

▶ Review of Business Segments

# MEDICAL BUSINESS

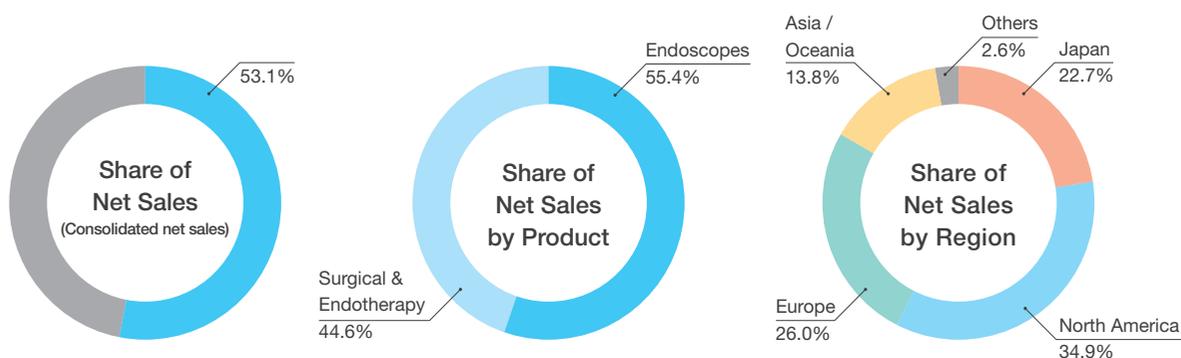


(Millions of yen)

Years ended March 31		2011	2012	2013
Operating Results	Net Sales	355,322	349,246	394,724
	Operating Expenses	283,640	281,058	307,655
	Operating Income	71,682	68,188	87,069
	Operating Margin (%)	20.2	19.5	22.1
Sales by Product	Endoscopes	195,459	191,798	218,674
	Domestic	43,848	43,803	47,335
	Overseas	151,611	147,995	171,339
	Surgical & Endotherapy	159,863	157,448	176,050
	Domestic	35,582	36,615	42,177
	Overseas	124,281	120,833	133,873
Segment Data	R&D Expenditures (¥ Billion)	28.5	26.9	31.3
	Capital Expenditures (¥ Billion)	15.5	15.6	17.1
	Number of Employees*	15,646	16,225	16,552

\* Including average number of temporary employees

## Composition (Fiscal year ended March 31, 2013)



Olympus developed the world's first practical gastrocamera in 1950, contributing significantly to the establishment of a method for the early diagnosis of gastric cancer, the leading cause of death in Japan at the time. Subsequently, we have worked to develop a wide variety of detection and treatment methods using endoscopes and endoscopic devices.

Today, the trend toward minimally invasive treatment is revolutionizing medical care. Surgery that previously required opening the abdominal cavity can now be performed through the use of an endoscope, which enters the body through a natural orifice or small incision in the skin, resulting in nearly undetectable scars. These breakthroughs in minimally invasive procedures have helped reduce the physical burden on patients and have contributed to overall improvements in the quality of life.

## Main Areas and Products

### Gastrointestinal Endoscopes

#### Endoscopy systems:

Videoscopes, video processors, light sources, liquid crystal display (LCD) panels, etc.

#### Peripheral equipment:

Image recording device, endoscope cleaning systems, sterilization systems, etc.



Universal upper digestive video-scope (Gastrointestinal videoscope)



EVIS LUCERA ELITE (Video endoscopy system)

### Surgical Devices

#### Medical equipment for surgical therapy and surgery:

Surgical video endoscopy systems (surgical endoscopes, video processors, light sources, LCD panels, etc.), peripheral devices for endoscopic surgery, electro-surgical knives, etc.



Laparoscope (Surgical endoscope)



THUNDERBEAT (integrated with both Advanced Bipolar and Ultrasonic Energy)

### Endotherapy Devices

#### Endoscopic devices for all disciplines of endoscopy:

Approximately 1,000 different devices for various diagnostic and treatment procedures, including biopsy forceps, high-frequency polypectomy snares, grasping forceps, stone retrieval and lithotripter baskets, hemostasis accessories, etc.



