiGlide 2™, a disposable guidewire product for use in endoscopic diagnosis and the treatment of biliary and pancreatic ducts.

Similar to net sales, operating income in the Medical Business decreased due to the impacts of yen appreciation. However, the strong growth in all fields led to a 1% year-on-year increase in operating income if the impacts of foreign exchange influences are excluded.

#### ■ Scientific Solutions Business

In the Scientific Solutions Business, consolidated net sales totaled ¥93,227 million, down 8.2% year on year, and operating income amounted to ¥5,280 million, down 37.8%. The decrease in net sales in the Scientific Solutions Business was a result of yen appreciation. When the impacts of foreign exchange influences are excluded, net sales increased 1% year on year.

While sales of products for hospitals and life science research declined in Europe due to the impact of budget cuts and delays in budget execution, sales of these products were strong in Japan, the United States, and Asia. Sales of industrial microscopes to universities and research institutions were sluggish. Meanwhile, performance of non-destructive testing equipment was brisk, supported by the recovery in resource prices seen in the second half of the fiscal year.

Yen appreciation caused operating income to decline in the Scientific Solutions Business. When the impacts of foreign

exchange influences are excluded, operating income was up 3% year on year due to effective efforts to control expenses and expenditures.

#### ■ Imaging Business

In the Imaging Business, consolidated net sales came to ¥65,574 million, down 16.2% year on year, while operating income amounted to ¥498 million, compared with operating loss of ¥2,064 million in the previous fiscal year. Net sales in the Imaging Business declined as a result of measures to achieve an appropriate business scale in conjunction with the contraction of the market as well as the delays in supplying certain products due to the impacts of the April 2016 Kumamoto earthquakes.

The Imaging Business returned to profitability after having recorded operating loss in the previous fiscal year due to progress made in curtailing expenses combined with the benefits of introducing new products, including the flagship mirrorless camera OLYMPUS OM-D E-M1 Mark II.

#### ■ Others

In the Others Business, consolidated net sales amounted to ¥13,964 million, down 11.4% year on year, and operating loss was ¥4,621 million, compared with ¥5,800 million in the previous fiscal year. Net sales in the Others Business declined as a result of having reorganized our non-core business domains through initiatives that included transferring shares of subsidiary Nippon Outsourcing Corporation on October 31, 2016. In addition, operating loss decreased reflecting a reduction in expenses.

### Fiscal 2018 Outlook

Looking ahead with respect to the global economy, concerns of a downturn in economic conditions are likely to intensify despite an overall trend of economic recovery, amid developments that include policy moves undertaken by the U.S. government and issues with respect to the United Kingdom's decision to leave the European Union. In the Japanese economy, despite the likelihood of ongoing recovery on the back of improved corporate earnings, prospects ahead remain uncertain amid negative factors that include growing uncertainties regarding the global economy and volatility in financial and capital markets.

Given this environment, the Olympus Group will steadily press forward with 16CSP, the medium-term management plan that was drawn up during fiscal 2016.

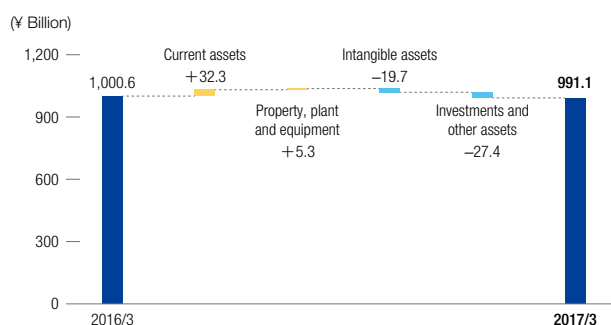
In the Medical Business, we aim to expand the scale of our operations primarily by providing value in terms of both early diagnosis and minimally invasive therapies. To this end, we have been proactively investing in each of this segment's business units—namely, the GI&R (gastrointestinal and respiratory)

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 improve profitability in the Medical Business by achieving dramatic growth in both the endotherapy device and surgical device fields, maintaining our overwhelming competitive edge in the gastrointestinal endoscope field, and strengthening single-use device operations. In the Scientific Solutions Business, we will establish earnings foundations by promoting customer group-oriented strategies and by enhancing shared business functions and streamlining operations through globally integrated management. In the Imaging Business, we will establish a profitable operating structure by further boosting business efficiency while also pursuing initiatives geared toward improving our responsiveness to the changing market and further reducing inventory risks.

## Financial Position

### Total Assets

As of March 31, 2017, total assets stood at ¥991,062 million, down ¥9,552 million from a year earlier. Total current assets were up ¥32,300 million due mainly to an increase of ¥32,877 million in cash and deposits, and total non-current assets declined ¥41,852 million following decreases of ¥42,195 million in investment securities and ¥10,526 million in goodwill.



### Liabilities

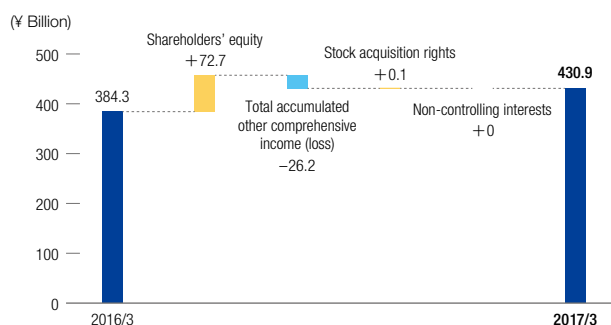
Total liabilities decreased ¥56,149 million compared with the end of the previous fiscal year, to ¥560,182 million, due mainly to a ¥46,977 million decrease in long-term borrowings, less

current maturities and a ¥4,247 million decrease in short-term borrowings.

### Total Net Assets and Equity Ratio

Total net assets at the end of the fiscal year amounted to ¥430,880 million, up ¥46,597 million from the previous fiscal year-end. This rise was primarily due to the posting of net income of ¥78,191 million, which offset the ¥26,210 million increase in total accumulated other comprehensive loss arising from fluctuations in foreign exchange rates and stock prices.

As a result of the above, the equity ratio increased from 38.2% at the end of the previous fiscal year to 43.3%.



## Cash Flows

### Cash Flows from Operating Activities

Net cash provided by operating activities was ¥90,194 million. Major factors increasing cash included ¥81,686 million in income before provision for income taxes as well as adjustments for non-cash items such as ¥44,658 million in depreciation and amortization, ¥8,642 million in amortization of goodwill, and

¥6,922 million in loss related to securities litigation. Major factors decreasing cash included ¥25,057 million in gain on available-for-sale securities, net and ¥14,801 million in increase in inventories.

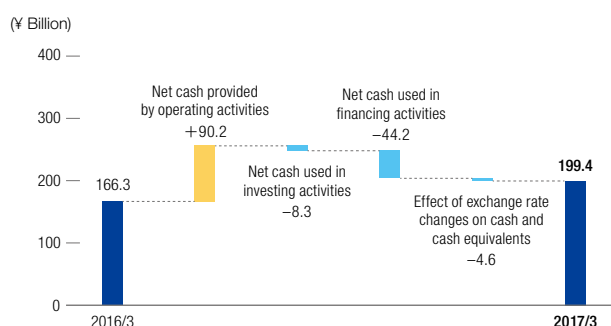
### Cash Flows from Investing Activities

Net cash used in investing activities was ¥8,305 million. Major factors decreasing cash included ¥43,542 million in purchases of property, plant and equipment and ¥7,358 million in

repayments of loans receivable. Major factors increasing cash included ¥42,239 million in sales of investment securities.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥44,244 million. Major factors decreasing cash included ¥30,000 million in redemption of bonds and ¥20,217 million in repayments of long-term borrowings. Major factors increasing cash included ¥20,000 million in proceeds from long-term borrowings.



## ▶ 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

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

1. 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.
2. 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.
3. 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

1. 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.
2. 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.
3. 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.

4. 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.
5. 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

1. 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.
2. 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.
3. The Olympus Group holds investment securities for the purpose of facilitating business alliances and other non-investment purposes. It is possible that the stock prices or the estimated values of these securities could fluctuate significantly due to changes in market trends or the financial position of the companies in question, and the Group's performance and 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 filing lawsuits against the Company, which may affect the Group's business performance or financial position. As of June 28, 2017, the following major lawsuits have been filed against the Company with pending claims totaling ¥29,080 million.

In regard to the pending lawsuits as of March 31, 2017, the Company recorded ¥217 million as provision for loss on litigation in current liabilities in consideration of the state of progress of lawsuits.

