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.

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

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

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

### Medical Equipment

#### Endoscopes

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Developed world's first practical gastrocamera.</td>
</tr>
<tr>
<td>1968</td>
<td>Launched Olympus first digital video endoscopy.</td>
</tr>
<tr>
<td>1995</td>
<td>Launched the Olympus CF-170V, world’s first HD video endoscope.</td>
</tr>
</tbody>
</table>

#### Surgical Devices

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>Launched VISERA, world’s first VS-1 endoscopic surgical system.</td>
</tr>
<tr>
<td>2006</td>
<td>Launched VF Virtually Indistinguishable Endoscopic System.</td>
</tr>
</tbody>
</table>

### Scientific Solutions and Imaging Products

- **1969** Launched the first Olympus digital camera CAMEDIA C-800L and CAMEDIA C-100L.
- **2007** Introduced the first Olympus mirrorless camera, OLYMPUS OM-D E-M1.
- **2010** Launched EVIS EXERA II, world’s first HD instrument to create a world’s first HD image.
- **2016** Launched the new flagship microscope, OLYMPUS OM-D E-M1 Mark II.

### From the Founding of Olympus and the Path to Business Modernization

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td>Established as Takachiho Seisakusho in Japan.</td>
</tr>
<tr>
<td>1921</td>
<td>Registered trademark as Olympus.</td>
</tr>
<tr>
<td>1949</td>
<td>Established Olympus Optical Co., Ltd.</td>
</tr>
</tbody>
</table>

### Diversification of Medical Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990s</td>
<td>Launched Olympus Pen F, the world’s first autofocus camera.</td>
</tr>
<tr>
<td>2000s</td>
<td>Launched Olympus Pen Alpha, the world’s first mirrorless camera.</td>
</tr>
</tbody>
</table>

### Transition from Stage of Restructuring to Management of Sustainable Growth and Development

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Launched the first Olympus Pen Alpha.</td>
</tr>
<tr>
<td>2015</td>
<td>Launched the Olympus Pen E-P1.</td>
</tr>
</tbody>
</table>

### Our Innovation History

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

### Surgical Devices

- **1979** Acquired digital endoscope manufacturer Winter & Stee GmbH.
- **2002** Introduced VISERA Pro, integrated surgical video endoscope system.
- **2011** Launched VISERA ELITE, integrated surgical video endoscope system.
- **2012** Launched the world’s first device to foldable and biplanar endoscopy.
- **2015** Launched VISERA IV, UHD surgical endoscopy system incorporating 4K technology.
Olympus develops its operations in three core business domains. The Scientific Solutions Business continues to refine the optical technologies Olympus has fostered 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.

Olympus develops its operations in three core business domains. The Scientific Solutions Business provides microscopes, which 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.

In the Medical Business, Olympus supplies various types of medical equipment, including gastrointestinal endoscopes that contribute to early diagnosis of diseases, surgical endoscopes that allow for minimally invasive therapies for reducing the burden placed on patient bodies, and energy devices. By providing such equipment, we are contributing to a medical environment that cares for both the physical health and the mental health of people around the world.

### Business Domains

**Medical Business**

In the Medical Business, Olympus supplies various types of medical equipment, including gastrointestinal endoscopes that contribute to early diagnosis of diseases, surgical endoscopes that allow for minimally invasive therapies for reducing the burden placed on patient bodies, and energy devices. By providing such equipment, we are contributing to a medical environment that cares for both the physical health and the mental health of people around the world.

**Scientific Solutions Business**

The Scientific Solutions Business provides microscopes, which Olympus has been manufacturing since its inception. These microscopes are used in various fields, whether for conducting such clinical examinations as blood tests or pathological examinations related to cancer diagnosis, assisting advanced research in the life science and medical fields, or performing quality control on manufacturing lines. Furthermore, the industrial videoscopes and ultrasonic flaw detectors offered in this business are used in inspections and examinations underpinning the safety of social infrastructure.

**Imaging Business**

The Imaging Business provides Olympus brand cameras, which boast unparalleled image quality realized through world-leading lens processing technologies and have won the hearts of photographers around the world. We continue to introduce the world to such unique cameras as our compact, lightweight mirrorless cameras that offer the same level of performance as single-lens-reflex cameras and our Tough series of dustproof, waterproof cameras that are ideal for outdoor use.

---

### Business Units

**Medical Business Units**

- GSR (Gastrointestinal and Respiratory)
- GS (General Surgery)
- UroGyn (Urology / Gynecology)
- ENT (Ear, Nose, and Throat)
- MS (Medical Services)
- Scientific Solutions
- Imaging

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

### Medical Business

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

**Gastrointestinal Endoscopes / Endotherapy Devices**

- Principal Endotherapy Devices
  - FlexiEndo™ Series
  - IPLEX™ RX Industrial Videoscope
  - OLYMPUS Single-Use Endoscopy System
  - DELTA single-use endoscopic super flexible forceps
  - THUNDERBEAT™ Systems
  - Ultrasound endoscopes

- Single-Use-Products
  - Single-Use Gastrointestinal Endoscopic Devices
  - Single-Use Respiratory Endoscopic Devices
  - Single-Use Gynecologic Endoscopic Devices
  - Single-Use Urologic Endoscopic Devices

**Endoscopy Devices**

- Digital Laparoscope
- Videoendothroscope
- Video Endoscope System
- Ultrasonic Endoscope

**Surgical Devices**

- Electrosurgical Devices
- Ultrasonic Endoscope
- EndoEnergy™ Systems

**Medical Business**

- Early Diagnosis
  - Examples of early diagnosis of lesions with gastrointestinal endoscopes and minimally invasive therapy with endotherapy devices

- Minimal Invasive Therapy
  - Examples of laparoscopic surgical equipment

- Surgical Devices
  - Minimally Invasive Surgery
  - Electrosurgical Devices

**Imaging Business**

- Digital Cameras
  - Mirrorless cameras
  - Compact digital cameras
  - Automotive cameras

**Scientific Solutions Business**

- Life Science
  - LS Research
  - Clinical
  - Education
  - Vet

- Industrial
  - Manufacturing
  - Environment
  - Natural Resource

- Imaging
  - Industrial microscopes
  - Industrial Videoscopes
  - Non-destructive testing equipment
  - X-ray fluorescence (WDX) analyzers

**Medical Business Units**

- GSR (Gastrointestinal and Respiratory)
- GS (General Surgery)
- UroGyn (Urology / Gynecology)
- ENT (Ear, Nose, and Throat)
- MS (Medical Services)
- Scientific Solutions
- Imaging

For more information on business units, please refer to "Review of Business Segments" beginning on page 38.
The Company’s Medical Business is charged with the social mission of continuing to contribute to a medical environment that cares for both the physical and mental health of people around the world. We fulfill this mission by developing and supplying equipment for realizing early diagnosis of disease and reducing the physical burden on patients through minimally invasive therapies. Through these efforts, we strive to contribute to improved quality of life for patients while helping make medical treatment more efficient and affordable.

Gastrointestinal endoscope market share (Global)

More than 70% No.1

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

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

Medical Business

Two Forms of Value Provided by Olympus

Early Diagnosis

Minimally Invasive Therapies

Technology and innovation

Services and quality

Competitive Edge Supporting Olympus in Creating Value

Trust relationships with healthcare professionals

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

History of contributing to early diagnosis

Olympus: 66 years

Key Technologies

Optical Technologies

- Optical Measurement Technology
- Advanced Optical Technology
- Next-Generation Optical Design Technology

Electronic Imaging Technologies

- Imager Technology
- Key Digital Imaging Technology
- High-Speed Communication Technology
- System LSI

Precision Technologies

- Precision Control Technology
- Precision Mounting Technology
- MEMS Technology
- Micro Device

Biological Based Technologies

- Live Cell Analysis Technology
- Cell Separation
- Cell Culture, and Evaluation Technology
- Gene Transfection Technology

Biological microscope and industrial videoscope market share (Global)

Approx. 40% No. 1

Number of patents held in the Scientific Solutions Business

Over 4,500

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

Imaging Business

Technological driver for creating sophisticated electronic imaging technologies

Minicameras market share (Japan)

Approx. 25% No. 2

Number of patents held in the Imaging Business

Over 4,200

In the camera operations of the Imaging Business, product development cycles are short and competition is fierce due to the presence of numerous rivals. However, this business creates sophisticated electronic imaging technologies that are of great benefit to the other businesses. For example, the digital imaging technologies from digital camera development were used to evolve endoscopes from fiberscopes to videoscopes.
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 rates, regulations, and other factors. Olympus therefore wishes to caution readers that actual results may differ materially from its expectations.
Four years have passed since I took up the mantle of president in 2012. The current management team, of which I am a part, was appointed to create a new Olympus in the wake of the series of scandals. As such, regaining trust and improving corporate value have been our top priorities. Devoted to once again realizing a strong Olympus, we proceeded to restructure corporate governance systems and achieve substantial improvements in our financial health, which was in a state of crisis after the scandals. These efforts led to incredibly impressive performance in our mainstay Medical Business, and the Company was thereby able to achieve record-breaking net income in fiscal 2016. Previously, we had faced various causes for uncertainty, including issues related to negotiations with the U.S. Department of Justice. However, we steadily resolved such issues, and we are now able to secure a certain amount of funds, enabling us to resume dividend payments. I therefore feel confident saying that we were generally able to achieve the goals of the plan over the past four years. Furthermore, a new matrix style of business operation was adopted in April 2015. This system has begun functioning exceptionally well, as indicated by an increase in cross-business and cross-region discussion and enhanced global coordination.

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

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

August 2016

Hiroyuki Sasa
President and Representative Director
<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Millions of yen)</th>
<th>Net Income (Loss) (Millions of yen)</th>
<th>Depreciation and Amortization (Millions of yen)</th>
<th>EBITDA Margin (Medical Business) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/3</td>
<td>1,217,172</td>
<td>244,281</td>
<td>3,866</td>
<td>31.1%</td>
</tr>
<tr>
<td>2009/3</td>
<td>1,038,253</td>
<td>110,907</td>
<td>4,570</td>
<td>27.0%</td>
</tr>
<tr>
<td>2010/3</td>
<td>1,104,528</td>
<td>163,131</td>
<td>26,938</td>
<td>29.2%</td>
</tr>
<tr>
<td>2011/3</td>
<td>1,019,160</td>
<td>161,131</td>
<td>61,850</td>
<td>13.3%</td>
</tr>
<tr>
<td>2012/3</td>
<td>966,526</td>
<td>151,907</td>
<td>67,286</td>
<td>9.5%</td>
</tr>
<tr>
<td>2013/3</td>
<td>906,239</td>
<td>331,284</td>
<td>61,356</td>
<td>10.5%</td>
</tr>
<tr>
<td>2014/3</td>
<td>1,027,475</td>
<td>351,284</td>
<td>66,796</td>
<td>16.8%</td>
</tr>
<tr>
<td>2015/3</td>
<td>1,081,551</td>
<td>374,945</td>
<td>74,101</td>
<td>18.2%</td>
</tr>
<tr>
<td>2016/3</td>
<td>1,200,614</td>
<td>430,773</td>
<td>81,415</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Note: All data are expressed in millions of yen. 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.

* 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.

** Non-financial indicators: Number of employees: 35,772, average number of temporary employees: 5,336.
Ground Water

Net income per share amounted to ¥182.90 as a result of record-breaking net income. Operating income climbed above ¥100 billion for the first time in eight years as the Medical Business posted record-breaking income for the third consecutive year and structural reforms led to higher income in the Scientific Solutions Business and reduced loss in the Imaging Business. As a result, the operating margin rose 1.1 percentage points. Record-breaking net income was posted thanks to higher operating income, lower financial expenses and a reduction in income taxes attributable to the recording of additional deferred tax assets. Return on equity (ROE) recorded in fiscal 2015’s negative figure and climbed to 13.7%.

1,000

1,200

Total Equity per Share ¥78.6 UP (YoY)

Equity Ratio 5.3 points UP (YoY)

Total Net Assets 8% UP (YoY)

EBITDA Margin 15% UP (YoY)

Operating Margin 1.1 points UP (YoY)

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

ROE 19.6 points UP (YoY)

Net Income (Loss)

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

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

Financial Highlights

Net Sales 5% UP (YoY)

EBITDA 9% UP (YoY)

Total Net Assets 8% UP (YoY)

Net Income (Loss) 11.9% UP (YoY)

Cash Dividends per Share ¥7 UP (YoY)

Cash dividends were issued for the first time in four years in fiscal 2015. In fiscal 2016, cash dividends per share were raised by ¥7 year on year, to ¥17 per share. The dividend payout ratio was 9.3%. The Company adopts the policy of increasing cash dividend payments to target a total return ratio of 35%.

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

Water Use

Reduced 4.6% (YoY)

Olympus uses water to wash product components. To reduce water usage, the Company is continuously developing production methods that require less water and improving 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

Increased 0.1% (YoY)

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

CO2 Emissions at Manufacturing Sites*1,1 Increased 0.8% (YoY)

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

1. Scopes Group Corporation and its domestic and overseas subsidiaries (excluding those of joint ventures).
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 electricity purchases and sales.

Depreciation and Amortization

35% UP (YoY)

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

Non-Financial Highlights

Transportation-Related CO2 Emissions Reduced 2.3% (YoY)

Olympus is working to reduce CO2 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 CO2.

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Reduced 4.6% (YoY)

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

Strategy Framework

Management Strategy
- Resource allocation for Companywide optimization
- Function requirements
- Companywide policies

Business Strategies
- Complement

Functional Strategies
- Complement

Management Goals

<table>
<thead>
<tr>
<th>FY2021 (Targets)</th>
<th>FY2016 (Results)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Efficiency: ROE</td>
<td>15%</td>
</tr>
<tr>
<td>Profitability: Operating margin</td>
<td>15%</td>
</tr>
<tr>
<td>Business Growth: EBITDA</td>
<td>Double-digit growth*</td>
</tr>
<tr>
<td>Financial Soundness: Equity ratio</td>
<td>50%</td>
</tr>
</tbody>
</table>

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

Performance Indices and Targets

<table>
<thead>
<tr>
<th>FY2021 (Targets)</th>
<th>FY2016 (Results)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥11,500 billion</td>
</tr>
<tr>
<td>Operating Income</td>
<td>¥1,100 billion</td>
</tr>
<tr>
<td>Free CF</td>
<td>¥400 billion (5-year total)</td>
</tr>
<tr>
<td>EPS</td>
<td>¥183</td>
</tr>
<tr>
<td>EBITDA</td>
<td>¥350 billion</td>
</tr>
<tr>
<td>Total Return Ratio</td>
<td>Approx. 30%</td>
</tr>
<tr>
<td>R&amp;D Expenditures</td>
<td>¥1,400 billion</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>¥500 billion</td>
</tr>
</tbody>
</table>

* Figures are calculated based on International Financial Reporting Standards (IFRS).
Striving to become a strong global player in the medical field, we will further hone the unparalleled product creation capabilities and strengths as a “Business to Specialist” Company that we have forged to date as we endeavor to give form to the concept of a united One Olympus.

Hiroyuki Sasa
President and Representative Director

Review of the Medium-Term Vision

Drive to Complete the Medium-Term Vision

Fiscal 2016 proved to be an important turning point at which we took time to consider our ideal vision for the Olympus of the future. It was also during this year that we advanced a drive to finish the medium-term vision, the corporate strategic plan launched in 2012 with the aim of reconstructing management. Under this plan, we reorganized non-core business domains and concentrated management resource allocation on the Medical Business. We also advanced four basic strategies based on corporate management policies, including restructuring corporate governance and improving the Company’s balance sheet. As a result of these efforts, we were able to successfully escape the state of crisis we found ourselves in when launching the medium-term vision, more or less achieving the plan’s overall goals.

Successes under the Medium-Term Vision

<table>
<thead>
<tr>
<th>Basic Strategies</th>
<th>Evaluation</th>
<th>Achievements (Fiscal 2012 – Fiscal 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebuilding of business portfolio / optimizing allocation of management resources</td>
<td>○</td>
<td>Mediad: Achieved net sales and operating income targets 1 year in advance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scientific Solutions: Improved profitability, expanded net sales in industrial field</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Imaging: Implemented drastic structural reforms, departed from structure creating operating losses of more than ¥10 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-core: Completed reorganization ahead of schedule</td>
</tr>
<tr>
<td>Review and reduction of costs</td>
<td>○</td>
<td>Reorganized production bases in Asia and North America (30 bases + 27 bases)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optimized staff size (4,500 reduction in global employee numbers)</td>
</tr>
<tr>
<td>Restoration of financial health</td>
<td>●</td>
<td>Increased equity ratio (5% → 51% through reduced interest-bearing debt (¥42.4 billion + ¥27.4 billion) and other balance sheet streamlining measures, achieving target ahead of schedule</td>
</tr>
<tr>
<td>Restructuring of corporate governance</td>
<td>○</td>
<td>Established Board of Directors membered by majority of highly independent outside directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strengthened internal controls and had Security on Alert designation removed from Company stock in 1 year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reformed compliance systems and reached settlement with U.S. Department of Justice</td>
</tr>
</tbody>
</table>

Performance Indices

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

This accomplishment came on the back of a substantial improvement in our financial position, which we realized over a short period of only four years. This improvement was achieved by taking advantage of the cash flows generated through earnings growth centered on the Medical Business to reduce interest-bearing debt while reorganizing non-core business domains and procuring additional capital from overseas. ROIC also showed a pronounced improvement, rising from 3% in fiscal 2012 to 5% in fiscal 2016 due to increased profitability and asset efficiency. Free cash flow, meanwhile, was a negative ¥4.3 billion in fiscal 2016. However, this less-than-satisfactory outcome was primarily due to one-time outlays, such as those related to settlements with the U.S. Department of Justice. Our current structure is such that, if these one-time outlays are excluded, we would have been able to achieve our free cash flow target of ¥70 billion.

Performance Indices and Targets (Consolidated)

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<tbody>
<tr>
<td>Return on invested capital (ROIC)*</td>
<td>2.7%</td>
<td>2.7%</td>
<td>5.9%</td>
<td>8.0%</td>
<td>8.8%</td>
<td>More than 10%</td>
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<tr>
<td>Operating margin</td>
<td>4.2%</td>
<td>4.7%</td>
<td>10.3%</td>
<td>11.9%</td>
<td>13.0%</td>
<td>More than 10%</td>
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<tr>
<td>Free cash flow (Cash flow from operating activities + Cash flow from investing activities)</td>
<td>¥44.8 billion</td>
<td>¥58.7 billion</td>
<td>¥62.1 billion</td>
<td>¥72.2 billion</td>
<td>¥84.3 billion</td>
<td>More than ¥70 billion</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>4.6%</td>
<td>15.5%</td>
<td>32.1%</td>
<td>32.9%</td>
<td>38.2%</td>
<td>More than 30%</td>
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* Return on invested capital (ROIC) = Return (Operating income after taxes) / IC (Shareholders’ equity + Interest-bearing debt)
A Look Back at Our Businesses

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

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

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

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

Our new medium-term management plan, 2016 Corporate Strategic Plan, or 16CSP, started with fiscal 2017. This plan examines how we plan to grow the Company going forward based on our vision for Olympus 10 years from now. When formulating this plan, we began by reexamining the question of “who are our customers?” Looking back over the history of Olympus, we saw that we have traditionally excelled in businesses targeting specialists, those with highly specialized skills. We thus identified Olympus’ strength as the ability to conduct product creation based on an accurate understanding of the needs of highly specialized customers and to rapidly propose products and solutions that effectively address these needs. We have grown our business up until today by earning the trust of our customers through these efforts, a fact that holds true for the Medical Business, the Scientific Solutions Business, and the Imaging Business. For this reason, a core directive of 16CSP is for us to reinforce our operations in markets targeting specialists that understand the type of value Olympus provides. Accordingly, we have set the policy of striving to be the greatest “Business to Specialist” Company. However, we would say “the greatest,” we are not referring to the biggest or the strongest. Rather, we view “the greatest” as being a term for referring to the company that makes the largest contributions to its stakeholders, not only customers but also communities, shareholders, employees, and others, and that is in return looked to with anticipation and respect. This term thus embodies our strong commitment to becoming such a company. Based on this policy, we will continue to push forward with measures to strengthen our operations in fields where we can leverage our strengths as a “Business to Specialist” Company and take full advantage of our management resources.

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

Olympus’ core business is the gastrointestinal endoscope business. There is no change to our policy of expanding this business going forward while maintaining high profitability and competitiveness along with a dominating market share. The operating environment of the Medical Business is undergoing substantial change. However, I am confident that—if we can effectively exercise our strengths in response to change—change will come to present significant business opportunities for the Company. Looking at developed nations in particular, the strong pressure to curtail medical expenses makes it unlikely that the number of hospitals, and consequently the number of endoscopic treatment facilities and operating rooms, will show any significant increase in the future. Conversely, population aging is expected to result in a rise in the number of procedures conducted at each medical facility. Given this change in the operating environment, the development of a procedure-based Basic Medical Business model to complement our existing installation-based model will be a matter of strategic importance. The first step in developing this model will be expanding our single-use device operations. In this regard, we feel that it will be prudent to strengthen our operations in relation to the endotherapy devices used in gastrointestinal endoscopic examinations and treatments and the energy devices used in general surgery. This undertaking will require us to develop an optimal value chain for single-use devices, which will differ from our traditional endoscope value chain.

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

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

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

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

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

The pursuit of efficiency is an important and never-ending endeavor for companies, and one in which we cannot expect results overnight. Nevertheless, we will remain diligent as we drastically review processes on a global basis, aggressively working toward higher business efficiency and productivity and targeting the development of strong business infrastructure and low-cost structures for supporting management. Such reforms will not be easy, and some sacrifices will be required, but our resolve is strong; we will persevere and climb to higher pinnacles of corporate value.