ITknife nano™ disposable, high-frequency knife (Endotherapy device)



Grasping forceps (Endotherapy device)

# MEDICAL BUSINESS

**Akihiro Taguchi**  
President,  
Medical Group

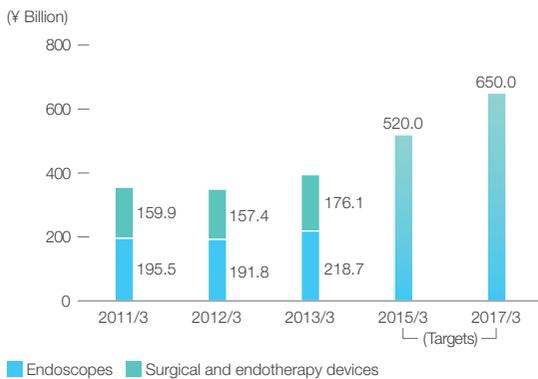


## Message from the Group President

**We will expand our business by focusing on advancements in early diagnosis and minimally invasive treatment technologies.**

In the gastrointestinal endoscope field, we will strengthen our market position by leveraging new products introduced in Japan and overseas. At the same time, in the surgical device field, we will expand our share of the imaging and energy markets while continuing to build upon our established strengths in the urology and otorhinolaryngology markets. Through these efforts, we expect to realize significant growth. In addition, we will expand our business by focusing on advancements in early diagnosis and minimally invasive treatment technologies that address the increasing demand for reducing healthcare costs while improving patient care.

### Net Sales



### Operating Income / Operating Margin



## Fiscal 2013 Business Results and Activities

In the gastrointestinal endoscope field, the EVIS EXERA III gastrointestinal video endoscopy system introduced in Europe and the United States, as well as EVIS LUCERA ELITE introduced in Japan, made strong contributions to sales. In the surgical device field, the VISERA ELITE integrated video endoscopy system, which supports endoscopic surgery, continued to record strong sales in Europe, the United States, and Japan. Consolidated net sales rose 13% year on year and operating income increased 28%. Today, the Medical Business is achieving steady sales growth.

### New Products

The development of strategic products is progressing smoothly, and, leading up to the end of 2012, Olympus continued to introduce new products in the endoscope and surgical devices businesses. In the gastrointestinal

endoscope field, the EVIS EXERA III next-generation gastrointestinal video endoscopy system was launched in Europe and the United States in April 2012, and EVIS LUCERA ELITE was released in Japan in November 2012.

In the surgical device field, we launched two new devices in Europe and the United States. In February 2012, we began sales of THUNDERBEAT, the world's first surgical energy device capable of delivering advanced bipolar and ultrasonic energy simultaneously. Afterwards in April 2012, we released VISERA ELITE\*, a video endoscopy system designed for use in surgical applications. Going forward, Olympus will work to further expand its medical business by introducing new products that will serve as future growth drivers.

\* Introduced into the Japanese market in October 2011

## Business Environment and Projections

In both developed countries, where populations are rapidly aging, and emerging countries, which are experiencing rapid economic growth, the improvement of patient quality of life and control of both healthcare and social security costs have become urgent priorities. Olympus possesses technologies for the development and manufacture of products that meet needs spanning from those for early

diagnoses to those for minimally invasive treatments. These technologies place the Company in a position of strategic significance as it is able to contribute to the economic soundness and clinical efficacy of medical products. Leveraging these strengths, Olympus will seek further business expansion by providing technologies, products, services, and solutions of the world's highest caliber.