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 systems 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 systems constructed by the Group, these systems 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 systems' 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 the subsidiary Olympus Medical Systems Corp. seeking information related to duodenoscopes manufactured and sold by the Group. The Department of Justice has since been engaged in an ongoing investigation of the situation surrounding these duodenoscopes. As of June 30, 2017, 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) 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, 2016 and 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2016	2017	2017
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits (Notes 3 and 24)	¥ 166,554	¥ 199,431	\$ 1,780,634
Notes and accounts receivable (Notes 3 and 5)	140,666	137,924	1,231,464
Allowance for doubtful accounts	(6,590)	(5,720)	(51,071)
Lease receivables and leased investment assets (Note 26)	33,565	35,338	315,518
Inventories (Note 6)	111,558	124,064	1,107,714
Deferred income taxes (Note 13)	38,461	36,729	327,938
Other current assets	36,478	25,226	225,232
<b>Total current assets</b>	<b>520,692</b>	<b>552,992</b>	<b>4,937,429</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	22,832	22,966	205,054
Buildings and structures	136,344	149,131	1,331,527
Machinery and equipment	259,888	258,325	2,306,473
Leased assets	19,200	21,133	188,688
Construction in progress	9,799	4,761	42,509
	448,063	456,316	4,074,250
Less—Accumulated depreciation	(281,999)	(284,964)	(2,544,321)
<b>Net property, plant and equipment</b>	<b>166,064</b>	<b>171,352</b>	<b>1,529,929</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 4)	71,141	28,946	258,446
Deferred income taxes (Note 13)	11,421	24,942	222,696
Goodwill	97,190	86,664	773,786
Net defined benefit assets (Note 10)	24,749	24,762	221,089
Other assets (Note 26)	118,411	111,420	994,821
Allowance for doubtful accounts (Note 11)	(9,054)	(10,016)	(89,428)
<b>Total investments and other assets</b>	<b>313,858</b>	<b>266,718</b>	<b>2,381,410</b>
<b>Total assets</b>	<b>¥1,000,614</b>	<b>¥ 991,062</b>	<b>\$ 8,848,768</b>

See accompanying notes to consolidated financial statements.

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2016	2017	2017
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 3 and 7)	¥ 6,656	¥ 2,409	\$ 21,509
Current maturities of long-term debt (Notes 3 and 8)	50,000	66,443	593,241
Notes and accounts payable (Notes 3 and 9)	40,597	41,596	371,393
Other payables	36,762	32,595	291,027
Income taxes payable (Note 13)	9,120	11,657	104,080
Accrued expenses	90,438	80,944	722,714
Provision for warranty costs	6,314	8,474	75,661
Provision for loss on business liquidation	298	190	1,696
Provision for customer points program	207	223	1,991
Provision for loss on litigation	567	217	1,938
Other current liabilities	25,666	29,981	267,687
<b>Total current liabilities</b>	<b>266,625</b>	<b>274,729</b>	<b>2,452,937</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term debt, less current maturities (Notes 3 and 8)	264,482	217,505	1,942,009
Deferred income taxes (Note 13)	28,386	18,895	168,705
Liabilities for retirement benefits (Note 10)	38,683	37,758	337,125
Other non-current liabilities	18,155	11,295	100,849
<b>Total non-current liabilities</b>	<b>349,706</b>	<b>285,453</b>	<b>2,548,688</b>
<b>Total liabilities</b>	<b>616,331</b>	<b>560,182</b>	<b>5,001,625</b>
<b>CONTINGENT LIABILITIES (Note 15)</b>			
<b>NET ASSETS (Note 14):</b>			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—342,671,508 shares as of March 31, 2016 and 2017	124,520	124,520	1,111,786
Capital surplus	90,940	91,225	814,509
Retained earnings	172,989	245,362	2,190,732
Treasury stock, at cost	(1,122)	(1,122)	(10,018)
<b>Total shareholders' equity</b>	<b>387,327</b>	<b>459,985</b>	<b>4,107,009</b>
Net unrealized holding gains on available-for-sale securities, net of taxes	24,947	9,556	85,321
Net unrealized losses on hedging derivatives, net of taxes	(7)	—	—
Foreign currency translation adjustments	(8,686)	(20,681)	(184,652)
Remeasurements of defined benefit plan	(21,222)	(20,053)	(179,044)
<b>Total accumulated other comprehensive income (loss)</b>	<b>(4,968)</b>	<b>(31,178)</b>	<b>(278,375)</b>
Stock subscription rights	428	554	4,946
Non-controlling interests	1,496	1,519	13,563
<b>Total net assets</b>	<b>384,283</b>	<b>430,880</b>	<b>3,847,143</b>
<b>Total liabilities and net assets</b>	<b>¥1,000,614</b>	<b>¥991,062</b>	<b>\$8,848,768</b>

# Consolidated Statements of Operations

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Net sales	¥804,578	¥748,050	\$6,679,018
Cost of sales (Note 6)	269,341	256,708	2,292,036
Gross profit	535,237	491,342	4,386,982
Selling, general and administrative expenses (Note 16)	430,773	414,855	3,704,062
Operating income	104,464	76,487	682,920
Other income (expenses):			
Interest expense, net	(6,871)	(6,836)	(61,036)
Gain on available-for-sale securities, net	3,455	25,057	223,723
Foreign currency exchange loss, net	(3,704)	(2,480)	(22,143)
Equity in losses of affiliates, net	(2,675)	(1,254)	(11,196)
Net gain on sales of investment securities in subsidiaries and affiliates	—	3,084	27,536
Legal settlement compensation received (Note 17)	72	34	304
Impairment loss on fixed assets (Note 18)	—	(230)	(2,054)
Loss on liquidation of business (Note 19)	(189)	—	—
Business restructuring expenses (Note 20)	(1,209)	—	—
Loss related to securities litigation (Note 21)	(2,072)	(6,922)	(61,804)
Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 22)	(18,814)	—	—
Loss on step acquisition	—	(308)	(2,750)
Other, net	(1,657)	(4,946)	(44,160)
Total	(33,664)	5,199	46,420
Income before provision for income taxes	70,800	81,686	729,340
Income taxes (Note 13):			
Current	10,944	16,992	151,714
For prior periods (Note 23)	3,172	1,332	11,893
Deferred	(5,967)	(14,853)	(132,616)
Total	8,149	3,471	30,991
Net income	62,651	78,215	698,349
Net income attributable to non-controlling interests	(57)	(24)	(214)
Net income attributable to shareholders of Olympus Corporation	¥ 62,594	¥ 78,191	\$ 698,135

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of
	2016	2017	U.S. dollars (Note 1)
Net income	¥ 62,651	<b>¥ 78,215</b>	<b>\$ 698,349</b>
Other comprehensive income (loss) (Note 27):			
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes	183	<b>(15,391)</b>	<b>(137,420)</b>
Net unrealized gains on hedging derivatives, net of taxes	1	<b>7</b>	<b>63</b>
Foreign currency translation adjustments	(24,008)	<b>(12,020)</b>	<b>(107,321)</b>
Retirement benefits liability adjustments	(8,477)	<b>1,169</b>	<b>10,438</b>
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(4)	<b>14</b>	<b>125</b>
Total other comprehensive loss	(32,305)	<b>(26,221)</b>	<b>(234,115)</b>
Comprehensive income	¥ 30,346	<b>¥ 51,994</b>	<b>\$ 464,232</b>
Total comprehensive income attributable to:			
Shareholders of Olympus Corporation	¥ 30,330	<b>¥ 51,981</b>	<b>\$ 464,116</b>
Non-controlling interests	¥ 16	<b>¥ 13</b>	<b>\$ 116</b>

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, 2016 and 2017

Millions of yen					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at April 1, 2015</b>	¥124,520	¥90,940	¥113,817	¥(1,111)	¥328,166
Dividends from surplus			(3,422)		(3,422)
Net income attributable to owners of the parent			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 April 1, 2016</b>	¥124,520	¥90,940	¥172,989	¥(1,122)	¥387,327
Dividends from surplus			(5,818)		(5,818)
Net income attributable to owners of the parent			78,191		78,191
Acquisition of treasury stock				(8)	(8)
Disposal of treasury stock		3		8	11
Change in ownership interest of Olympus Corporation resulting from transactions with owners of non-controlling interests		282			282
Net change in items other than those in shareholders' equity					—
Net changes during the year	—	285	72,373	0	72,658
<b>Balance at March 31, 2017</b>	¥124,520	¥91,225	¥245,362	¥(1,122)	¥459,985

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	Remeasurements of defined benefit plan	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at April 1, 2015</b>	¥ 24,764	¥ (8)	¥ 15,285	¥(12,745)	¥ 27,296	¥260	¥1,532	¥357,254
Dividends from surplus								(3,422)
Net income attributable to owners of the parent								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 April 1, 2016</b>	¥ 24,947	¥ (7)	¥ (8,686)	¥(21,222)	¥ (4,968)	¥428	¥1,496	¥384,283
Dividends from surplus								(5,818)
Net income attributable to owners of the parent								78,191
Acquisition of treasury stock								(8)
Disposal of treasury stock								11
Change in ownership interest of Olympus Corporation resulting from transactions with owners of non-controlling interests								282
Net change in items other than those in shareholders' equity	(15,391)	7	(11,995)	1,169	(26,210)	126	23	(26,061)
Net changes during the year	(15,391)	7	(11,995)	1,169	(26,210)	126	23	46,597
<b>Balance at March 31, 2017</b>	¥ 9,556	¥—	¥(20,681)	¥(20,053)	¥(31,178)	¥554	¥1,519	¥430,880