Building the Foundations for the Next 100 Years Today

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

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

Today’s operating environment is changing at breakneck speed. As such, it is crucial for both the Company and its employees to be capable of responding to the constantly changing environment. New Olympus cannot be said to have sufficient diversity at the moment, we envision an organization that is able to assemble a diverse range of people, with different countries, genders, upbringings, and cultures, and combine their various strengths as an organization that is able to respond to change. Based on this belief, Olympus defines the corporate culture emphasized in advancing business activities under 16CSP as being characterized by diversity and teamwork, a willingness to take on challenges, a sense of speed, broad perspective, and adherence to high ethical standards. Always aware of these five characteristics, employees across the globe will align themselves along the same vector, committed to prevailing as a team and acting quickly to give form to the concept of a united One Olympus.
Financial Strategies of 16CSP Targeting Future Growth
—Discussion between the Chief Financial Officer and Analysts

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

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

ROE Emphasizing ROE

Let me begin by saying that I honestly think that Olympus has set forth a very good balance among the management indicators established in 16CSP. Over the past few years, Olympus has accomplished a starting improvement in its balance sheet, a feat that I believe warrants praise. Probably anyone looking at the approach toward capital policies announced in the new corporate strategic plan would feel the same. I can get behind the aim of substantially expanding surgical device operations, as contained in the Company’s growth strategies, but it cannot be denied that many investors find objection with the reiteration of this goal given past failures to achieve targets set in this regard. The target of a compound annual growth rate of slightly more than 10% for sales in the surgical business, including energy devices, is a target that Olympus has pursued previously. While holding doubts in relation to this target, investors will certainly check to see if sales growth is achieved and the Company’s share of the surgical device market does indeed increase. I have covered Olympus for 17 years now, and I can therefore explain to investors that raising market share is not easy and that such growth must come gradually. However, it seems to me that the time frame investors adopt to view such progress is a bit different to the unique time frame that is taken by medical equipment manufacturers.

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

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

One major difference between making medical equipment and making consumer electronics is that, in the case of medical equipment, we do not directly interact with the patients; physicians handle all such interactions. For this reason, we have to base our products on the needs of physicians, and those needs are also extensive and economic in the medical field. The result of this approach is that products come to be matched to the needs of patients, who are our end customers. However, as patients are not our direct target, we cannot perform direct marketing. We are also unable to approach every individual physician. Accordingly, we are focused on raising the recognition of Olympus among medical societies, striving to have our products become acknowledged as the de facto standard. Those efforts, I feel, have given shape to the gastrointestinal endoscope business we deal in today.

Looking at another product, we introduced the THUNDER-BEAT energy device four years ago. While this product was produced the THUNDER-BEAT energy device four years ago. While this product was introduced, some companies in the business were already using bipolar systems, however, Olympus continued its development in this field, seeking to improve the performance of Olympus for products that meet their medical and overall needs. A central theme of 16CSP is to ensure that we can accomplish this goal to the greatest extent possible over the next five years.

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

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

Discussion between the Chief Financial Officer and Analysts

“Pursuing a balanced increase types of value sought by
in the differing various stakeholders”

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

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

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

Watanabe

When explaining to overseas investors that, compared with other Japanese medical equipment manufacturers, the valuation of Olympus is low in comparison to its profit growth, these investors have stated that, on the contrary, they view the Company’s stock price as high. My theory about this discrepancy in opinion is that, in the eyes of overseas investors, other Japanese medical equipment manufacturers are a type of “Far East niche company.” For this reason, the level of their valuation is not seen as high. In other words, this discrepancy could be seen as an advantage of Olympus. For the meantime, we are projecting R&D expenditures that are equivalent to approximately 10% of net sales. With regard to capital expenditures, we have completed almost all of the large-scale expenditures anticipated, and future expenditures will likely be limited to ongoing investment in sales-use demo products. Accordingly, the level of investment at Olympus will be lower than at other global medical equipment manufacturers over the foreseeable future.

Takeuchi

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

Ayada

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

Takeuchi

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

Ayada

Would you help me understand this policy of viewing M&A activities through the lens of research and development? Does this mean that Olympus aims to purchase lackluster technologies, or does it imply that the Company’s target will be acquisition of high-quality cash in such ways over the medium-to-long term.

Takeuchi

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

Watanabe

The Company has stated its intent to target a total return ratio of 30%. Given the circumstances surrounding the resumption of Olympus stock as one of the core stocks among those of the Japanese stock market. For this reason, I believe that Olympus is the target of both high anticipation of the future and high expectations for its actions. The stock market currently has its eyes on Olympus, intent to see if it can steadily advance the recently announced 16CSP and thereby live up to the expectations of investors. I touched on this point at the beginning of the discussion, but I would like to reiterate that the Company’s ability to achieve the goals of 16CSP will likely hinge on whether or not Olympus is able to increase its share in the surgical device and endotherapy device markets. Accordingly, I hope that Olympus will not become overly occupied by short-term fluctuations in the macroeconomic environment or foreign exchange rates. Rather, I feel it is important for the Company to strengthen its business portfolio from a medium-to-long-term perspective, looking 5-to-10 years in the future.

Takeuchi

In formulating 16CSP, we engaged in countless discussions, forging the plan and the logic contained therein, over a period of more than a year. We have utter confidence in this plan, and therefore we are convinced that our odds of success are high. Foreign exchange rates will change, and it would be difficult for us to hedge against all the factors that could impact us in the short term. Accordingly, we do not intend to devote an excessive amount of effort to combating these potential impacts. Rather, we are committed to moving forward with 16CSP and ensuring its success.
The Manufacturing Function Strategy of 16CSP drives us to continue production structure reforms that extend to repair bases in order to improve quality, reduce costs, and otherwise augment manufacturing capabilities with eyes to 2020 and beyond. Based on the core competency of each manufacturing site, we work toward achieving globally optimized production to become the world’s No. 1 medical equipment manufacturing group by globally exercising our competitive advantages in terms of products, technology, skills, management structures, human resources, and organizational strength.

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

Benefits of Redeveloping 3 Tohoku Factories

- Production efficiency: Increase 55% improvement
- Business continuity plan measures: Establishing manufacturing foundations to allow for continued supply after disasters

Approx. ¥10 billion
Nov. 2014
Oct. 2015

- Approx. ¥4 billion
Apr. 2015
Sept. 2016

1. Development of Production Structure

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

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

The factory of Aomori Olympus Co., Ltd., will be positioned as our mother factory for starting production of endotherapy devices, surgical energy devices, and endoscopy-related components.

Medical Business
Manufacturing Sites

Of which, major repair sites:
- Increased Coordinating Operations in Germany
- Increased Coordinating Operations in Japan
- Increased Coordinating Operations in Vietnam

Optimization

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

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

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

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

Our strengths in product creation lie in our technological and onsite capabilities. For example, the microlenses and other optical components used in the tips of endoscopes are difficult to process for other companies.

We will also pursue improvements, and it is these people that support our product creation activities. By forming global collaborative networks between the people at sites across the globe, we will strive to become the world’s No. 1 medical equipment manufacturing group.
Initiatives for Accelerating Medical Business Growth in the United States

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

Todd Usen
President, Olympus Medical Systems Group
Olympus Corporation of the Americas

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

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

Currently, the focus of my role is to lead the U.S. Medical Systems Group into its next chapter, continuing to grow the business and identifying new opportunities according to the Olympus 16CSP, five-year, medium-term management plan.

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

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

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

Separation of Endoscopy Sales Organizations implemented on April 1, 2016
Opinion

Potential for Advancement of Endoscopic Surgery and Expectations for Olympus

Olympus developed the world’s first practical gastrocamera in 1958. Since then, the company has continued to develop new medical equipment to meet the healthcare professionals’ needs. We asked Dr. Ōsaka Matsumoto, honorary director of the National Hospital Organization Tokyo Medical Center, about the needs of the medical field, where equipment is becoming more sophisticated on a daily basis, and what are expectations for Olympus in light of these needs.

Operating Environment for Japanese Medical Equipment Manufacturers

Japanese manufacturing companies possess sophisticated technologies that are ideal for use in medical equipment. However, due to an insufficient ability to integrate these technologies into medical equipment, it is rare for products utilizing such technologies to appear on the market. As a physician, I am a bit dissatisfied with this reality. In 2014, the scale of the domestic medical equipment market was roughly ¥2.8 trillion1. However, an excessively large portion of this amount was attributable to imported equipment, forcing medical practitioners like myself to rely on equipment made by overseas manufacturers.

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

Development of Endoscopic Surgery Procedures

I was inspired to begin performing endoscopic surgeries by a video session on gallbladder removal using surgical endoscopes during an international conference on gastrointestinal surgery held in Toronto in 1989. After returning to Japan, I took up the challenge of training in these surgeries. I performed my first local excision of the prostate about 30 years ago, and since then the number of these surgeries has risen rapidly. You could even say that these minimally invasive therapies caused somewhat of a revolution.

In 1992, I was approached at a conference by a member of the Olympus development staff, who proposed that we work together to develop equipment that resolves the issues faced in endoscopic surgery. This encounter marked the start of my involvement in the development of various pieces of medical equipment. It was in 1998 that Olympus established an organization known as the Endoscopic Surgery Liaison Committee to serve as a forum for discussion between physicians working in the medical field and development staff members. A number of committees in a variety of areas were formed under this committee, and I took part in many of them. Unfortunately, many of the ideas raised at this forum were never incorporated into actual products, but I was nonetheless impressed by the committed efforts on the part of Olympus to provide answers to the needs of physicians. Looking ahead, I think it will be important to respond to such trends as the development of robotics technologies and the spread of the Internet of Things, otherwise known as IoT, throughout society. Robotic assisted surgery, for example, not only reduces the physical burden on the surgeon, it is also said to shorten the time taken for surgical training compared with that for laparoscopic surgery. Olympus has made prototypes of small-scale robotic assistance systems that use endoscope devices that allow for surgeries to be performed more safely.

Benefits of Advances in Medical Equipment

Today, nearly 200,000 endoscopic surgeries take place in Japan each year. However, this number still does not represent a particularly large portion of the total number of disease cases. Should technological progress give rise to endoscopes and endotherapy devices that allow for surgeries to be performed more safely, I expect that a greater number of surgeries would switch from open abdominal and chest surgeries to endoscopic surgery. This shift could then lead to a sharp increase in the numbers of these surgeries.

Today

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

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

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

Expectations for Olympus

In 1993, I was appointed as an auditor of the Japan Society for Endoscopic Surgery. In 1995, I was appointed as an auditor of the Japanese Telecommunications Network Society, in 2000: Professor of Surgery, Fujita Health University School of Medicine, in 2001: Director, Chiba Chukyokai Hospital, No. 2 Teaching Hospital, Fujita Health University, 2008: Director, National Hospital Organization Tokyo Medical Center, 2014: Honorary Director, National Hospital Organization Tokyo Medical Center

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

Sumio Matsumoto

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

1973: Graduated from Keio University School of Medicine
1973: Trainee Surgeon, Keio University School of Medicine
1980: Surgeon, National Hospital Organization Kanagawa Hospital
1984: Assistant Professor in Surgery, Nagoya Health University School of Medicine
1990: Professor of Surgery, Fujita Health University School of Medicine
2000: Director, Chiba Chukyokai Hospital, No. 2 Teaching Hospital, Fujita Health University
2008: Director, National Hospital Organization Tokyo Medical Center
2014: Honorary Director, National Hospital Organization Tokyo Medical Center

As advances in medical equipment make endoscopic surgeries safer and easier to perform, more and more surgeons will switch over from open abdominal and chest surgeries, resulting in growth in the endoscopic market. My expectations for Olympus are for it to develop equipment that is friendly to both patients and physicians and for it to claim a prominent position on the global stage where it can stand proudly as a Japanese medical equipment manufacturer.
Olympus generates approximately 80% of its sales in the Medical Business, which primarily operates in the gastrointestinal endoscope field, where it holds a share of more than 70% of the global market. The Company’s other businesses include the Scientific Solutions Business, which deals in microscopes and non-destructive testing equipment, and the Imaging Business, which sells digital cameras. These three businesses constitute the business domains of Olympus.

**Medical Business**

Results of Operations in Fiscal 2016

In the Medical Business, performance was strong in the gastrointestinal endoscope field as well as in the surgical device and endotherapy device fields. Sales continued to increase for mainstay gastrointestinal endoscopes, as they did for surgical endoscopy systems and energy devices. By region, overall growth was driven by North America and Asia. As a result, net sales in the Medical Business increased 9% year on year, to ¥160.9 billion, and operating income rose 12%, to ¥14.2 billion.

**Scientific Solutions Business**

Results of Operations in Fiscal 2016

The life science field operations saw sales of research-use equipment and other products decline due to delayed budget execution among research institutions. Sales of industrial field products, such as non-destructive testing equipment, also decreased, following the drop in resource prices. As a result, the Scientific Solutions Business posted a 2% year-on-year decrease in net sales, to ¥177.6 billion. Operating income, however, was up 24%, to ¥54.3 billion, reflecting reduction in costs and increased efficiency through the integration of sales bases.

**Imaging Business**

Results of Operations in Fiscal 2016

Although net sales declined 1% year on year, to ¥76.3 billion, in the Imaging Business, operating loss decreased from ¥1.7 billion in fiscal 2015 to ¥2.1 billion in fiscal 2016. This accomplishment was a result of our efforts to reduce the scale of this business and lower the level of expenses to match this scale while securing earnings in the imaging business. We were unable to achieve our target of breaking even on the operating income level. Nonetheless, we did begin seeing the successes of our structural reforms, which included a substantial reduction in operating loss.

**Others**

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

MEDICAL BUSINESS

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

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

Akihiro Taguchi
Business Management Officer, Medical Business

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

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, the drive to limit healthcare expenses will 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 be not enough to simply supply quality products; there will also be an increased emphasis on the aging. Under these trends, it will not be enough to simply supply 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.

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. At the same time, this drive to limit healthcare expenses 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.

Direction of Medical Business Strategy

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

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

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

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

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

Priority Measures

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

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

Performance Forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales</th>
<th>Operating Income (CAGR) at 10%</th>
<th>Net sales: CAGR of 8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>(¥) million</td>
<td>10%</td>
<td>¥1,000 million</td>
</tr>
<tr>
<td>2018</td>
<td>(¥) million</td>
<td>10%</td>
<td>¥1,000 million</td>
</tr>
<tr>
<td>2020</td>
<td>(¥) million</td>
<td>10%</td>
<td>¥1,000 million</td>
</tr>
<tr>
<td>2022</td>
<td>(¥) million</td>
<td>10%</td>
<td>¥1,000 million</td>
</tr>
<tr>
<td>2024</td>
<td>(¥) million</td>
<td>10%</td>
<td>¥1,000 million</td>
</tr>
</tbody>
</table>

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

KPI (16CSP)

Medical Business Portfolio and Growth 5 Years from Now (CAGR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Operating Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>¥800.8 billion</td>
<td>10%</td>
</tr>
<tr>
<td>2018</td>
<td>¥866.6 billion</td>
<td>10%</td>
</tr>
<tr>
<td>2020</td>
<td>¥1,000 billion</td>
<td>10%</td>
</tr>
<tr>
<td>2022</td>
<td>¥1,121.2 billion</td>
<td>10%</td>
</tr>
<tr>
<td>2024</td>
<td>¥1,246.4 billion</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Fiscal 2017 net sales and operating income are on a new basis due to the recent impacts of reorganization of sales and marketing functions.
* The figures for fiscal 2017 have been calculated using International Financial Reporting Standards (IFRS).

Sales Function Investments

R&D Investments

QA/RA Investments

Manufacturing Function Investments

Investments

Balance of

Sales Function

QA/RA

Manufacturing

Balance of

Investments

Performance Forecasts

Net sales: CAGR of 8% (Target)

Net sales: CAGR of 10% (Forecast)

Operating Income: CAGR at 10% (Forecast)

(%)

Operating Margin (right)

CAGR (left)

Overall Management (left)

Sales Function

Balance of

Investments

Performance Forecasts

Net sales: CAGR of 8% (Target)

Net sales: CAGR of 10% (Forecast)

Operating Income: CAGR at 10% (Forecast)

(%)

Operating Margin (right)

CAGR (left)

Overall Management (left)
Gastrointestinal and Respiratory Business Unit (GIRBU)  MEDICAL BUSINESS

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

Katsuyuki Saito
Head of GIRBU Business Unit

Strategies and Priority Measures

Gastrointestinal Endoscopes (Capital Products)

1. Secure Strong Market Leader Position in Gastrointestinal Endoscope Business and Improve Profitability

Through Selection and Concentration

In the gastrointestinal endoscope field, where we boast unparalleled strength, we will pursue sustainable sales growth through the introduction of high-value-added products. For example, over the period of 16CSP, we plan to launch unique scopes that address market needs as well as base systems to replace existing models. Olympus realizes that the global drive to limit healthcare expenses has created a need for the development of equipment that provides economic benefits in the medical field. We are thus developing products that allow examinations with Olympus endoscopes to be performed with increased efficiency. At the same time, we will work to improve profitability by boosting the efficiency of development, manufacturing, and sales functions.

2. Expand Business in Respiratory, CDS*, Endoscopic Ultrasound, Capsule Endoscopy, and IT Fields

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

3. Realize Business Growth in Emerging Markets

Recognizing that emerging markets will continue to be positioned as growth markets into the future, we will strengthen our operating foundations in China, other parts of Asia, and the Near and Middle East. Emerging countries are experiencing population aging in a similar fashion to developed countries, and national healthcare costs are rising upward. For this reason, fostering of new endoscopists is a pressing task. To address this task, Olympus has established three training and service centers in China, located in Shanghai, Beijing, and Guangzhou. The Company is now amply equipped to respond to training and after-sales service demand in the Chinese market. Furthermore, in July 2016, we established a training center in Thailand that targets healthcare professionals in Southeast Asia. We also have plans to develop training centers in other parts of Asia. These centers will be utilized to spread early diagnosis procedures and minimally invasive therapies and techniques using endoscopes, thereby helping us expand our business.

Endotherapy Devices (Single-Use Devices)

1. Expand Share in World’s Largest Market of North America

We have continued to expand our sales force in the North American market, an undertaking that has enabled us to achieve double-digit growth in the endotherapy device market for two consecutive years. Having launched differentiated products that match this market’s needs, including guidewires, various endoscopic submucosal dissection knives, and rotating clips, we anticipate further sales expansion. Going forward, we will work to further expand our market share by redoubling our efforts to continually develop differentiated products and acquire lineups of competitive products while further reinforcing and enhancing sales systems. At the same time, we will step up our approach to group purchasing organizations (GPOs) and integrated delivery networks (IDNs), on an ongoing basis to raise the recognition of Olympus, thereby seeking to provide comprehensive solutions combining endoscopes, services, and other offerings.


The expansion of operations in the endotherapy device field will require unique sales and marketing, R&D, and manufacturing functions tailored to single-use devices. We are strengthening our operating foundations in this area out of consideration for this requirement. In regard to sales and marketing functions, we will work to improve the knowledge and skills of sales representatives. We will also steadily develop account management infrastructure to better track sales activities, thereby aiming to improve sales quality and efficiency. In reinforcing the R&D function, we will step up activities for collecting information on market needs and develop systems that allow us to respond quickly to requests for minor changes to products. We will also coordinate R&D and manufacturing functions to shorten the cycles of new product introductions. While undertaking these reforms, a phased shift in the production of existing products to Vietnam will be undertaken to raise cost competitiveness.

3. Execute Growth Strategies Utilizing Strength in Endoscope Field

By utilizing our strength of being able to provide both endoscopes and endotherapy devices, we will advance the development of techniques and of businesses that adopt both of these items. Through this endeavor, we aim to provide total solutions for early diagnosis and minimally invasive therapies, the likes of which only Olympus can.

KPI (16CSP)

Net Sales: CAGR of 7%

- Endoscopes: CAGR of 5% (6% in FY 2015)
- Endotherapy Devices: CAGR of 9% (10% in FY 2015)

Key Points:
- Achieve stable growth that exceeds market growth rates
- Expand business peripheral to endoscopes and operations in emerging markets
- Take advantage of higher endotherapy device demand accompanied by enhanced and expanding sales in U.S. market

Forecasted Net Sales (CAGR 7%):

- Endoscopes: ¥110 billion (FY 2015: ¥107 billion)
- Endotherapy Devices: ¥180 billion (FY 2015: ¥170 billion)
General Surgery Business Unit (GSBU)

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

Tomohisa Sakurai
Head of General Surgery Business Unit

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

Strategies and Priority Measures

Surgical Imaging (Capital Products)

1. Establish New De Facto Standard in Surgical Imaging Market

In October 2015, Olympus launched a surgical endoscopy system that employed 4K technologies developed jointly with Sony Corporation. The unique high-resolution images provided through 4K technologies make it possible to observe minute details inside the body with this system. Moreover, the high color reproducibility of the system supports the identification of the small tissue and vessel structures of veins, nerves, and lymph ducts. Compared to conventional full-HD images, 4K images have increased color reproducibility and a wider color gamut, allowing for more delicate color adjustments. The system has, in particular, a higher degree of reproducibility for the color red, which is a crucial color to be able to distinguish during surgeries. This feature is expected to contribute to increased surgical accuracy by making it easier to identify the boundaries between veins, nerves, lymph ducts, and fat. In addition to helping realize better accuracy in difficult surgeries, this system can also be expected to reduce the physical burden placed on surgeons. Since the product’s launch, the response from the medical field has been incredibly positive, and we are already seeing customers convert from competing products. Moving forward, we aim to establish a new de facto standard in the surgical imaging field with this system.