## Challenges and Business Strategies

### Accelerate the Medium-Term Vision and Expand Business Fields for Future Growth

#### Strengthen business base in the gastrointestinal endoscope field (achieve average annual growth of 9%)

Olympus will leverage the EVIS EXERA III and EVIS LUCERA ELITE endoscopy systems, both of which were launched in Japan and overseas in 2012, to further expand the scale of this business. At the same time, we will accelerate initiatives intended to promote the standardization of early diagnosis procedures utilizing our proprietary Narrow Band

Imaging (NBI) technology. Furthermore, the Company will seek out additional business opportunities in respiratory medicine as well as other medical and surgical disciplines.



EVIS LUCERA ELITE

#### Realize rapid growth in the surgical device field (achieve average annual growth of 14%)

Olympus will target higher shares in the imaging and energy markets by enhancing its product lineups, including those differentiated for minimally invasive treatments. The Company will also pursue business expansion in the urology and otorhinolaryngology markets by fully leveraging the treatment technologies and sales capabilities of Gyrus ACMI, Inc.

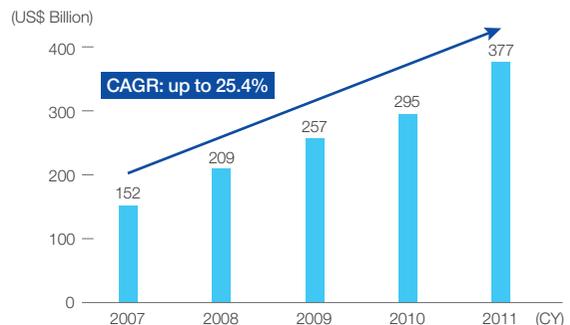
On April 16, 2013, a joint venture medical company

was established by Olympus and Sony Corporation. The resulting company, Sony Olympus Medical Solutions Inc., is developing new products centered on medical devices with 3D and 4K imaging capabilities. These devices are expected to widen the range of possibilities for endoscopic surgery and help accelerate growth in our surgical device portfolio.

#### Expand sales in emerging markets (achieve average annual growth of 23%)

Emerging countries are experiencing population aging in a similar fashion to developed countries, and healthcare costs are shooting upward. For this reason, it is incredibly important to train local physicians in the use of endoscopes. To meet this need, Olympus is systematically constructing and utilizing training centers with the aim of creating an even more expansive network of training facilities in Asia. In addition, we are expanding operations by reinforcing our lineup of products matched to the specific needs of each market.

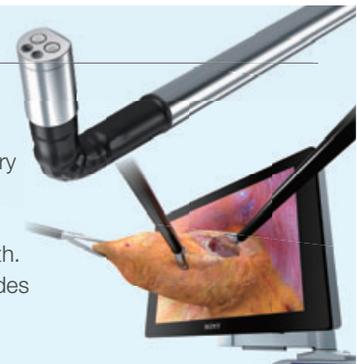
### Healthcare Expenditure in China



## TOPICS

### Launch of 3D Laparoscopy System and Videoscope Bringing New Potential to the World of Surgery: ENDOEYE FLEX 3D

Laparoscopic surgery generally places less strain on the patient and requires shorter recovery periods when compared to open procedures. Several clinical trials in this field are being advanced to further validate these benefits. However, this type of surgery is often difficult to perform as the 2D screens of laparoscopy systems generally have problems portraying depth. To address this challenge, Olympus developed a 3D laparoscopy surgical system that provides a better sense of depth than the conventional 2D monitors. This system is expected to help surgeons perform laparoscopic surgical procedures in a quicker and more precise manner.



# Earnings and Growth Drivers

## Our Largest Business—From Early Diagnosis to Minimally Invasive Treatments

Olympus developed the world’s first practical gastrocamera in 1950. Since then, the Company has remained dedicated to developing a diverse range of medical and surgical endoscopic devices and related services that enable physicians to conduct diagnostic and therapeutic endoscopic procedures. As the need for early diagnosis and minimally invasive treatments grows, we will further expand our portfolio of surgical solutions, such as next-generation surgical endoscopes and energy devices. Through this focus, we will continue to grow the Medical Business as our core business accounting for approximately 70%\* of the Company’s consolidated net sales. We have high expectations for the future growth potential of all three areas of our Medical Business: endoscopic solutions and services, surgical endoscopic solutions and services, and endotherapy devices.

