

Olympus Group Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2014

Hiroyuki Sasa
President and Representative Director
Olympus Corporation

November 8, 2013

2Q Highlights

[Operating Environment]

- **Global economy:** Gentle recovery trend evident, but conditions unclear in Europe, amid sovereign debt crisis, as well as in China and other emerging markets
- **Japanese economy:** Perception of economic improvement due to yen depreciation and full-fledged recovery expected going forward

I. Consolidated Results: Substantially higher operating income driven by strong performance in Medical Business

II. Medical Business: Steady progress in implementation of strategies of medium-term vision (corporate strategic plan)

III. Imaging Business: Accelerated shift to mirrorless cameras

IV. Financial position: Significant improvement in equity ratio

I. Consolidated Financial Results for the 2Q of Fiscal 2014

- ◆ Consolidated results supported by strong performance in Medical Business, and operating income up YOY and higher than forecast
- ◆ Provision for loss on litigation of ¥17 billion recorded as extraordinary loss in consideration of lawsuit proceedings

(Billions of yen)	Fiscal 2013 2Q (Apr-Sept)	Fiscal 2014 2Q (Apr-Sept) (Forecast as of Aug. 2013)	Fiscal 2014 2Q (Apr-Sept)	YoY	Compared to forecast
Net sales	405.8	335.0	333.8	-18%	0%
Operating income (% of sales)	18.0 (4.4%)	27.0 (8.1%)	28.5 (8.5%)	+58%	+6%
Ordinary income	7.4	17.5	17.0	+129%	-3%
Net income	8.0	10.0	-7.9	—	—

II. Medical: Steady Progress in Implementation of Strategies of Medium-term Vision

- ◆ Achieved record-breaking 1st half net sales owing to introduction of new, flagship products
- ◆ Actively invested and operated in growth fields to achieve goals of medium-term vision

Expand sales in emerging markets

- ✓ Established training center in Guangzhou, 4th base in China, in conjunction with medical operations growth in China, and strengthen service systems by jointly establishing major repair center

Realize rapid growth in surgical field

- ✓ Strengthen marketing and sales systems centered on developed nations to further growth in surgical and endotherapy field
- ✓ Introduced new energy device THUNDERBEAT into Japan ahead of schedule in October (already introduced into Europe and Americas), and strengthen related sales systems in Japan to respond to high market evaluation



(Facade of Guangzhou Training Center)

III. Imaging Business:

Accelerated Shift to Mirrorless Cameras

Factors Preventing Accomplishment of Forecasts in 1st Half

Operating loss recorded due to failure to accomplish sales targets and yen depreciation

[Income / Loss in 1st Half]

(Billions of yen)	FY2013 1H (Results)	FY2014 1H (Forecast)	FY2014 1H (Results)	Change (Compared to forecast)
Net sales	55.9	53.0	47.0	-6.0
Compact camera	30.9	25.0	22.7	-2.3
SLR(mirrorless)	18.8	21.5	18.2	-3.3
Others(IC recorder)	6.2	6.5	6.2	-0.3
Gross margin	22.5	22.0	22.1	+0.1
SG&A expenses	27.0	22.0	24.8	+2.8
Operating income/loss	-4.4	0	-2.7	-2.7

[Compact]

Sales volumes in line with forecasts, but failed to meet sales targets due to unexpected degree of drops in selling prices

[Mirrorless]

- Introduction of new PEN series products delayed
- Shift in sales system toward mirrorless partially delayed until the 2nd half

Gross profit increased due to efforts to reduce cost of sales

SG&A expenses increased due to impacts of yen depreciation, but cost-cutting measures advanced as planned

i. Minimize risks in compact camera operations

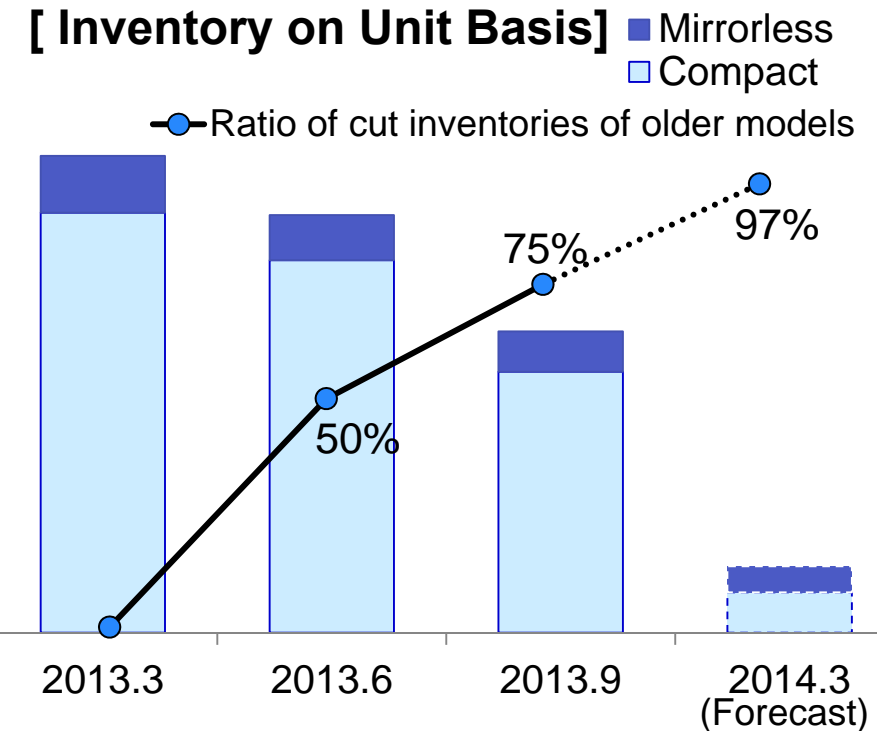
- ✓ Ceased development of low-priced compact cameras
- ✓ Substantially reduced number of new fall 2013 model compact cameras

ii. Focus resources on high-margin mirrorless cameras

- ✓ Concentrated manufacturing and development resources on mirrorless cameras
- ✓ Shifted marketing and sales activities toward mirrorless cameras

iii. Improve responsiveness to market changes

- ✓ Reduced inventories more than planned through strengthened monitoring (cut inventories of older products by 75%)
- ✓ Reduced compact camera inventory by 40% from March 31, 2013, on unit basis



Progress of Restructuring the Business (2)

Construct cost structure appropriate for business scale

◆ Reorganize manufacturing systems:

Completed consolidation of 5 sites into 2 (Shenzhen and Vietnam)

◆ Staff reductions:

Reduced staff* by 30% from March 31, 2012, focused on manufacturing, development, and sales

◆ Reorganize sales systems:

Advanced integration of overseas sales systems centered on Europe and Americas

✓ Europe: Completed consolidation of approx. 20 sites into 7

✓ Americas: Made the shift from direct sales to agency in Latin America

◆ Reductions in costs:



Achieved approx. 50% of full fiscal year's total cost reduction target of ¥23 billion in manufacturing costs and SG&A expenses during 1st half

*Including part-timer

Accelerated Shift to Mirrorless Cameras (1)

OM-D E-M1—New Product Highly Evaluated Worldwide

◆ Received highest score for a digital camera in major German photography magazine “fotoMAGAZIN”*

Ranking					Score Total	Resolution	Speed	Function-ality	Operability
#1	OLYMPUS		Olympus OM-D E-M1	Mirror less Micro Four Thirds	91% ★★★★★	87%	94%	100%	85%
#2	Company A			SLR Full size	89% ★★★★★★	87%	91%	90%	90%
#3	OLYMPUS		Olympus OM-D E-M5	Mirror less Micro Four Thirds	87% ★★★★★★	86%	82%	94%	80%

*Olympus’ OM-D E-M1 was the only product to receive a total score of more than 90% among all cameras on the market, including full-sized cameras from other manufacturers. (Source: “fotoMAGAZIN, November”)

[High Evaluations from Other Countries]

- ◆ **Presented Gold Award** by major digital camera reviewer “DP Review”
- ◆ Named “Best Camera of the Year” and “Best High-End Mirrorless Camera” for fiscal 2013 by major U.S. reviewer “Reviewed.Com”
- ◆ **Awarded five stars** with high praise for resolution and performance by French specialty magazine “Chasseur d’Images”
- ◆ **Received “Editors Choice Award”** from The Straits Times, Singapore’s largest English-language newspaper

