

Analysis of Business Results, Financial Position, and Cash Flows

Analysis of Business Results

Company Overview

In the global economy during fiscal 2018, the U.S. economy continued to recover steadily, and there was also a trend of moderate improvement in Europe and China. However, uncertainty over the future continued due to the political trends in the United States and Europe and increasing geopolitical risks in East Asia and the Middle East. In the Japanese economy, amid firm domestic and overseas demand, corporate earnings and employment conditions improved, and a move toward recovery has been seen in consumer spending, with the moderate recovery trend continuing.

Amid this business environment, the Olympus Group continued to work to achieve sustainable growth in fiscal 2018 by strategically investing in growth fields and by implementing operational reforms to pursue business efficiency, in accordance with the “Business to Specialist” Company and One Olympus basic policies of the five-year medium-term management plan, 2016 Corporate Strategic Plan (16CSP), which was launched in fiscal 2017.

In the Medical Business, we increased the number of employees to strengthen each functional area of the business and enhanced quality assurance (QA) and regulatory assurance (RA). In the surgical device field, an area positioned for dramatic growth under 16CSP, we steadily implemented measures aimed at future growth, such as actively introducing new products in Japan and Europe and acquiring U.S. company Image Stream Medical, Inc., to strengthen the operating room systems integration business, a key strategic area. In the Scientific Solutions Business, we allocated management resources to growth fields based on customer groups and pushed ahead with optimizing the business. In the Imaging Business, we reinforced sales of high-margin mirrorless cameras and reorganized production bases. Through these initiatives, we stepped up efforts to create a business structure capable of consistently generating profits.

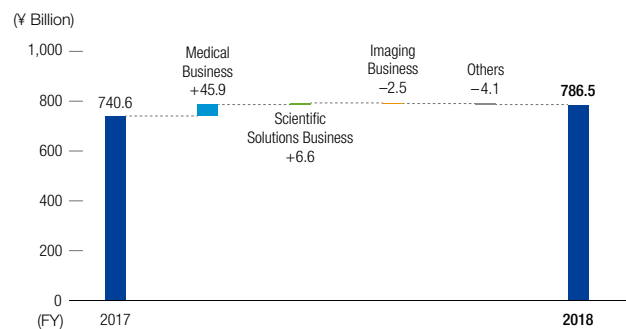
During fiscal 2018, the Olympus Group invested ¥89,469 million in research and development and spent ¥65,255 million on capital expenditures.

With respect to foreign exchange, the yen depreciated against both the U.S. dollar and the euro in comparison with the previous fiscal year. The average exchange rate during the year was ¥110.85 against the U.S. dollar (¥108.38 in the

previous fiscal year) and ¥129.70 against the euro (¥118.79 in the previous fiscal year), which caused revenue and operating profit to rise ¥28,784 million and ¥10,689 million, respectively, year on year.

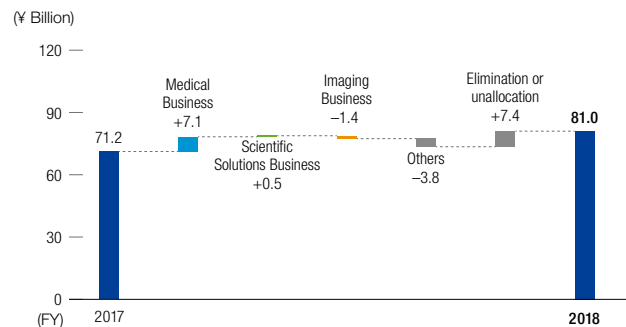
■ Revenue

Consolidated revenue increased 6.2% year on year, to ¥786,497 million, due to increased sales in the Medical Business and Scientific Solutions Business.



■ Operating Profit

Operating profit was up 13.8% year on year, to ¥81,029 million, as the recording of temporary expenses related to the restructuring of a production bases in the Imaging Business was offset by increased profits in the Medical Business and Scientific Solutions Business.