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, 2016</b>	\$1,111,786	\$811,964	\$1,544,543	\$(10,018)	\$3,458,275
Dividends from surplus			(51,946)		(51,946)
Net income attributable to owners of the parent			698,135		698,135
Acquisition of treasury stock				(71)	(71)
Disposal of treasury stock		27		71	98
Change in ownership interest of Olympus Corporation resulting from transactions with owners of non-controlling interests		2,518			2,518
Net change in items other than those in shareholders' equity					—
Net changes during the year	—	2,545	646,189	0	648,734
<b>Balance at March 31, 2017</b>	<b>\$1,111,786</b>	<b>\$814,509</b>	<b>\$2,190,732</b>	<b>\$(10,018)</b>	<b>\$4,107,009</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	Remeasurements of defined benefit plan	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at April 1, 2016</b>	\$ 222,741	\$(63)	\$ (77,554)	\$(189,482)	\$ (44,358)	\$3,821	\$13,358	\$3,431,096
Dividends from surplus								(51,946)
Net income attributable to owners of the parent					—			698,135
Acquisition of treasury stock					—			(71)
Disposal of treasury stock					—			98
Change in ownership interest of Olympus Corporation resulting from transactions with owners of non-controlling interests					—			2,518
Net change in items other than those in shareholders' equity	(137,420)	63	(107,098)	10,438	(234,017)	1,125	205	(232,687)
Net changes during the year	(137,420)	63	(107,098)	10,438	(234,017)	1,125	205	416,047
<b>Balance at March 31, 2017</b>	<b>\$ 85,321</b>	<b>\$ —</b>	<b>\$(184,652)</b>	<b>\$(179,044)</b>	<b>\$(278,375)</b>	<b>\$4,946</b>	<b>\$13,563</b>	<b>\$3,847,143</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2016	2017	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Income before provision for income taxes	¥ 70,800	¥ 81,686	\$ 729,340
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	39,912	44,658	398,732
Impairment loss on fixed assets (Note 18)	—	230	2,054
Amortization of goodwill	9,867	8,642	77,161
Loss on step acquisitions	—	308	2,750
Legal settlement compensation received	—	(34)	(304)
Loss related to securities litigation	2,072	6,922	61,804
Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 22)	18,814	—	—
Increase (decrease) in net defined benefit liabilities	2,712	(511)	(4,563)
Decrease (increase) in net defined benefit assets	(5,500)	798	7,125
Increase in provision for product warranties	1,420	2,438	21,768
Interest income	(1,021)	(774)	(6,911)
Interest expense	7,892	7,610	67,946
Equity in losses of affiliates, net	2,675	1,254	11,196
Gain on available-for-sale securities, net	(3,455)	(25,057)	(223,723)
Decrease in provision for loss on business liquidation	(177)	(107)	(955)
Net gain on sales of investment securities in subsidiaries and affiliates	—	(3,084)	(27,536)
Decrease (increase) in accounts receivable	2,006	(660)	(5,893)
Increase in inventories	(7,008)	(14,801)	(132,152)
Increase in accounts payable	1,965	1,204	10,750
Decrease in other payables	(1,572)	(353)	(3,152)
Increase (decrease) in accrued expenses	5,179	(2,904)	(25,929)
Increase in fixed lease receivables	(5,083)	(1,517)	(13,545)
Other, net	12,011	9,615	85,848
Sub-total	153,509	115,563	1,031,811
Interest and dividends received	2,362	1,952	17,429
Interest paid	(7,987)	(7,648)	(68,286)
Legal settlement compensation received	—	106	946
Loss related to securities litigation paid (Note 21)	(13,975)	(7,902)	(70,554)
Loss related to the investigation under U.S. Anti-kickback Act and the related Act paid (Note 22)	(72,455)	(4,714)	(42,089)
Income taxes paid	(12,833)	(7,163)	(63,955)
Net cash provided by operating activities	48,621	90,194	805,302
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Deposits in time deposits	(217)	(46)	(411)
Withdrawals from time deposits	35	192	1,714
Purchases of property, plant and equipment	(50,422)	(43,542)	(388,768)
Purchases of intangible assets	(5,987)	(3,708)	(33,107)
Purchases of investment securities	(271)	(8)	(71)
Sales of investment securities	3,214	42,239	377,134
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(41)	(366)
Net proceeds from sales of investments in subsidiaries resulting in changes in scope of consolidation (Note 25)	—	3,443	30,741
Repayments of loans receivable	—	(7,358)	(65,696)
Proceeds from loans receivable	25	19	170
Other, net	726	505	4,508
Net cash used in investing activities	(52,897)	(8,305)	(74,152)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Decrease in short-term borrowings	(23,820)	(3,933)	(35,116)
Proceeds from long-term borrowings	73,886	20,000	178,571
Repayments of long-term borrowings	(78,240)	(20,217)	(180,509)
Redemption of bonds	—	(30,000)	(267,857)
Payments for acquisition of treasury stock	(13)	(8)	(71)
Payments resulting from transactions with owners of non-controlling interests	—	(86)	(768)
Dividends paid to shareholders	(3,422)	(5,818)	(51,946)
Dividends paid to non-controlling shareholders	(53)	(59)	(527)
Other, net	(2,208)	(4,123)	(36,813)
Net cash used in financing activities	(33,870)	(44,244)	(395,036)
Effect of exchange rate changes on cash and cash equivalents	(5,340)	(4,537)	(40,509)
Net (decrease) increase in cash and cash equivalents	(43,486)	33,108	295,605
Cash and cash equivalents at beginning of year	209,809	166,323	1,485,029
Cash and cash equivalents at end of year (Note 24)	¥166,323	¥199,431	\$1,780,634

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

Olympus Corporation and Consolidated Subsidiaries

## 1. Summary of Significant Accounting Policies

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### (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 findings 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 11 "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 15 "Contingent Liabilities").

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 ¥112 to US\$1.00, the approximate rate of exchange prevailing at March 31, 2017. 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, 2017, the accounts of 105 (118 in 2016) subsidiaries have been included in the consolidated financial statements.

The Company consolidates all significant investees that 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 the 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 year ended March 31, 2016, four affiliates were accounted for by the equity method and for the year ended March 31, 2017, two affiliates were accounted for by the equity method. Investments in subsidiaries and affiliates that 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 five 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 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, 2016 and 2017 were as follows:

	2016	2017
Buildings and structures .....	6.9%	10.7%
Machinery and equipment .....	26.7%	36.5%

**(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 five years) that 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 five years) that 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, 2016 and 2017.

**(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) Research and Development**

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

**(p) Lease Transactions**

Non-cancelable 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 the lessee that commenced on or before March 31, 2008, follows the same method as for operating lease transactions.

**(q) 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 that 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.

**(r) Consumption Taxes**

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

**(s) 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. Additional Information**

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**Revised "Implementation Guidance on Recoverability of Deferred Tax Assets"**

From the fiscal year ended March 31, 2017, the Company applied the revised "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 26, March 28, 2016).



### 3. Financial Instruments

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#### 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 the 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 eight years and six months 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 28 “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, 2017, the carrying values of the financial assets represent the maximum credit risk exposures of the Group.

###### (b) Monitoring of market risk (the risk 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 the 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 28 "Derivative Financial Instruments" are not necessarily indicative of the actual market risk involved in derivative transactions.

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2016 and 2017 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).

As of March 31, 2016	Millions of yen		
	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>
Derivatives* .....	¥ 217	¥ 217	¥ —

As of March 31, 2017	Millions of yen		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
1) Cash and deposits .....	<b>¥199,431</b>	<b>¥199,431</b>	<b>¥ —</b>
2) Notes and accounts receivable .....	<b>137,924</b>	<b>137,924</b>	<b>—</b>
3) Investment securities .....	<b>27,835</b>	<b>27,835</b>	<b>—</b>
<b>Total .....</b>	<b>¥365,190</b>	<b>¥365,190</b>	<b>¥ —</b>
<b>Liabilities:</b>			
1) Notes and accounts payable .....	<b>¥ 41,596</b>	<b>¥ 41,596</b>	<b>¥ —</b>
2) Short-term borrowings .....	<b>2,409</b>	<b>2,409</b>	<b>—</b>
3) Bonds, including current maturities .....	<b>25,000</b>	<b>25,094</b>	<b>94</b>
4) Long-term borrowings, including current maturities .....	<b>258,948</b>	<b>260,112</b>	<b>1,164</b>
<b>Total .....</b>	<b>¥327,953</b>	<b>¥329,211</b>	<b>¥1,258</b>
Derivatives* .....	<b>¥ (603)</b>	<b>¥ (603)</b>	<b>¥ —</b>

As of March 31, 2017	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
1) Cash and deposits .....	<b>\$1,780,634</b>	<b>\$1,780,634</b>	<b>\$ —</b>
2) Notes and accounts receivable .....	<b>1,231,464</b>	<b>1,231,464</b>	<b>—</b>
3) Investment securities .....	<b>248,527</b>	<b>248,527</b>	<b>—</b>
<b>Total .....</b>	<b>\$3,260,625</b>	<b>\$3,260,625</b>	<b>\$ —</b>
<b>Liabilities:</b>			
1) Notes and accounts payable .....	<b>\$ 371,393</b>	<b>\$ 371,393</b>	<b>\$ —</b>
2) Short-term borrowings .....	<b>21,509</b>	<b>21,509</b>	<b>—</b>
3) Bonds, including current maturities .....	<b>223,214</b>	<b>224,054</b>	<b>840</b>
4) Long-term borrowings, including current maturities .....	<b>2,312,036</b>	<b>2,322,429</b>	<b>10,393</b>
<b>Total .....</b>	<b>\$2,928,152</b>	<b>\$2,939,385</b>	<b>\$11,233</b>
Derivatives* .....	<b>\$ (5,384)</b>	<b>\$ (5,384)</b>	<b>\$ —</b>

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

**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 4 "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 28 "Derivative Financial Instruments."

2) Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2016 and 2017

	Millions of yen		Thousands of
	2016	2017	U.S. dollars
1) Non-listed equity securities .....	¥ 177	¥ 70	\$ 625
2) Others .....	1,147	970	8,661
Total .....	¥1,324	¥1,040	\$9,286

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, 2016 and 2017

As of March 31, 2016	Millions of yen			
	Within a year	Over a year but within five years	Over five years but within 10 years	Over 10 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	—	—
Total .....	¥307,830	¥308	¥—	¥—

Millions of yen				
As of March 31, 2017	Within a year	Over a year but within five years	Over five years but within 10 years	Over 10 years
Cash and deposits .....	¥199,408	¥ —	¥—	¥—
Notes and accounts receivable .....	137,924	—	—	—
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 .....	591	187	—	—
<b>Total .....</b>	<b>¥337,923</b>	<b>¥187</b>	<b>¥—</b>	<b>¥—</b>

Thousands of U.S. dollars				
As of March 31, 2017	Within a year	Over a year but within five years	Over five years but within 10 years	Over 10 years
Cash and deposits .....	\$1,780,429	\$ —	\$—	\$—
Notes and accounts receivable .....	1,231,464	—	—	—
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 .....	5,277	1,670	—	—
<b>Total .....</b>	<b>\$3,017,170</b>	<b>\$1,670</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, 2016 and 2017

Millions of yen						
As of March 31, 2016	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>

Millions of yen						
As of March 31, 2017	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 .....	¥ 2,409	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds .....	—	25,000	—	—	—	—
Long-term borrowings .....	66,443	64,431	59,219	11,219	26,219	31,417
Lease payables .....	3,448	2,672	1,896	1,062	313	63
<b>Total .....</b>	<b>¥72,300</b>	<b>¥92,103</b>	<b>¥61,115</b>	<b>¥12,281</b>	<b>¥26,532</b>	<b>¥31,480</b>

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

Thousands of U.S. dollars						
As of March 31, 2017	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 .....	\$ 21,509	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds .....	—	223,214	—	—	—	—
Long-term borrowings .....	593,241	575,277	528,741	100,170	234,098	280,509
Lease payables .....	30,786	23,857	16,929	9,482	2,795	563
<b>Total .....</b>	<b>\$645,536</b>	<b>\$822,348</b>	<b>\$545,670</b>	<b>\$109,652</b>	<b>\$236,893</b>	<b>\$281,072</b>

#### 4. Securities

The following tables summarize acquisition cost and book value of securities with fair value as of March 31, 2016 and 2017:

Available-for-sale securities

Securities with book value exceeding acquisition cost

	Millions of yen						Thousands of U.S. dollars		
	2016			2017			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥27,787	¥62,112	¥34,325	¥15,284	¥26,789	¥11,504	\$136,464	\$239,188	\$102,714
Others .....	—	—	—	—	—	—	—	—	—
<b>Total .....</b>	<b>¥27,787</b>	<b>¥62,112</b>	<b>¥34,325</b>	<b>¥15,284</b>	<b>¥26,789</b>	<b>¥11,504</b>	<b>\$136,464</b>	<b>\$239,188</b>	<b>\$102,714</b>

Securities with book value not exceeding acquisition cost

	Millions of yen						Thousands of U.S. dollars		
	2016			2017			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥6,700	¥5,759	¥(941)	¥1,143	¥1,046	¥(97)	\$10,205	\$9,339	\$(866)
Others .....	—	—	—	—	—	—	—	—	—
<b>Total .....</b>	<b>¥6,700</b>	<b>¥5,759</b>	<b>¥(941)</b>	<b>¥1,143</b>	<b>¥1,046</b>	<b>¥(97)</b>	<b>\$10,205</b>	<b>\$9,339</b>	<b>\$(866)</b>

Note: No impairment loss was recorded on available-for-sale securities for the years ended March 31, 2016 and 2017.

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, 2016 and 2017:

	Millions of yen						Thousands of U.S. dollars					
	2016			2017			2017			2017		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
Equity securities .....	¥3,152	¥2,296	¥ —	¥41,331	¥23,879	¥ —	\$369,027	\$213,205	\$ —	\$ —	\$ —	\$ —
Others .....	33	1	183	—	—	—	—	—	—	—	—	—
<b>Total .....</b>	<b>¥3,185</b>	<b>¥2,297</b>	<b>¥183</b>	<b>¥41,331</b>	<b>¥23,879</b>	<b>¥ —</b>	<b>\$369,027</b>	<b>\$213,205</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Book value			
	2016	2017	2017	2017
Investments in unconsolidated subsidiaries and affiliates .....	¥1,946	¥71	\$634	\$634
<b>Total .....</b>	<b>¥1,946</b>	<b>¥71</b>	<b>\$634</b>	<b>\$634</b>

#### 5. Notes and Accounts Receivable

Notes and accounts receivable as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2016		2017	
	2016	2017	2017	2017
Unconsolidated subsidiaries and affiliates .....	¥ 24	¥ 5	\$ 45	\$ 45
Trade .....	140,642	137,919	1,231,419	1,231,419
<b>Total .....</b>	<b>¥140,666</b>	<b>¥137,924</b>	<b>\$1,231,464</b>	<b>\$1,231,464</b>



## 6. Inventories

Inventories as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Finished goods.....	¥ 54,245	¥ 51,257	\$ 457,652
Work in process and raw materials .....	57,313	72,807	650,062
<b>Total .....</b>	<b>¥111,558</b>	<b>¥124,064</b>	<b>\$1,107,714</b>

Write-downs of inventories for the years ended March 31, 2016 and 2017, net of the amount of the reversal, were included in the following account:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cost of sales .....	¥5,230	¥6,386	\$57,018

## 7. Short-Term Borrowings

Short-term borrowings consisted principally of bank loans. The annual interest rate ranged from 0.82% to 1.72% as of March 31, 2016. For the year ended March 31, 2017, the annual interest rate was 0.00%.

## 8. Long-Term Debt

Long-term debt as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
(Unsecured long-term debt)			
2.15% yen bonds, due July 2018 .....	¥ 25,000	¥ 25,000	\$ 223,214
1.94% yen bonds, due March 2017 .....	20,000	—	—
1.98% yen bonds, due September 2016 .....	10,000	—	—
2.53% loan from a Japanese bank, due September 2017 .....	35,000	35,000	312,500
2.45% loan from a Japanese bank, due July 2018 .....	33,100	33,100	295,536
2.65% loan from a Japanese bank, due September 2018 .....	20,000	20,000	178,571
2.49% loan from a Japanese bank, due September 2016 .....	10,000	—	—
1.99% loan from a Japanese bank, due September 2016 .....	10,000	—	—
2.39% loan from a Japanese bank, due August 2017 .....	2,000	2,000	17,857
2.14% loan from a Japanese bank, due August 2017 .....	18,000	18,000	160,714
2.25% loan from a Japanese bank, due September 2019 .....	20,000	9,000	80,357
1.75% loan from a Japanese bank, due September 2019 .....	—	11,000	98,214
2.03% loan from a Japanese bank, due May 2019 .....	18,000	18,000	160,714
1.75% loan from a Japanese bank, due May 2019 .....	10,000	10,000	89,286
2.04% loan from a Japanese bank, due May 2021 .....	15,000	15,000	133,929
1.38% loan from a Japanese bank, due September 2025 .....	—	10,000	89,286
1.34% loan from a Japanese bank, due September 2025 .....	—	10,000	89,286
2.82% loan from a foreign bank, due March 2023 .....	16,902	16,829	150,259
2.91% loan from a foreign bank, due February 2023 .....	16,902	16,829	150,259
2.78% loan from a foreign bank, due March 2020 .....	23,663	23,559	210,348
2.70% loan from a foreign bank, due March 2020 .....	10,141	10,096	90,143
Other loans from foreign banks .....	211	198	1,768
Other loans from Japanese banks .....	563	337	3,009
(Secured long-term debt)			
Other loans from Japanese banks .....	—	—	—
	314,482	283,948	2,535,250
Less—current maturities .....	(50,000)	(66,443)	(593,241)
	¥264,482	¥217,505	\$1,942,009

As of March 31, 2017, the aggregate annual maturities of long-term debt were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2018 .....	¥ 66,443	\$ 593,241
2019 .....	89,431	798,491
2020 .....	59,219	528,741
2021 .....	11,219	100,170
2022 .....	26,219	234,098
2023 and thereafter .....	31,417	280,510
<b>Total .....</b>	<b>¥283,948</b>	<b>\$2,535,250</b>

## 9. Notes and Accounts Payable

Notes and accounts payable as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unconsolidated subsidiaries and affiliates .....	¥ 1,749	<b>¥ 1,125</b>	<b>\$ 10,045</b>
Trade .....	38,848	<b>40,471</b>	<b>361,348</b>
<b>Total .....</b>	<b>¥40,597</b>	<b>¥41,596</b>	<b>\$371,393</b>

## 10. Retirement Benefit Plans

Employees of the Company and certain consolidated subsidiaries have defined benefit 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 benefit 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, 2016 and 2017 were as follows (excluding retirement benefit obligation for the consolidated subsidiaries adopting the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit obligation at April 1 .....	¥192,261	<b>¥197,036</b>	<b>\$1,759,251</b>
Service cost .....	6,626	<b>7,212</b>	<b>64,393</b>
Interest cost .....	4,913	<b>3,650</b>	<b>32,589</b>
Actuarial loss .....	7,605	<b>7,224</b>	<b>64,500</b>
Retirement benefit paid .....	(6,282)	<b>(10,898)</b>	<b>(97,304)</b>
Effect of foreign exchange translation .....	(8,220)	<b>(3,791)</b>	<b>(33,848)</b>
Effect of changing from simplified method to standard method .....	88	<b>—</b>	<b>—</b>
Other .....	45	<b>(101)</b>	<b>(902)</b>
<b>Retirement benefit obligation at March 31 .....</b>	<b>¥197,036</b>	<b>¥200,332</b>	<b>\$1,788,679</b>