Accelerated Shift to Mirrorless Cameras (2)

- ◆ Develop business structure centered on mirrorless cameras, and transition to earnings structures capable of generating a profit
- ◆ Continue strengthening monitoring to better manage progress in implementing initiatives

[Forecast of 2nd Half]

(Billions of yen)	FY2013 2H (Results)	FY2014 2H (Forecast)	YoY Change
Net sales	51.7	57.0	+5.3
Compact camera	26.3	15.9	-10.4
SLR (mirrorless)	19.0	33.9	+14.9
Others(IC recorder)	6.3	7.2	+0.9
Gross margin	10.1	22.6	+12.5
SG&A expenses	28.7	24.8	-3.9
Operating income/loss	-18.6	-2.3	+16.3

[Compact]

Sales volumes down 50% on unit basis
(Substantial contraction of compact camera business)

[Mirrorless]

- New product in OM-D series (E-M1) highly praised in growing mirrorless camera market and to contribute to sales growth
- Further expansion of OM-D series system planned for 2H
- 2H sales volume target: 410,000 units (+41% YOY)

Gross profit to increase due to efforts to reduce cost of sales
(Ratio of mirrorless to net sales: 37% → 58%)

Rise in SG&A expenses due to yen depreciation to be absorbed by cost-cutting measures

Transition to earnings structures capable of generating a profit by shifting to mirrorless cameras



Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2014 and the Full-year Forecast

Yasuo Takeuchi

**Director, Senior Executive Managing Officer
Group President of Group Management Office
Olympus Corporation**

November 8, 2014

(1) Consolidated Financial Results and Overview by Segment for 2Q of the FY2014

2Q of FY2014 (YoY) - (1)Consolidated Financial Results

(Billions of yen)	FY2013 1H (Apr-Sep)	FY2014 1H (Apr-Sep)	YoY Change	YoY (%)	FY2013 2Q (Jul-Sep)	FY2014 2Q (Jul-Sep)	YoY (%)
Net sales	405.8	333.8	-71.9	-18%	216.2	174.6	-19%
SG&A expenses (% to sales)	169.4 (41.8%)	176.4 (52.9%)	+7.0 (+ 11.1pt)	+4%	84.9 (39.2%)	90.4 (51.8%)	+7%
Operating income (% to sales)	18.0 (4.4%)	28.5 (8.5%)	+10.5 (+ 4.1pt)	+58%	15.9 (7.4%)	20.3 (11.6%)	+28%
Ordinary income (% to sales)	7.4 (1.8%)	17.0 (5.1%)	+9.6 (+ 3.3pt)	+129%	7.6 (3.5%)	14.6 (8.3%)	+91%
Net income (% to sales)	8.0 (2.0%)	-7.9 (-)	-16.0 (-)	-	12.5 (5.8%)	-6.1 (-)	-
[Foreign exchange rates and impact]							
¥/US\$	¥79	¥99	¥19(yen depreciation)				
¥/Euro	¥101	¥130	¥29(yen depreciation)				
Impact on net sales	-	+¥51.4 bil.					
Impact on Op. income	-	+¥10.2 bil.					

1st Half Key Points

- ✓ Achieved record-breaking 1st half net sales and operating income in Medical Business, which supported consolidated results with strong performance
- ✓ Extraordinary loss: ¥17 billion in provision for loss on litigation

2Q of FY2014 (YoY) - (2) Results by Business Segment

(Billions of yen)		FY2013 1H (Apr-Sep)	FY2014 1H (Apr-Sep)	YoY Change	YoY change (%)
Medical	Net sales	176.2	229.8	+53.6	+30%
	Op. income	37.4	49.2	+11.9	+32%
Life Science & Industrial	Net sales	38.1	44.0	+5.9	+15%
	Op. income	1.1	0.5	-0.5	-50%
Imaging	Net sales	55.9	47.0	-8.9	-16%
	Op. income	-4.4	-2.7	+1.7	-
Information & Communication	Net sales	114.2	-	-114.2	-
	Op. income	1.7	-	-1.7	-
Others	Net sales	21.3	13.0	-8.3	-39%
	Op. income	-3.6	-2.8	+0.8	-
Elimination and corporate	Net sales	-	-	-	-
	Op. income	-14.1	-15.7	-1.7	-
Consolidated Total	Net sales	405.8	333.8	-71.9	-18%
	Op. income	18.0	28.5	10.5	+58%

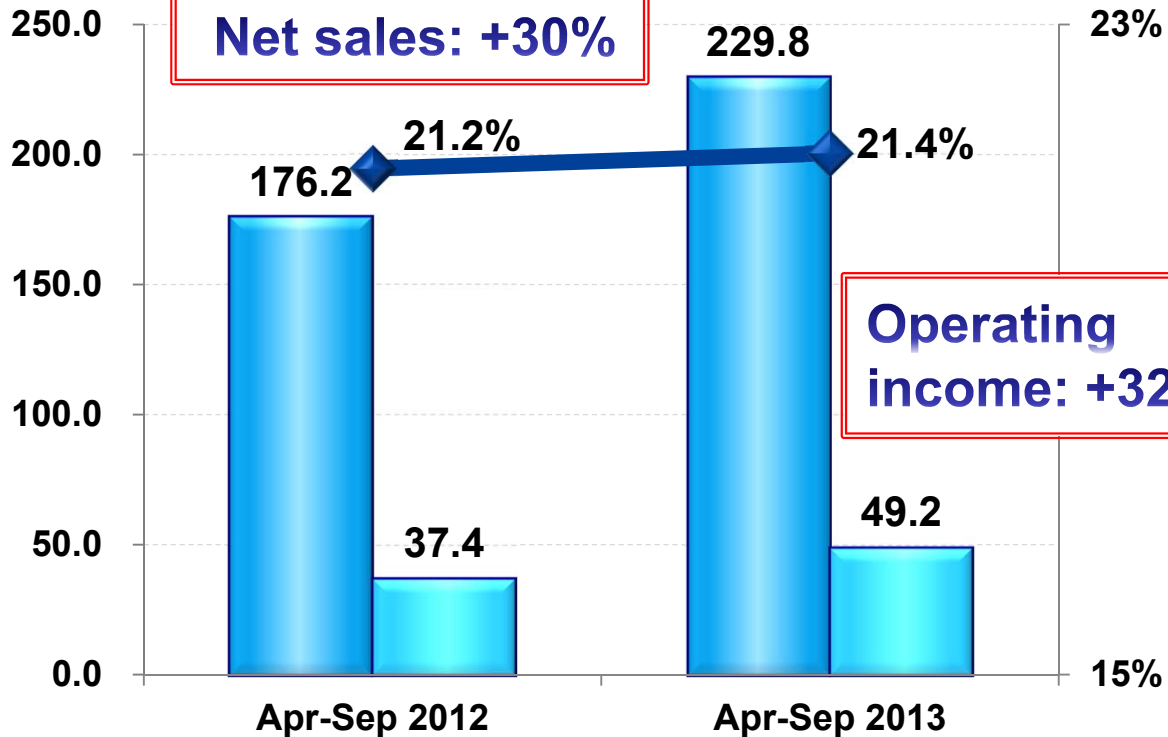
2Q of FY2014 (YoY) - (3) Medical Business

- ◆ Posted record-breaking 1st half net sales and operating income, with new products performing favorably
- ◆ Strategic investment accelerated to achieve goals of medium-term vision, but high profit margins maintained due to contributions from increased sales in highly profitable endoscope field

1H (Apr-Sep)