2. Establish Single-Use Device Business Model

There are systems that will need to be put in place if we are to expand our energy device operations. Energy devices are single-use devices that must be purchased and used for individual cases. As such, the purchasing process employed by hospitals with regard to these devices differs from that for endoscopes and other capital products. Therefore, it is necessary that we first develop an understanding of the types of surgeries and procedures conducted at each hospital as well as the case numbers so that we can propose devices that meet the needs of specific hospitals. In order to effectively carry out this style of sales, we will need to establish a customer relationship management (CRM) system and step up our sales approach. We will also need to solicit the clinical and economic value of our devices, rather than focusing only on their performance and characteristics. We aim to realize growth in these operations through these efforts.

KPI (TECSP)

Net Sales: CAGR of 11%

Surgical Imaging

- Achieve sales growth that greatly exceeds market growth rates
- Establish new de facto standard in surgical imaging market

Surgical Energy Devices

- Establish single-use device business model

Surgical Energy Devices (Single-Use Devices)

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

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

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

Minoru Okabe  
Head of UroGyn Business Unit

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

<table>
<thead>
<tr>
<th>Field</th>
<th>Market Trends (Operating Environment)</th>
<th>Market Scale (Growth Forecast)</th>
<th>Share</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urology</td>
<td>Approx. 1.0 million benign prostatic hyperplasia and bladder tumor resection procedures conducted annually, increasing cost awareness associated with outpatient surgical alternatives and prevention of recurrence. Approx. 1.8 million stone treatment procedures conducted annually; number of high-efﬁcacy endoscopic treatments (uroscopic lithotripsy)-raising (CAGR: 4%).</td>
<td>¥7.0 trillion–¥15.0 trillion (CAGR: 2%–4%).</td>
<td>Approx. 30%</td>
<td>Karl Storz, Richard Wolf, Boston Scientific, Cook Medical, Olympus</td>
</tr>
<tr>
<td>Gynecology</td>
<td>Rising case numbers for diagnosis and treatment of uterine genital bleeding and hyperplasia. Shift toward outpatient surgical alternatives and other minimally invasive therapies.</td>
<td>¥20 trillion–¥30 trillion (CAGR: 2%–4%).</td>
<td>Approx. 10%</td>
<td>Karl Storz, Richard Wolf, Johnson &amp; Johnson</td>
</tr>
</tbody>
</table>

### Strategies and Priority Measures

1. **Secure Dominant Shares in Markets for Flexible Endoscopes and TURs** Products
   - That Leverage Technological Prowess of Olympus
   - Olympus prides itself on its top share in the market of the flexible cystoscopes and resectoscopes used in diagnosis and treatment of benign prostatic hyperplasia and bladder tumors. By stepping up our efforts to support healthcare professionals, we will promote the spread of procedures using these products amid the rise in case numbers. At the same time, we will differentiate Olympus products from those of competitors by soliciting the effectiveness of narrow band imaging (NBI).
   - Flexible endoscopes hold the No. 1 share. By advertising the high value that differentiates this technology from competitors’ and encouraging customers to switch over to products using it, we will enhance sales capabilities by assembling dedicated sales systems.

2. **Strengthen Urinary Tract Stone Management Business Operations to Expand Market Share**
   - Created by utilizing the small diameter scope technologies of the former Gyrus ACM, Olympus ﬂexible ureteroscopes have a dominating edge and boost the top market share, similar to ﬂexible cystoscopes. This strength will be used to advance our efforts and grow sales in the field of stone treatment devices (single-use), which are used with ﬂexible ureteroscopes to treat urinary tract stones.

3. **Efficiently Increase Market Share by Leveraging Existing Products and Technologies**
   - The products Olympus handles in the gynecology ﬁeld are highly compatible with the urology ﬁeld. We will therefore seek to efficiently increase our market share in areas in which we can leverage competitive, existing products and technologies to grow sales.

### KPI (16CSP)

**Net Sales: CAGR of 8%**

<table>
<thead>
<tr>
<th>Field</th>
<th>Products</th>
<th>Targets</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urology</td>
<td>Flexible Scopes</td>
<td>Acquire and maintain dominating No. 1 share (more than 60%).</td>
<td>Secure share in ﬂexible endoscopes and TURs markets. Expand urinary tract stone management–market share.</td>
</tr>
<tr>
<td>Gynecology</td>
<td>Flexible Scopes</td>
<td>Acquire and maintain dominating No. 1 share (more than 60%).</td>
<td>Secure share in ﬂexible endoscopes and TURs markets. Expand urinary tract stone management–market share.</td>
</tr>
</tbody>
</table>

**Net Sales: CAGR of 13%**

<table>
<thead>
<tr>
<th>Field</th>
<th>Products</th>
<th>Targets</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laryngology</td>
<td>Flexible Endoscopes</td>
<td>Acquire ESS Operations. Expand ESS business and achieve market share of more than 10%</td>
<td>Acquire ESS Operations. Expand ESS business and achieve market share of more than 10%</td>
</tr>
<tr>
<td>Rhinology</td>
<td>Flexible Imaging</td>
<td>Acquire ESS Operations. Expand ESS business and achieve market share of more than 10%</td>
<td>Acquire ESS Operations. Expand ESS business and achieve market share of more than 10%</td>
</tr>
</tbody>
</table>
Medical Service Business Unit (MSBU)

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

Yoshinori Shimizu
Head of Medical Service Business Unit

Strategies and Priority Measures

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

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

2. Expand Service Operations for Surgical Devices

Surgical devices are used in the operating room to perform diagnostic and treatment procedures, meaning that malfunctions and product failures during procedures must be avoided at all costs. Swift response to failures that do occur is also vital. Olympus takes numerous steps to offer services that contribute to substantial improvements in device operating rates. For example, we provide hospital staff with ongoing training and distribute endoscope examination manuals. We also quickly supply repair and replacement products when necessary and offer services in which Olympus technical staff members can be stationed at customer facilities.

3. Provide Services That Improve Medical Institution Efficiency

Olympus possesses a global network of approximately 200 repair and service sites. We are advancing the reorganization of existing bases and the establishment of new bases in a phased manner to improve the efficiency and quality of service provided. Furthermore, we are endeavoring to utilize product improvement know-how gained through manufacturing operations at our repair and service bases. We thereby aim to shorten turnaround times, reduce costs, and ultimately improve the profitability of the Medical Service Business Unit.

SCIENTIFIC SOLUTIONS BUSINESS

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

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

Toshio Okubo
Head of Scientific Solutions Business Unit

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

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th>Business Opportunities</th>
<th>Market Scale (Global Business)</th>
<th>Share / Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>LS Research</td>
<td>Growing needs in areas ranging from research in drug discovery and regenerative medicine markets</td>
<td>¥60 billion–¥100 billion (CAGR: 5%–7%)</td>
<td>Biological microscopes: Approx. 40% Competitors: Carl Zeiss, Leica, Nikon</td>
</tr>
<tr>
<td>Medical (Diagnostic)</td>
<td>Improving the ratio of laboratory personnel to newly employed medical technologies into overall examination market in conjunction with population aging and advances in cancer treatment</td>
<td>¥20 billion–¥30 billion (CAGR: 3%–4%)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Expanding the proportion of education systems using digital imaging or medical education facilities</td>
<td>¥5 billion–¥8 billion (CAGR: 1%–2%)</td>
<td>Industrial endoscopes: Approx. 40% Competitors: Fujinon, Olympus, Laica, Nikon</td>
</tr>
<tr>
<td>Infrastructure Construction</td>
<td>Infrastructure aging expected in developed countries and new infrastructure construction anticipated in emerging countries</td>
<td>¥20 billion–¥30 billion (CAGR: 1%–2%)</td>
<td>Industrial endoscopes: Approx. 40% Competitors: Fujinon, Olympus, Laica, Nikon</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Long-term growth in automotive, aviation, automotive, and other markets</td>
<td>¥7 billion–¥9 billion (CAGR: 8%–9%)</td>
<td>Industrial endoscopes: Approx. 40% Competitors: Fujinon, Olympus, Laica, Nikon</td>
</tr>
<tr>
<td>Investment &amp; Natural Resources</td>
<td>Growing needs in energy and materials in emerging countries and for energy, materials, and recycling in developed countries</td>
<td>¥4 billion–¥6 billion (CAGR: 5%–6%)</td>
<td>Industrial endoscopes: Approx. 40% Competitors: Fujinon, Olympus, Laica, Nikon</td>
</tr>
</tbody>
</table>

Operating Environment and Business Opportunities

The Scientific Solutions Business is currently faced with a difficult operating environment. This environment is characterized by limited budget execution among domestic and overseas public- sector research institutions and reduced capital expenditures by primary sector companies stemming from low resource prices and the decleration of the markets for electronic components, such as those used in smartphones. In the medium-to-long term, however, we expect to see the acceleration of advanced research on such topics as induced pluripotent stem cells (IPS cells) as well as a push for the practical application of regenerative medicine in the area of life science research. In addition, infrastructure investment is projected to increase in emerging countries in conjunction with economic development. The market for Scientific Solutions Business products is anticipated to expand as a result of these factors. Meanwhile, we aim to improve business efficiency and reinforce our earnings foundation by advancing business restructuring. At the same time, we will invest in growth fields over the medium-to-long term to expand earnings.
Strategies and Priority Measures

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

The top priority of the Scientific Solutions Business is to further enhance its growth strategies and improve its profitability. It was for this reason that the business undertook a massive change in the direction of its business strategies and measures for global operation of its organization in fiscal 2015. Previously, independent functions for such processes as development, marketing, and sales were established for each product line. However, we have now shifted the strategies based on product Knows to formulate those oriented toward customer segments while taking on related structural reforms. These reforms entailed cutting back on redundant functions to improve profitability and constructing systems for executing priority investments in growth markets.

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

The Scientific Solutions Business has defined seven segments in its customer segment oriented strategies. In consideration of the Company’s strengths and the market growth potential in these segments, we have positioned the Life Science, Industrial, and Infrastructure maintenance segments as growth fields. We will thus pursue organic growth in these fields while expanding our product and solutions portfolios through M&A activities.

Contributions to Life Science and Medical Research

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

Contributions to Improved Efficiency and Quality in Industry

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

Contributions to Safety and Peace of Mind

In People’s Daily Lives

Olympus contributes to safety and peace of mind in people’s daily lives by supplying inspection, measurement, and analysis solutions for use in the maintenance and inspection of facilities 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 basic infrastructure-related construction is expected going forward.

KPI (Fiscal 2021)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Targets</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥130 billion</td>
<td>+ Structural reforms for improving profitability already implemented</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥13 billion</td>
<td>+ Organic growth to be realized through selective reinforcement of existing business</td>
</tr>
<tr>
<td>Operating margin</td>
<td>10%</td>
<td>+ Product and technology portfolio expansion targeting additional sales growth</td>
</tr>
</tbody>
</table>

IMAGING BUSINESS

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

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

Masamichi Handa
Head of Imaging Business Unit

Domestic Market Share (Mirrorless cameras)

- Unique technologies accumulated by concentrating on mirrorless cameras
- Competencies in designing and manufacturing compact, lightweight, high-performance lenses
- Leading share in mirrorless camera market (domestic)
- Solid demand in mirrorless camera market
- Expanding camera applications and growing imaging-related technology demand in non-consumer markets
- Small shares of major U.S. and Chinese markets

Operating Environment and Forecasts

The compact digital camera market is rapidly contracting due to the spread of smartphones, and the Imaging Business continues to face a harsh operating environment as a result. In order to address this major market change, we are pushing forward with structural reforms to shrink the Imaging Business to a more appropriate scale. As one facet of this undertaking, we have developed conservative sales plans with a narrower scope, only including focus products and market segments, that do not presume the pursuit of sales growth, even in the core mirrorless camera market. We aim to minimize risks through this limited scope. In conjunction with this shift in focus, we are revising cost structures to realize a business structure that will enable the Imaging Business to break even, despite the reduced sales. We are also enhancing earnings structures by strengthening sales of high-margin interchangeable lens products.
Strategies and Priority Measures

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

2. Improve Responsiveness to Market Changes
   Olympus strives to improve responsiveness to market changes.
   To this end, we will monitor the market scale and the Compa-
   ny’s share so that we can furnish a timely response to changes
   in conditions by improving sales function efficiency and advanc-
   ing the selection and concentration of target market segments.

3. Minimize Inventory Risks
   By improving supply chain management processes, we aim to
   reduce product supply lead times and lower risks associated
   with overdependence on certain regions and consequently shorten inventory turnover periods. Specific measures for shortening turnover periods will include
   process improvements, such as reducing the amount of time required for transportation from production bases to sales bases and developing shared product and packaging specifications to decrease the time required to respond to changes in export targets.

4. Contribute to Olympus as Groupwide Technology Driver
   The Imaging Business has continued to foster a strong brand
   image by constantly providing customers with new value. This
   feat was achieved in a fiercely competitive environment in
   which we face numerous rivals and must realize short product
   development cycles. The cutting-edge electronic imaging tech-
   nologies born in this environment serve as valuable assets to
   Olympus as a Groupwide technology driver.

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

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

KPI (Fiscal 2021)

Achievement of Profitability through
Earnings Structure Improvement

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Targets</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (¥ billion)</td>
<td>105,000</td>
<td>Create business structure capable of securing operating margins of 4% even if net sales decrease by as much as 7% each year after fiscal 2016 due primarily to compact camera market contraction.</td>
</tr>
<tr>
<td>Operating income (¥ billion)</td>
<td>10,000</td>
<td>Operating Margin (%)</td>
</tr>
<tr>
<td>Operating Margin (%)</td>
<td>10</td>
<td>-</td>
</tr>
</tbody>
</table>

Management Resources Supporting Competitive Edge

R&D Activities

Basic Policy

Olympus provides value in the form of early diagnosis and
minimally invasive therapies through the supply of endoscopes,
microscopes, digital cameras, and other proprietary developed
products. We refer to the differentiated technologies that allow us
to create such value for customers as “core technologies,”
and these core technologies arise from our core competen-
cies 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 ser-
vices. We will therefore continue striving to enhance and
develop new core technologies.

R&D and Manufacturing Strategy Framework

Overview of R&D Activities

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

* Ratio of R&D expenditures excluding Others / Corporate

<table>
<thead>
<tr>
<th>Business field strategies</th>
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<th>Business field strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D and Manufacturing Function Strategies for Business Fields</td>
<td>R&amp;D and Manufacturing Function Strategies for Business Fields</td>
<td>R&amp;D and Manufacturing Common Function Strategy</td>
</tr>
<tr>
<td>Core technology based on customers’ requirements / Requirements for manufacturing</td>
<td>Core technology management / Development streamlining through V-model development process /</td>
<td>Human resource acquisition and development / Human resource allocation</td>
</tr>
<tr>
<td>Global manufacturing landscape / Procurement</td>
<td>Global manufacturing landscape / Procurement</td>
<td>Global manufacturing landscape / Procurement</td>
</tr>
<tr>
<td>Global R&amp;D / R&amp;D support infrastructure</td>
<td>Global R&amp;D / R&amp;D support infrastructure</td>
<td>Global R&amp;D / R&amp;D support infrastructure</td>
</tr>
<tr>
<td>Fundamental technology strategies</td>
<td>Fundamental technology strategies</td>
<td>Fundamental technology strategies (products)</td>
</tr>
<tr>
<td>R&amp;D and Manufacturing Common Function Strategy</td>
<td>R&amp;D and Manufacturing Common Function Strategy</td>
<td>Product basic technology / SW &amp; ICT / IP strategy</td>
</tr>
<tr>
<td>R&amp;D and Manufacturing Function Strategy</td>
<td>R&amp;D and Manufacturing Function Strategy</td>
<td>Production technology / Manufacturing technology / Solution technology</td>
</tr>
<tr>
<td>R&amp;D and Manufacturing Function Strategy</td>
<td>R&amp;D and Manufacturing Function Strategy</td>
<td>Fundamental Technology Strategy (manufacturing)</td>
</tr>
<tr>
<td>R&amp;D and Manufacturing Common Function Strategy</td>
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<td>R&amp;D and Manufacturing Common Function Strategy</td>
<td>Product basic technology / SW &amp; ICT / IP strategy</td>
</tr>
</tbody>
</table>

| R&D Expenditures / Ratio of R&D Expenditures to Net Sales |
|---|---|---|---|
| ¥(billions) | 2016/3 | 2017/3 | 2018/3 |
| Medical Business | 26,748 | 28,084 | 27,516 |
| Scientific Solutions Business | 10,899 | 11,810 | 13,851 |
| Imaging Business | 8,467 | 9,158 | 9,664 |
| Others / Corporate | 9,407 | 10,122 | 10,122 |
| Ratio of R&D Expenditures to Net Sales (%) | 9.4 | 10.1 | 10.0 |

Overview of R&D Activities

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year, to ¥81.4 billion, and the ratio of R&D expenditures to net
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compact camera lineup and the revision of product cycles.

* Ratio of R&D expenditures excluding Others / Corporate
Intellectual Property Activities

Overview of Intellectual Property Strategies

Intellectual Property Strategies Linked to Business Strategies

Olympus formulates its intellectual property strategies in conjunction with its corporate strategic plans and is advancing intellectual property activities that facilitate its management and business activities. Under the intellectual property strategies that were formulated based on the medium-term vision, the previous corporate strategic plan announced in June 2012, each business unit clearly defined the core technologies for which it requires a strong patent base and developed its patent portfolio accordingly. In Companywide core competence areas, intellectual property activities were strengthened from a long-term perspective and on an organization-wide basis that encompassed business units and R&D divisions. In this manner, we evolved to increase Companywide efficiency and maximize intellectual property value. Under 16CSP, the new corporate strategic plan that commenced in April 2016, we will continue the aforementioned intellectual property strategies while also pushing forward with activities based on the 16CSP R&D Function Strategy, which includes our core technology management strategy.

Business Contributions from Intellectual Property

Intellectual Property Activities Matched to Business Portfolio and Expansion Initiatives

As our business activities grow more global, we have defined the policy of increasing the number of patents held overseas, and we are advancing patent acquisition efforts accordingly. Looking at patent holdings of individual businesses, more than 40% of the Company’s patents are associated with inventions related to the Medical Business, which is the central pillar supporting the expansion of Olympus’ earnings and business. Of the remainder, nearly 30% is associated with Scientific Solutions Business inventions and roughly the same amount is accounted for by Imaging Business inventions (as of March 31, 2016).

Share of Patent Applications by Business Portfolio

Intellectual Property Activities in Core Competence Areas

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

In implementing the above-mentioned policy of increasing the number of overseas patents, we had to be more selective when submitting patent applications in Japan, and the number of patent applications published in core competence areas is decreasing in Japan as a result. Overseas, the overall number of patent applications published is increasing, particularly with regard to optical technologies and electronic imaging technologies. In the future, we will continue to bolster our global patent portfolio by submitting applications in the United States, China, and other countries.

Number of Patent Applications Published Overseas in Core Competence Areas

Creation of Valuable Technologies Based on Opto-Digital Technology

One of the characteristics of the R&D Group’s involvement with 16CSP is that it entails incorporating the technology strategies of business units while also setting forth a strategy for strengthening the R&D function. When previously formulating technology strategies, we had to consider how we would contribute to business units with technology. In this process, it was important for us to properly understand the type of products to be developed in each business, or the direction that would be taken in advancing operations, and then to create and develop technologies accordingly. However, this changed when we shifted to the matrix style operational structure in April 2015. This move resulted in a transition from business-specific R&D divisions to a single, cross-organizational division that consolidates all relevant personnel, technologies, and other management resources. As a result, the R&D Group was born, not as a business support division, but rather as an active group that assumes responsibility for the R&D needs of business units.

Core Technology Management Strategy

Our core technology management strategy is aimed at creating new customer value. To this end, the strategy categorizes core technologies linked to customer value into five technology groups based on customer workflows, thereby clarifying our goal with regard to each technology group and enabling us to step up related efforts. Moreover, by organizing and sharing the core technologies developed in each business, we will deploy technologies throughout the Company and optimize the allocation of management resources from a Companywide perspective. At the same time, we will continually enhance the core competencies and intellectual property strategies that support core technologies in order to raise the overall level of these core technologies.

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

<table>
<thead>
<tr>
<th>Access technologies</th>
<th>Imaging and sensing technologies</th>
<th>Recognition and analysis technologies</th>
<th>Treatment and therapeutic technologies</th>
<th>Report and evidence technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Optical Technologies
Electronic Imaging Technologies
Opto-Digital Technology

Precision Technologies
Biological Based Technologies

Technology Groups of Strength

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

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

III. Recognition and analysis technologies
- Utilize deep learning to improve image diagnosis and inspection and analysis capabilities

IV. Treatment and therapeutic technologies
- Bolster endotherapy device lineup
- Expand range of uses for surgical energy devices
- Reduce surgeon burden with surgery support robots

V. Report and evidence technologies
- Address diagnosis and treatment guidelines for strengthening evidence acquisition systems
- Utilize ICT to support endoscopic workflow

COLUMN

Creation of Valuable Technologies Based on Opto-Digital Technology

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

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

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

Olympus views its human resources as the most important management resource to ensure 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 craftsmen to become able to respond appropriately to social change. Olympus thus believes in the importance of respecting the individuality and unique skills of its employees and, trusting in their ambition and enthusiasm, accurately evaluating their achievements and providing appropriate rewards.