■ Profit Attributable to Owners of Parent

In addition, the Company posted income taxes of ¥19,573 million. Consequently, profit attributable to owners of parent was ¥57,064 million, up 33.4% year on year.

Performance by Segment

■ Medical Business

Consolidated revenue in the Medical Business amounted to ¥616,331 million, up 8.1% year on year, and operating profit amounted to ¥121,784 million, up 6.2%.

In the gastrointestinal endoscope field, although the mainstay endoscopy systems are reaching the later stages of their product cycles, steady sales were maintained. In the surgical device field, sales of surgical endoscopy systems equipped with 4K technologies, 3D laparoscopy systems,

and the THUNDERBEAT energy device integrating both advanced bipolar and ultrasonic energy continued to grow. In the endotherapy device field, sales of the VisiGlide 2™ disposable guidewire product for use in endoscopic diagnosis and treatment of biliary and pancreatic ducts and other products were strong.

Despite a deterioration in profits due to the product mix and other factors, operating profit in the Medical Business increased year on year, supported by the effect of the weaker yen.

■ Scientific Solutions Business

Consolidated revenue in the Scientific Solutions Business amounted to ¥100,016 million, up 7.1% year on year, and operating profit amounted to ¥6,425 million, up 8.4%.

Sales of products for hospitals and life science research were strong in Japan and China. Moreover, in addition to strong sales of industrial microscopes for semiconductor and electrical component inspections, sales of non-destructive testing equipment increased overseas, leading to higher revenue year on year in the Scientific Solutions Business.

Operating profit in the Scientific Solutions Business rose year on year due to the increase in revenue and the effect of the weaker yen.

■ Imaging Business

Consolidated revenue in the Imaging Business amounted to ¥60,298 million, down 4.0% year on year, and operating loss amounted to ¥1,200 million, compared with operating profit of ¥153 million in the previous fiscal year.

In the mirrorless camera field, sales increased as the Olympus Group maintained steady sales of the OM-D E-M1

Mark II flagship mirrorless camera introduced in the previous fiscal year. Meanwhile, in the compact digital camera field, the Olympus Group limited the number of units sold in line with the contracting market. Consequently, revenue in the Imaging Business decreased year on year.

As a result of a decrease in revenue and the recording of costs associated with the reorganization of production bases, operating loss was recognized in the Imaging Business.

■ Others

Consolidated revenue in the Others Business amounted to ¥9,852 million, down 29.5% year on year, and operating loss was ¥4,966 million, compared with operating loss of ¥1,138 million in the previous fiscal year.

Revenue in the Others Business declined as a result of having reorganized our non-core business domains through initiatives that included transferring shares in Nippon Outsourcing Corporation, a subsidiary of the Company, on October 31, 2016. Operating loss increased because a gain on sale of investments in subsidiaries was recorded in the previous fiscal year but absent in fiscal 2018.

Fiscal 2019 Outlook

Looking ahead, the global economy continues to recover at a moderate pace, but there remains a persistent downside risk due to factors such as policy moves by the U.S. government and the outlook for China and other emerging economies. 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 established during fiscal 2016.

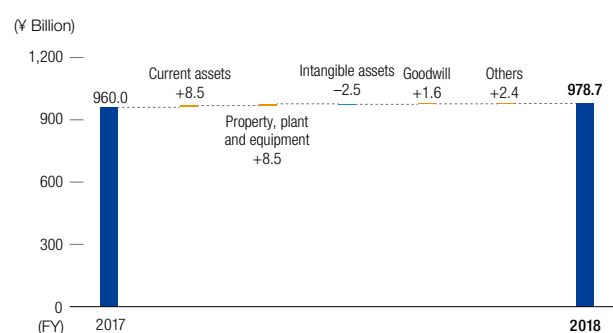
In the Medical Business, we aim to expand the scale of our operations primarily by providing value in terms of both early diagnosis and minimally invasive therapies. To this end, we have been proactively investing in each of this segment's