Net sales Operating income Operating margin

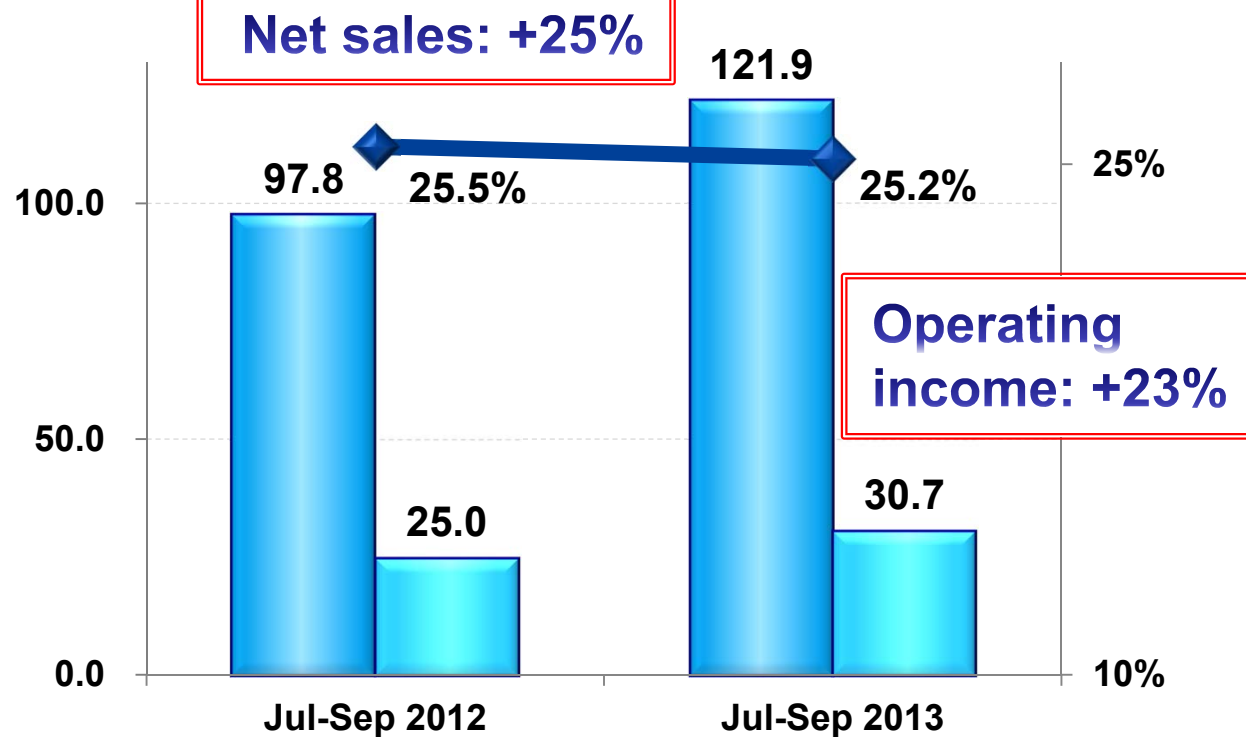
(Billions of yen)



2Q (Jul-Sep)

Net sales Operating income Operating margin

(Billions of yen)



2Q of FY2014 (YoY) - (4) Life Science & Industrial Business

- ◆ Sales up due to recovering domestic demand and benefits of new product sales
- ◆ Operating income down due to investments in sales promotion to fuel future sales growth

1H (Apr-Sep)

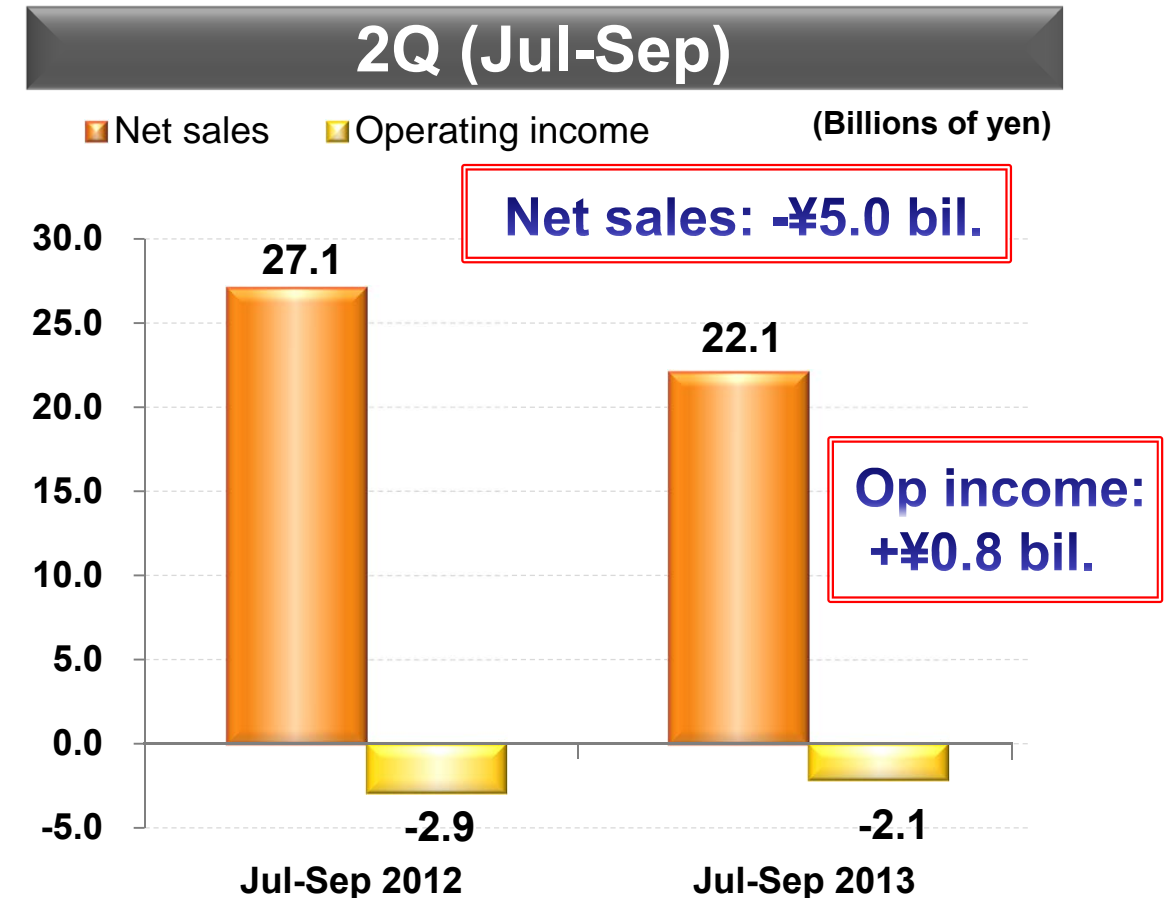
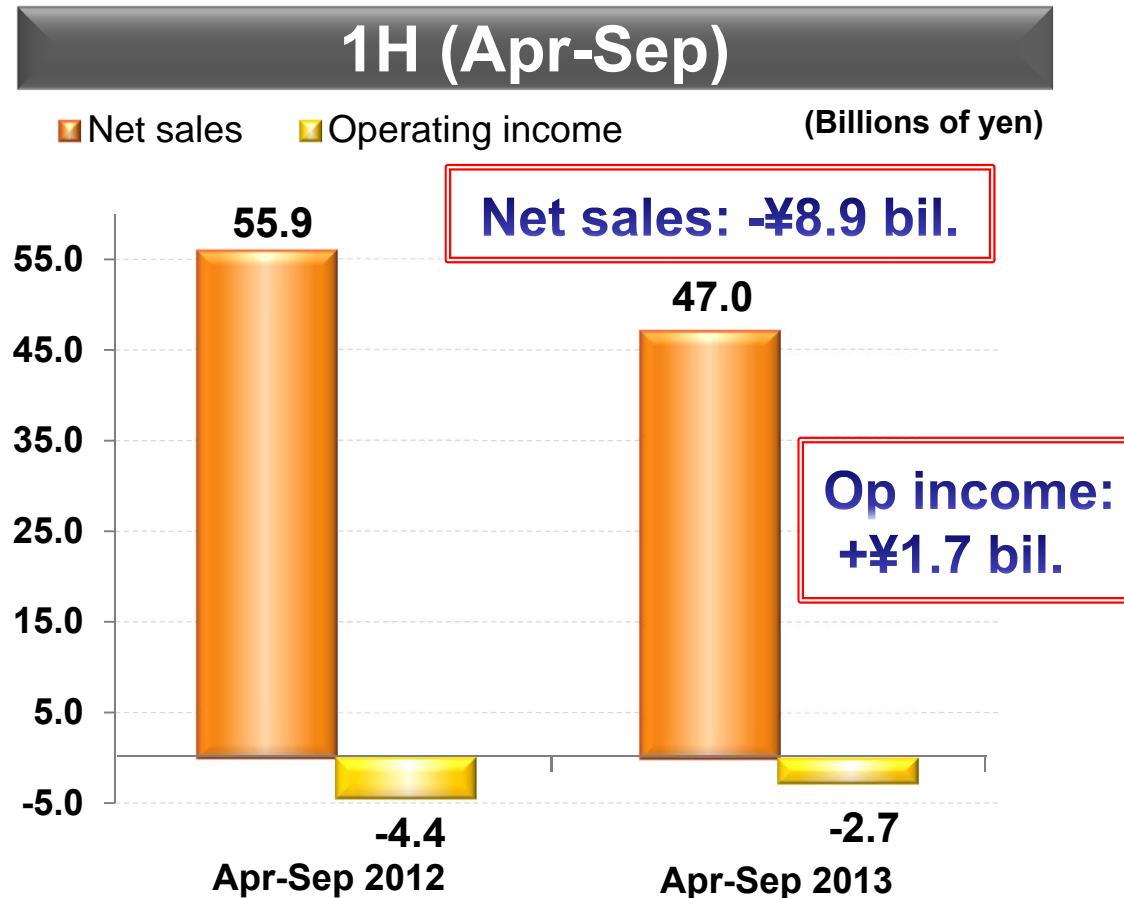