The changes in plan assets during the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Plan assets at April 1 .....	¥191,399	<b>¥184,213</b>	<b>\$1,644,759</b>
Expected return on plan assets .....	8,433	<b>7,904</b>	<b>70,571</b>
Actuarial gain (loss) .....	(8,987)	<b>5,206</b>	<b>46,482</b>
Contributions by the Company .....	5,276	<b>5,662</b>	<b>50,554</b>
Retirement benefit paid .....	(5,757)	<b>(8,924)</b>	<b>(79,679)</b>
Effect of foreign exchange translation .....	(6,128)	<b>(5,776)</b>	<b>(51,571)</b>
Other .....	(23)	<b>(4)</b>	<b>(36)</b>
Retirement benefit obligation at March 31 .....	¥184,213	<b>¥188,281</b>	<b>\$1,681,080</b>

The changes in retirement benefit obligation for the consolidated subsidiaries adopting the simplified method were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Provision for retirement benefits at April 1 .....	¥1,019	<b>¥1,073</b>	<b>\$ 9,580</b>
Retirement benefit expense .....	205	<b>89</b>	<b>795</b>
Retirement benefit paid .....	(63)	<b>(25)</b>	<b>(223)</b>
Effect of changing from simplified method to standard method .....	(88)	<b>—</b>	<b>—</b>
Other .....	—	<b>(213)</b>	<b>(1,902)</b>
Liability for retirement benefits at March 31 .....	¥1,073	<b>¥ 924</b>	<b>\$ 8,250</b>

The following table sets forth the funded status of the plans and the amounts recognized on the consolidated balance sheets as of March 31, 2016 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligation .....	¥ 183,471	<b>¥ 188,090</b>	<b>\$ 1,679,375</b>
Plan assets at fair value .....	(184,213)	<b>(188,281)</b>	<b>(1,681,080)</b>
	(742)	<b>(191)</b>	<b>(1,705)</b>
Unfunded retirement benefit obligation .....	14,638	<b>13,166</b>	<b>117,554</b>
Net liability for retirement benefits on the balance sheet .....	13,896	<b>12,975</b>	<b>115,848</b>
Liability for retirement benefits .....	38,645	<b>37,737</b>	<b>336,937</b>
Net defined benefit assets .....	(24,749)	<b>(24,762)</b>	<b>(221,089)</b>
Net amount .....	¥ 13,896	<b>¥ 12,975</b>	<b>\$ 115,848</b>

Liabilities for retirement benefits presented on 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, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost .....	¥ 6,626	<b>¥ 7,212</b>	<b>\$ 64,393</b>
Interest cost on projected benefit obligation .....	4,913	<b>3,650</b>	<b>32,589</b>
Expected return on plan assets .....	(8,433)	<b>(7,904)</b>	<b>(70,571)</b>
Amortization of actuarial loss .....	1,185	<b>3,335</b>	<b>29,777</b>
Amortization of prior service cost .....	(930)	<b>23</b>	<b>205</b>
Retirement benefit expense for consolidated subsidiaries adopting the simplified method .....	205	<b>89</b>	<b>795</b>
Amortization of changing from simplified method to standard method .....	—	<b>—</b>	<b>—</b>
Other .....	157	<b>98</b>	<b>875</b>
Retirement benefit expense .....	¥ 3,723	<b>¥ 6,503</b>	<b>\$ 58,063</b>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Prior service cost (benefit) .....	¥ 921	¥ (25)	\$ (223)
Actuarial loss (gain) .....	14,385	(1,201)	(10,723)
Total .....	¥15,306	¥(1,226)	\$(10,946)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized prior service cost .....	¥ 130	¥ 105	\$ 938
Unrecognized actuarial loss .....	27,488	26,287	234,705
Total .....	¥27,618	¥26,392	\$235,643

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2017 were as follows:

	2016	2017
Bonds .....	36%	39%
Stocks .....	22%	26%
General accounts .....	33%	32%
Other .....	9%	3%
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:

	2016	2017
Discount rate .....	mainly 0.4%	mainly 0.7%
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 ¥5,150 million and ¥4,977 million (\$44,438 thousand) in the years ended March 31, 2016 and 2017, respectively.

## 11. 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 (\$64,384 thousand) were recorded as a non-current receivable and included in non-current other assets on the balance sheets as of March 31, 2016 and 2017, 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.

## 12. Stock Option Plans

A summary of information regarding the consolidated subsidiaries' stock option plans for the years ended March 31, 2016 and 2017 is as follows:

	First series of stock subscription rights	Second series of stock subscription rights	Third series of stock subscription rights	Fourth series of stock subscription rights
Qualified beneficiaries .....	Five directors, 20 executive officers	Five directors, 20 executive officers	Five directors, 19 executive officers	Five 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	Common stock 39,500
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	July 13, 2016 From July 14, 2016 to July 13, 2046
Exercise period .....				
Number of unvested stock options:				
As of March 31, 2016 .....	—	—	—	—
Granted .....	—	—	—	39,500
Forfeited .....	—	—	—	—
Vested .....	—	—	—	39,500
As of March 31, 2017 .....	—	—	—	—
Number of vested stock options:				
As of March 31, 2016 .....	38,700	40,000	38,400	—
Vested .....	—	—	—	39,500
Exercised .....	2,100	1,200	—	—
Forfeited .....	—	—	—	39,500
As of March 31, 2017 .....	36,600	38,800	38,400	38,000
For stock options exercised during the year:				
Exercise price (yen) .....	¥1	¥1	¥1	¥1
Average price of common stock at the date of exercise (yen) .....	¥3,710	¥3,550	¥—	¥—
Fair value per share at the grant date:				
Exercise price (yen) .....	¥2,940	¥3,625	¥4,490	¥3,581

The assumptions used to measure the fair value of stock options granted for the years ended March 31, 2016 and 2017 were as follows:

	Third series of stock subscription rights	Fourth series of stock subscription rights
Estimate method .....	Black-Scholes option pricing model	Black-Scholes option pricing model
Expected volatility (Note 1) .....	47.44%	47.49%
Expected life (Note 2) .....	15 years	15 years
Expected dividend (Note 3) .....	¥5 per share	¥13.5 per share
Risk-free interest rate (Note 4) .....	0.82%	(0.12)%

Notes:

- 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. Expected volatility for Fourth series of stock subscription rights was estimated based on the stock price data of the Company for 15 years from July 2001 to July 2016.
- 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.
- Expected dividend for Third series of stock subscription rights was based on the dividend paid over the last two terms. Expected dividend for Fourth series of stock subscription rights was based on the dividend paid over the last two terms.
- Risk-free interest rate represented the interest rate of Japanese Government Bonds (JGBs) corresponding to the expected life of the options.



### 13. 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 33.1% and 30.9% for the years ended March 31, 2016 and 2017, 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, 2016 and 2017:

	2016	2017
Normal statutory tax rates.....	33.1%	<b>30.9%</b>
Non-deductible expenses .....	2.5	<b>1.5</b>
Non-taxable income.....	(0.6)	<b>(0.1)</b>
R&D tax credits.....	(2.2)	<b>(3.6)</b>
Effect of lower tax rates applied for foreign subsidiaries.....	(4.2)	<b>(3.0)</b>
Decrease in valuation allowance.....	(43.3)	<b>(20.0)</b>
Amortization of goodwill.....	4.6	<b>3.3</b>
Effect of reorganization of Group structure.....	17.0	—
Decrease in deferred tax assets and liabilities due to tax rate change.....	(0.2)	<b>(1.8)</b>
Other, net.....	4.8	<b>(3.0)</b>
Effective tax rates .....	11.5%	<b>4.2%</b>

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Inventories .....	¥ 7,722	¥ 8,230	\$ 73,482
Prepaid expenses .....	6,972	5,423	48,420
Accrued bonuses.....	6,339	5,831	52,063
Investments in consolidated subsidiaries.....	1,707	1,670	14,911
Unrealized intercompany profits .....	4,380	6,583	58,777
Depreciation of property, plant and equipment .....	5,297	6,493	57,973
Amortization of intangible assets.....	4,710	4,044	36,107
Liability for retirement benefits .....	12,759	11,753	104,938
Securities.....	4,526	3,627	32,384
Loss carryforwards .....	28,710	37,015	330,491
Other .....	33,129	31,030	277,052
Sub-total.....	116,251	121,699	1,086,598
Valuation allowance.....	(50,403)	(37,264)	(332,714)
Total deferred tax assets.....	65,848	84,435	753,884
Net defined benefit assets.....	(7,398)	(6,952)	(62,071)
Basis differences in assets acquired and liabilities assumed upon acquisition.....	(12,545)	(9,750)	(87,054)
Other .....	(25,747)	(25,654)	(229,054)
Total deferred tax liabilities .....	(45,690)	(42,356)	(378,179)
Net deferred tax assets.....	¥ 20,158	¥ 42,079	\$ 375,705

The "Act to partially amend the Act of Partial Amendment of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act to partially amend the Act of Partial Amendment of the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted in the Japanese Diet session on November 18, 2016, and as a consequence, the timing to raise the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019.

In step with this, the timing of implementation to abolish the special local corporation tax and, as a result, the timing of implementation to restore the corporation business tax and revise the local corporation tax rate and the corporate inhabitant tax rate (on a corporation tax basis) were postponed from the fiscal years beginning on or after April 1, 2017 to the fiscal years beginning on or after October 1, 2019, respectively.