\* Performance in the Three Months Ended June 30, 2013, and Full-Year Forecasts for Fiscal 2014

### Strengths of the Medical Business

#### ■ Product Development Based upon Trust Relationships Established with Physicians over Many Years

From the time when Olympus developed the world’s first practical gastrocamera in 1950 up until today, the Company has continued to refine its endoscope technologies in close collaboration with physicians. For example, endoscopes require precise design and functionality, and we have worked with physicians over the course of many years to enhance and improve the specifications of our products to achieve this important threshold of operability. This committed effort is one reason Olympus is the world’s leader in endoscopes.



#### ■ Solid Global Operations

Aiming to provide the world with technologies, products, services, and solutions of the highest caliber, Olympus is developing networks in the Medical Business that reach across the globe.

- Industry’s top service and repair network consisting of more than 200 locations
- Widespread sales network encompassing both developed and emerging countries
- Global manufacturing network utilizing regional resources and locations
- Network of training centers to cultivate endoscopic physicians

#### ■ Focus on Early Diagnosis and Minimally Invasive Treatment

Olympus is pursuing technological advances in the fields of early diagnosis, particularly in terms of gastrointestinal endoscopes, and minimally invasive treatment, with emphasis placed on surgical devices. Through these efforts, we hope to contribute to improvements in the quality of life of patients while also helping to address the worldwide trend of rising healthcare costs.

▶ Our portfolio of products designed to improve clinical outcomes in these two areas has been tailored to meet the needs of physicians and patients. ▶ P.35

#### ■ Sophisticated Technologies and Craftsmanship for Meeting Physician Needs

Devoting more than half a century to the development of medical equipment, Olympus has honed a unique ability to innovate while developing sophisticated manufacturing technologies. This strength and other qualities have enabled us to continue meeting the increasingly high demands of physicians around the world for solutions that allow them to provide better quality care.

▶ Our one-of-a-kind manufacturing technologies allow us to employ high-mix, low-volume production systems. In order to reinforce these technologies and guarantee the stable distribution and availability of our products, we will invest in the enhancement of our current manufacturing sites in Japan. ▶ P.36