2Q (Jul-Sep)



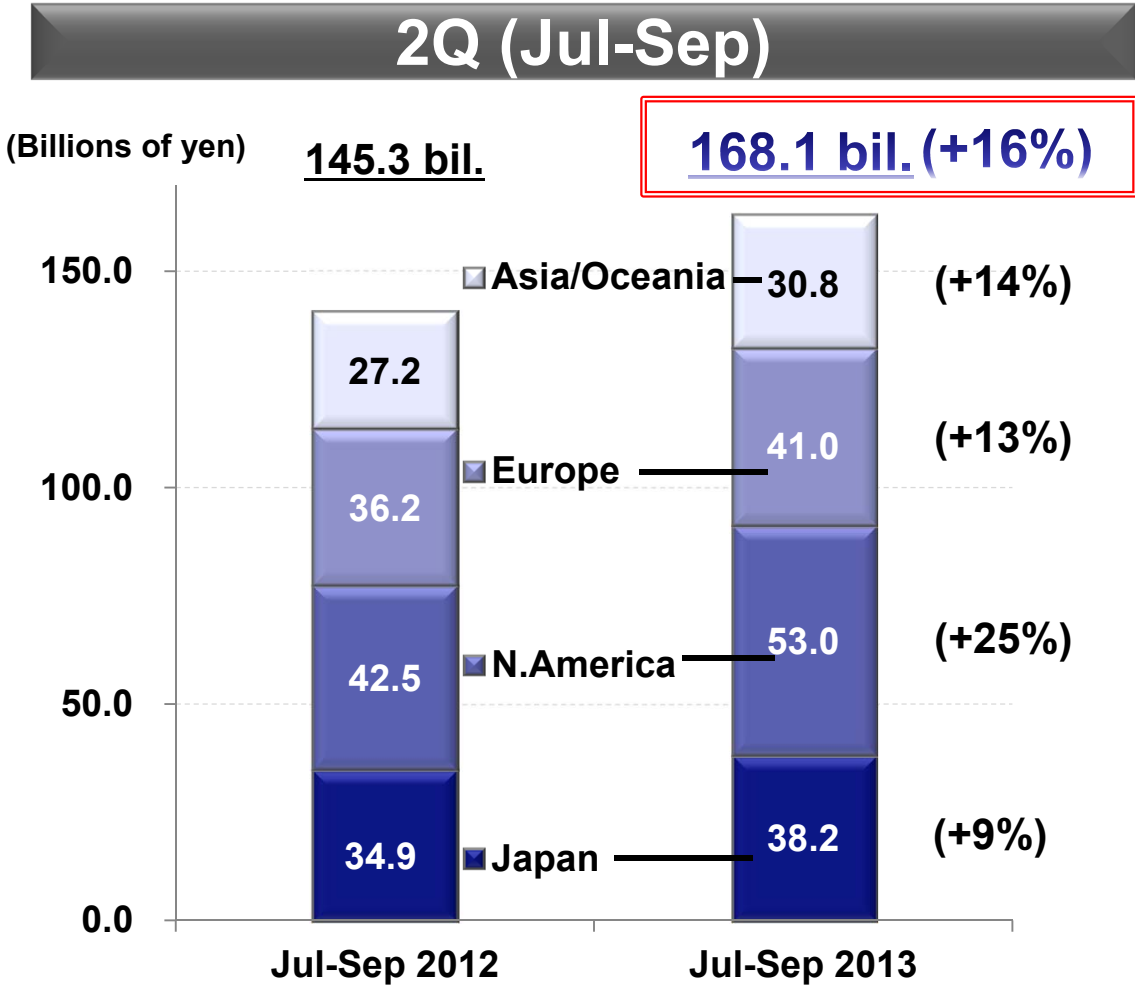
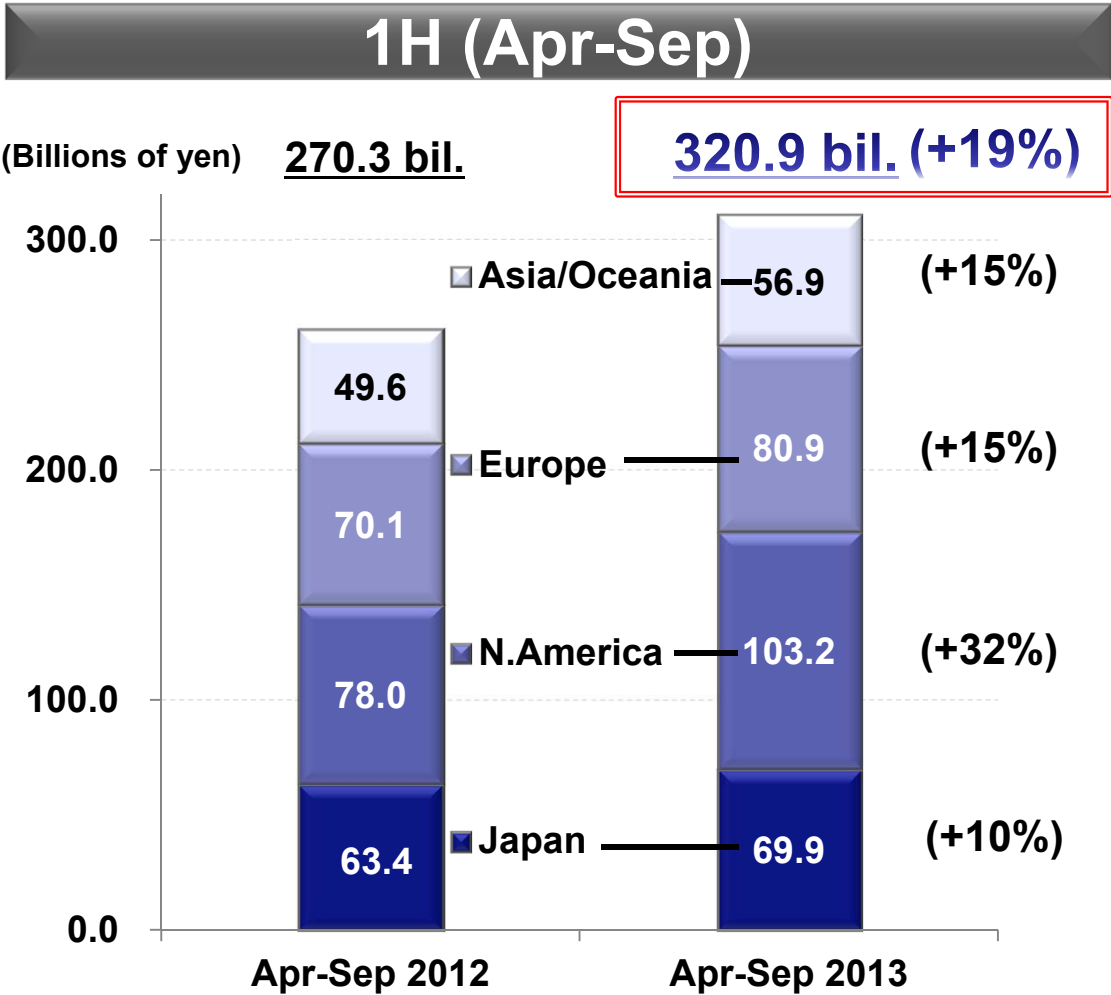
2Q of FY2014 (YoY) - (5) Imaging Business