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

Employees’ Personal Growth as the Foundation for Business Activities

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

Basic Policy on Human Resources Systems

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

Vision

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

Individuals

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

Organization

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

Major Initiatives

1. Work-Life Integration

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

Support Systems Introduced Starting from Fiscal 2014

- Telecommuting system
- OCT system
- Task flex system

2. Acquisition of “Kurumin” Certification

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

3. Empowerment of Female Employees

The empowerment of female employees is one of the most important tasks to be addressed in promoting Work-Life Integration. For this reason, we formulated an action plan as a general business operator in accordance with the Act on Promotion of Women’s Participation and Advancement in the Workplace, and we disclosed this plan in April 2016. We interviewed female employees during the course of preparing this plan in order to analyze the circumstances related to the ability for women to exercise their skills and participate in the workplace from both a qualitative standpoint and a quantitative standpoint. Based on the findings, we set the targets of doubling the number of female managers from fiscal 2016’s number by fiscal 2020 and realizing a more than 25% ratio of women among new graduates joining the Company in April 2019, of which 40% will be hired for office positions and 20% for engineering positions. Initiatives for achieving these targets are currently under way.

Performance

<table>
<thead>
<tr>
<th>Ratio of female managers</th>
<th>1.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of female full-time employees</td>
<td>13%</td>
</tr>
<tr>
<td>Ratio of female new graduates who join the Company</td>
<td>12%</td>
</tr>
</tbody>
</table>

4. Manufacturing Technician Training

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

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

Number of Highly Skilled Workers

<table>
<thead>
<tr>
<th>Number of newly qualified</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2015/3</th>
<th>2016/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total qualified</td>
<td>177</td>
<td>188</td>
<td>194</td>
<td>207</td>
</tr>
</tbody>
</table>

Kiichi Hirata
Chief Administrative Officer (CAO)

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

Human Resources, a Company’s Greatest Asset

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

Currently, more than 70% of sales come from overseas, and therefore feel that Olympus is the type of company that can grow by developing its business from a global standpoint. I supervise back-office divisions responsible for HR and other matters. In all, there was an extent to which we were inclined to leave overseas matters to the discretion of overseas subsidiaries, a sentiment that prevented us from fully embracing the globalization trend.

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

COLUMN

Kiichi Hirata
Chief Administrative Officer (CAO)
Contribution to Society

The Olympus Group firmly believes in "the Social IN Corporate Philosophy," and believe that we should proactively contribute to society through business activities. Business activities, as we carry out our business, we fulfill our various social responsibilities.

We believe that CSR, which is the abbreviation of Corporate Social Responsibility, should be understood as "the responsibility of business enterprises and institutions. We should work to promote the implementation of decisions, the CSR policy of the president to strengthen its CSR activities and establish a meaningful relationship within it,

- Local communities
- International communities
- Customers, suppliers, shareholders and other investors, as well as employees and their families, local communities, and international communities include general citizens, NGOs, NPOs, and governments.

Establishment of the CSR Committee

Olympus established the CSR Committee under the chairmanship of the president to strengthen its CSR activities and ensure the realization of its "Social IN" corporate philosophy. By assisting the president in his decision making and monitoring and implementing the decisions of the CSR Committee helps to disseminate and consolidate CSR within the Group. Several promotion committees have been established under the CSR Committee. These committees work with the CSR Committee to study measures and develop plans and promote their implementation in the functional areas for which they are responsible.

Social Contribution Activities Characteristic of Olympus

Training of Endoscopists in Emerging Countries

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

Contribution to Medical Care for Socially Disadvantaged People and Migrants

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

Harmony with the Environment

Environmental Management

We are working under the Olympus Group Environmental Charter to maintain a healthy environment and contribute to the creation of a society capable of sustainable development by establishing environmental management systems and reducing environmental impact.

Product, Technology, and Facility Initiatives

- Create Olympus Eco-Products (achievable-incremental product performance while reducing environmental impact)
- Develop Technologies That Contribute to the Environment
- Reduce Facility Environmental Footprints
- New factory building at Shinoseki site installation of solar panels and cold water thermal storage tower

TOPICS

- Contribution to Business through Other Voluntary Activities
- Fulfilling all obligations through compliance with laws, regulations, and business ethic
- Economy
- Society
- Environment

Summary of Results of Activities in Fiscal 2016

<table>
<thead>
<tr>
<th>Priority Policy</th>
<th>Targets</th>
<th>Results</th>
<th>Future Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion of environmental management</td>
<td>Enhancement of environmental governance system</td>
<td>Reinforcement of environmental governance system on global level</td>
<td>Established global environmental management regulations</td>
</tr>
<tr>
<td>Compliance with laws and regulations</td>
<td>Continued improvement of processes for complying with environmental laws</td>
<td>Continued implementation of regulations related to products and facilities</td>
<td>Interfaces processes for complying with environmental laws related to products and facilities on ongoing basis</td>
</tr>
<tr>
<td>Environmental initiatives throughout product lifecycles</td>
<td>Environmental initiatives</td>
<td>Create Olympus Eco-Products</td>
<td>Continuously create eco-friendly products matched to business characteristics</td>
</tr>
<tr>
<td>Environmental contribution activities</td>
<td>Environmental contribution activities</td>
<td>Conducted river cleanup and community greening activities at bases worldwide</td>
<td>Conducted river cleanup and community greening activities at bases worldwide</td>
</tr>
</tbody>
</table>

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.”

CSR Concept of the Olympus Group

Social IN

- Contribution to Society through Business
- Contribution to Society through Other Voluntary Activities
- Fulfilling all obligations through compliance with laws, regulations, and business ethic
- Economy
- Society
- Environment
Establishment of a Corporate Governance System Expected of a Truly Global Company

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

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

Hiruta: The current corporate governance system at Olympus realized two major improvements. The first improvement was the institution of a management team consisting of a Board of Directors with 11 members, of which 6 members, or a majority, are highly independent outside directors. By injecting the experience and insight of these outside directors, this governance system ensures that the executive management side of the team is able to make effective decisions without being trapped within the internal logic of the Company. And the other outside directors strive to always examine the measures proposed to resolve the issues Olympus faces in order to determine their adequacy and identity when they are based solely on the Company’s traditional perspective. Given this approach, I feel that sufficient discussion is conducted with regard to the appropriateness of such matters as plans for responding to the future of the Company’s corporate governance system.

Sasa: The second major improvement was the establishment of three independent committees—namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee—which are all chaired by outside directors. These committees make the corporate governance system of Olympus a sort of hybrid system with measures first being thoroughly examined by the appropriate committee before being submitted to the Board of Directors for approval. In this manner, while Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan, it is also able to receive the benefits of the Company with Nominating Committee, etc. system. This hybrid system is a massive improvement over the Company’s previous system.

Hiruta: I too feel that the improvements to our corporate governance system over the past four years have been great. However, when viewed from the outside, there may be some concerns as to whether or not this system is functioning appropriately. When we initially transitioned to the current system, we began by focusing on the form of the system. It was because this form was functional that we were able to build the Olympus of today, and our improvements in this area are ongoing. The actual content of the discussions that take place among management cannot be seen from the outside. One example of the products of these discussions, however, would be when, based on our need to strengthen compliance on a global scale, we appointed an individual who could perform duties on the global stage as our chief compliance officer and developed a framework in which reports would be issued directly to the president, by which I mean me. In addition, targeting even higher levels of compliance, we established the Medical Affairs Division as an independent organization for housing our cross-organizational medical affairs functions. Measures such as these are examined and approved by the Board of Directors, and I believe they serve as prime examples of the functionality of our corporate governance system.

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

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

Sincere Fulfillment of Roles Expected by Stakeholders

Hiruta: It is important that stakeholders believe in and support the company’s development. For the present Olympus, the optimal governance system is dependent upon the environment surrounding a company and the stage of that company’s development. For the present Olympus, I believe that the governance system we have now is the most ideal. In terms of diversity, while the Board of Directors only has one female director, I do not feel that it is the number of women that is the question. Rather, I think it is...
more important to consider whether or not the Company’s outside directors and audit & supervisory board members possess the skills necessary for the operating environment faced at the time. Similarly, we should prioritize considerations of how the Board of Directors is to lead the Company, remaining prepared to make changes if the Board proves incapable of practicing such leadership. It is also crucial to develop a successor framework. When thinking about the future of Olympus, an idea of what type of person will be suited to being the next leader should be established, and the type of person necessary must be cultivated in line with a set career plan. Plans for fostering such human resources are best discussed by the Nominating Committee.

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

In regard to the functionality of our governance system, the Board of Directors held several discussions when formulating 16CSP, thoroughly examining the risks and opportunities placed before us during this process. It was in April 2015 when we undertook the integration of three companies and shifted to the new matrix style organizational structure to reallocate resources. When considering this integration, we were already engaged in the discussions that would culminate in 16CSP. At the time, it was important for us to determine how we could make full use of our limited management resources and shift these resources on a global basis. We examined and re-examined these issues to decide how best to address them. Also, as 16CSP was designed based on our vision for 10 years from now, we discussed medium-to-long-term management policies when crafting this plan. Numerous suggestions were received from the outside directors over the course of deciding the plan’s strategies. They offered specific advice about management policies, the definition of a “Business to Specialist” Company, and the concept of maintaining a balance between risks and risk buffers. We revised our strategies accordingly. Therefore, it is essential to say that the strategies of 16CSP were forged through an ideal process.

Hiruta

From the perspective of the effectiveness of the governance system, immediately after the scandals came to light the most pressing matters were resolving compliance issues and addressing the vulnerability of the Company in terms of its capital structure. As such, the advice offered to the executive management team was primarily related to those matters. As a result, we were able to guide Olympus in overcoming these problems in accordance with plans, and I therefore feel that the Board of Directors was functioning properly at that point. Having overcome these difficulties, Olympus has now entered a new stage, a stage in which we must consider future growth and global expansion policies. This fact is reflected in the new organizational structure and in 16CSP itself. This plan was formulated through a W-shaped process. Vigorous discussions were held, which entailed the executive management team proposing basic policies on such matters as how to develop the Olympus Group’s business in the changing operating environment, discussing these proposals among the Board of Directors, and then reflecting these discussions back into the proposals. With regard to numeric targets, we did not so much discuss the figures themselves. It would be more accurate to say that we considered what level would be necessary to achieve from the standpoint of the Group’s business.

Hiruta

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

Sasa

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

For example, a discussion of stock prices would examine such factors as the level of dividends that would be necessitated by certain stock price figures and, given the associated business risks, what dividend policies should be adopted. I also feel that we devoted sufficient time to having in-depth discussions of medium-to-long-term issues. From this perspective as well, I believe that the Board of Directors is being operated within an effectively functioning governance system.
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 values through its business activities. We call this aim “Social IN” and have made it the underlying principle for all of our activities. The “Social IN” corporate philosophy inspires us to work for our shareholders and other stakeholders in order to realize ongoing corporate growth and medium-to-long-term improvements in corporate value.

Since the institution of the new management team in 2012, Olympus has been continually strengthening its corporate governance system, positioning this task as a top management priority. In addition, we endorse the goals of Japan’s Corporate Governance Code, which was formulated in March 2015, and we comply with and have implemented measures based on all of the principles of the code. Through such efforts, we seek to ensure effective corporate governance based on our fiduciary duty to shareholders; our responsibilities toward customers, employees, communities, and other stakeholders; and the aforementioned corporate philosophy.

Corporate Governance Structure

Basic Corporate Governance Policies

In order to enhance the oversight functions of the Board of Directors, which is monitored 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 chaired by such directors.

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

Overview of the Corporate Governance Structure

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

Furthermore, the Board of Directors requests reports on matters that are decided by the Executive Management Committee or by the president. In this manner, the Company is strengthening governance from the perspectives of sharing information and monitoring, thereby creating systems for better ensuring the soundness of management. Olympus employs an executive officer system, which segregates the decision-making function and supervisory function of the Board of Directors from the business execution function of the executive officers. In addition, the Company has set a maximum tenure period for the president and a maximum age for directors and executive officers. These restrictions are in place to prevent inappropriate activities from occurring due to extended tenures of corporate officers. The Executive Management Committee, in principle, convenes three times a month in order to aid the president in making important management decisions through discussion of these matters. This committee consists of members that include the president and heads of functional organizations. Also, audit & supervisory board members attend meetings of this committee as observers, thereby further reinforcing the oversight function for business execution divisions.

Voluntarily Established Committees

Olympus has adopted the Company with Board of Company Auditors system for its governance system but has also incorporated aspects of the Company with Nominating Committee, etc., system by actively pursuing voluntary improvements in governance functions through the establishment of its Nominating Committee and Compensation Committees. 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

Name

Position

Nominating Committee

Compensation Committee

Compliance Committee

Miyako Sasaki

Chairman

Chairman

Chairman

Satoru Hara

Outside director

Outside director

Outside director

Koichi Urushido

Outside director

Outside director

Outside director

Susumu Kaminsaka

Outside director

Outside director

Outside director

Mikio Kikawa

Outside director

Outside director

Outside director

* Independent officers

Internal Audit Office

President

Chairman of the Audit & Supervisory Board

Chairman: Non-executive director

Outside directors Reason for appointment Attendance at meetings of the Board of Directors (Met 23 times in FY2016)

Shingo Kikutani

Mr. Kikutani 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.

25/23

Sumbala Fujita

Mr. Fujita was appointed so that his extensive knowledge and diverse experience in global business may be applied in the Company’s management.

25/23

Koichi Urushido

Mr. Urushido was appointed so that his extensive experience and diverse knowledge acquired from working at the Japanese Trade Commission may be applied to the Company’s management.

25/23

Takayuki Katayama

Mr. Katayama was appointed so that his extensive experience and diverse knowledge as a business manager of JF United may be applied to the Company’s management.

Appointed from FY2017

Susumu Kaminsaka

Mr. Kaminsaka was appointed so that his extensive experience and diverse knowledge as a business manager at Sumitomo Precision Products Co., Ltd. may be applied to the Company’s management.

Appointed from FY2017

Mikio Kikawa

Mr. Kikawa was appointed so that his extensive experience and diverse knowledge as a business manager at Hitachi Construction Machinery Co., Ltd. may be applied to the Company’s management.

Appointed from FY2017

Outside audit & supervisory board members Reason for appointment Attendance at meetings of the Board of Directors and the Audit & Supervisory Board (Met 30 times in FY2016)

Katsuya Naito

Mr. Naito was appointed so that his extensive experience and diverse knowledge as a business manager at Sumitomo Heavy Industries Ltd., may be applied to the Company’s management.

20/23

20/23

Akira Iwasaki

Mr. Iwasaki was appointed so that his extensive experience and diverse knowledge as a business manager at Dai-ichi Life Mutual Life Insurance Co., Ltd. may be applied to the Company’s management.

Appointed from FY2017

\[\text{Corporate Governance Structure}\]

\[\text{Composition of Committees}\]

\[\text{Outside Directors and Audit & Supervisory Board Members}\]

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

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

To increase the effectiveness of the Board of Directors and improve corporate value, the Company institutes annual analysis and evaluations of the overall effectiveness of the Board of Directors. Third-party perspectives are employed as part of this process. The results of these analyses and evaluations are disclosed.

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

Results of Analysis and Evaluation in Fiscal 2016

<table>
<thead>
<tr>
<th>Items</th>
<th>Analysis and evaluation</th>
<th>Change in evaluation from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fulfillment of the functions of the Board of Directors</td>
<td>This is a new item that we added for this year and beyond to evaluate the fulfillment of the primary functions of the Board of Directors, i.e., objective supervision over decisions made on the direction of business strategies and significant issues as well as over the execution of such decisions. The evaluation found that the Board of Directors fully fulfills these functions, indicating that its effectiveness is assured.</td>
<td>(Newly added item)</td>
</tr>
<tr>
<td>2. Composition and actual operation of the Board of Directors</td>
<td>The evaluation found that the Board of Directors is appropriate in size and composition and holds open and active discussions. Accordingly, the result is better than the result last year. Moreover, since we have put forth efforts to have more in-depth discussions on medium- and long-term managerial issues, in the evaluation items of discussion on a few of those issues were found to have improved. Meanwhile, we received some opinions such as “it would be more appropriate if outside directors made up a majority of the Board of Directors” and “it is necessary to M</td>
<td>Improved evaluation</td>
</tr>
<tr>
<td>3. Important opinions</td>
<td>The opinions are also held as necessary.</td>
<td>Improved evaluation</td>
</tr>
<tr>
<td>4. Support system for outside directors</td>
<td>The evaluation found that the training / education and information are adequately provided to outside directors in terms of how much they need for discussions.</td>
<td>Improved evaluation</td>
</tr>
<tr>
<td>5. Expectations for the roles of the audit &amp; supervisory board members</td>
<td>As in the previous fiscal year, this item was evaluated highly. The evaluation found that the existence of corporate auditors contributes to the assessment of the Board of Directors’ effectiveness.</td>
<td>Improved evaluation</td>
</tr>
<tr>
<td>6. Relationships with investors / shareholders</td>
<td>As in the previous fiscal year, this item was evaluated highly. The evaluation found that the existence of corporate auditors contributes to the assessment of the Board of Directors’ effectiveness.</td>
<td>Improved evaluation</td>
</tr>
</tbody>
</table>

Evaluation of the Effectiveness of the Board of Directors

http://www.olympus-global.com/en/governance/board

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

Improvements in Issues Recognized in Fiscal 2015

More complete discussions on medium- and long-term managerial issues at board meetings

The Board of Directors of the Company acknowledged that its discussions had a relative tendency to focus on time-critical issues, such as dealing with risks, improving the corporate governance structure, and responding to compliance issues.

The Board of Directors of the Company acknowledged that its discussions had a relative tendency to focus on time-critical issues, such as dealing with risks, improving the corporate governance structure, and responding to compliance issues.

Enhanced feedback to the board on evaluation of the Company by the capital market

The framework for providing systematic, organized, and regular feedback to the Board of Directors in terms of evaluations by shareholders and other investors of the Company was established. As a result, it was judged that the Board of Directors was provided with sufficient information during fiscal 2016.

Corporate Officer Compensation

Our basic policy for corporate officer compensation is to provide compensation that is appropriate based on the duties of officers and that instills in them a strong commitment to maximizing corporate value so that the Company may live up to shareholder expectations. Based on this policy, we place emphasis on setting an appropriate ratio between compensation linked to short-term performance and compensation linked to medium-to-long-term performance. Actual compensation levels are decided based on the opinion statements and advice of the Compensation Committee.

Policies for Determining Corporate Officer Compensation and Calculation Method

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

Calculation Method for Income-Linked Bonuses

The following formulas will be used for calculating the compensation to be paid to directors in fiscal 2017. Total value of remuneration = (Consolidated operating income in fiscal 2017 × ¥30.0 billion) × 0.069% + (Consolidated net income in fiscal 2017 × ¥10.0 billion) × 0.0418% × (Total sum of “officer points” for all applicable directors × 10) (rounded to the nearest ¥10,000)

Individual compensation Individual compensation

Total value of remuneration = Total sum of “officer points” for all applicable directors × “Officer points” of individual director (rounded to the nearest ¥10,000)

Officer Points

Chairman President and Representative Director
Director, Vice President
Director, Senior Managing Officer
Director, Executive Managing Officer
Director, Managing Officer

Strengthening of Audit and Supervisory Functions

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

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

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

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

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

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

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

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

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

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

1. The Board of Directors shall hold meetings to discuss and decide on the performance of duties, to applicable laws and regulations, the appropriateness of business execution procedures and details, and other matters.

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

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

4. To ensure effective 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.

5. 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.

## Internal Control Framework

### President

- **Internal Control Department**
  - Regulatory control functions
  - Risk management control functions
  - Information security control functions

- **Establishment of the Internal Control Department to Strengthen Internal Controls**
  In April 2016, the Company established the Internal Control Department to strengthen internal controls. Through these regulatory control functions, the Company consolidates existing risk management and information disclosure systems, and reinforces internal controls. As for risk management functions, we are reinforcing and advancing the preventive risk management and crisis management initiatives that we implement on an ongoing basis. In addition, we are addressing Information Security and Tax Number System (“My Number” system) instituted in Japan in 2010 through the My Number System Working Group, which was established to advance a uniform, Groupwide response. Meanwhile, the BCP Process Working Group was created to strengthen countermeasures for the recently rising risk of large-scale earthquakes. In this manner, we strive to ensure preparedness for various events.

### Information security control functions

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

## Investor Relations (IR) Activities

### The following investor relations activities were conducted in fiscal 2016.

**Activity**

- Meetings held quarterly to explain topics from the past focused on financial performance and forecasts
- Exploratory forum on 16CSP with presentations by the president, the CFO, and heads of businesses
- Tours and study sessions of plants, repair centers, training centers, and other facilities
- Meetings with overseas institutional investors
- Meetings for institutional investors (including overseas conferences)
- Participation in and meetings at conferences held by securities companies in Japan and overseas
- Meetings held by the president, the CFO, and/or investor relations division representatives (including meetings conducted at overseas IR roadshows and conferences)

**Details**

- 4
- 1
- 3
- 4
- 3
- 11
- 17
- 715

**Contact Information**

- IR Office
- Facility tours and study sessions
- Overseas IR roadshows
- Conferences held by securities companies (including overseas conferences)
- Meetings for individual investors
- Individual meetings with institutional investors and analysts

**Investor Relations (IR) Activities**

- | Activity | Time conducted | Details |
- | --- | --- | --- |
- | Meetings held quarterly to explain topics from the past focused on financial performance and forecasts | 4 |  |
- | Exploratory forum on 16CSP with presentations by the president, the CFO, and heads of businesses | 1 |  |
- | Tours and study sessions of plants, repair centers, training centers, and other facilities | 3 |  |
- | Meetings with overseas institutional investors | 4 |  |
- | Meetings for institutional investors (including overseas conferences) | 3 |  |
- | Participation in and meetings at conferences held by securities companies in Japan and overseas | 11 |  |
- | Meetings held by the president, the CFO, and/or investor relations division representatives (including meetings conducted at overseas IR roadshows and conferences) | 17 |  |
- | Individual meetings with institutional investors and analysts | 715 |  |
Compliance

Promotion of Compliance

The Olympus Group strives to foster an environment within the organization in which no concern pertaining to compliance will be ignored, under any circumstances. At the same time, it maintains an understanding of the status of compliance systems and works to strengthen these systems. Realizing the immense responsibilities of the Company’s Medical Business due to its provision of items related directly to people’s life, Olympus is committed to maintaining impeccable levels of product safety and quality. The Company has also established its own internal rules to ensure compliance with the various regulations in place in countries worldwide, and it is promoting awareness and conducting training with regard to these rules.