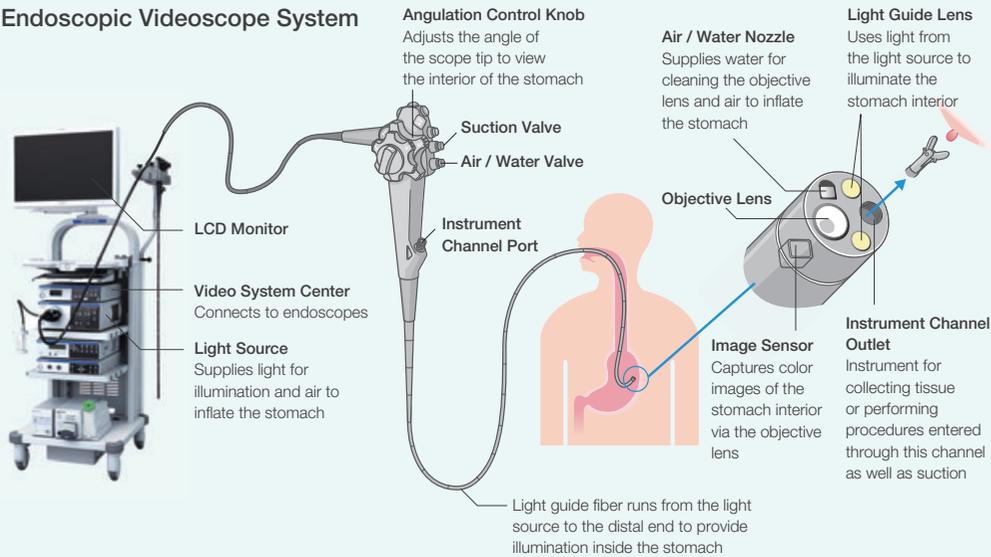
# MEDICAL BUSINESS

## Product Portfolio Supporting Early Diagnosis and Minimally Invasive Treatments

### Gastrointestinal Endoscopes

#### Early Diagnosis

##### Endoscopic Videoscope System



##### Used in Organs

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

##### Flexible Endoscopes

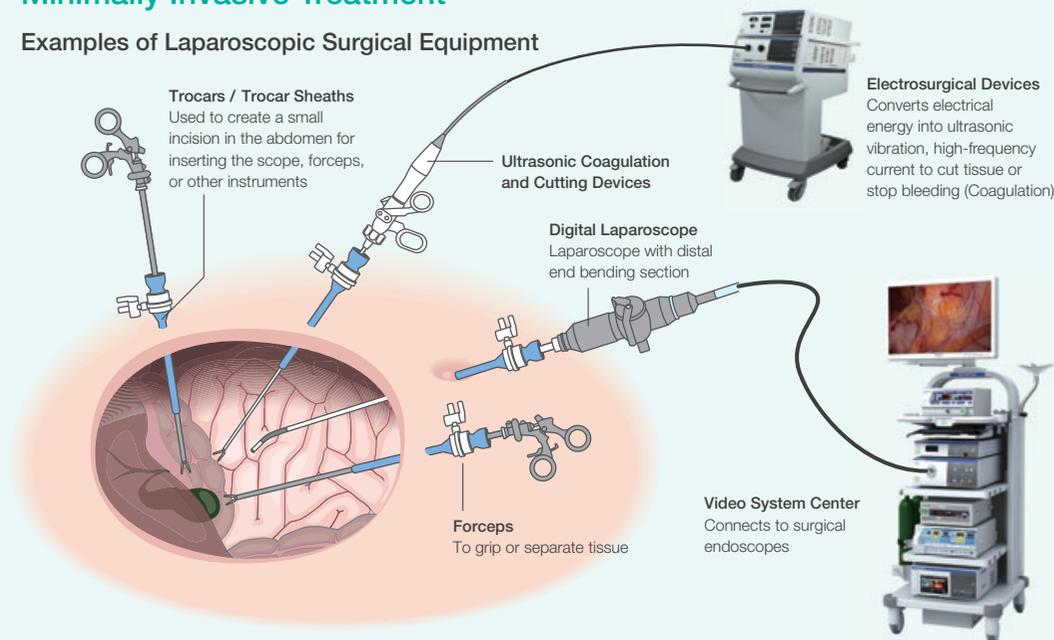
Suitable for examination and treatment of internal organs by utilizing the flexibility of the insertion tube and distal end to insert the scope through the mouth or nose, for example



### Surgical Devices

#### Minimally Invasive Treatment

##### Examples of Laparoscopic Surgical Equipment



##### Hospital Department

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

##### Rigid Endoscopes

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



## Decision to Invest about ¥20 Billion in Domestic Manufacturing Sites to Reinforce One-of-a-Kind Manufacturing Technologies and Ensure Product Availability

Olympus boasts a share of the global gastrointestinal endoscope market of more than 70%, representing an undisputed competitive advantage. This achievement is supported by a diverse range of strengths, including the trust of physicians earned throughout our years of operation and partnership, a solid business infrastructure across the world, unique and sophisticated technical capabilities, and one-of-a-kind manufacturing technologies, each developed with a focus on meeting the demands of physicians. To better leverage one of these strengths, we have decided to reinforce our superior manufacturing technologies by investing approximately ¥20 billion in our domestic manufacturing sites. We believe this will sharpen our competitive edge and solidify the production systems we use to provide the world with a stable supply of medical equipment.