- ◆ Sales down due to lower sales volumes of mirrorless cameras and compact cameras
- ◆ Operating loss improvements realized through cost reductions, but operating loss recorded due to lower net sales and increased expenses as result of foreign exchange rates (yen depreciation)



2Q of 2014 (YoY) - (6) Net Sales by Region (Core Three Businesses)

◆ Sales up in all regions due to substantial contributions from strong performance of Medical
(Growth of the Medical during Jul-Sep: Japan +21%, N.America +42%, Europe +25%, Asia/Oceania +30%)



2Q of FY2014 (Comparison with Previous Forecast)

- (7) Factors behind Operating Income Changes

- ✓ **Medical (+¥3.2 billion)** : Operating income higher than forecast due to strong performance of new, high-margin products and benefits of foreign exchange rates
- ✓ **Life Science & Industrial (–¥1.0 billion)** : Operating income lower than forecast because unfavorable macroeconomic conditions in Europe and Americas resulted in failure to meet sales targets
- ✓ **Imaging (–¥2.7 billion)** : Despite cost-cutting efforts, operating income lower than forecast due to reduced net sales (drop in compact camera selling prices and failure to meet mirrorless camera sales targets) and negative impacts of foreign exchange rates

Previous forecast
(announced in Aug. 2013)

Medical

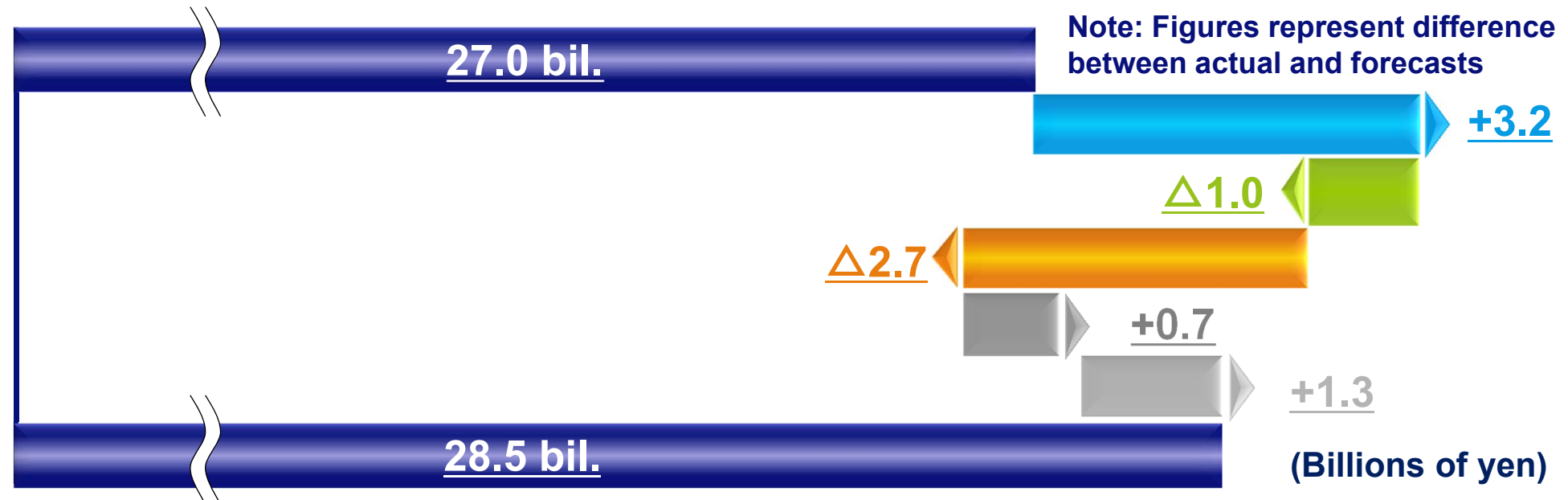
Life Science & Industrial

Imaging

Others

Elimination and corporate

Actual results
(announced in Sept. 2013)



Balance Sheet (End of September 2013)

- ✓ Reduction of approx. ¥130 billion in interest-bearing debt (from March 2013) and increase in capital of approx. ¥110 billion resulted in 13pt improvement in equity ratio (from March 2013), to roughly 30%

(Billions of yen)	End Mar 2013	End Sept 2013	Change		End Mar 2013	End Sept 2013	Change
Current assets (Digital camera inventories)	541.0 (23.6)	536.6 (24.5)	-4.4 (+0.9)	Current liabilities	316.9	260.0	-56.8
Property, plant and equipment	129.8	133.9	+4.1	Non-current liabilities (Incl. bonds/ long-term loans payable)	491.5 (422.9)	430.1 (355.8)	-61.4 (-67.0)
Intangible assets	174.6	172.5	-2.1	Net assets	151.9	280.6	+128.7
Investments and other assets	114.8	127.7	+12.9	(Equity ratio)	(15.5%)	(28.7%)	(+13.2pt)
Total assets	960.2	970.8	+10.5	Total liabilities and net assets	960.2	970.8	+10.5

Interest-bearing debt: ¥430.0 billion (-¥130.4 billion from March 2013)
Net interest-bearing debt: ¥196.9 billion (-¥133.9 billion from March 2013)

Cash Flows (April – September)

(Billions of yen)		FY2013 2Q (Apr-Sept)	FY2014 2Q (Apr-Sept)	Change
Net sales		405.8	333.8	-71.9
Operating income		18.0	28.5	+10.5
(%)		4.4	8.5	4.1pt
	CF from operating activities	6.5	29.4	+22.9
	CF from investing activities	37.3	-10.7	-48.0
	CF from financing activities	-52.1	-21.9	+30.2
Cash flow		-8.4	-3.2	+5.2
Free cash flow		43.7	18.7	-25.0
Cash and cash equivalents at end of year		186.0	229.0	+43.0

Depreciation and amortization	15.7	16.9	+1.2
Amortizaion of goodwill	5.4	4.7	-0.8
Capital expenditures	14.6	17.2	+2.6

(2) Forecasts for Fiscal 2014

Forecasts of Consolidated Financial Results for Fiscal 2014

(Billions of yen)	FY2013 Full-year (Results)	FY2014 Full-year (Current forecast)	YoY Change	YoY (%)	FY2014 Full-year (Previous forecast)
Net sales	743.9	720.0	-23.9	-3%	700.0
Operating income (% to net sales)	35.1 (4.7%)	72.5 (10.1%)	37.4 (+5.4pt)	+107%	71.0
Ordinary income (% to net sales)	13.0 (1.8%)	50.0 (6.9%)	37.0 (+5.1pt)	+283%	48.0
Net income (% to net sales)	8.0 (1.1%)	13.0 (1.8%)	5.0 (+0.7pt)	+62%	30.0
[Foreign exchange rates and impact]					
¥/US\$	¥83	¥98	+¥15 (yen depreciation)		
¥/Euro	¥107	¥129	+¥21 (yen depreciation)		
Impact on net sales	-	+¥85.2 bil.			
Impact on Op. income	-	+¥18.5 bil.			