Compliance Promotion Structure

Olympus has appointed a chief compliance officer (CCO) whose task is to clarify compliance-related responsibilities. We have also established the Compliance Committee, chaired by an outside director and consisting of the CCO and independent members, in order to advise the Board of Directors. The Compliance Committee works to strengthen compliance initiatives through its meetings, which are normally held every quarter. Olympus holds quarterly meetings of Global Compliance Committees for compliance officers from each regional headquarters worldwide. The purpose of these committees is to implement compliance-related policies and measures, identify issues, and enforce countermeasures as required, both globally and regionally.

Compliance Promotion System

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

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

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

Overview of Medical Affairs Organizations in Japan Head Office

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

My first goal is to assure that there are consistent standards of compliance across Olympus, while still preserving and respecting any cultural differences. I look forward to working with the regional compliance teams to iron out those standards, gain efficiencies where needed, and continue to instill the message of unsurpassed integrity. My second goal is to have the Compliance function be a partner to the business. We need to assure that our corporate culture encourages and preserves unsurpassed integrity, where we always do the right thing, the right way. Olympus is expected to adhere to exceptionally high standards for corporate governance and compliance in all of its business processes, and I believe that we are prepared to meet those standards.

Message from the Chief Compliance Officer

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

Caroline West
Chief Compliance Officer (CCO)

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

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

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

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

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

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

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

My first goal is to assure that there are consistent standards of compliance across Olympus, while still preserving and respecting any cultural differences. I look forward to working with the regional compliance teams to iron out those standards, gain efficiencies where needed, and continue to instill the message of unsurpassed integrity. My second goal is to have the Compliance function be a partner to the business. We need to assure that our corporate culture encourages and preserves unsurpassed integrity, where we always do the right thing, the right way. Olympus is expected to adhere to exceptionally high standards for corporate governance and compliance in all of its business processes, and I believe that we are prepared to meet those standards.
Management Structure

**Directors**

**President and Representative Director**

**Yasuo Takeuchi**
- Joined the Company: Apr. 1980
- Appointment: Apr. 1995
- Current Title: Director, Vice President, Senior Executive Managing Officer, Chief Financial Officer

**Directors**

**Haruo Ogawa**
- Birth Date: April 13, 1963
- Appointment: Apr. 1988
- Current Title: Director, Senior Executive Managing Officer

**Shiro Hiruta**
- Birth Date: February 25, 1957
- Appointment: Apr. 2005
- Current Title: Director, Vice President

**Kiichi Hirata**
- Birth Date: July 13, 1962
- Appointment: Oct. 1993
- Current Title: Director, Executive Managing Officer

**Outside Director**

**Susumu Kaminaga**
- Birth Date: May 13, 1963
- Appointment: Mar. 1998
- Current Title: Outside Director

**Outside Director**

**Michijiro Kikawa**
- Birth Date: August 2, 1947
- Appointment: Apr. 1979
- Current Title: Outside Director

**Outside Director**

**Keiko Unotoro**
- Birth Date: Dec. 19, 1954
- Current Title: Outside Director

**Outside Director**

**Sumitaka Fujita**
- Birth Date: April 13, 1956
- Appointment: June 1992
- Current Title: Outside Director

**Outside Director**

**Susumu Fujita**
- Birth Date: April 13, 1956
- Appointment: June 1992
- Current Title: Director, Senior Executive Managing Officer, Chief Financial Officer

**Outside Director**

**Michijiro Kikawa**
- Birth Date: August 2, 1947
- Appointment: Apr. 1979
- Current Title: Outside Director

**Outside Director**

**Keiko Unotoro**
- Birth Date: Dec. 19, 1954
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**Sumitaka Fujita**
- Birth Date: April 13, 1956
- Appointment: June 1992
- Current Title: Outside Director
Management Structure

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member

Takashi Saito

Date of birth: February 11, 1952

Apr. 1976 Joined the Company
Jan. 2020 Executive Officer
Jan. 2022 President and Representative Director, Asia Olympus Co., Ltd.
Apr. 2012 Standing Audit & Supervisory Board Member, the Company (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 & Asah)
Jul. 1992 Joined Esso Petroleum Corporation (currently EMG Marketing Godo Kaisha)
Mar. 2012 Director, Sun Microsystems, Inc.
Jun. 2013 Chief, Natori Law Office (present)
Apr. 2015 Audit & Supervisory Board Member, the Company (present)

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
Dec. 1997 Registered as real estate appraiser
Sep. 2005 Chief, Iwasaki CPA Office (present)
Jun. 2013 Director and Chief Auditor, ISEKI & CO., Ltd. (present)
Jun. 2015 Audit & Supervisory Board Member, NH Foods Ltd. (present)
Apr. 2016 Audit & Supervisory Board Member, the Company (present)

Important concurrent positions

Chief, Iwasaki CPA Office
Director, ISEKI & CO., Ltd.
Director, NH Foods Ltd.
Supervisory Director, Global One Real Estate Investment Corp.
Analysis of Business Results

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

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

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

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

The rapid appreciation of the yen that began in February 2016 contributed to a decline in net sales for the Others Business, which itself contributed to higher operating income in this business.

In the life science field, sales decreased for mainly research-use devices as a result of delayed budget execution among research institutions. In the industrial field, sales were up for such industrial microscopes as the STIM7 series, which comprises measuring microscopes used in the manufacturing process for electronic components, while sales decreased slightly for non-destructive testing equipment among other products as a result of the fall in crude oil and other resource prices. Consequently, overall sales in the Scientific Solutions Business decreased. Operating income, meanwhile, was up due to efficiency gains through such means as cost cuts and the integration of sales bases.

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

Fiscal 2017 Outlook
Looking ahead with respect to the global economy, concerns for a downturn in economic conditions are likely to intensify amidst such developments as moves toward the normalization of monetary policy in the United States, slowing growth in China and other emerging countries, and falling resource prices. In the Japanese economy, adverse conditions are expected to continue in consideration of the risk of deteriorating corporate earnings stemming from the global economic slowdown and yen appreciation, the threat of a decrease in consumer confidence in conjunction with this trend, and other factors.

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

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

In the Imaging Business, consolidated net sales came to ¥76,284 million, down 1.5% year on year, while operating loss amounted to ¥2,064 million, compared with ¥11,710 million in the previous fiscal year.

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

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

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

In the gastrointestinal endoscope field, sales were strong for mainstream gastrointestinal video endoscopy systems EVIS EXERA III and EVIS LUCERA ELITE. In the surgical device field, robust sales were posted for the VISERA ELITE surgical video endoscopy system—designed to support endoscopic surgery—as well as for our 3D laparoscopy surgical system, and sales continued to grow for the THUNDERBEAT integrated energy device, which features both advanced bipolar and ultrasonic energy. In the endotherapy device field, sales were up for Visi-Glids 2™, a new disposable guidewire product for use in endoscopic diagnosis and the treatment of biliary and pancreatic ducts. In this manner, sales grew in all fields, resulting in an overall increase in net sales for the Medical Business, which itself contributed to higher operating income in this business.

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

In the life science field, sales decreased for mainly research-use devices as a result of delayed budget execution among research institutions. In the industrial field, sales were up for such industrial microscopes as the STIM7 series, which comprises measuring microscopes used in the manufacturing process for electronic components, while sales decreased slightly for non-destructive testing equipment among other products as a result of the fall in crude oil and other resource prices. Consequently, overall sales in the Scientific Solutions Business decreased. Operating income, meanwhile, was up due to efficiency gains through such means as cost cuts and the integration of sales bases.

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

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

Operating Income
Operating income was up 14.8% year on year, to ¥134,464 million, due to the posting of higher income in the Medical Business and the Scientific Solutions Business and reduced operating loss in the Imaging Business.

Operating Income (¥ Billion)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Medical Business</th>
<th>Imaging Business</th>
<th>Scientific Solutions Business</th>
<th>Others</th>
<th>Elimination or corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/3</td>
<td>60.4</td>
<td>11.2</td>
<td>20.7</td>
<td>–2.3</td>
<td>–5.8</td>
<td>100.6</td>
</tr>
<tr>
<td>2016/3</td>
<td>74.2</td>
<td>14.1</td>
<td>21.7</td>
<td>–1.9</td>
<td>–6.6</td>
<td>111.8</td>
</tr>
</tbody>
</table>

Net Income (Loss) (¥ Billion)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Medical Business</th>
<th>Imaging Business</th>
<th>Scientific Solutions Business</th>
<th>Others</th>
<th>Elimination or corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/3</td>
<td>15.0</td>
<td>2.3</td>
<td>3.5</td>
<td>–5.6</td>
<td>–6.8</td>
<td>26.2</td>
</tr>
<tr>
<td>2016/3</td>
<td>16.0</td>
<td>6.1</td>
<td>4.7</td>
<td>–4.9</td>
<td>–7.2</td>
<td>31.8</td>
</tr>
</tbody>
</table>
Financial Position

Total Assets
As of March 31, 2016, total assets stood at ¥1,000,614 million, down ¥29,037 million from a year earlier. Total current assets were down ¥56,836 million due mainly to a decrease in cash and deposits, and total non-current assets declined ¥24,101 million following a decrease in net defined benefit assets and the impacts of amortization of goodwill.

Total Net Assets and Equity Ratio
The equity ratio increased 3.9 percentage points from the end of the previous fiscal year to 38.2%, as a result of a ¥74,479 million reduction in short-term borrowings. These factors outweighed a ¥41,196 million increase in long-term debt, loss current maturities.

Total Net Assets and Equity Ratio
As of March 31, 2016, total liabilities amounted to ¥916,331 million, down ¥107,966 million from a year earlier. This decrease was due mainly to the revaluation of property, plant and equipment of ¥50,422 million and purchases of intangible assets of ¥5,987 million. Major factors increasing cash included sales of investment securities of ¥32,144 million.

Total Assets
As of March 31, 2016, total assets stood at ¥1,000,614 million, down ¥29,037 million from a year earlier. Total current assets were down ¥56,836 million due mainly to a decrease in cash and deposits, and total non-current assets declined ¥24,101 million following a decrease in net defined benefit assets and the impacts of amortization of goodwill.

Cash Flows

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

Cash Flows from Investing Activities
Net cash used in investing activities was ¥52,897 million, up ¥13,285 million from the previous fiscal year. Major factors decreasing cash included purchases of property, plant and equipment of ¥50,422 million and purchases of intangible assets of ¥5,987 million. Major factors increasing cash included sales of investment securities of ¥32,144 million.

Cash Flows from Financing Activities
Net cash used in financing activities was ¥33,870 million, down ¥36,315 million from the previous fiscal year. Major factors decreasing cash included repayments of long-term borrowings of ¥78,340 million and decrease in short-term borrowings of ¥3,820 million. Major factors increasing cash included proceeds from long-term borrowings of ¥73,886 million.

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

Liabilities
As of March 31, 2016, total liabilities amounted to ¥916,331 million, down ¥107,966 million from a year earlier. This decrease was due mainly to the revaluation of property, plant and equipment of ¥50,422 million and purchases of intangible assets of ¥5,987 million. Major factors increasing cash included sales of investment securities of ¥32,144 million.

Risk Information

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

Business Risks

(1) Risks Associated with Sales Activities
1. In the Medical Business, it is possible that healthcare policies may be amended in an unforeseeable manner due to healthcare system reforms or that 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. As of March 31, 2016, the Olympus Group held listed stocks with a total value of ¥67,871 million and unlisted stocks with a total value of ¥1,324 million as investments for the purpose of facilitating business alliances. The stock price of listed stocks is determined based upon market principles. Accordingly, fluctuations in market trends could cause the value of those stocks to decline. For unlisted stocks, it is possible that the estimated value of these stocks could decline due to changes in the financial position of the company in question. Such price fluctuations could force the Group to record loss on valuation of investment securities, and the Group’s earnings or financial position could be affected as a result.

(4) Risks Associated with Financing
The Group obtains financing by means of borrowings from financial institutions and other sources, and changes in conditions in financial markets may affect the Group’s financing. In addition, an increase in financing costs as a result of such factors as deterioration in the Group’s business performance may adversely affect the Group’s financing.
(5) Risks Associated with Leakage of Information
The Group possesses important confidential information, such as technical information and personal information of customers and employees. 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, 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 (Atis Co., Ltd., NEWS CHEF, Inc., and Humalco Co., Ltd.) to resolve unrealized losses on investment securities, etc., by deferring the posting of these losses. Furthermore, shareholders of the Company have filed legal complaints against the Company as a result of the Company’s inappropriate financial reporting and are claiming damages and filing lawsuits against the Company, which may affect the Group’s business performance or financial position. As of June 28, 2016, the following major lawsuits against the Company have been filed against the Company, with pending claims totaling ¥76,974 million.

1. On December 13, 2012, 68 plaintiffs, including the California Public Employees’ Retirement System as well as non-Japanese investors and pension funds that are shareholders of the Company, filed a complaint against the Company (the date the Company received the complaint was March 29, 2013). After a subsequent petition to amend the complaint and withdrawal of claim by the several plaintiffs, the lawsuit has been changed so that currently 59 plaintiffs are claiming compensation for damages of ¥7,749 million and 5% per annum interest on this amount for the period from October 14, 2011, to the payment of the principal.

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

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

4. On April 7, 2014, six plaintiffs, Mitsubishi UFJ Trust and Banking Corporation and five other trust banks, filed a complaint against the Company (the date the Company received the complaint was April 17, 2014) seeking damages of ¥277,915 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 inquired losses up to the payment of the incurred losses of the shares.

(7) Risks Associated with Internal Control Systems, etc.
The Olympus Group has developed a system for ensuring appropriate and effective financial reporting and efficient work processes, which it operates and continuously improves. However, it cannot be ignored that, regardless of the effectiveness of the internal control system constructed by the Group, this system could fail to function effectively due to actions arising from malicious intent or gross negligence on the part of employees, changes in the business environment that were not envisaged at the time of the internal control system’s construction, or other factors. Accordingly, it is possible that a violation of laws or regulations or some other incident could occur in the future. If such an incident were to occur, the Company may be obliged to pay fines resulting from government sanctions, penalties for criminal proceedings, or damages in civil lawsuits, or other expenses. Moreover, the Company may suffer an adverse impact on its business from a loss of social trust. Such events could have an adverse impact on the Company’s operating results.

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

In the Medical Business, government-sponsored healthcare systems are being developed around the world. Accordingly, Group companies and their distributors and suppliers often do business with government-affiliated entities, healthcare providers, and officials. In addition, some Group companies’ suppliers and distributors in certain countries or regions in which there has been governmental competition 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 any investigations or related civil fines, 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 FCRA concerning past activities related to the Medical Business. If, in the future, the Company were to engage in conduct that violates these laws, it would not only receive sanctions related to said violations, but prosecution would also be carried out in relation to the alleged violation for which the deferred prosecution agreement was concluded. Such an occurrence may affect the Company’s business, financial position, performance, cash flows, or stock price.

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

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

(11) Other General Risks
Through its domestic and overseas subsidiaries and affiliates, etc., the Company operates its various businesses around the world. These businesses may from time to time be subject to various investigations by domestic and overseas authorities, which may involve discussions with or reporting to authorities with respect to compliance with laws, for instance, response to investigations concerning compliance with the Anti-kickback 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 consents may affect earnings. In addition, the occurrence of natural disasters, disease, wars, terrorist attacks, or other incidents or the occurrence of greater than expected interest rate increases or exchange rate fluctuations may affect earnings.
### Consolidated Balance Sheets

**Olympus Corporation and Consolidated Subsidiaries**

As of March 31, 2015 and 2016

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>CURRENT ASSETS:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>¥</td>
</tr>
<tr>
<td>Cash and deposits (Notes 5 and 27)</td>
<td>209,875</td>
</tr>
<tr>
<td>Notes and accounts receivable (Notes 5 and 7)</td>
<td>148,127</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>14,209</td>
</tr>
<tr>
<td>Lease receivables and leased investment assets (Notes 18 and 29)</td>
<td>31,683</td>
</tr>
<tr>
<td>Inventories (Note 8)</td>
<td>107,387</td>
</tr>
<tr>
<td>Deferred income taxes (Note 15)</td>
<td>303,841</td>
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<tr>
<td>Other current assets</td>
<td>44,384</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>577,528</td>
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</table>

<table>
<thead>
<tr>
<th>PROPERTY, PLANT AND EQUIPMENT:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
</tr>
<tr>
<td>Buildings and structures</td>
</tr>
<tr>
<td>Machinery and equipment</td>
</tr>
<tr>
<td>Leasehold improvements</td>
</tr>
<tr>
<td><strong>Construction in progress</strong></td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVESTMENTS AND OTHER ASSETS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities (Notes 5 and 6)</td>
</tr>
<tr>
<td>Deferred income taxes (Note 15)</td>
</tr>
<tr>
<td>Goodwill</td>
</tr>
<tr>
<td>Other assets (Notes 18 and 28)</td>
</tr>
<tr>
<td>Allowance for doubtful accounts (Note 13)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT LIABILITIES:</td>
</tr>
<tr>
<td>Short-term borrowings (Notes 5, 9 and 18)</td>
</tr>
<tr>
<td>Current maturities of long-term debt (Notes 5, 10 and 18)</td>
</tr>
<tr>
<td>Notes and accounts payable (Notes 5 and 11)</td>
</tr>
<tr>
<td>Other payables</td>
</tr>
<tr>
<td>Income taxes payable (Note 15)</td>
</tr>
<tr>
<td>Provisions for warranty costs</td>
</tr>
<tr>
<td>Provision for loss on business liquidation</td>
</tr>
<tr>
<td>Provision for customer points program</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROPERTY, PLANT AND EQUIPMENT:</th>
</tr>
</thead>
<tbody>
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<td>Land</td>
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<tr>
<td>Machinery and equipment</td>
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<tr>
<td>Leasehold improvements</td>
</tr>
<tr>
<td><strong>Construction in progress</strong></td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
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</table>

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<thead>
<tr>
<th>INVESTMENTS AND OTHER ASSETS:</th>
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<tr>
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<td>Goodwill</td>
</tr>
<tr>
<td>Other assets (Notes 18 and 28)</td>
</tr>
<tr>
<td>Allowance for doubtful accounts (Note 13)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTINGENT LIABILITIES (Note 17):</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET ASSETS (Note 16):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock:</td>
</tr>
<tr>
<td>Authorized—1,000,000,000 shares</td>
</tr>
<tr>
<td>Issued—342,671,508 shares as of March 31, 2015 and 2016</td>
</tr>
<tr>
<td>Capital surplus</td>
</tr>
<tr>
<td>Retained earnings</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
</tr>
</tbody>
</table>

| Stock subscription rights | ¥ 260 | ¥ 428 | ¥ 3,788 |
| Non-controlling interests | ¥ 1,532 | ¥ 1,496 | ¥ 13,239 |
| **Total net assets** | ¥ 357,254 | ¥ 384,283 | ¥ 3,400,735 |