business units, namely, the GI&R (gastrointestinal and respiratory), the GS (general surgery), the Uro / Gyn (urology / gynecology), the ENT (ear, nose, and throat), and the MS (medical service) business units. We will work to improve profitability in the Medical Business by achieving dramatic growth in both the endotherapy device and surgical device fields, which entails maintaining our overwhelming competitive strengths in the gastrointestinal endoscope field and strengthening operations involving single-use devices. In the Scientific Solutions Business, we will establish an earnings base by promoting strategies oriented to customer groups while also taking steps geared toward enhancing shared business functions and streamlining operations through globally integrated management. In the Imaging Business, we will further boost business efficiency aimed at the establishment of a profitable operating structure.

Financial Position

Total Assets

As of March 31, 2018, total assets increased ¥18,631 million from a year earlier, to ¥978,663 million. As reasons for the increase in total assets, inventories increased ¥13,990 million, property, plant and equipment increased ¥8,508 million, other financial assets increased ¥5,824 million, and retirement benefit asset increased ¥4,970 million. Conversely, cash and cash equivalents decreased ¥8,226 million and deferred tax assets decreased ¥4,302 million.



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Total Liabilities

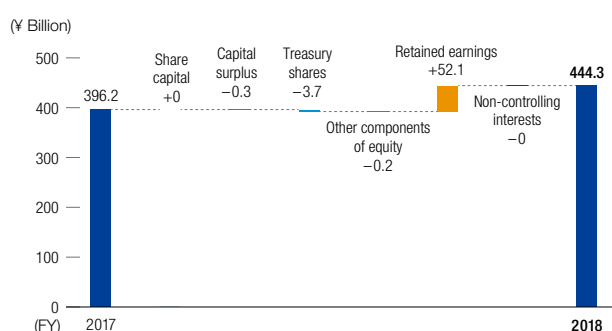
As for total liabilities, bonds and borrowings in current liabilities increased ¥20,014 million, other current liabilities increased ¥16,060 million, and other non-current liabilities increased ¥6,615 million. Meanwhile, bonds and borrowings in non-current liabilities decreased ¥58,010 million and trade and other

payables decreased ¥13,275 million. As a result, total liabilities decreased ¥29,400 million compared with the end of the previous fiscal year, to ¥534,404 million.

Total Equity and Equity Attributable to Owners of Parent to Total Assets

Total equity increased ¥48,031 million compared with the end of the previous fiscal year, to ¥444,259 million, primarily due to an increase in retained earnings owing to profit attributable to owners of parent of ¥57,064 million and a decrease in retained earnings stemming from dividends of ¥9,583 million.

As a result of the foregoing, equity attributable to owners of parent to total assets increased from 41.1% at the end of the previous fiscal year to 45.2%.



Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥95,146 million. Major factors increasing cash included ¥76,665 million in profit before tax as well as adjustments for non-cash items such as ¥52,913 million in depreciation and amortization, and ¥592 million in loss related to securities

litigation. Decreasing factors mainly included a decrease in trade and other payables of ¥13,709 million, an increase in inventories of ¥13,249 million, and income taxes paid of ¥19,281 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥53,312 million. Decreasing factors mainly included ¥48,855 million in purchase of property, plant and equipment, ¥14,554 million in purchase of intangible assets, and ¥8,636 million in purchase of

investments in subsidiaries resulting in change in scope of consolidation. Increasing factors mainly included ¥7,047 million in proceeds from sales of investments and ¥5,646 million in proceeds from sales of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥51,058 million. Decreasing factors mainly included ¥66,307 million in repayments of long-term borrowings and ¥9,583 million in dividends paid. Increasing factors mainly included ¥23,551 million in proceeds from long-term borrowings and ¥9,946 million in proceeds from issuance of bonds.

As a result, cash and cash equivalents at the end of fiscal 2018 reached ¥191,239 million, a decrease of ¥8,226 million compared with the end of the previous fiscal year.