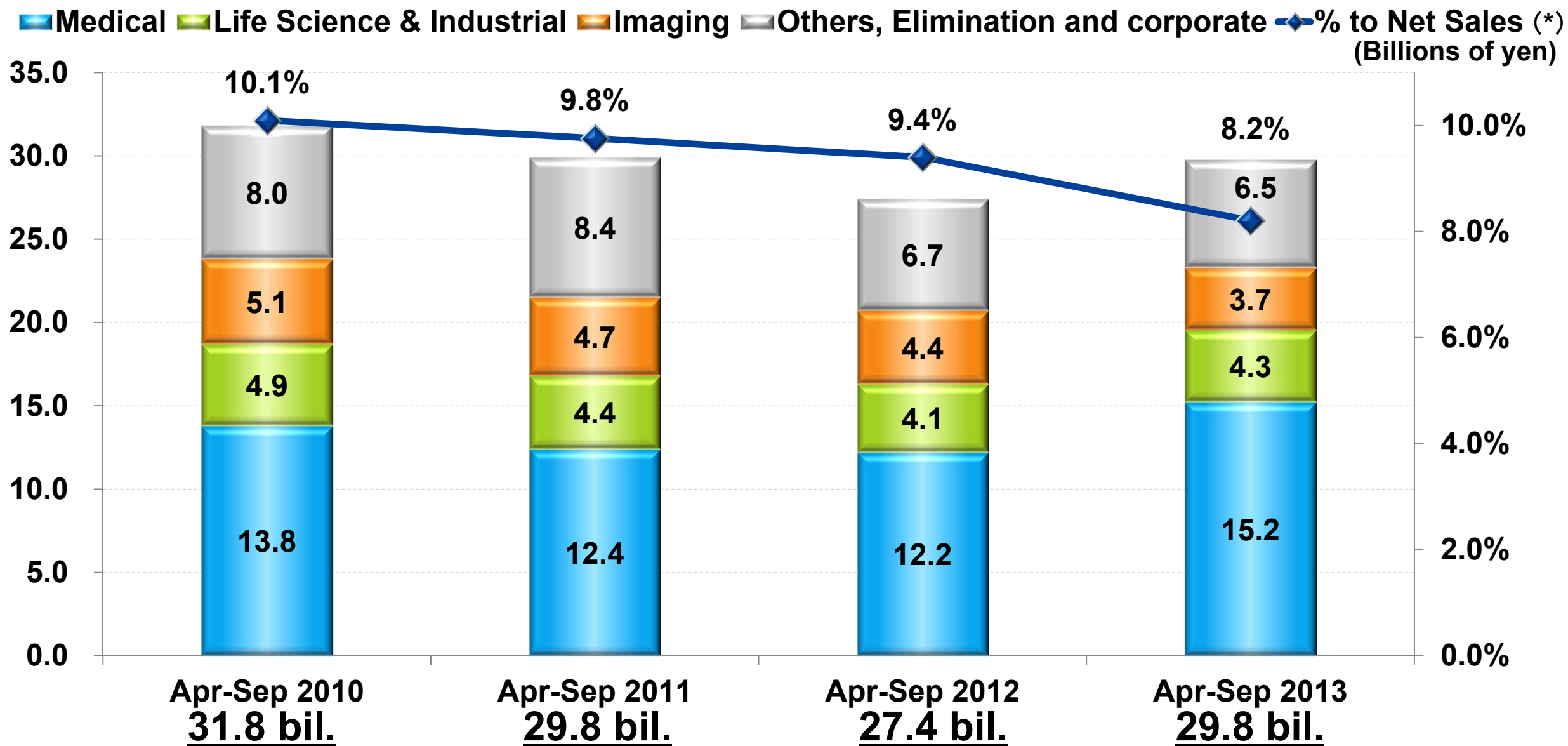
Segment Forecasts for Fiscal 2014

(Billions of yen)		FY2013 Full-year (Results)	FY2014 Full-year (Current forecast)	YoY Change	YoY (%)	FY2014 Full-year (Previous forecast)
Medical	Net sales	394.7	490.0	+95.3	+24%	470.0
	Op. income	87.1	110.0	+22.9	+26%	101.0
Life Science & Industrial	Net sales	85.5	100.0	+14.5	+17%	100.0
	Op. income	3.5	4.5	+1.0	+28%	7.0
Imaging	Net sales	107.6	104.0	-3.6	-3%	104.0
	Op. income	-23.1	-5.0	+18.1	-	-
Others	Net sales	41.7	26.0	-15.7	-38%	26.0
	Op. income	-4.9	-5.0	-0.1	-	-5.0
Elimination and corporate	Net sales	-	-	-	-	-
	Op. income	-29.3	-32.0	-2.7	-	-32.0
Consolidated Total	Net sales	743.9	720.0	-23.9	-3%	700.0
	Op. income	35.1	72.5	+37.4	+107%	71.0