See accompanying notes to consolidated financial statements.
 Consolidated Statements of Operations
Olympus Corporation and Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>Net sales</td>
<td>¥764,671</td>
<td>¥804,578</td>
</tr>
<tr>
<td>Cost of sales (Note 8)</td>
<td>214,820</td>
<td>269,341</td>
</tr>
<tr>
<td>Gross profit</td>
<td>499,851</td>
<td>535,237</td>
</tr>
<tr>
<td>Selling, general and administrative expenses (Note 19)</td>
<td>398,889</td>
<td>340,773</td>
</tr>
<tr>
<td>Operating income</td>
<td>30,962</td>
<td>104,464</td>
</tr>
<tr>
<td>Other income (expenses):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense, net (Note 10)</td>
<td>8,274</td>
<td>8,671</td>
</tr>
<tr>
<td>Gain on available-for-sale securities, net</td>
<td>1,121</td>
<td>3,465</td>
</tr>
<tr>
<td>Foreign-currency exchange loss, net</td>
<td>(1,669)</td>
<td>(3,704)</td>
</tr>
<tr>
<td>Equity in losses of affiliates (Note 21)</td>
<td>(2,791)</td>
<td>(2,671)</td>
</tr>
<tr>
<td>Legal settlement compensation received (Note 23)</td>
<td>—</td>
<td>72</td>
</tr>
<tr>
<td>Impairment loss on bad assets (Note 21)</td>
<td>(119)</td>
<td>—</td>
</tr>
<tr>
<td>Loss on liquidation of business (Note 22)</td>
<td>(1,920)</td>
<td>(1,058)</td>
</tr>
<tr>
<td>Business restructuring expenses (Note 23)</td>
<td>—</td>
<td>(1,209)</td>
</tr>
<tr>
<td>Loss related to securities litigation (Note 24)</td>
<td>(6,416)</td>
<td>(2,072)</td>
</tr>
<tr>
<td>Soil improvement cost (Note 26)</td>
<td>(740)</td>
<td>—</td>
</tr>
<tr>
<td>Loss related to the investigation under U.S. Anti-Kickback Act and the related Act (Note 25)</td>
<td>(53,886)</td>
<td>(18,814)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(5,952)</td>
<td>(1,657)</td>
</tr>
<tr>
<td>Total</td>
<td>82,028</td>
<td>(33,664)</td>
</tr>
<tr>
<td>Income before income taxes and non-controlling interests</td>
<td>3,034</td>
<td>70,400</td>
</tr>
<tr>
<td>Income taxes (Note 15):</td>
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<td></td>
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<tr>
<td>Current</td>
<td>20,076</td>
<td>10,944</td>
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<tr>
<td>For prior periods (Note 26)</td>
<td>—</td>
<td>3,772</td>
</tr>
<tr>
<td>Deferred</td>
<td>(2,271)</td>
<td>(5,967)</td>
</tr>
<tr>
<td>Total</td>
<td>17,805</td>
<td>6,149</td>
</tr>
<tr>
<td>Loss before non-controlling interests</td>
<td>(6,871)</td>
<td>62,651</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(5)</td>
<td>(4)</td>
</tr>
<tr>
<td>Net (loss) income</td>
<td>(6,871)</td>
<td>62,651</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Olympus Corporation and Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>(Loss) income before non-controlling interests</td>
<td>(6,871)</td>
<td>62,651</td>
</tr>
<tr>
<td>Other comprehensive income (loss) (Note 33)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized holding gains on available-for-sale securities, net of taxes</td>
<td>12,005</td>
<td>183</td>
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<tr>
<td>Net unrealized (losses) gains on hedging derivatives, net of taxes</td>
<td>(7)</td>
<td>1</td>
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<tr>
<td>Foreign currency translation adjustments</td>
<td>28,759</td>
<td>(24,008)</td>
</tr>
<tr>
<td>Retirement benefit liability adjustments</td>
<td>(7,013)</td>
<td>(8,477)</td>
</tr>
<tr>
<td>Share of other comprehensive income of affiliates accounted for by the equity method</td>
<td>4</td>
<td>(4)</td>
</tr>
<tr>
<td>Total other comprehensive income (loss)</td>
<td>34,671</td>
<td>(32,305)</td>
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<tr>
<td>Comprehensive income</td>
<td>25,800</td>
<td>30,346</td>
</tr>
<tr>
<td>Total comprehensive income (loss) attributable to:</td>
<td></td>
<td></td>
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<tr>
<td>Shareholders of Olympus Corporation</td>
<td>25,867</td>
<td>30,330</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(67)</td>
<td>16</td>
</tr>
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</table>

See accompanying notes to consolidated financial statements.
### Millions of yen

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury stock, at cost</th>
<th>Total shareholders’ equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at April 1, 2014</td>
<td>¥124,520</td>
<td>¥131,871</td>
<td>¥81,534</td>
<td>¥336,827</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies</td>
<td>89</td>
<td>89</td>
<td>89</td>
<td>89</td>
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<tr>
<td>Restated balance</td>
<td>¥124,520</td>
<td>¥131,871</td>
<td>¥81,534</td>
<td>¥336,827</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(8,737)</td>
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<tr>
<td>Transfer to retained earnings from capital surplus</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(40,931)</td>
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<tr>
<td>Acquisition of treasury stock</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(13)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>—</td>
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<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net changes in items other than those in shareholders’ equity</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net changes during the year</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(40,931)</td>
</tr>
<tr>
<td>Balance at April 1, 2015</td>
<td>¥124,520</td>
<td>¥131,871</td>
<td>¥81,534</td>
<td>¥336,827</td>
</tr>
<tr>
<td>Dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(3,422)</td>
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<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>62,594</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(12)</td>
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<tr>
<td>Disposal of treasury stock</td>
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<tr>
<td>Net change in items other than those in shareholders’ equity</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(7)</td>
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<tr>
<td>Net changes during the year</td>
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<td>—</td>
<td>—</td>
<td>59,172</td>
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<tr>
<td>Balance at March 31, 2016</td>
<td>¥124,520</td>
<td>¥131,871</td>
<td>¥81,534</td>
<td>¥336,827</td>
</tr>
</tbody>
</table>

### Thousands of U.S. dollars (Note 1)

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Foreign currency translation adjustments</th>
<th>Stock appreciation rights</th>
<th>Non-controlling interests</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at April 1, 2015</td>
<td>$1,101,947</td>
<td>$804,779</td>
<td>$1,007,230</td>
<td>$9,832</td>
<td>$2,904,124</td>
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<td>Dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(53,285)</td>
<td>(53,285)</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>553,929</td>
<td>553,929</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>—</td>
<td>(106)</td>
<td>—</td>
<td>—</td>
<td>(106)</td>
<td>(106)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>—</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9</td>
</tr>
<tr>
<td>Net changes in items other than those in shareholders’ equity</td>
<td>—</td>
<td>(23,971)</td>
<td>(7,013)</td>
<td>(32,264)</td>
<td>168</td>
<td>(32,132)</td>
</tr>
<tr>
<td>Net changes during the year</td>
<td>—</td>
<td>(23,971)</td>
<td>(7,013)</td>
<td>(32,264)</td>
<td>168</td>
<td>(32,132)</td>
</tr>
<tr>
<td>Balance at March 31, 2016</td>
<td>$1,101,947</td>
<td>$804,779</td>
<td>$1,530,876</td>
<td>$9,929</td>
<td>$3,427,673</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
Consolidated Statements of Cash Flows

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

1. Summary of Significant Accounting Policies

(a) Basis of Preparing 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" (FTF No. 16). In accordance with FTF No. 18, the accompanying consolidated financial statements have been prepared using the accounts of foreign consolidated subsidiaries prepared in accordance with other IFRSs 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 reformed 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.

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

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

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

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

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

Notes to the Consolidated Financial Statements

Olympus Corporation and Consolidated Subsidiaries

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Olympus Report 2014

Olympus Report 2016
Notes to the Consolidated Financial Statements

(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 differ for recognition of gains and losses resulting from changes in fair value of derivative financial instruments until the related losses and gains on the hedged items are recognized.

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

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


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

(i) Common Stock and Bond Issuance Expenses
Common stock and bond issuance expenses are charged to income as incurred.

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

(k) Retirement Benefits
The Company and its consolidated subsidiaries provided an allowance for employees’ retirement benefits as of the balance sheet date based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 5 years) which are shorter than the average remaining years of service of the employees.
Prior service cost is being amortized by the straight-line method over periods (mainly 5 years) which are shorter than the average remaining years of service of the employees.
The retirement allowance for directors and corporate auditors was recorded at an amount to be paid in accordance with the internal rules if all eligible directors and corporate auditors were to have resigned their offices as of the balance sheet date.
Provision for retirement benefits presented in the non-current liabilities of the consolidated balance sheets included retirement allowance for directors and corporate auditors as of March 31, 2015 and 2016.

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

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

(n) Provision for Loss on Litigation
Provision for loss on litigation is recorded for estimated losses on pending litigation.

(o) Provision for Loss Related to the Investigation under U.S. Anti-Kickback Act and the Related Act
Provision for loss related to the investigation under U.S. Anti-Kickback Act and the related Act is recorded for estimated losses arising from an investigation by the U.S. Department of Justice relating to potential issues concerning the Company’s medical business under the Anti-Kickback Act and the False Claims Act in the United States.

(p) Research and Development
Expenses relating to research and development activities are charged to income as incurred.

(q) Lease Transactions
Noncancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.
Leased assets are depreciated over the term of the lease based on the straight-line method with no residual value.
The accounting treatment for finance lease contracts that do not transfer ownership to lessee which commenced on or before March 31, 2008 follows the same method as for operating lease transactions.

(r) Income Taxes
The Company recognizes tax effects of temporary differences between the financial reporting and the tax bases of assets and liabilities by using the enacted tax rates and laws which will be in effect when differences are expected to reverse.
The Company and certain consolidated subsidiaries adopted the consolidated taxation system, which allows companies to make tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

(s) Consumption Taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(t) Translation of Foreign Currency Financial Statements
In accordance with the accounting standards for foreign currency translations, the balance sheet accounts of the foreign consolidated subsidiaries are translated at exchange rates as of the balance sheet date. Net assets excluding minority interests are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates for each corresponding fiscal year. Differences arising from translation are presented as “Foreign currency translation adjustments” in a separate component of net assets.
2. Changes in Accounting Policies

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

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

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

Application of the Accounting Standard for Business Combinations, etc. was in line with the transitional accounting treatment provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 67-4 (4) of the Accounting Standard for Business Discontinuance. The Company applied the stated standard, etc. prospectively from the beginning of the fiscal year ended March 31, 2016 other than the changes in balance sheet and statements of operations presentation described above.

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

3. Changes in Depreciation Method

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

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

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

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

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


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

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

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

5. Financial Instruments

Overview

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

(2) Types of financial instruments and related risk
Trade receivables—notes and accounts receivables—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 payables—have payment due dates within one year. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign exchange contracts are arranged to reduce the risk.

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

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Group also enters into forward foreign exchange contracts 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 hedging items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 31 "Derivative financial instruments."
(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

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

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

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

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

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

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.

(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 period of consolidated sales in order to manage liquidity risk.

(d) Supplementary explanation of the estimated fair value of financial instruments

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

Estimated Fair Value of Financial Instruments

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

<table>
<thead>
<tr>
<th>Notes to the Consolidated Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Olympus Report 2016</td>
</tr>
</tbody>
</table>
Bonds
The fair value of bonds is based on the present value of the total of principal and interest discounted by an interest rate determined by taking into account the remaining period of each bond and current credit risk.

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

Derivative transactions
Please refer to Note 31 “Derivative financial instruments.”

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

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

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

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.

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

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

Available-for-sale securities
Securities with book value exceeding acquisition cost

Note: Repayment dates of security deposits included in other interest-bearing debt are not determined.
The following table summarizes sales of available-for-sale securities and the aggregate gain and loss for the years ended March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V056</td>
<td>¥109,122</td>
<td>$1,867</td>
</tr>
<tr>
<td>V133</td>
<td>¥148,042</td>
<td>$2,340</td>
</tr>
<tr>
<td>Total</td>
<td>¥257,164</td>
<td>$4,207</td>
</tr>
<tr>
<td>Total</td>
<td>¥427,804</td>
<td>$7,180</td>
</tr>
<tr>
<td>Aggregate gain</td>
<td>¥3,152</td>
<td>$50,880</td>
</tr>
<tr>
<td>Aggregate loss</td>
<td>¥2,256</td>
<td>$37,250</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note values</td>
<td>¥2,711</td>
<td>$46,000</td>
</tr>
<tr>
<td>Total</td>
<td>¥2,711</td>
<td>$46,000</td>
</tr>
</tbody>
</table>

7. Notes and Accounts Receivable

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconsolidated subsidiaries and affiliates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>¥148,042</td>
<td>$2,340</td>
</tr>
<tr>
<td>2016</td>
<td>¥2,711</td>
<td>$46,000</td>
</tr>
<tr>
<td>Total</td>
<td>¥170,753</td>
<td>$3,187</td>
</tr>
</tbody>
</table>

8. Inventories

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>¥11,100</td>
<td>$1,867</td>
</tr>
<tr>
<td>Work in process and raw materials</td>
<td>¥50,000</td>
<td>$7,800</td>
</tr>
<tr>
<td>Total</td>
<td>¥61,100</td>
<td>$9,667</td>
</tr>
</tbody>
</table>

9. Short-Term Borrowings

Short-term borrowings consisted principally of bank loans. The annual interest rates on these borrowings ranged from 0.50% to 0.04% and from 0.82% to 1.72% as of March 31, 2015 and 2016, respectively.

10. Long-Term Debt

Long-term debt as of March 31, 2015 and 2016 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>¥50,000</td>
<td>$7,800</td>
</tr>
<tr>
<td>2016</td>
<td>¥12,000</td>
<td>$1,867</td>
</tr>
<tr>
<td>Total</td>
<td>¥62,000</td>
<td>$9,667</td>
</tr>
</tbody>
</table>

11. Notes and Accounts Payable

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconsolidated subsidiaries and affiliates</td>
<td>¥159,155</td>
<td>$2,550,205</td>
</tr>
<tr>
<td>Trade</td>
<td>¥38,498</td>
<td>$584,843</td>
</tr>
<tr>
<td>Total</td>
<td>¥197,653</td>
<td>$3,135,048</td>
</tr>
</tbody>
</table>
12. Retirement Benefit Plans

Employees of the Company and certain consolidated subsidiaries have defined funded pension plans, defined contribution plans and unfunded retirement allowance plans. The Company and certain consolidated subsidiaries have cash balance plans by applying a point pension system to defined contribution pension plans.

Directors and corporate auditors of several domestic consolidated subsidiaries have unfunded retirement allowance plans. The amounts of pension payments and retirement allowances are generally determined on the basis of length of service and basic salary at the time of termination of service. It is the Company’s policy to fund amounts required to maintain sufficient plan assets to provide for accrued benefits.

The changes in retirement benefit obligation during the years ended March 31, 2015 and 2016 were as follows (excluding retirement benefit obligation for the consolidated subsidiaries adopting the simplified method):

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefit obligation at April 1</td>
<td>¥171,487</td>
<td>¥182,261</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies...</td>
<td>(142)</td>
<td></td>
</tr>
<tr>
<td>Restated balance at April 1</td>
<td>¥171,345</td>
<td>¥182,261</td>
</tr>
<tr>
<td>Service cost</td>
<td>6,230</td>
<td>5,626</td>
</tr>
<tr>
<td>Interest cost</td>
<td>4,373</td>
<td>4,313</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>14,925</td>
<td>7,605</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>(5,488)</td>
<td>(5,362)</td>
</tr>
<tr>
<td>Transfer to defined contribution plans in foreign subsidiary...</td>
<td>(11,503)</td>
<td></td>
</tr>
<tr>
<td>Prior service cost</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Effect of foreign exchange translation...</td>
<td>9,039</td>
<td>(8,203)</td>
</tr>
<tr>
<td>Effect of changing from simpler method to standard method...</td>
<td>1,888</td>
<td>88</td>
</tr>
<tr>
<td>Other...</td>
<td>104</td>
<td>45</td>
</tr>
<tr>
<td>Retirement benefit obligation at March 31</td>
<td>¥192,261</td>
<td>¥197,036</td>
</tr>
</tbody>
</table>

The changes in plan assets during the years ended March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets at April 1</td>
<td>¥171,198</td>
<td>¥171,309</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>7,795</td>
<td>8,433</td>
</tr>
<tr>
<td>Actuarial gain (loss)</td>
<td>13,662</td>
<td>(8,987)</td>
</tr>
<tr>
<td>Contributions by the Company...</td>
<td>5,568</td>
<td>5,276</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>(5,113)</td>
<td>(5,752)</td>
</tr>
<tr>
<td>Transfer to defined contribution plans in foreign subsidiary...</td>
<td>(11,503)</td>
<td></td>
</tr>
<tr>
<td>Effect of foreign exchange translation...</td>
<td>5,996</td>
<td>(6,128)</td>
</tr>
<tr>
<td>Other...</td>
<td>(152)</td>
<td>(23)</td>
</tr>
<tr>
<td>Plan assets at March 31</td>
<td>¥191,329</td>
<td>¥184,213</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (millions of yen)</th>
<th>2016 (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefit obligation at April 1</td>
<td>¥2,033</td>
<td>¥2,019</td>
</tr>
<tr>
<td>Retirement benefit expense...</td>
<td>242</td>
<td>205</td>
</tr>
<tr>
<td>Retirement benefit paid...</td>
<td>296</td>
<td>(63)</td>
</tr>
<tr>
<td>Effect of changing from simpler method to standard method...</td>
<td>(1,676)</td>
<td>(88)</td>
</tr>
<tr>
<td>Other...</td>
<td>353</td>
<td>(23)</td>
</tr>
<tr>
<td>Liability for retirement benefits at March 31</td>
<td>¥1,019</td>
<td>¥1,072</td>
</tr>
</tbody>
</table>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2016 for the Company’s and the consolidated subsidiaries’ defined benefit plans:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded retirement benefit obligation</td>
<td>¥181,265</td>
<td>¥165,477</td>
</tr>
<tr>
<td>Plan assets at fair value</td>
<td>(1,701)</td>
<td>(184,213)</td>
</tr>
<tr>
<td>Unfunded retirement benefit obligation</td>
<td>(3,974)</td>
<td>(742)</td>
</tr>
<tr>
<td>Net liability for retirement benefits in the balance sheet</td>
<td>1,892</td>
<td>13,696</td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>38,429</td>
<td>30,645</td>
</tr>
<tr>
<td>Net defined benefit assets</td>
<td>(38,547)</td>
<td>(24,740)</td>
</tr>
<tr>
<td>Net amount...</td>
<td>¥1,892</td>
<td>¥13,696</td>
</tr>
</tbody>
</table>

Liabilities for retirement benefits presented in the consolidated balance sheets included liabilities related to employees, directors and corporate auditors.

The components of retirement benefit expense for the years ended March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost...</td>
<td>¥6,230</td>
<td>¥6,626</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation...</td>
<td>4,713</td>
<td>4,913</td>
</tr>
<tr>
<td>Expected return on plan assets...</td>
<td>(7,786)</td>
<td>(8,433)</td>
</tr>
<tr>
<td>Amortization of actuarial loss...</td>
<td>427</td>
<td>1,185</td>
</tr>
<tr>
<td>Amortization of prior service cost...</td>
<td>(1,587)</td>
<td>(280)</td>
</tr>
<tr>
<td>Retirement benefit expense for consolidated subsidiaries adopting the simplified method...</td>
<td>211</td>
<td>205</td>
</tr>
<tr>
<td>Retirement benefit expense...</td>
<td>2,186</td>
<td>3,723</td>
</tr>
</tbody>
</table>

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior service cost...</td>
<td>¥1,090</td>
<td>¥921</td>
</tr>
<tr>
<td>Actuarial loss...</td>
<td>127,361</td>
<td>127,361</td>
</tr>
<tr>
<td>Total...</td>
<td>¥128,451</td>
<td>¥138,282</td>
</tr>
</tbody>
</table>

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015 (thousands of yen)</th>
<th>2016 (thousands of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrecognized prior service cost...</td>
<td>¥15,212</td>
<td>¥22,816</td>
</tr>
<tr>
<td>Unrecognized actuarial loss...</td>
<td>27,488</td>
<td>243,257</td>
</tr>
<tr>
<td>Total...</td>
<td>¥40,299</td>
<td>¥266,073</td>
</tr>
</tbody>
</table>

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds...</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>Stocks...</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>General accounts...</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Other...</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Total...</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Element</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate...</td>
<td>mainly 1.5%</td>
<td>mainly 4.4%</td>
</tr>
<tr>
<td>Expected rate of return on plan assets...</td>
<td>mainly 4.0%</td>
<td>mainly 4.0%</td>
</tr>
</tbody>
</table>

The contributions to the defined contribution plans by the Company and its consolidated subsidiaries were ¥4,638 million and ¥5,150 million ($45,575 thousand) in the years ended March 31, 2015 and 2016, respectively.
13. Allowance for Doubtful Accounts

The non-current allowance for doubtful accounts primarily represents an allowance recorded upon restatement and consolidation of the Funds as discussed in Note 1 “Summary of significant accounting policies” (a) “Basis of presenting consolidated financial statements.”

The estimated payments for fees to external collaborators of ¥7,211 million and ¥7,211 million (663,814 thousand) were recorded as a non-current receivable and included in non-current other assets on the balance sheets as of March 31, 2015 and 2016, respectively. The Company did not agree to the fees and is seeking collection of the amounts paid; however, collection of such amounts was determined to be doubtful and a full allowance was recorded against the non-current receivable.