Although there is no change in the statutory effective tax rate used to measure deferred tax assets and deferred tax liabilities, as a result of the reclassification of tax rates between the national tax and local tax, the amount of deferred tax assets (after deducting deferred tax liabilities) increased ¥1,359 million and deferred income taxes expense decreased by the same amount.

## 14. 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 on 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, 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:

1. The increase in the number of common stock in treasury stock includes 2,771 shares through the purchase of stock of less than one trading unit.
2. The decrease in the number of common stock in treasury stock includes 400 shares through the exercise of stock options.

### Share subscription rights

Please refer to Note 12 "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	¥10.00	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	Retained earnings	¥17.00	March 31, 2016	June 29, 2016

**(2) March 31, 2017**

A summary of information regarding the consolidated statement of changes in net assets for the year ended March 31, 2017 was as follows:

Total number and class of shares issued and treasury stock

Class of shares	As of April 1, 2016 (Number of shares)	Increase (Number of shares)	Decrease (Number of shares)	As of March 31, 2017 (Number of shares)
Shares issued:				
Common stock .....	342,671,508	—	—	342,671,508
Treasury stock:				
Common stock (Notes 1 and 2) .....	436,607	1,982	3,300	435,289

Notes:

1. The increase in the number of common stock in treasury stock includes 1,982 shares through the purchase of stock of less than one trading unit.
2. The decrease in the number of common stock in treasury stock includes 3,300 shares through the exercise of stock options.

Share subscription rights

Please refer to Note 12 "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 28, 2016)	Common stock	¥5,818 (\$51,946 thousand)	¥17.00 (\$0.152)	March 31, 2016	June 29, 2016

Dividends resolved during the year ended March 31, 2017 that will be effective after March 31, 2017

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, 2017)	Common stock	¥9,583 (\$85,563 thousand)	Retained earnings	¥28.00 (\$0.250)	March 31, 2017	June 29, 2017

## 15. Contingent Liabilities

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted in the amounts of ¥123 million and ¥148 million (\$1,321 thousand) as of March 31, 2016 and 2017, respectively. The Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥34 million and ¥22 million (\$196 thousand), respectively, and as guarantors of third-party borrowings from banks, amounting to ¥5,915 million as of March 31, 2016.

Concerning the Company's deferral of recognition of losses on securities investments, etc., lawsuits have been filed against it mainly by shareholders. Provisions for loss on litigation were provided as of March 31, 2016 and 2017 at amounts 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.

In March and August 2015, subpoenas were issued to Olympus Medical Systems Corp., a subsidiary of the Company, by the U.S. Department of Justice, seeking information relating to duodenoscopes that the Group manufactures and sells, and the Department of Justice's investigation is ongoing. There is a risk that the outcome may adversely affect the consolidated financial results in the future and a provision for losses related to the investigation may be necessary depending on the progress of the investigation. Currently, it is not possible to make a reasonable estimate.

## 16. Selling, General and Administrative Expenses

The following table summarizes the major components of selling, general and administrative expenses for the years ended March 31, 2016 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Advertising and promotion expenses .....	¥ 40,945	¥ 30,087	\$ 268,634
Salaries and allowance .....	135,247	133,825	1,194,866
Bonuses .....	30,826	30,202	269,661
Retirement benefit expenses .....	7,130	9,823	87,705
Amortization of goodwill .....	9,867	8,642	77,161
Research and development expenses .....	41,753	39,784	355,214
Depreciation and amortization .....	30,550	31,436	280,679

The total of research and development expenses included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended March 31, 2016 and 2017 amounted to ¥81,415 million and ¥79,178 million (\$706,946 thousand), respectively.

## 17. Legal Settlement Compensation Received

### (1) March 31, 2016

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 as monetary settlement in the case, which was presented as "Legal settlement compensation" in the consolidated statement of operations.

### (2) March 31, 2017

Concerning the Company's deferral of recognition of losses on securities investments, etc., the Company previously filed lawsuits against five former corporate auditors, and in the fiscal year ended March 31, 2017, settlement was reached with all five former corporate auditors. Accordingly, the Company received legal settlement compensation of ¥34 million (\$304 thousand) as monetary settlement in the case that was presented as "Legal settlement compensation" in the consolidated statement of operations.

## 18. 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, 2017 were as follows:

Use	Type of assets	Location	Millions of yen	Thousands of U.S. dollars
Assets scheduled for disposal .....	Other assets	Tokyo	¥230	\$2,054
Total .....			¥230	\$2,054

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.

The Company decided to dispose of the above assets with no recoverable value and the carrying amounts of the assets were written down to zero.

## 19. Loss on Liquidation of Business

Loss on liquidation of business of ¥189 million 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.

## 20. Business Restructuring Expenses

Business restructuring expenses of ¥1,209 million 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.

## 21. 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
	2016	2017	2017
Settlement charge .....	¥2,072	¥6,705	\$59,866
Compensation for damage .....	—	217	1,938
Total .....	¥2,072	¥6,922	\$61,804

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.

## 22. 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.

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 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.

## 23. 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 years ended March 31, 2016 and 2017 considering the Advanced Pricing Agreement submitted for approval regarding transfer price taxation.

## 24. 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, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits .....	¥166,554	¥199,431	\$1,780,634
Less—time deposits with maturities over three months .....	(231)	(0)	(0)
Cash and cash equivalents .....	¥166,323	¥199,431	\$1,780,634



## 25. Net Proceeds 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 sales of shares of Nippon Outsourcing Corporation, which has been excluded from the scope of consolidation due to the sale of its shares during the year ended March 31, 2017 were as follows:

	Millions of yen
Current assets .....	¥ 2,633
Non-current assets .....	347
Current liabilities .....	(1,704)
Non-current liabilities .....	(194)
Gain on transfer of business .....	3,844
Transaction price .....	4,926
Cash and cash equivalents .....	(1,483)
Proceeds from sales of shares of subsidiaries resulting in changes in scope of consolidation .....	¥ 3,443

## 26. 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.

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, 2016 and 2017 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, 2016	¥1,619	¥4,009	¥5,628			
<b>As of March 31, 2017</b>	<b>¥2,632</b>	<b>¥7,320</b>	<b>¥9,952</b>	<b>\$23,500</b>	<b>\$65,357</b>	<b>\$88,857</b>

Finance Lease Transactions (Lessor):

Leased investment assets recognized in the consolidated balance sheets as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Lease receivables and leased investment assets:			
Lease receivables components of leased investment assets .....	¥26,021	¥26,643	\$237,884
Estimated residual value .....	2,118	3,087	27,563
Interest income .....	(2,596)	(2,881)	(25,724)
Leased investment assets .....	¥25,543	¥26,849	\$239,723
Other assets:			
Lease receivables components of leased investment assets .....	¥33,446	¥32,189	\$287,402
Estimated residual value .....	7,889	8,730	77,946
Interest income .....	(3,827)	(3,538)	(31,589)
Leased investment assets .....	¥37,508	¥37,381	\$333,759

The following tables set forth amounts of lease receivables and leased investment assets to be collected subsequent to March 31, 2016 and 2017:

Millions of yen						
	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
As of March 31, 2016						
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

Millions of yen						
	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
As of March 31, 2017						
Lease receivables and leased investment assets:						
Lease receivables .....	¥ 8,489	¥ —	¥ —	¥ —	¥ —	¥ —
Lease receivable components of leased investment assets .....	26,643	—	—	—	—	—
Other assets:						
Lease receivables .....	—	5,125	3,170	1,383	474	10
Lease receivable components of leased investment assets .....	—	17,531	9,970	3,854	792	42

Thousands of U.S. dollars						
	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
As of March 31, 2017						
Lease receivables and leased investment assets:						
Lease receivables .....	\$ 75,795	\$ —	\$ —	\$ —	\$ —	\$ —
Lease receivable components of leased investment assets .....	237,884	—	—	—	—	—
Other assets:						
Lease receivables .....	—	45,759	28,304	12,348	4,232	89
Lease receivable components of leased investment assets .....	—	156,527	89,018	34,411	7,071	375

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				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, 2016						
	¥5,189	¥5,421	¥10,610			
As of March 31, 2017						
	¥5,646	¥5,886	¥11,532	\$50,411	\$52,553	\$102,964

## 27. 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, 2016 and 2017:

	Millions of yen		Thousands of
	2016	2017	U.S. dollars
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes:			
Amount arising during the year	¥ 2,913	¥ 1,226	\$ 10,946
Reclassification adjustments for gains and losses included in net income	(1,883)	(23,913)	(213,509)
Amount before tax effect	1,030	(22,687)	(202,563)
Tax effect	(847)	7,296	65,143
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes	¥ 183	¥(15,391)	\$ (137,420)
Net unrealized gains (losses) on hedging derivatives, net of taxes:			
Amount arising during the year	¥ (10)	¥ —	\$ 0
Reclassification adjustments for gains and losses included in net income	8	10	89
Amount before tax effect	(2)	10	90
Tax effect	3	(3)	(27)
Net unrealized gains (losses) on hedging derivatives, net of taxes	¥ 1	¥ 7	\$ 63
Foreign currency translation adjustments:			
Amount arising during the year	¥(24,018)	¥(11,998)	\$ (107,125)
Reclassification adjustments for gains and losses included in net income	10	(22)	(196)
Foreign currency translation adjustments	¥(24,008)	¥(12,020)	\$ (107,321)
Retirement benefits liability adjustments:			
Amount arising during the year	¥(13,035)	¥ (2,132)	\$ (19,036)
Reclassification adjustments for gains and losses included in net income	249	3,358	29,982
Amount before tax effect	(12,786)	1,226	10,946
Tax effect	4,309	(57)	(508)
Retirement benefits liability adjustments	¥ (8,477)	¥ 1,169	\$ 10,438
Share of other comprehensive income (loss) of companies accounted for by the equity method:			
Amount arising during the year	¥ (4)	¥ 14	\$ 125
Share of other comprehensive income (loss) of companies accounted for by the equity method	¥ (4)	¥ 14	\$ 125
Total other comprehensive income (loss)	¥(32,305)	¥(26,221)	\$ (234,115)