### Overview of Manufacturing Site Reinforcement Plans

#### Role of Principal Domestic Manufacturing Sites

The Company's principal domestic manufacturing sites produce such medical devices as endoscopes, which require high-mix, low-volume production systems and the application of specialized technologies and expertise. We produce these items in Japan so that we may fully leverage the advanced manufacturing technologies housed within our domestic locations. By combining the various technological specialties of each manufacturing facility, we are able to create endoscopy systems that continue to win the trust and support of physicians throughout the world.

#### Investment Benefits and Schedule

- 30% increase in production capacity:**  
 Increase production by constructing new buildings to expand floor space
- 50% improvement in production efficiency:**  
 Improve production efficiency by instituting production reforms, optimizing layout for medical equipment production, and revising workflow processes
- Implementation of business continuity measures:**  
 Utilize experience with the Great East Japan Earthquake to develop production systems that ensure a stable supply of medical equipment even under extreme circumstances



Aizu	Investment: ¥9.4 billion	Start of expansion August 2014 Commencement of enhanced operations May 2016
Shirakawa	Investment: ¥8.6 billion	
Aomori	Investment: ¥1.7 billion	
Approx. ¥20 billion		

# MEDICAL BUSINESS

## CLOSE UP

### Domestic Manufacturing Site Reinforcing Our Competitiveness (Aizu, Fukushima Prefecture)

#### Characteristics of Endoscopy System Manufacturing Techniques That Realize High-Mix, Low-Volume Production

The number of different variations of endoscopes we offer grows each year, and we currently offer more than 300 different models of endoscopes. Creating endoscopes requires sophisticated manufacturing technologies as well as high-mix, low-volume production systems. On top of fulfilling these requirements, we have maintained a stance toward production that compels us to develop components and equipment ourselves should the market be unable to supply us with items that meet our expectations for craftsmanship. As the components of endoscopes have incredibly intricate structures, it is impossible to find ready-made blades for their production. Therefore, each time we need to develop new endoscope components, we start by creating custom blades and other tools capable of meeting our design specifications. The unique products Olympus offers are the result of an ongoing, comprehensive process of in-house craftsmanship, which entails resolving issues on our own. This thorough process has enabled us to earn the trust from the world that we hold today.



#### From Japan to the World

Olympus produces its endoscopes entirely in Japan so that it can employ a level of craftsmanship only found in its domestic facilities. At domestic endoscope factories, we have established a comprehensive manufacturing system that encompasses tasks ranging from collaborating with research and development teams to providing after-sales support services. This approach enables us to quickly integrate feedback from the medical field into our production. We also have a stance that inspires us to make our own components if we cannot obtain what we need from outside suppliers; this commitment enables us to better respond to the needs of medical practitioners worldwide. Endoscopes are expected to be of high quality and deliver advanced functionality for healthcare professionals and their patients anywhere in the world. Medical practitioners are constantly in search of advanced endoscopes with enhanced functionality, versatility, imaging, and design. Going forward, we will continue to bolster our production capabilities and pursue ongoing technological innovation in pace with the ever changing medical industry as we strive to achieve higher profitability and further growth. In this manner, we are dedicated to supplying quality products from Japan to the world.