14. Stock Option Plans

A summary of information regarding the consolidated subsidiaries’ stock option plans for the years ended March 31, 2015 and 2016 is as follows:

<table>
<thead>
<tr>
<th>Qualified beneficiaries</th>
<th>First series of stock subscription rights</th>
<th>Second series of stock subscription rights</th>
<th>Third series of stock subscription rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 directors</td>
<td>20 executive directors</td>
<td>19 executive directors</td>
<td>18 executive directors</td>
</tr>
<tr>
<td>Class and number of shares for which new subscription rights were offered</td>
<td>Common stock</td>
<td>Common stock</td>
<td>Common stock</td>
</tr>
<tr>
<td>Grant date</td>
<td>August 26, 2013</td>
<td>July 11, 2014</td>
<td>July 13, 2015</td>
</tr>
<tr>
<td>From August 27, 2013</td>
<td>From July 13, 2014</td>
<td>From July 14, 2015</td>
<td></td>
</tr>
<tr>
<td>Exercisable period</td>
<td>To August 26, 2043</td>
<td>To July 11, 2044</td>
<td>To July 13, 2045</td>
</tr>
<tr>
<td>Number of vested stock options:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of March 31, 2015</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Granted</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Vested</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Number of vested stock options:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of March 31, 2015</td>
<td>38,100</td>
<td>40,000</td>
<td>38,700</td>
</tr>
<tr>
<td>Vested</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>For stock options exercised during the year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise price (yen)</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
</tr>
<tr>
<td>Average price of common stock at the date of exercise (yen)</td>
<td>¥4,835</td>
<td>¥—</td>
<td>¥—</td>
</tr>
<tr>
<td>Fair value per share at the grant date:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise price (yen)</td>
<td>¥2,940</td>
<td>¥3,625</td>
<td>¥4,490</td>
</tr>
</tbody>
</table>

15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants’ tax and enterprise tax, which in the aggregate resulted in normal statutory tax rates of approximately 35.6% and 33.1% for the years ended March 31, 2015 and 2016, respectively. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the reconciliation between the statutory tax rates and the Company’s effective tax rates for consolidated financial statement purposes for the years ended March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th>Year</th>
<th>Effective tax rate</th>
<th>Statutory tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>31.0%</td>
<td>35.6%</td>
</tr>
<tr>
<td>2016</td>
<td>31.1%</td>
<td>33.1%</td>
</tr>
</tbody>
</table>

The assumptions used to measure the fair value of stock options granted for the years ended March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Second series of stock subscription rights</th>
<th>Third series of stock subscription rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility (Note 1)</td>
<td>Expected volatility (Note 2)</td>
</tr>
<tr>
<td>Black-Scholes</td>
<td>Black-Scholes</td>
</tr>
<tr>
<td>Option pricing model</td>
<td>Option pricing model</td>
</tr>
<tr>
<td>Expected life (Note 3)</td>
<td>Expected life (Note 3)</td>
</tr>
<tr>
<td>15 years</td>
<td>15 years</td>
</tr>
<tr>
<td>48.81% to 47.44%</td>
<td>47.44% to 45.88%</td>
</tr>
<tr>
<td>Risk-free interest rate (Note 4)</td>
<td>Risk-free interest rate (Note 4)</td>
</tr>
<tr>
<td>0.78% to 0.82%</td>
<td>0.82% to 0.88%</td>
</tr>
</tbody>
</table>

Notes:
1. Expected volatility for Second series of stock subscription rights was estimated based on the stock price data of the Company for 15 years from August 1996 to August 2014.
2. 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 2003 to July 2015.
3. Because of the insufficient data and difficulty in making a reasonable estimate, the expected volatility was determined at the midpoint of the exercise period.
4. Risk-free interest rate represented by the interest rate of Japanese Government Bonds (JGBs) corresponding to the expected life of the options.

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Deferred tax assets</th>
<th>Thousands of yen</th>
<th>Deferred tax liabilities</th>
<th>Thousands of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Investments</td>
<td>¥6,902</td>
<td>Liabilities</td>
<td>¥8,587</td>
</tr>
<tr>
<td></td>
<td>Prepaid expenses</td>
<td>¥5,287</td>
<td></td>
<td>¥61,659</td>
</tr>
<tr>
<td></td>
<td>Accrued bonuses</td>
<td>¥6,033</td>
<td></td>
<td>¥56,097</td>
</tr>
<tr>
<td></td>
<td>Investments in consolidated subsidiaries</td>
<td>¥5,268</td>
<td>¥1,707</td>
<td>¥15,106</td>
</tr>
<tr>
<td></td>
<td>Unrealized intercompany profits</td>
<td>¥6,837</td>
<td>¥3,380</td>
<td>¥38,761</td>
</tr>
<tr>
<td></td>
<td>Depreciation of property, plant and equipment</td>
<td>¥6,438</td>
<td>¥5,297</td>
<td>¥46,876</td>
</tr>
<tr>
<td></td>
<td>Amortization of intangible assets</td>
<td>¥4,134</td>
<td>¥4,710</td>
<td>¥41,681</td>
</tr>
<tr>
<td></td>
<td>Liability for retirement benefit</td>
<td>¥11,738</td>
<td>¥12,739</td>
<td>¥112,912</td>
</tr>
<tr>
<td></td>
<td>Securities</td>
<td>¥7,366</td>
<td></td>
<td>¥40,053</td>
</tr>
<tr>
<td></td>
<td>Loss carryforwards</td>
<td>¥43,327</td>
<td></td>
<td>¥26,710</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>¥38,355</td>
<td></td>
<td>¥33,129</td>
</tr>
<tr>
<td></td>
<td></td>
<td>141,745</td>
<td></td>
<td>293,178</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>118,215</td>
<td></td>
<td>1,028,770</td>
</tr>
<tr>
<td></td>
<td>fair value per share at the grant date:</td>
<td>¥2,940</td>
<td>¥3,625</td>
<td>¥4,490</td>
</tr>
</tbody>
</table>

The assumptions used to measure the fair value of stock options granted for the years ended March 31, 2015 and 2016 were as follows:
16. Net Assets

Under the Japanese Corporate Law (the "Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.


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

<table>
<thead>
<tr>
<th>Class of shares</th>
<th>As of April 1, 2016 (Number of shares)</th>
<th>Increase (Number of shares)</th>
<th>Decrease (Number of shares)</th>
<th>As of March 31, 2016 (Number of shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>342,671,508</td>
<td>431,063</td>
<td>3,173</td>
<td>342,671,508</td>
</tr>
<tr>
<td>Treasury stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes:</td>
<td>Note: The increase in the number of common stock in treasury includes 400 shares through the exercise of stock options.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Share subscription rights
Please refer to Note 14 "Stock option plans."

Dividends paid

There were no dividends paid in the year ended March 31, 2015.

Dividends resolved during the year ended March 31, 2015 that will be effective after March 31, 2015


17. Contingent Liabilities

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted of ¥209 million and ¥123 million ($1,088 thousand) as of March 31, 2015 and 2016, respectively. The Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥49 million and ¥34 million ($301 thousand), respectively, and as guarantors of borrowings from banks to third parties, amounting to ¥3,798 million and ¥5,915 million ($52,345 thousand), respectively, as of March 31, 2015 and 2016.

Concerning the Company’s deferral of recognition of losses on securities investments, etc., the Company has damage claim or lawsuits filed against it mainly by shareholders. A provision for loss on litigation was provided as of March 31, 2016 at an amount considered necessary, however, there is a risk that the outcome may adversely affect the consolidated financial results in the future and an additional provision for loss on litigation may be necessary depending on the progress of the lawsuits and the damage claim.

The provision for loss on litigation amounting to ¥11,000 million and ¥167 million ($5,018 thousand) as of March 31, 2015 and 2016, respectively, which was presented as the current liabilities in the consolidated balance sheets, was provided in connection with the lawsuits which were filed against the Company by the Teachers' Retirement System of the State of Illinois, etc. on June 28, 2012 and California State Teachers' Retirement System, etc. on June 27, 2013.
18. Pledged Assets

The following assets were pledged as collateral for long-term debt, current maturities of long-term debt and short-term borrowings as of March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease receivables and leased investment assets</td>
<td>¥14,781</td>
<td>¥—</td>
<td>¥—</td>
<td>$—</td>
</tr>
<tr>
<td>Other assets</td>
<td>6,599</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>¥21,150</td>
<td>¥—</td>
<td>¥—</td>
<td>$—</td>
</tr>
</tbody>
</table>

The obligations secured by such collateral were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>¥6,089</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>14,781</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>¥21,150</td>
<td>¥—</td>
<td>¥—</td>
<td>$—</td>
</tr>
</tbody>
</table>

19. Selling, General and Administrative Expenses

The following table summarizes the major components of selling, general and administrative expenses for the years ended March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and promotion expenses</td>
<td>¥1,124,680</td>
<td>¥2,301,345</td>
<td>¥2,301,345</td>
<td></td>
</tr>
<tr>
<td>Salaries and allowances</td>
<td>124,863</td>
<td>135,247</td>
<td>1,196,876</td>
<td></td>
</tr>
<tr>
<td>Bonuses</td>
<td>28,073</td>
<td>30,826</td>
<td>272,796</td>
<td></td>
</tr>
<tr>
<td>Retirement benefit expenses</td>
<td>2,100</td>
<td>65,001</td>
<td>65,001</td>
<td></td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>9,421</td>
<td>9,867</td>
<td>87,319</td>
<td></td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>35,697</td>
<td>41,753</td>
<td>369,496</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>29,734</td>
<td>30,550</td>
<td>270,354</td>
<td></td>
</tr>
</tbody>
</table>

The total of research and development expenses included in “Selling, general and administrative expenses” and “Cost of sales” for the years ended March 31, 2015 and 2016 amounted to ¥74,101 million and ¥81,415 million ($720,487 thousand), respectively.

20. Legal Settlement Compensation Received

Concerning the Company’s denial of recognition of losses on securities investments, etc., the Company previously filed lawsuits against 19 former directors, and in the fiscal year ended March 31, 2016, settlement was reached with 13 of the former directors. Accordingly, the Company received legal settlement compensation of ¥72 million ($637 thousand) as monetary settlement in the case which was presented as “Legal settlement compensation received” in the consolidated statement of operations.

21. Impairment Loss on Fixed Assets

The losses on impairment of fixed assets that the Company and its consolidated subsidiaries recorded for the year ended March 31, 2015 were as follows:

<table>
<thead>
<tr>
<th>Use</th>
<th>Type of assets</th>
<th>Location</th>
<th>Milions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idle properties</td>
<td>Buildings and structures</td>
<td>Aomori</td>
<td>¥119</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>¥119</td>
</tr>
</tbody>
</table>

The Company and its consolidated subsidiaries mainly classify their assets for business use into groups based on business segment. However, assets to be disposed of and idle assets are classified as respective independent groups of assets. Carrying amounts of idle properties were written down to their recoverable amounts, owing to substantial decline in the fair market values. The recoverable amounts were estimated by net realizable values of fixed assets which were calculated based on net selling price.

22. Loss on Liquidation of Business

(1) March 31, 2015

Loss on liquidation of business of ¥1,820 million recorded in the consolidated statement of operations for the year ended March 31, 2015 stems mainly from losses incurred due to the withdrawal from the business concerning E-Globaleide Corporation, a consolidated subsidiary.

(2) March 31, 2016

Loss on liquidation of business of ¥189 million ($1,673 thousand) recorded in the consolidated statement of operations for the year ended March 31, 2016 stems from losses incurred due to the withdrawal from the business concerning Olympus Asset Management Limited, a consolidated subsidiary.

23. Business Restructuring Expenses

Business restructuring expenses of ¥1,209 million ($10,699 thousand) for the year ended March 31, 2016 represent expenses incurred in restructuring operations in order to better cope with the shrinking market in which the Imaging Systems Business operates, and other changes in that regard.

24. Loss Related to Securities Litigation

The Company has received claims for compensation for damages from several individual and institutional investors for losses sustained as a result of the Company’s false statements for the purpose of postponing recognition of losses in the Annual Securities Reports, Semi-Annual Securities Reports and Quarterly Securities Reports for the period from the year ended March 31, 2001 through the first quarter of the year ended March 31, 2012. “Loss related to securities litigation” represents losses relating to these claims for compensation for damages.

A breakdown of the losses is as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement charge</td>
<td>¥6,760</td>
<td>¥2,072</td>
<td>¥18,336</td>
<td></td>
</tr>
<tr>
<td>Compensation for damage</td>
<td>¥—</td>
<td>¥—</td>
<td>¥—</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥6,760</td>
<td>¥2,072</td>
<td>¥18,336</td>
<td></td>
</tr>
</tbody>
</table>

Settlement charge and compensation for damage included the amount of settlements paid for some of the claims for damages and damages and interest on delayed payment based on a court judgment.

25. Loss Related to the Investigation under U.S. Anti-Kickback Act and the Related Act

The Company’s U.S. subsidiary, Olympus Corporation of the Americas (“OCA”), had been subject to investigation by the U.S. Department of Justice (“DOJ”) relating to potential issues concerning its medical business over the years 2006 to 2011 under the Anti-Kickback Act and the False Claims Act in the United States. The Company recorded ¥53,866 million as “Loss related to the investigation under U.S. Anti-Kickback Act and the related Act” for the estimated loss based on the current status of the investigation for the year ended March 31, 2015. On February 29, 2016, OCA entered into a Deferred Prosecution Agreement and a Civil Settlement Agreement in that regard with the DOJ. Moreover, beginning in October 2011, OCA had also been subject to investigation by the DOJ relating to alleged violations of the U.S. Foreign Corrupt Practices Act (“FCPA”) concerning the medical business of Olympus Latin America, Inc. (“OLA”), an indirect U.S. subsidiary of Olympus Corporation, and Olympus Optical do Brazil, Ltda. (“OBL”), a Brazilian subsidiary of OLA. On February 29, 2016, OLA and subsidiaries of Olympus Corporation (including OCA) entered into a Deferred Prosecution Agreement with the DOJ in that regard.

The Company recorded ¥168,914 million ($1,669,406 thousand) for “Loss related to the investigation under U.S. Anti-Kickback Act and the related Act” to reflect criminal penalties, civil fines and interest in that regard in light of the agreements for the year ended March 31, 2016.

26. Income Taxes for Prior Periods

With respect to transactions among group companies, the Company recorded estimated amounts of additional payment for corporate tax and other such obligations in “Income taxes for prior periods” for the year ended March 31, 2016 considering the Advanced Pricing Agreement submitted for approval regarding transfer price taxation.
27. Cash and Cash Equivalents

Reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows for the years ended March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>¥209,875</td>
</tr>
<tr>
<td>Less-time deposits with maturities over three months</td>
<td>(86)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥209,893</td>
</tr>
</tbody>
</table>

28. Cash Flow from Sales of Investments in Subsidiaries Resulting in Changes in Scope of Consolidation

Details of assets and liabilities, and the reconciliation between the transaction price and proceeds from E-Globalsea and 3 other companies, which have been excluded from consolidated subsidiaries due to the sale of shares during the year ended March 31, 2015 were as follows:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>¥3,050</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>¥324</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(1,836)</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(120)</td>
</tr>
<tr>
<td>Less on liquidation of business</td>
<td>(1,122)</td>
</tr>
<tr>
<td>Transfer price for business</td>
<td>290</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(36)</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities in subsidiaries, net</td>
<td>¥254</td>
</tr>
</tbody>
</table>

29. Lease Transactions

Finance Lease Transactions (Lessee):

The Company and its consolidated subsidiaries lease certain machinery and equipment under the non-cancelable finance and operating leases. Finance leases that do not transfer ownership to lessees whose contract commenced on or before March 31, 2008 are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases as of or for the years ended March 31, 2015 and 2016 was as follows:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Leased investment assets recognized in the consolidated balance sheets as of March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2016</td>
</tr>
</tbody>
</table>

Lease receivables and leased investment assets:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

For the years ended March 31

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Lease payments and pro forma information

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Equivalent of depreciation expense

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Equivalent of interest expense

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Operating Lease Transactions (Lessee):

Future minimum lease payments under the non-cancelable operating leases subsequent to March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Leased investment assets

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

Other assets:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

For the years ended March 31

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

For the years ended March 31

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>
The following table set forth amounts of lease receivables and leased investment assets to be collected subsequent to March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2015</th>
<th>As of March 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Due within one year</td>
<td>Due after one year through two years</td>
</tr>
<tr>
<td>Lease receivables and leased investment assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease receivables</td>
<td>¥ 6,053</td>
<td>¥ —</td>
</tr>
<tr>
<td>Other assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease receivables</td>
<td>¥ —</td>
<td>¥ 3,713</td>
</tr>
<tr>
<td>Other assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease receivables</td>
<td></td>
<td>¥ 16,998</td>
</tr>
</tbody>
</table>

Operating Lease Transactions (Loss):

Future minimum lease payments under the non-cancelable operating leases having remaining terms in excess of one year were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2015</th>
<th>As of March 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Due within one year</td>
<td>Due after one year through two years</td>
</tr>
<tr>
<td>Lease receivables and leased investment assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease receivables</td>
<td>¥ 70,991</td>
<td>¥ —</td>
</tr>
<tr>
<td>Other assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease receivables</td>
<td>¥ —</td>
<td>¥ 37,055</td>
</tr>
</tbody>
</table>

30. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and corresponding tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
</tr>
<tr>
<td>Net unrealized gains (losses) on available-for-sale securities, net of taxes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥17,086</td>
<td>¥ 2,019</td>
</tr>
<tr>
<td>Reclassification adjustments for gains and losses included in net income</td>
<td>¥ 1,882</td>
<td>(26,664)</td>
</tr>
<tr>
<td>Amount before tax effect</td>
<td>¥17,951</td>
<td>1,990</td>
</tr>
<tr>
<td>Tax effect</td>
<td>(4,063)</td>
<td>(7,496)</td>
</tr>
<tr>
<td>Net unrealized gains (losses) on available-for-sale securities, net of taxes</td>
<td>¥13,888</td>
<td>¥ 1,594</td>
</tr>
<tr>
<td>Net unrealized gains (losses) on hedging derivatives, net of taxes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥ 0</td>
<td>¥ (10)</td>
</tr>
<tr>
<td>Reclassification adjustments for gains and losses included in net income</td>
<td>¥ (7)</td>
<td>¥ 8</td>
</tr>
<tr>
<td>Amount before tax effect</td>
<td>¥ (7)</td>
<td>¥ 8</td>
</tr>
<tr>
<td>Tax effect</td>
<td>¥ —</td>
<td>¥ 8</td>
</tr>
<tr>
<td>Net unrealized gains (losses) on hedging derivatives, net of taxes</td>
<td>¥ (7)</td>
<td>¥ 1</td>
</tr>
<tr>
<td>Foreign currency translation adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥ 28,651</td>
<td>¥24,018</td>
</tr>
<tr>
<td>Reclassification adjustments for gains and losses included in net income</td>
<td>¥ 105</td>
<td>10</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>¥ 28,756</td>
<td>¥24,029</td>
</tr>
<tr>
<td>Retirement benefit liability adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥ 3,234</td>
<td>¥73,039</td>
</tr>
<tr>
<td>Reclassification adjustments for gains and losses included in net income</td>
<td>¥ (1,470)</td>
<td>249</td>
</tr>
<tr>
<td>Amount before tax effect</td>
<td>¥ 1,764</td>
<td>(12,780)</td>
</tr>
<tr>
<td>Tax effect</td>
<td>(919)</td>
<td>38,132</td>
</tr>
<tr>
<td>Retirement benefit liability adjustments</td>
<td>¥ 1,874</td>
<td>¥35,171</td>
</tr>
<tr>
<td>Share of other comprehensive income (loss) of companies accounted for by the equity method:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥ 4</td>
<td>¥ 4</td>
</tr>
<tr>
<td>Share of other comprehensive income (loss) of companies accounted for by the equity method</td>
<td>¥ 4</td>
<td>¥ 4</td>
</tr>
<tr>
<td>Total other comprehensive income (loss)</td>
<td>¥43,971</td>
<td>¥30,708</td>
</tr>
<tr>
<td>Total comprehensive income (loss)</td>
<td>¥43,971</td>
<td>¥30,708</td>
</tr>
</tbody>
</table>

31. Derivative Financial Instruments

The Company and its consolidated subsidiaries use derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Company and its consolidated subsidiaries are forward foreign exchange contracts, currency options, currency swaps and interest rate swaps. Almost all deriva-
tive transactions are used to hedge interest rates and foreign currency positions in connection with their business. Accordingly, market risk in these derivatives is largely offset by opposite movements in the underlying positions. Management assesses derivative transactions and market risks surrounding these transactions according to the Company's policy regarding derivative transactions. Contracts of derivative financial instruments are executed by finance departments of the Company or its subsidiaries.

The Company's and its consolidated subsidiaries' trade payables that are denominated in foreign currencies which meet specific matching criteria and have been hedged by forward foreign exchange contracts are translated at the foreign exchange rate stipulated in the contracts (special hedge accounting for forward foreign exchange contracts).

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential to be paid or received under the swap agreements is accrued and included in interest expense or income (special hedge accounting shortcut method for interest rate swaps).

The counterparties to the derivative financial instruments of the Company and its consolidated subsidiaries are substantial and credit worthy multinational commercial banks or other financial institutions that are recognized market makers. Neither the risks of counterparty non-performance nor the economic consequences of counterparty non-performance associated with these contracts are considered by the Company to be material.
The following table summarizes the underlying notional transaction amounts, fair values and unrealized gain (loss) for outstanding derivative financial instruments by risk category and instrument type as of March 31, 2015 and 2016:

### Derivatives for which the hedge accounting is not applied

<table>
<thead>
<tr>
<th>Instrument Type</th>
<th>Notional Amount (Millions of Yen)</th>
<th>Fair Value (Thousands of U.S. Dollars)</th>
<th>Unrealized Gain (Loss) (Thousands of U.S. Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of March 31, 2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To buy U.S. dollars</td>
<td>¥3,089</td>
<td>¥124</td>
<td>¥124</td>
</tr>
<tr>
<td>To buy other currencies</td>
<td>6,872</td>
<td>(23)</td>
<td>(23)</td>
</tr>
<tr>
<td>To sell U.S. dollars</td>
<td>8,548</td>
<td>(1,345)</td>
<td>(1,345)</td>
</tr>
<tr>
<td>To sell other currencies</td>
<td>9,056</td>
<td>(225)</td>
<td>(225)</td>
</tr>
<tr>
<td>Foreign exchange option contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put option</td>
<td>7,630</td>
<td>206</td>
<td>206</td>
</tr>
<tr>
<td>Forward currency swap contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receive British pounds / pay Euro</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Receive other currencies / pay other currencies</td>
<td>5,491</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

The fair values of foreign exchange option contracts and currency swap contracts are estimated by obtaining quotes from financial institutions. The fair value of forward foreign exchange contracts is estimated based on market prices for contracts with similar terms.