## 28. 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 that 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, 2016 and 2017:

Derivatives for which hedge accounting is not applied

As of March 31, 2016	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
To buy U.S. dollars .....	¥ 646	¥ 48	¥ 48
To buy other currencies .....	7,389	193	193
To sell U.S. dollars .....	6,642	117	117
To sell other currencies .....	14,301	(238)	(238)
Foreign exchange option contracts:			
Put option .....	4,869	84	84
Foreign currency swap contracts:			
Receive British pounds / pay euro .....	3,790	(8)	(8)
Receive other currencies / pay other currencies .....	6,084	21	21

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To buy U.S. dollars .....	¥ 507	¥ 145	¥ 145	\$ 4,527	\$ 1,295	\$ 1,295
To buy other currencies .....	1,844	(56)	(56)	16,464	(500)	(500)
To sell U.S. dollars .....	12,781	(214)	(214)	114,116	(1,911)	(1,911)
To sell other currencies .....	10,501	(421)	(421)	93,759	(3,759)	(3,759)
Foreign exchange option contracts:						
Put option .....	—	—	—	—	—	—
Foreign currency swap contracts:						
Receive British pounds / pay euro .....	7,958	25	25	71,054	223	223
Receive other currencies / pay other currencies .....	5,716	21	21	51,036	188	188

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 hedge accounting is applied

As of March 31, 2016	Millions of yen	
	Notional amount	Fair value
Forward foreign exchange contracts, accounted for by special hedge accounting:		
To buy U.S. dollars .....	¥ 4,992	*
To buy other currencies .....	—	*
To sell U.S. dollars .....	44,857	*
To sell other currencies .....	27,665	*
Interest rate swap contracts, accounted for by special hedge accounting shortcut method:		
Receive floating / pay fixed .....	148,000	**

As of March 31, 2017	Millions of yen		Thousands of U.S. dollars	
	Notional amount	Fair value	Notional amount	Fair value
Forward foreign exchange contracts, accounted for by special hedge accounting:				
To buy U.S. dollars .....	¥ 4,173	*	\$ 37,259	*
To buy other currencies .....	—	*	—	*
To sell U.S. dollars .....	35,502	*	316,982	*
To sell other currencies .....	24,996	*	223,179	*
Forward foreign exchange contracts for forecasted transactions:				
To sell other currencies .....	—	—	—	—
Interest rate swap contracts, accounted for by special hedge accounting shortcut method:				
Receive floating / pay fixed .....	138,000	**	1,232,143	**

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.

## 29. 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 their 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.

### 2. Method of calculating amounts of net sales, profit (loss), assets, liabilities, and other items by reportable 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.

### 3. Information concerning net sales, profit (loss), assets, and other items by reportable segment

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

Millions of yen

For the year ended March 31, 2017

	Medical	Scientific Solutions	Imaging	Others	Total	Adjustments	Consolidated total
Net sales:							
Third parties .....	¥575,285	¥93,227	¥65,574	¥13,964	¥748,050	¥ —	¥748,050
Intersegment .....	0	52	3	767	822	(822)	—
Total .....	575,285	93,279	65,577	14,731	748,872	(822)	748,050
Segment profit (loss) .....	115,482	5,280	498	(4,621)	116,639	(40,152)	76,487
Assets .....	621,297	79,371	51,075	11,748	763,491	227,571	991,062
Depreciation and amortization .....	33,999	4,323	1,930	854	41,106	3,552	44,658
Amortization of goodwill .....	8,124	508	—	10	8,642	—	8,642
Increase in segment property, plant and equipment and intangible assets .....	32,877	5,726	2,805	1,176	42,584	6,763	49,347

Thousands of U.S. dollars

For the year ended March 31, 2017

	Medical	Scientific Solutions	Imaging	Others	Total	Adjustments	Consolidated total
Net sales:							
Third parties .....	\$5,136,473	\$832,384	\$585,482	\$124,679	\$6,679,018	\$ —	\$6,679,018
Intersegment .....	1	466	25	6,851	7,343	(7,343)	—
Total .....	5,136,474	832,850	585,507	131,530	6,686,361	(7,343)	6,679,018
Segment profit (loss) .....	1,031,089	47,143	4,446	(41,259)	1,041,419	(358,500)	682,919
Assets .....	5,547,292	708,673	456,026	104,892	6,816,883	2,031,887	8,848,770
Depreciation and amortization .....	303,563	38,598	17,232	7,625	367,018	31,714	398,732
Amortization of goodwill .....	72,536	4,536	—	89	77,161	—	77,161
Increase in segment property, plant and equipment and intangible assets ....	293,545	51,125	25,045	10,499	380,214	60,384	440,598

Notes:

1. Segment profit (loss) is adjusted to agree with operating income in the consolidated financial statements.
2. The deduction of ¥(529) million and ¥(822) million (\$ (7,343) thousand) for the years ended March 31, 2016 and 2017, respectively, in internal sales or transfer among segments represents elimination of transactions among segments.
3. Adjustments for segment profit (loss) include ¥(36,374) million and ¥(40,152) million (\$ (358,500) thousand) for the years ended March 31, 2016 and 2017, respectively, of corporate general administration, and research and development center expenses, which are not allocable to the reportable segments.
4. Adjustments for segment assets include ¥197,938 million and ¥227,571 million (\$ (2,031,887) thousand) as of March 31, 2016 and 2017, respectively, of corporate assets, which are not allocable to the reportable segments.
5. Adjustments for depreciation and amortization include ¥2,822 million and ¥3,552 million (\$ (31,714) thousand) for the years ended March 31, 2016 and 2017, respectively, of depreciation and amortization of corporate assets, which are not allocable to the reportable segments.
6. Adjustments for increase in segment property, plant and equipment and intangible assets include ¥8,391 million and ¥6,763 million (\$ (60,384) thousand) for the years ended March 31, 2016 and 2017, 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, 2016 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Japan .....	¥163,070	¥159,610	\$1,425,089
North America .....	282,108	255,651	2,282,598
Europe .....	195,606	174,859	1,561,241
Asia .....	145,986	143,542	1,281,625
Other areas .....	17,808	14,388	128,465
	¥804,578	¥748,050	\$6,679,018

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, 2016 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Japan .....	¥ 81,970	<b>¥ 89,615</b>	<b>\$ 800,134</b>
America .....	37,925	<b>39,371</b>	<b>351,527</b>
Europe .....	28,505	<b>23,854</b>	<b>212,982</b>
Asia .....	17,664	<b>18,512</b>	<b>165,286</b>
	¥166,064	<b>¥171,352</b>	<b>\$1,529,929</b>

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, 2016, and 2017 have been omitted due to the absence of a customer with sales volume that exceeds 10% of consolidated net sales.

(d) Impairment losses on fixed assets of ¥230 million for the year ended March 31, 2016 were attributed to Medical.

(e) Outstanding balances of goodwill by reportable segment as of March 31, 2016 and 2017 were as follows:

	Millions of yen				Consolidated total
	2016				
	Medical	Scientific Solutions	Imaging	Others	
Outstanding balance of goodwill .....	¥95,122	¥2,013	¥—	¥55	¥97,190

	Millions of yen				Consolidated total
	2017				
	Medical	Scientific Solutions	Imaging	Others	
Outstanding balance of goodwill .....	<b>¥85,276</b>	<b>¥1,388</b>	<b>¥—</b>	<b>¥—</b>	<b>¥86,664</b>

	Thousands of U.S. dollars				Consolidated total
	2017				
	Medical	Scientific Solutions	Imaging	Others	
Outstanding balance of goodwill .....	<b>\$761,393</b>	<b>\$12,393</b>	<b>\$—</b>	<b>\$—</b>	<b>\$773,786</b>

(f) Amortization of negative goodwill by reportable segment

There was no amortization of negative goodwill for the years ended March 31, 2016 and 2017.

### 30. 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 net 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.

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
	2016	2017	2017
Net income (loss):			
Basic .....	¥182.90	<b>¥228.47</b>	<b>\$2.040</b>
Diluted .....	182.84	<b>228.38</b>	<b>2.039</b>
As of March 31			
Net assets .....	¥1,117.24	<b>¥1,252.96</b>	<b>\$11.187</b>

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	
	2016	2017
Average number of shares for basic net income (loss).....	342,235,989	<b>342,236,163</b>

(2) Net assets per share

As of March 31	Number of shares	
	2016	2017
Number of shares of common stock used for the calculation of net assets per share .....	342,234,901	<b>342,236,219</b>

As of March 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Total net assets.....	¥384,283	<b>¥430,880</b>	<b>\$3,847,143</b>
Amounts deducted from total net assets:			
Stock acquisition rights .....	428	<b>554</b>	<b>4,946</b>
Non-controlling interests .....	1,496	<b>1,519</b>	<b>13,563</b>
Net assets attributable to shares of common stock .....	¥382,359	<b>¥428,807</b>	<b>\$3,828,634</b>

### 31. Related-Party Transactions

(1) Related-party transactions

There were no related-party transactions to be disclosed for the years ended March 31, 2016 and 2017.