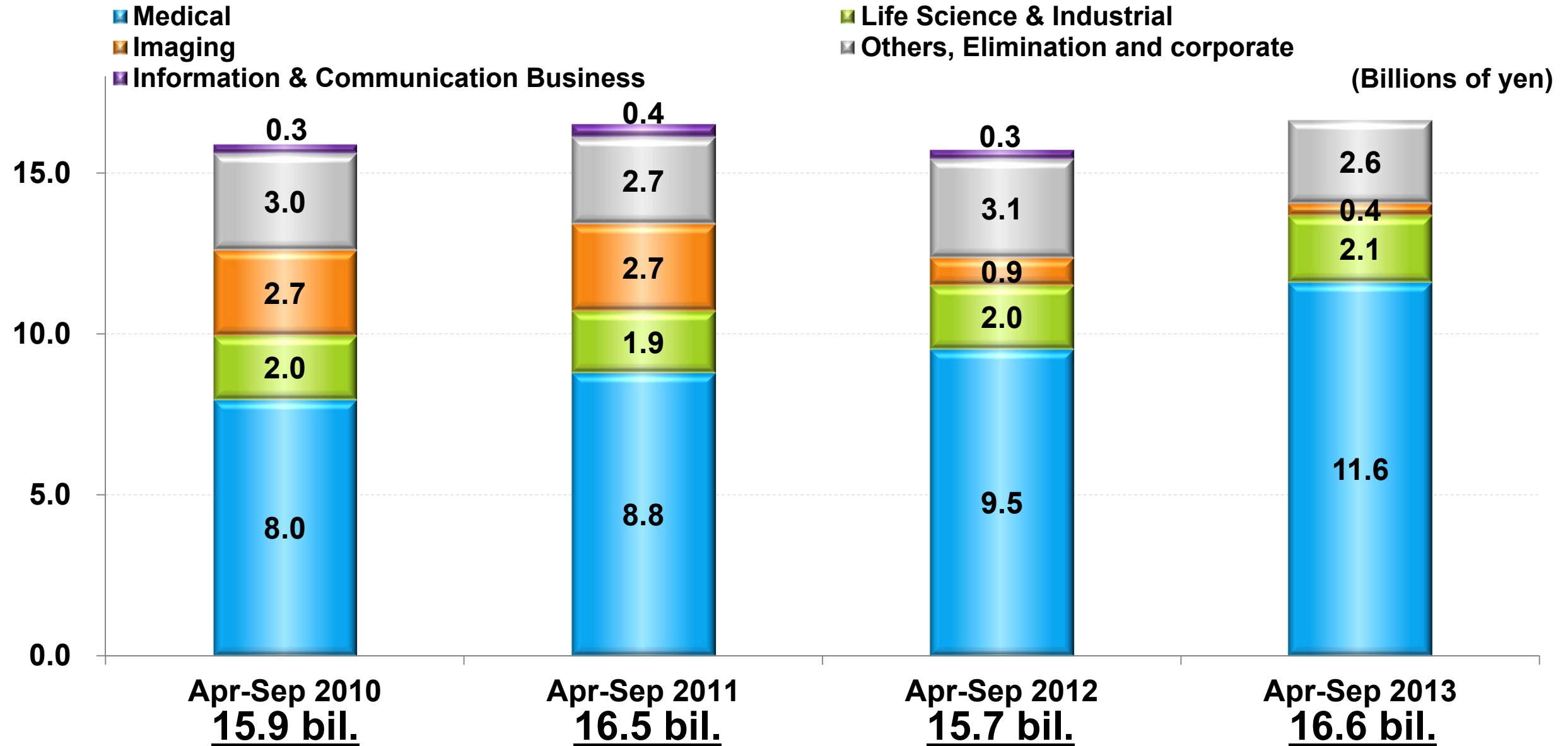
OLYMPUS

Supplementary Materials

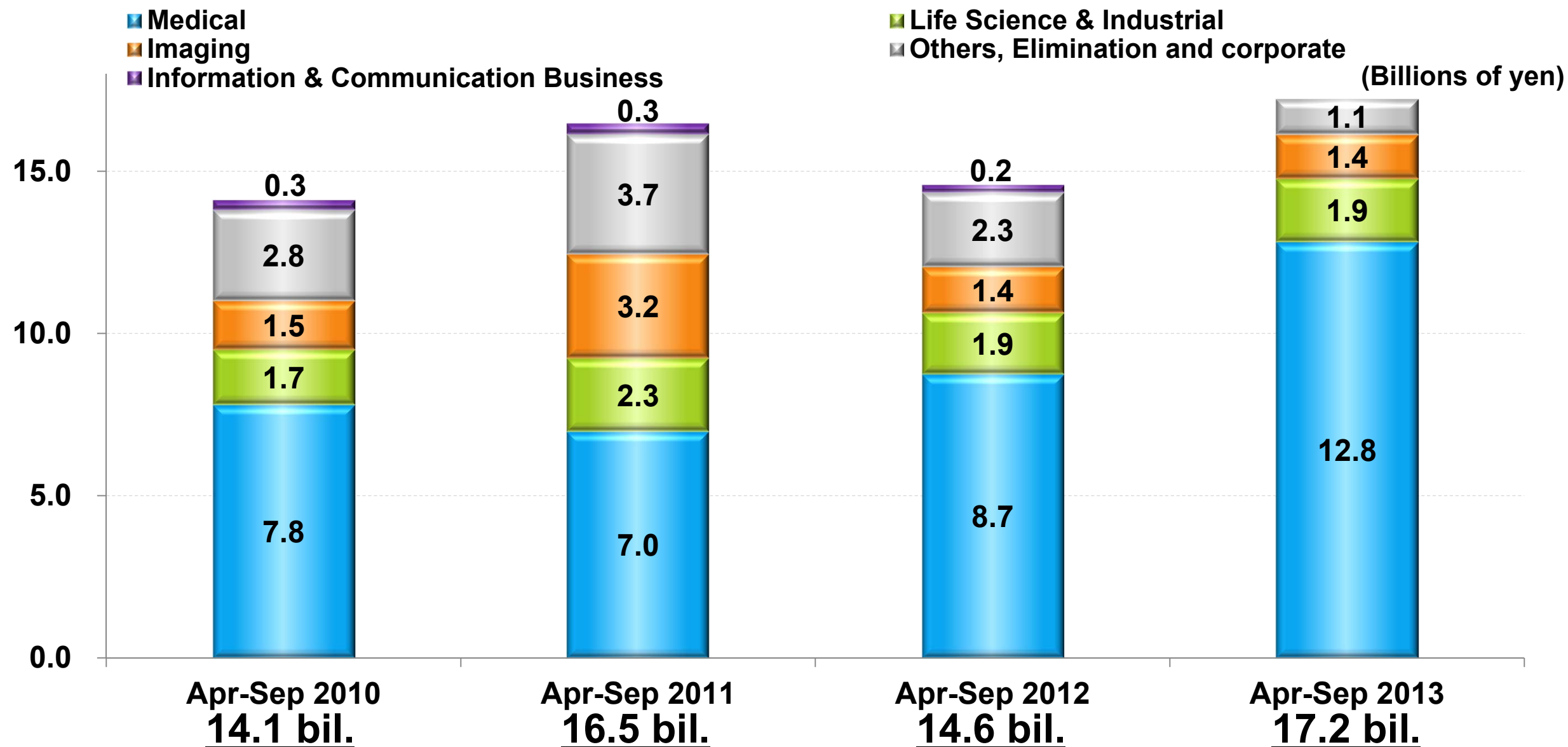
【Supplementary Materials】 R&D Expenditures



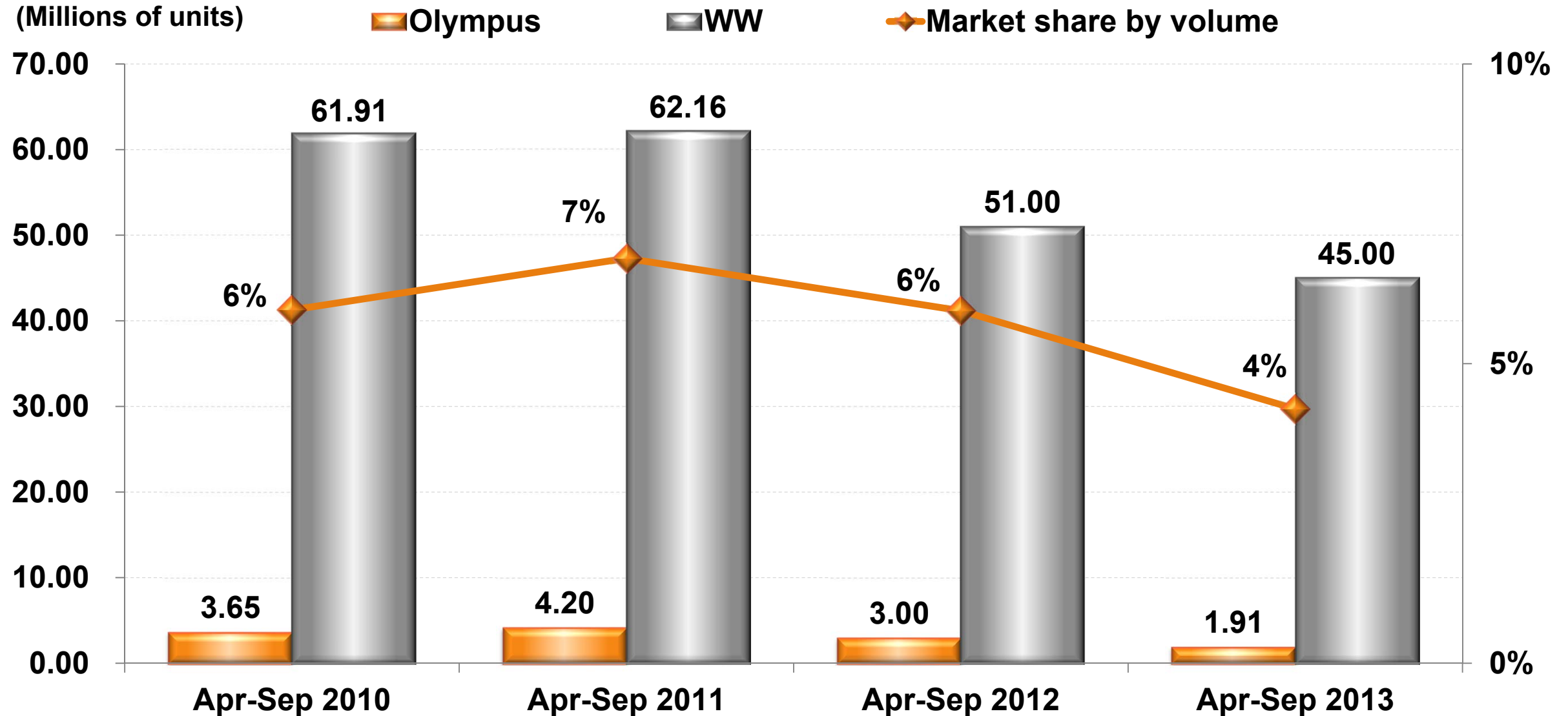
【Supplementary Materials】 Depreciation and Amortization