### Derivatives for which the hedge accounting is applied

<table>
<thead>
<tr>
<th>Instrument Type</th>
<th>Notional Amount (Millions of Yen)</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss) (Millions of Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of March 31, 2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange contracts: accounted by special hedge accounting:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To buy U.S. dollars</td>
<td>¥6,398</td>
<td>¥48</td>
<td>¥5,717</td>
</tr>
<tr>
<td>To buy other currencies</td>
<td>7,389</td>
<td>103</td>
<td>65,389</td>
</tr>
<tr>
<td>To sell U.S. dollars</td>
<td>6,142</td>
<td>117</td>
<td>58,719</td>
</tr>
<tr>
<td>To sell other currencies</td>
<td>14,301</td>
<td>(236)</td>
<td>126,558</td>
</tr>
<tr>
<td>Foreign exchange option contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put option</td>
<td>4,803</td>
<td>84</td>
<td>43,088</td>
</tr>
<tr>
<td>Foreign currency swap contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receive British pounds / pay Euro</td>
<td>3,790</td>
<td>(8)</td>
<td>53,540</td>
</tr>
<tr>
<td>Receive other currencies / pay other currencies</td>
<td>6,084</td>
<td>21</td>
<td>53,841</td>
</tr>
</tbody>
</table>

The fair value of forward foreign exchange contracts is estimated based on market prices for contracts with similar terms.

### Notes to the Consolidated Financial Statements

#### Derivatives and Hedging Activities

- **Interest rate swap contracts, accounted for by special hedge accounting shortcut method:**
  - To buy U.S. dollars: ¥6,398
  - To buy other currencies: 7,389
  - To sell U.S. dollars: 6,142
  - To sell other currencies: 14,301

- **Forward foreign exchange contracts:**
  - As of March 31, 2016:
    - To buy U.S. dollars: ¥648
    - To buy other currencies: 7,389
    - To sell U.S. dollars: 6,142
    - To sell other currencies: 14,301

- **Forward currency swap contracts:**
  - Receive British pounds / pay Euro: 3,790
  - Receive other currencies / pay other currencies: 6,084

### Segment Information

#### 1. Overview of reportable segments

- The reportable segments of the Olympus Group are components of the Company whose separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing the performance.

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

- The accounting methods for the reportable business segments are generally the same as the methods described in Note 1 “Summary of significant accounting policies.” Segment profit is based on operating income. Internal sales or transfers among segments are based on actual market prices.

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>For the year ended March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific Solutions</td>
<td>Medical Solutions</td>
</tr>
<tr>
<td>Medical Solutions</td>
<td>¥10,305</td>
</tr>
<tr>
<td>Imaging</td>
<td>¥42,780</td>
</tr>
<tr>
<td>Others</td>
<td>¥11,460</td>
</tr>
<tr>
<td>Total</td>
<td>¥58,545</td>
</tr>
</tbody>
</table>

---

**Notes:**
- 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.
Increase in segment property
Amortization of goodwill
Amortization of goodwill
Increase in segment property
Depreciation and amortization
Assets

5.

North America

6.

Japan

2.

Note:

4. Related information

(a) Sales by destination

Net sales to third parties by countries or areas grouped according to geographic classification for the years ended March 31, 2015 and 2016 are summarized as follows:

<table>
<thead>
<tr>
<th>Country/Area</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>573,650</td>
<td>573,650</td>
</tr>
<tr>
<td>North America</td>
<td>249,916</td>
<td>249,916</td>
</tr>
<tr>
<td>Europe</td>
<td>195,233</td>
<td>195,233</td>
</tr>
<tr>
<td>Asia</td>
<td>139,274</td>
<td>139,274</td>
</tr>
</tbody>
</table>

Net sales to third parties by countries or areas grouped according to geographic classification for the years ended March 31, 2015 and 2016 are summarized as follows:

<table>
<thead>
<tr>
<th>Country/Area</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>1,077,819</td>
<td>1,077,819</td>
</tr>
<tr>
<td>North America</td>
<td>370,970</td>
<td>370,970</td>
</tr>
<tr>
<td>Europe</td>
<td>28,024</td>
<td>28,024</td>
</tr>
<tr>
<td>Asia</td>
<td>20,081</td>
<td>20,081</td>
</tr>
</tbody>
</table>

Note: Each destination is determined by geographic adjacency. North America includes the United States, Canada, Mexico and others. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, South Korea, Australia and other countries. Other areas include Central and South America, Africa and others.

(b) Property, plant and equipment by geographic location

Property, plant and equipment by countries or geographic areas as of March 31, 2015 and 2016 are summarized as follows:

<table>
<thead>
<tr>
<th>Country/Area</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>804,578</td>
<td>804,578</td>
</tr>
<tr>
<td>North America</td>
<td>520</td>
<td>520</td>
</tr>
<tr>
<td>Europe</td>
<td>805,107</td>
<td>805,107</td>
</tr>
<tr>
<td>Asia</td>
<td>3,940</td>
<td>3,940</td>
</tr>
</tbody>
</table>

Note: Each geographic location is determined by geographic adjacency. America includes the United States, Canada, Mexico and others. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, South Korea, Australia and other countries.

(c) Sales by major customer

Sales by major customer for the years ended March 31, 2015 and 2016 have been omitted due to the absence of a customer with sales volume which exceeds 10% of consolidated net sales.

(d) Impairment losses on fixed assets of ¥119 million for the year ended March 31, 2015 was attributed to Corporate as "Adjustments and eliminations."

(e) Outstanding balances of goodwill by reportable segment as of March 31, 2015 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>4,683</td>
<td>—</td>
</tr>
<tr>
<td>Scientific</td>
<td>87,319</td>
<td>87,319</td>
</tr>
<tr>
<td>Imaging</td>
<td>57,179</td>
<td>57,179</td>
</tr>
<tr>
<td>Solutions</td>
<td>725,398</td>
<td>725,398</td>
</tr>
</tbody>
</table>

(f) Amortization of negative goodwill by reportable segment

There was no amortization of negative goodwill for the years ended March 31, 2015 and 2016.

33. Amounts per Share

Net income (loss) per share is computed by dividing income (loss) available to common shareholders by the average number of common shares outstanding for each fiscal year. Diluted income (loss) per share is similar to basic net income (loss) per share except that the average of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. For the year ended March 31, 2016, although there was dilutive potential common shares, diluted net income per share was not presented due to the recording of a net loss.

Net assets per share are computed based on the net assets excluding stock subscription rights and non-controlling interests and the number of shares of common stock outstanding at the year-end.

For the year ended March 31

2015 | 2016 | 2016

Net income (loss):

<table>
<thead>
<tr>
<th>Basis</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>¥25,519</td>
<td>¥182,900</td>
</tr>
<tr>
<td>Diluted</td>
<td>—</td>
<td>1,618</td>
</tr>
</tbody>
</table>

Net assets:

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,038,64</td>
<td>¥1,117,24</td>
<td>¥9,807</td>
</tr>
</tbody>
</table>
The bases for calculation are as follows:

(1) Basic and diluted net income (loss) per share

<table>
<thead>
<tr>
<th>For the years ended March 31</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>Average number of shares for basic net income (loss)</td>
<td>342,058,920</td>
</tr>
<tr>
<td>Average number of shares for diluted net income (loss)</td>
<td>342,235,869</td>
</tr>
</tbody>
</table>

(2) Net assets per share

<table>
<thead>
<tr>
<th>As of March 31</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥392,234,901</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥269,526,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥143,544,900</td>
</tr>
</tbody>
</table>

Net assets attributable to shares of common stock

<table>
<thead>
<tr>
<th>As of March 31</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥355,462</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥382,359</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥3,893,708</td>
</tr>
</tbody>
</table>

34. Related-Party Transactions

(1) Related-party transactions

There were no related-party transactions to be disclosed for the years ended March 31, 2015 and 2016.

(2) Note about significant related party

A summary of financial statements regarding all affiliated companies accounted for by the equity method, including Sony Olympus Medical Solutions Inc., for the year ended March 31, 2015 as follows:

<table>
<thead>
<tr>
<th>Years ended March 31, 2015</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>¥17,766</td>
</tr>
<tr>
<td>Total current assets</td>
<td>3,403</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>15,363</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>3,726</td>
</tr>
<tr>
<td>Total net assets</td>
<td>1,665</td>
</tr>
<tr>
<td>Loss before income taxes</td>
<td>33,893</td>
</tr>
<tr>
<td>Net loss</td>
<td>(4,522)</td>
</tr>
<tr>
<td>Net assets</td>
<td>(5,109)</td>
</tr>
</tbody>
</table>

35. Business Combinations

Transactions under Common Control

On April 1, 2015, the Company succeeded to the medical systems business of its wholly owned subsidiary Olympus Medical Systems Corp. (except for part of the manufacturing functions and part of the functions for responding to the laws and regulations for medical devices in each country) based on an absorption-type company split, and merged its wholly owned subsidiary Olympus Imaging Corp. based on an absorption-type merger. In addition to the above reorganization, the Company also conducted an absorption-type merger with its wholly owned subsidiary Olympus Intellectual Property Services Co., Ltd. These actions were in accordance with resolutions of a Board of Directors’ meeting held on December 19, 2014.

1. Overview of transactions

(1) Absorption-type company split

(i) Name and description of business involved in combination

Name of business: Medical systems business

Description of business: Manufacture and sales of medical endoscopes and other medical devices (except for part of the manufacturing functions and part of the functions for responding to the laws and regulations for medical devices in each country)

Total assets: ¥143,544 million ($1,270,301 thousand)

Liabilities: ¥106,397 million ($941,566 thousand)

Net assets: ¥37,147 million ($328,735 thousand)

6. Date of business combination

April 1, 2015

(2) Absorption-type merger

(i) Name of companies involved in the merger and description of their business

Names of companies

- Olympus Imaging Corp.
  - Description of business: Manufacture and sales of digital cameras and others
  - Total assets: ¥93,298 million ($817,770 thousand)
  - Liabilities: ¥90,485 million ($77,991 thousand)
  - Net assets: ¥2,813 million ($26,779 thousand)

- Olympus Intellectual Property Services Co., Ltd.
  - Description of business: Research, analysis and management related to intellectual property rights
  - Total assets: ¥269 million ($2,381 thousand)
  - Liabilities: ¥156 million ($1,381 thousand)
  - Net assets: ¥113 million ($1,000 thousand)

6. Date of business combination

April 1, 2015

(3) Description of transaction including purpose of the transaction

The Company sought to promote its “Medium-Term Vision,” further advance One Olympus to achieve further growth under its next medium- and long-term management plan, and achieve optimal allocation and maximum utilization of Companywide management resources. To these ends, the Company reviewed its business unit structure and other aspects in the Medical Business and the Imaging Business, and consequently conducted reorganization between itself and two companies: namely, the medical systems business unit, Olympus Medical Systems Corp., and the imaging business unit, Olympus Imaging Corp. Moreover, in addition to the above reorganization, the Company also took steps to streamline the Group’s intellectual property operations, and strengthen their functions, by conducting an absorption-type merger with its wholly owned subsidiary Olympus Intellectual Property Services Co., Ltd. at the same time.

2. Outline of accounting treatment applied

These transactions were treated as transactions under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Business Diversities” (ASBJ Guidance No. 10, September 13, 2013).
36. Subsequent Event

Granting of Share-Based Compensation Stock Options

The Company made a resolution at its Board of Directors’ meeting held on June 28, 2016 to allot stock acquisition rights (The fourth series of stock acquisition rights of Olympus Corporation) as share-based compensation stock options to Directors (excluding Outside Directors) and Executive Officers for the purpose of incentivizing them to work for medium-to-long-term performance improvement and corporate value enhancement.

(1) Date of rights granted
July 13, 2016

(2) Number of stock acquisition rights to be issued
Directors (excluding Outside Directors) 124
Executive Officers 271
Total 395

(3) Class and number of shares to be issued upon exercise of stock acquisition rights
39,500 shares of common stock of the Company

(4) Qualified beneficiaries
24 in total (5 Directors and 19 Executive Officers of the Company)

(5) Exercisable period of the stock acquisition rights
From July 14, 2016 to July 13, 2046

(6) Proceeds upon exercise of stock acquisition rights
The amount is determined by multiplying the exercise price of ¥1 per share by the number of shares granted.

(7) Method to calculate amount to be paid in for stock acquisition rights granted
The amount to be paid in shall be determined by the Board of Directors of the Company based on the fair value calculated using the Black-Scholes model as of the date of stock acquisition rights granted. The said amount shall be offset against the remuneration claims with the same amount of each Director and Executive Officer.

(8) Amount to increase common stock upon exercise of stock acquisition rights
The amount of the increase in common stock in the case that shares are issued due to the exercise of the stock acquisition rights shall be determined by multiplying the maximum increase in common stock, etc., calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Accounting of Companies by 0.5. If any fractional amounts less than ¥1 arise as a result of this calculation, the said amounts will be rounded up to the nearest yen.

The amount of the increase in legal capital surplus in the case that shares are issued due to the exercise of offered stock acquisition rights shall be determined by deducting the increase in common stock stipulated above from the maximum increase in common stock, etc.
Olympus Group Companies

As of June 30, 2016

Total number of companies: 122 (Head office, 118 subsidiaries, and 3 affiliates)

Principal Business Bases

Head Office, Consolidated Subsidiaries, and Affiliated Companies

Domestic

Olympus Corporation
(Shinjuku)
Manufacturing and sales of precision machinery and instruments

Olympus Medical Systems Corp.
(Tokyo)
Some management of medical products

Olympus Medical Science Sales Corp.
(Tokyo)
Manufacturers of medical equipment

Nagano Olympus Co., Ltd.
(Nagano)
Development and manufacture of medical and industrial endoscopes

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

TmedX Corporation
(Tokyo)
Offering of procedure-based financial programs

Olympus Software Technology Corp.
(Tokyo)
Development of software for Olympus products

Olympus Digital System Design Corp.
(Tokyo)
Research and development of sophisticated digital system design technology

Olympus Terumo Biomaterials Corp.
(Tokyo)
Research and development and manufacture and sales in the biomaterials field

Olympus Memory Works Corp.
(Tokyo)
Planning, production, and sales of network-related products and services

Olympus Logix Co., Ltd.
(Kanagawa, Yokohama)
Distribution center

Olympus-Supportmate Corp.
(Tokyo)
Provision of cleaning services

AVS Co., Ltd.
(Tokyo)
Domestic and international sales of medical devices for human and veterinary use

Olympus Systems Co., Ltd.
(Tokyo)
Information system services
Consulting for textile and apparel industries

Sony Olympus Medical Solutions Inc.
(Tokyo)
Development of medical products

(4 others)

Overseas

Olympus Corporation of the Americas
(Pennsylvania, U.S.A.)
Regional business center in the U.S., Canada, and Latin America

Olympus America Inc.
(Pennsylvania, U.S.A.)
Head office operations in the U.S.

Olympus Latin America, Inc.
(Florida, U.S.A.)
Sales and service of medical endoscopes and microscopes in Latin America

Gyrus ACM, 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.
(Ottawa, 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 & B 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.
(Irsway, U.K.)
Sales of all product lines, and development and manufacture of endoscopes and related equipment

Olympus France S.A.S.
(Francy Cedex, France)
Sales of all product lines in France

Olympus Moscow Limited
(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)
Marketing of imaging and medical products

Olympus Hong Kong and China Limited
(Hong Kong)
Regional business center in Asia and Oceania

Olympus Korea Co., Ltd.
(Gyeonggi-do, Korea)
Sales of medical endoscope related products

Olympus Medical Systems Vietnam Co., Ltd.
(Ho Chi Minh City, Vietnam)
Sales of medical endoscope related products

Olympus Medical Systems India Private Limited
(Mumbai, India)
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, and the Pacific region

Olympus Imaging Australia Pty Ltd
(New South Wales, Australia)
Sales and service of imaging products in Australia, New Zealand, Papua New Guinea, Tahiti, and the South Pacific region

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

Olympus (Malaysia) Sdn. Bhd.
(Petaling Jaya, Malaysia)
Sales of imaging products in Malaysia

Olympus (Thailand) Co., Ltd.
(Bangkok, Thailand)
Marketing, sales, and service of all product lines in Thailand

Olympus Vietnam Co., Ltd.
(Ho Chi Minh City, Vietnam)
Sales of medical endoscopes and imaging products

Olympus Medical Systems of China Co., Ltd.
(Shanghai, China)
Sales of all product lines in China

Olympus Trading (Shanghai) Limited
(Shanghai, China)
International trading, distribution center in China, and after-sales service of medical equipment

Olympus Korea Co., Ltd.
(Gyeonggi-do, 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

(10 others)
Corporate Information

Company Outline
(As of March 31, 2016)

Company Name: Olympus Corporation
Established: October 12, 1919
President and Representative Director: Hiroyuki Sasa
Head Office: Shinjuku Monolith, 3-1 Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-0914, Japan
Capital: ¥124,520 million
Consolidated Headcount: 33,336 (Excludes temporary employees, average of 1,257 for fiscal 2016)
Non-Consolidated Headcount: 6,492
Website: http://www.olympus-global.com/en/

Board of Directors, Audit & Supervisory Board Members, and Executive Officers
(As of July 1, 2016)

Representative Director
Hiroyuki Sasa

Directors
Yasuhiro Takeuchi
Akihiro Taguchi
Haruo Ogawa
Kiichi Hirata
Nobuhiro Abe
Sumitaka Fujita
Keiko Unotoro
Takahayaki Katayama
Susumu Kaminaga
Michijiro Kikawa
Standing Audit & Supervisory Board Members
Takashi Saito
Masashi Shimizu
Outside Directors
Shiro Hiruta
Sumita Fujita
Keiko Unotoro
Takahayaki Katayama
Susumu Kaminaga
Michijiro Kikawa
Outside Audit & Supervisory Board Members
Katsuya Natori
Atsushi Iwasaki

Executive Officers
Hiroki Kawai:
Representative Director and President, Olympus Software Technology Corporation
Naohiko Kawaiwata:
Division Manager, Solution Technology Division, Manufacturing Group
Division Manager, Procurement Division
Hiroshige Kurita:
Division Manager, Corporate Service Division
Hisa Wasabu:
Medical Manufacturing Improvement Division Manager
Masahiro Honda:
Head of Imaging Business Unit
Ken Yoshimasa:
Head of Quality and Regulatory Group
Masahiro Kitamura:
Division Manager, CIO Division, Medical Affairs & CSR Office
Tetsuya Kobayashi:
Deputy Chief Representative Officer, Americas
Tomohiko Okubo:
Head of Scientific Solutions Business Unit, Division Manager, Scientific Solutions Global Marketing, Sales & Marketing Group
Mitsuo Hirose:
Assistant to Division Manager, Human Resources Division
Yoshifumi Shimizu:
Head of Medical Service Business Unit
Katsuhiko Inadomi:
Division Manager, Imaging Business Unit
Toshihiko Okubo:
Head of Scientific Solutions Business Unit
Toshihiko Okubo:
Head of Scientific Solutions Business Unit
Takahiro Hirata:
Head of Gastrointestinal and Respiratory Business Unit

Stock Information
(As of March 31, 2016)

Securities Identification Code: 7733
Stock Exchange Listing: Tokyo Stock Exchange
Fiscal Year: From April 1 to March 31
General Meeting of Shareholders: June
Share Trading Unit: 100
Number of Shares Issued: 342,671,508
Number of Shareholders: 25,651
Transfer Agent for Common Stock: Sumitomo Mitsui Trust Bank, Limited
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

Depositary and Transfer Agent for American Depositary Receipts:
The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: +1-201-680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
http://www.adrbnymellon.com

Principal Shareholders

Note: The percentage of shares outstanding is calculated after deducting treasury stock (436,607 shares).

- The Master Trust Bank of Japan, Ltd. (trust accounts) 19,980,100 5.84
- Sony Corporation 17,243,950 5.04
- Japan Trustee Services Bank, Ltd. (trust accounts) 16,399,000 4.78
- State Street Bank and Trust Company 14,422,150 4.21
- Nippon Life Insurance Company 13,286,618 3.88
- The Bank of Tokyo Mitsubishi UFJ, Ltd. 13,286,586 3.88
- Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company Retrust Portion, Sumitomo Mitsui Banking Corporation Pension Trust) 11,404,000 3.33
- Sumitomo Mitsui Banking Corporation 8,350,648 2.44
- JP Morgan Chase Bank 7,954,700 2.24
- GIC PRIVATE LIMITED 6,522,439 1.89

Ratio (ADR:ORD): 1:1
Exchange: OTC (Over-the-Counter)
Symbol: OCPNY
CUSIP: 68163W109

Number of Shareholders (As of March 31, 2016)

<table>
<thead>
<tr>
<th>Number of Shares Held</th>
<th>Percentage of Shares Outstanding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,980,100</td>
<td>5.84</td>
</tr>
<tr>
<td>17,243,950</td>
<td>5.04</td>
</tr>
<tr>
<td>16,399,000</td>
<td>4.78</td>
</tr>
<tr>
<td>14,422,150</td>
<td>4.21</td>
</tr>
<tr>
<td>13,286,618</td>
<td>3.88</td>
</tr>
<tr>
<td>13,286,586</td>
<td>3.88</td>
</tr>
<tr>
<td>11,404,000</td>
<td>3.33</td>
</tr>
<tr>
<td>8,350,648</td>
<td>2.44</td>
</tr>
<tr>
<td>7,954,700</td>
<td>2.24</td>
</tr>
<tr>
<td>6,522,439</td>
<td>1.89</td>
</tr>
</tbody>
</table>

Average Number of Shares Issued (As of March 31, 2016):

- 342,671,508

Japanese financial institutions: 38.78%
Japanese securities firms: 1.85%
Other Japanese corporations: 10.94%
Foreign institutions and individuals: 43.47%
Japanese individuals and others: 4.70%
Repos: 0.13%