

# Independent Auditor's Report



Ernst & Young ShinNihon LLC  
 Hibiya Mitsui Tower, Tokyo Midtown Hibiya  
 1-1-2 Yurakucho, Chiyoda-ku  
 Tokyo 100-0006, Japan

Tel: +81 3 3503 1100  
 Fax: +81 3 3503 1197  
 ey.com

## Independent Auditor's Report

The Board of Directors  
 Olympus Corporation

### Opinion

We have audited the accompanying consolidated financial statements of Olympus Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.



Capitalization of development costs	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 14 of the Consolidated Financial Statements, the Company recorded capitalized development costs of 47,696 million yen as of March 31, 2020.</p> <p>As described in Note 3 (9) of the Consolidated financial statements, development costs are capitalized that meet following criteria:</p> <ul style="list-style-type: none"> <li>The technical feasibility of completing the intangible asset so that it will be available for use or sale</li> <li>The Company's intention to complete the intangible asset and use or sell it</li> <li>The Company's ability to use or sell the intangible asset</li> <li>The intangible asset is likely to create future economic benefits</li> <li>The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset</li> <li>The Company's ability to measure reliably the expenditure attributable to the intangible asset during its development</li> </ul> <p>Due to the significant balance of capitalized development costs, difficulties to validate the existence of capitalized development costs as they are intangible assets, having a direct impact on the Company's profit or loss when development costs are capitalized and the possibility of capitalized development costs not meeting the criteria, we determined this matter to be a key audit matter.</p>	<p>In consideration of the capitalization of development costs, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>We evaluated whether the Company's policy for capitalization of development costs meets the requirements of IAS 38, "Intangible Assets."</li> <li>We evaluated the existence and appropriateness of the timing of recognition by reviewing the materials of development conference meetings for the main development projects.</li> <li>We performed the following procedures in order to evaluate the existence of the capitalized development costs:                             <ul style="list-style-type: none"> <li>We evaluated the design and tested the operational effectiveness of the internal controls related to the calculation of development costs for each project and the process for development costs capitalization.</li> <li>We compared capitalized development costs with the source data.</li> <li>We reviewed the minutes of the meeting of the Board of directors and the materials of development conference meetings where decisions to discontinue development are made and evaluated that only development costs that meet the criteria are capitalized.</li> </ul> </li> </ul>



Evaluation of the goodwill of the Therapeutic solutions segment	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 16 of the Consolidated Financial Statements, the Company recorded goodwill for the Therapeutic solutions segment of 79,038 million yen as of March 31, 2020 and the Company performed an impairment test for the goodwill in the current fiscal year.</p> <p>The Company measures the recoverable amount of a cash generating unit (CGU) including goodwill based on value in use. Value in use is measured by discounting estimated future cash flows to present value. Estimated future cash flows is primarily based on a business plan approved by the management and considering a growth rate for the period after the term of the business plan. Business plans have a maximum term of five years as a general rule. Business plans reflect management's assessment of future industry trends as well as historical data, and are prepared based on external and internal information. The estimated future cash flows are determined based on the business plans.</p> <p>The growth rate for the period after the term of the business plans is determined based on market research reports for the industry in which the CGU operates.</p> <p>The discount rate is calculated based on the CGUs' pretax weighted average cost of capital.</p> <p>The main assumptions in estimating value in use are the growth rate and the operating profit ratio in estimating future cash flows in the five year business plan, the growth rate and the discount rate for the period after the business plan.</p>	<p>In consideration of the evaluation of the goodwill of the Therapeutic solutions segment, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>• We involved our valuation expert to evaluate the method of measurement of value in use and the discount rates used.</li> <li>• Regarding the estimation of the five year future cash flow based on the business plan, we discussed with management and we evaluated whether the future plan used for estimating future cash flow was consistent with the budget for the next fiscal year and the business plan approved by management and the prior year actual results. Furthermore, we evaluated the effectiveness of the management's estimation process for the future plan by comparing and analyzing the budget and business plan with the previous fiscal year with current year actual result.</li> <li>• Regarding the growth rate and the operating profit ratio in the business plan, we discussed with management and compared with historical results, market forecasts and available external data.</li> <li>• Regarding the growth rate and the discount rate for the period after the term of the business plan, we discussed with management and performed the following procedures:</li> <li>• Regarding the growth rate for the period after the term of the business plans, we compared with market forecasts and available external data.</li> </ul>



<p>Furthermore, regarding the impact of COVID-19, the situation varies from geographic region to geographic region, but at the fiscal year end, the Company believes that they will generally converge and business activities will also normalized from the third quarter of the next fiscal year, and includes this assumption in estimating the future cash flows.</p> <p>Value in use amply exceeds the carrying amount of the Therapeutic solutions segment. The Company believes that there is a low probability of significant impairment even if the key assumptions used in the impairment testing were to change within a range of reasonable foreseeability.</p> <p>The impairment test for the goodwill of the Therapeutic solutions segment is complex and the management's judgement is required as there is uncertainty in estimating future cash flows, growth rates and discount rates.</p> <p>From the above, we determined this matter to be a key audit matter.</p>	<ul style="list-style-type: none"> <li>• Regarding the discount rate, we involved our valuation expert to evaluated the method of measurement and reliability of external data used as a basis of the calculation.</li> <li>• Regarding the impact of COVID-19, we inquired of the management about the Company's assumption and we compared with the current economic conditions and the recent business environment.</li> <li>• We performed sensitivity analysis with respect to fluctuation of key assumptions.</li> </ul>
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**Responsibilities of Management, the Audit Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



#### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan


Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

#### Convenience Translation


The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(3) to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan


July 6, 2020

原科博文 

Hirofumi Harashina  
Designated Engagement Partner  
Certified Public Accountant

吉田哲也 

Tetsuya Yoshida  
Designated Engagement Partner  
Certified Public Accountant

飯田昌泰 

Masayasu Iida  
Designated Engagement Partner  
Certified Public Accountant