【Supplementary Materials】 Capital Expenditures

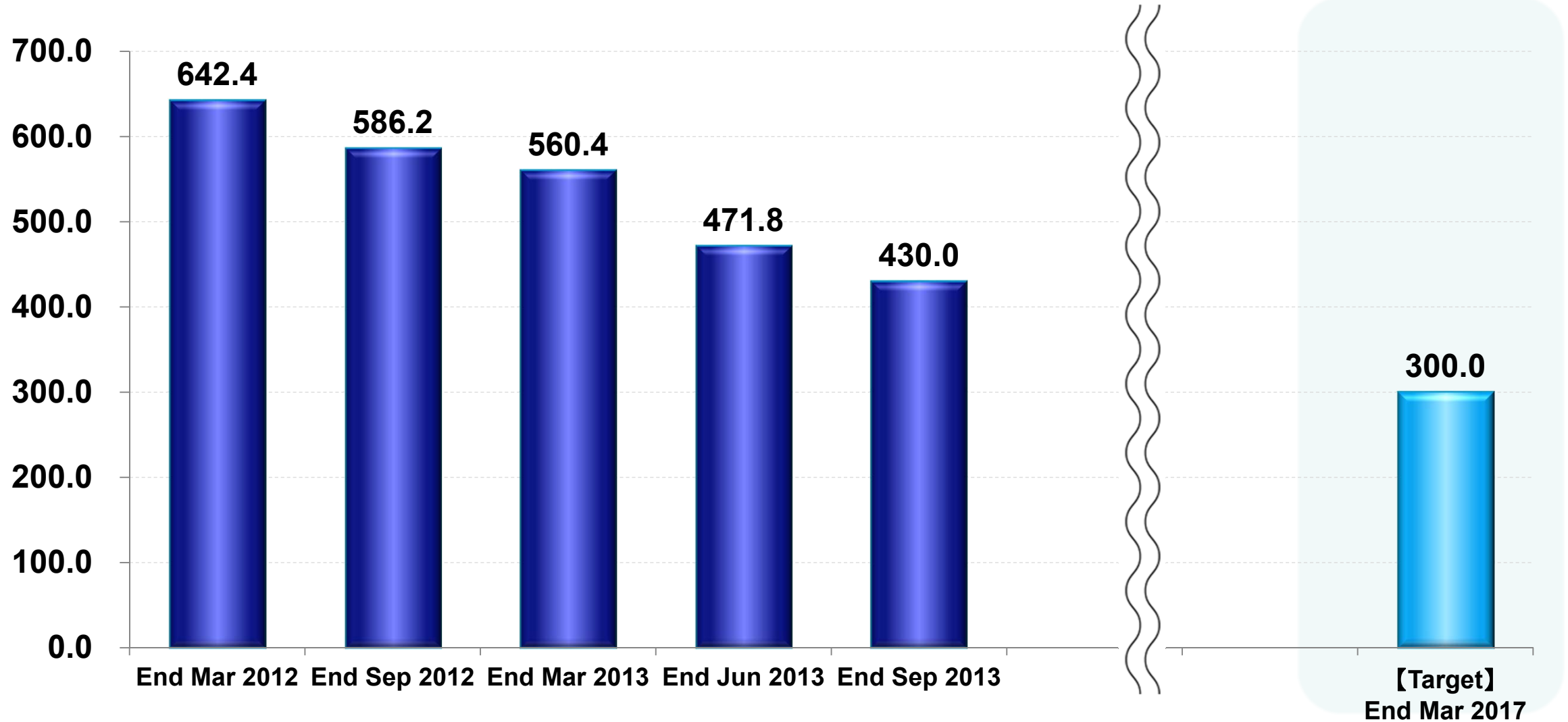


【Supplementary Materials】 Digital Cameras

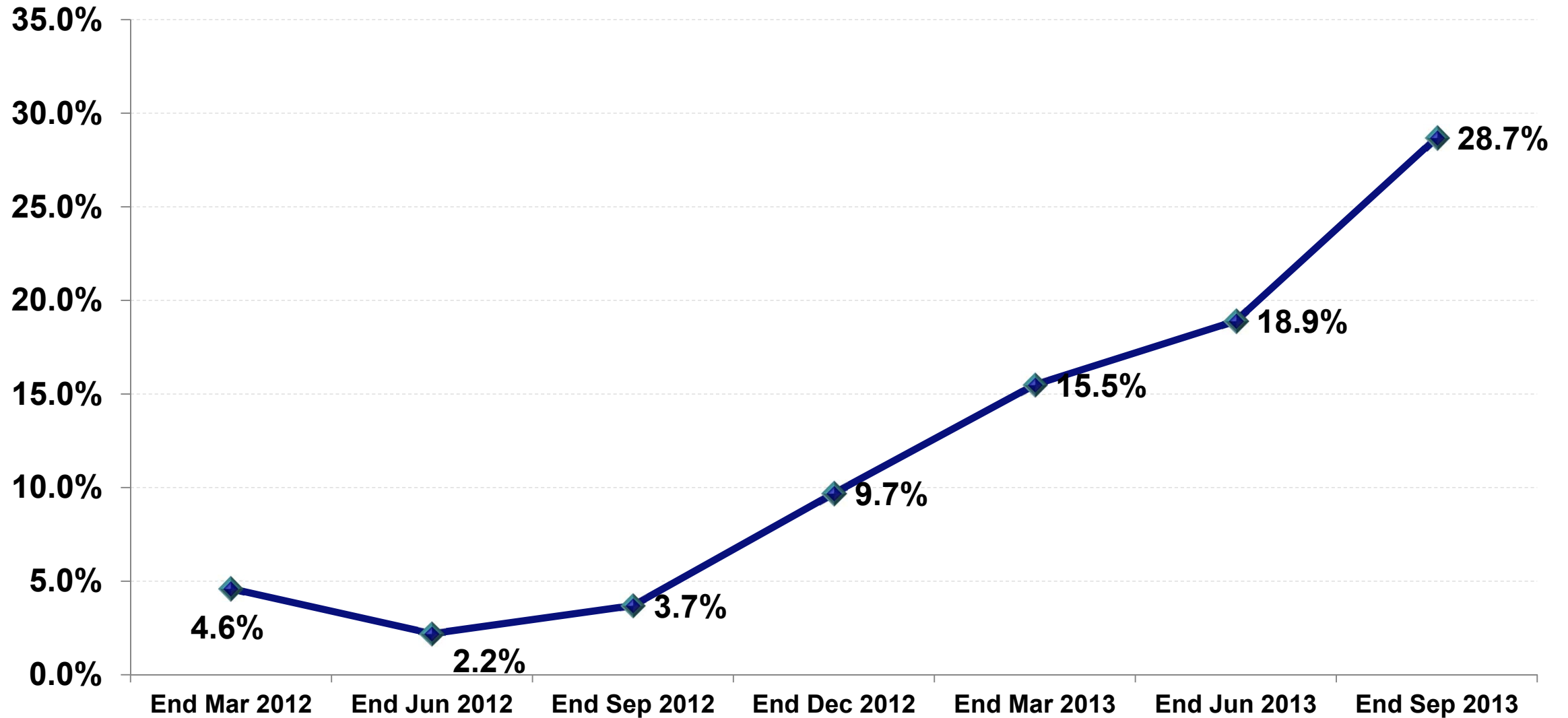


【 Supplementary Materials 】 Interest-bearing Debt

(Billions of yen)



【Supplementary Materials】 Equity Ratio



【Supplementary Materials】 Performance Indices and Targets

	FY Ended March 2013 (Results)	2Q of the FY 2014 (Results)	FY Ending March 2017 (Target)
Return on invested capital(ROIC)	2.7%	—	10% or more
Operating margin	4.7%	8.5%	10% or more
Free cash flow (Cash flow from operating activities + cash flow from investing activities)	58.7 billion yen	—	70.0 billion yen or more
Equity ratio	15.5%	28.7%	30% or more

Exchange rate assumptions: US\$1 = ¥90, 1 EUR = ¥120

(Note) The target figure was released on May 15, 2013.

【Supplementary Materials】 Target (Consolidated)

	FY Ending March 2015	FY Ending March 2017
Net sales	760 billion yen	920 billion yen
Operating income (Operating margin)	93 billion yen 12%	143 billion yen 16%
Ordinary income (Ordinary income ratio)	70 billion yen 9%	125 billion yen 14%
Net income (Net income ratio)	45 billion yen 6%	85 billion yen 9%

Exchange rate assumptions: US\$1 = ¥90, 1 EUR = ¥120
(Note) The figures were released on May 15, 2013.

Supplementary Materials (By Segment)

		FY Ending March 2015	FY Ending March 2017
Net sales	Medical	520 billion yen	650 billion yen
	Life Science & Industrial	115 billion yen	135 billion yen
	Imaging	100 billion yen	100 billion yen
	Others	25 billion yen	35 billion yen
	Total	760 billion yen	920 billion yen
Operating income	Medical	111 billion yen	150 billion yen
	Life Science & Industrial	9 billion yen	15 billion yen
	Imaging	7 billion yen	9 billion yen
	Others	-1 billion yen	1 billion yen
	Elimination or Corporate	-33 billion yen	-32 billion yen
	Total	93 billion yen	143 billion yen

Exchange rate assumptions: US\$1 = ¥90, 1 EUR = ¥120

(Note) The figures were released on May 15, 2013.



- This material contains forward-looking statements that reflect management's current views, plans and expectations. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause Olympus's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements.
- Additionally, these information are subjected to change without notice in the future.
- Accordingly, Corporation wishes to caution readers that actual results may differ materially from those projected in this material. Corporation assumes no responsibility for any damage resulting from the use of this material.