(2) Note about significant related party

There were no significant related parties to be disclosed for the years ended March 31, 2016 and 2017.

## 32. Business Combinations

### Business divestiture

The Company transferred shares of Nippon Outsourcing Corporation (hereinafter, "NOC"), formerly a consolidated subsidiary, to The Longreach Group Ltd. in cash on October 31, 2016.

(1) Outline of business divestiture

(i) Name of company that succeeded a divested business

LN Holdings Inc.

(LN Holdings Inc. is under the umbrella of an investment fund owned by The Longreach Group Ltd.)

(ii) Business description of divested business

Outsourcing business, personnel services, shared services for the Olympus Group

(iii) Primary reason for business divestiture

As one of the priority strategies of the 2016 Corporate Strategic Plan ("16CSP") announced on March 30, 2016, the Company aims to acquire necessary management resources in a timely manner and fully leverage these resources, and is advancing to focus investment of management resources in the growing fields of the Medical Business.

On the other hand, NOC has been developing business mainly in outsourcing and personnel services since its establishment in 1988 and has been well-trusted by the market. Yet, outsourcing and personnel services have not been included in the Company's core field under the 16CSP. Under such a circumstance, it is therefore difficult to provide sufficient investment to maintain competitiveness and further growth in the outsourcing industry, where competition is increasingly severe.

For NOC to make the most of its intrinsic potential to maximize corporate value and customer value, the Company decided that the best approach would be, from a technical standpoint of business support and investment, to have NOC expand the opportunity to realize further growth under The Longreach Group, which has a considerable track record and strength in accelerating the growth and competitiveness of companies.

(2) Outline of accounting treatment applied

(i) Gain on transfer of business

¥3,844 million (\$34,321 thousand)

(ii) Book values of assets and liabilities of transferred business

	Millions of yen	Thousands of U.S. dollars
Current assets	¥2,633	\$23,509
Non-current assets	347	3,098
Total assets	¥2,980	\$26,607
Current liabilities	¥1,704	\$15,214
Non-current liabilities	194	1,732
Total liabilities	¥1,898	\$16,946

(iii) Accounting treatment

The difference between the consolidated net assets of NOC and the selling price, less any related transaction costs, was recorded as net gain on sales of investment securities in subsidiaries and affiliates.

(3) Reportable segment in which divested business was included

Others

(4) Estimated net sales and operating income attributable to the divested business in the consolidated statement of operations for the year ended March 31, 2017

Net sales: ¥3,580 million (\$31,964 thousand)

Operating income: ¥196 million (\$1,750 thousand)

### 33. Subsequent Event

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#### Acquisition of Image Stream Medical, Inc.

On June 1, 2017, the Company completed the acquisition of 100% of shares of Image Stream Medical, Inc. (Headquartered: Massachusetts, USA; CEO: Eddie Mitchell) ("ISM"), a U.S. operating room imaging systems integrator, through its wholly owned subsidiary, Olympus Corporation of the Americas ("OCA"). The acquisition was made by using a special purpose vehicle ("MergerSub") such that MergerSub merged with ISM and subsequently OCA acquired the shares of surviving corporation ISM, resulting in ISM becoming a wholly owned subsidiary of OCA (the "Transaction") under the mutual agreement among OCA, ISM, and MergerSub on April 28, 2017.

#### 1. Reason for acquisition

As outlined in the 2016 Corporate Strategic Plan ("16CSP") announced on March 30, 2016, the Company aims to improve corporate value by strengthening its foundations and developing an aggressive business portfolio for sustainable future growth. Through this acquisition, the Company seeks to acquire ISM's technology and know-how, and consequently strengthen its operating room systems integration business as described in 16CSP, with the aim of providing better medical environments and thereby contributing to society by making the lives of people around the world healthier, safer, and more fulfilling.

#### 2. Name of company to be acquired, business description, and net sales

- (1) Name: Image Stream Medical, Inc.
- (2) Business description: Proposing, selling, delivery, and maintenance services for video management equipment and system integration solutions for operating rooms
- (3) Net sales: Approx. \$31 million (for the fiscal year ended December 31, 2016)

#### 3. Date of acquisition

June 1, 2017

#### 4. Shares acquired and purchase price

- (1) Shares acquired: 100 shares
- (2) Purchase price: \$78 million (maximum of \$87 million)

The purchase price mentioned above is determined based on the valuation amount of ISM's enterprise value. The actual acquisition price is subject to certain adjustments, based on items (for example, net debt, net working capital, and others) of ISM as at the closing date of the Transaction. Furthermore, additional consideration may be paid in the future up to the total amount of the purchase price of \$87 million, based on the performance, progress of development, and sales activities of ISM.

#### 5. Source of funds

Funded by cash reserves



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo 100-0011, Japan  
Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2017, 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

We draw attention to Note 15 of the consolidated financial statements, which describes that, concerning the Company's deferral of recognition of losses on securities investments, etc., lawsuits have been filed against it mainly by shareholders. A provision for loss on litigation was provided as of March 31, 2017 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.

Our opinion is not qualified in respect of this matter.

### *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, 2017  
Tokyo, Japan

Member firm of Ernst & Young Global Limited

# Olympus Group Companies

(As of June 30, 2017)

Total number of companies: 108 (Head office, 106 subsidiaries, and 2 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

Amsinckstrasse 63,  
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 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 and other services  
Promotion of employment in the Olympus Group  
companies for the challenged

#### 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

(2 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)  
Marketing, sales of imaging products and medical equipment 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)  
Sales and 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 New Zealand Limited**

(Auckland, New Zealand)  
Sales and service of endoscopes and microscopes in New Zealand

(60 others)

# Corporate Information

## Company Outline

(As of March 31, 2017)

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:	34,687 (Excludes temporary employees, average of 1,298 for fiscal 2017)
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 June 28, 2017)

Representative Director Hiroyuki Sasa	President Hiroyuki Sasa	Executive Officers Hitoshi Kawada Division Manager, Software & ICT Development Division
Directors Yasuo Takeuchi Akihiro Taguchi Haruo Ogawa Kiichi Hirata	Vice President Yasuo Takeuchi Chief Financial Officer (CFO)	Masamichi Handa Head of Imaging Business Unit Ken Yoshimasu Head of Quality & Regulatory Group
Outside Directors Shiro Hiruta Sumitaka Fujita Takayuki Katayama Susumu Kaminaga Michijiro Kikawa Tetsuo Iwamura	Senior Executive Managing Officers Akihiro Taguchi Head of Sales Group, Business Management Officer, Medical Business Shigeo Hayashi Head of Manufacturing Group Haruo Ogawa Chief Technology Officer (CTO), Head of R&D Group	Masahito Kitamura Division Manager, CSR Division Tetsuo Kobayashi Deputy Regional Representative Officer, Americas Toshihiko Okubo Head of Scientific Solutions Business Unit Division Manager, Scientific Solutions Global Marketing Division Yoshihito Shimizu Head of Medical Service Business Unit
Standing Audit & Supervisory Board Members Nobuyuki Koga Masashi Shimizu	Executive Managing Officers Yasushi Sakai Chief Improvement Officer (CIO) Nobuhiro Abe Chief Regional Representative Officer, Asia Pacific Kiichi Hirata Chief Administrative Officer (CAO) Naohiko Kawamata Division Manager, Procurement Division	Katsuhiko Inadomi Corporate Management & Finance Officer, Asia & Pacific Hidenao Tsuchiya Deputy Chief Compliance Officer Yoshitake Saito Head of Business Development Office Katsuyuki Saito Head of Gastrointestinal and Respiratory Business Unit Koji Ando Head of Medical Affairs Office Yoshio Tashiro Division Manager, Medical R&D Planning Division Kazutaka Eguchi Division Manager, Manufacturing Management Division Nacho Abia Regional Representative Officer, Americas Stefan Kaufmann Regional Representative Officer, EMEA
Outside Audit & Supervisory Board Members Katsuya Natori Atsushi Iwasaki		

## Stock Information

(As of March 31, 2017)

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:	26,986
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	Ratio (ADR:ORD):	1:1
101 Barclay Street, New York, NY 10286, U.S.A.	Exchange:	OTC (Over-the-Counter)
Tel.: +1-201-680-6825	Symbol:	OCPNY
U.S. toll free: 888-269-2377 (888-BNY-ADRS)	CUSIP:	68163W109
<a href="http://www.adrbnymellon.com">http://www.adrbnymellon.com</a>		

### Principal Shareholders:

	Number of shares held	Percentage of shares outstanding (%)
The Master Trust Bank of Japan, Ltd. (trust accounts)	23,163,100	6.77
Japan Trustee Services Bank, Ltd. (trust accounts)	17,249,900	5.04
Sony Corporation	17,243,950	5.04
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
State Street Bank and Trust Company 505001	11,152,732	3.26
State Street Bank and Trust Company 505223	11,038,133	3.23
State Street Bank and Trust Company	10,414,057	3.04
Sumitomo Mitsui Banking Corporation	8,350,648	2.44

Note: The percentage of shares outstanding is calculated after deducting treasury stock (435,289 shares).

### Shareholder Distribution:



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