**Nobuyuki Koga**  
Aizu Olympus Co., Ltd.  
President



Aizu Olympus



# LIFE SCIENCE & INDUSTRIAL BUSINESS

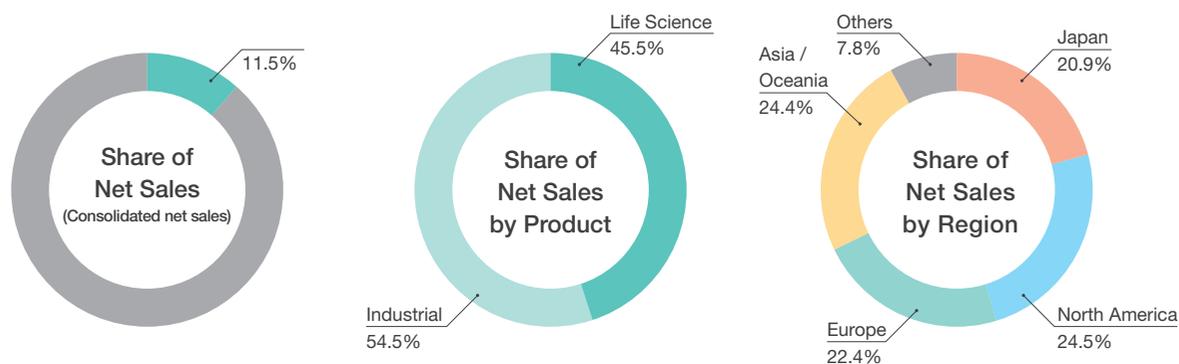


(Millions of yen)

Years ended March 31		2011	2012	2013
Operating Results	Net Sales	100,808	92,432	85,513
	Operating Expenses	92,255	86,993	81,986
	Operating Income	8,553	5,439	3,527
	Operating Margin (%)	8.5	5.9	4.1
Sales by Product	Life Science	44,464	42,650	38,910
	Domestic	10,550	10,560	10,315
	Overseas	33,914	32,090	28,595
	Industrial	56,344	49,782	46,603
	Domestic	20,564	8,394	7,526
	Overseas	35,780	41,388	39,077
Segment Data	R&D Expenditures (¥ Billion)	10.4	8.7	8.2
	Capital Expenditures (¥ Billion)	3.9	4.3	3.4
	Number of Employees*	5,099	5,150	4,575

\* Including average number of temporary employees

## Composition (Fiscal year ended March 31, 2013)



In the life science field, tremendous strides are being made toward the realization of next-generation healthcare by clarifying the unrevealed mechanisms of brain, pathogeny and metastasis of cancer, and drug action and immune response. Olympus supports such research with bio-imaging technologies for the visualization of the movement and activity of molecules within organisms.

In the industrial field, in the area of non-destructive testing, Olympus supports public infrastructure safety and security and contributes to R&D and quality improvement in production by offering industrial endoscopes, ultrasonic flaw detectors, eddy current flaw detectors, and X-ray diffraction analyzers. Olympus meets wide-ranging needs in the area of industrial microscopes, where rigorous observation, measurement, and control have become increasingly important for responding to the higher density of electronic component and semiconductor packaging technologies.

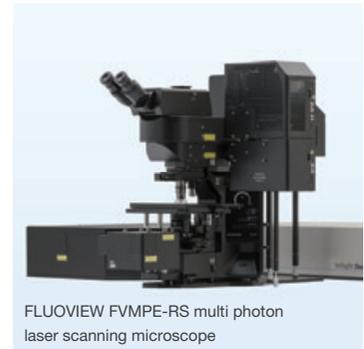
## Main Areas and Products

### Life Science

Upright microscopes and polarizing microscopes, inverted microscopes, laser confocal microscopes, box-type fluorescence imaging devices, stereo microscopes, fluorescence macro-microscopes, microscope digital cameras, imaging software, bio-imaging systems, virtual slide systems



IX83 research inverted microscope



FLUOVIEW FVMPE-RS multi photon laser scanning microscope

### Industrial

Metallurgical microscopes, semiconductor inspection microscopes, laser microscopes, measuring microscopes, microscopic 3D measurement systems, industrial videoscopes, industrial fiberscopes, industrial rigid scopes, ultrasonic flaw detectors, eddy current flaw detectors, phased array flaw detectors, X-ray diffraction analyzers, peripheral equipment



Opto-Digital Microscope DSX100 (high-performance model)



IPLEX TX industrial videoscope



OmniScan SX PA ultrasonic phased array flaw detector



45MG ultrasonic thickness gage

# LIFE SCIENCE & INDUSTRIAL BUSINESS

**Shinichi Nishigaki**

President,  
Life Science &  
Industrial Group

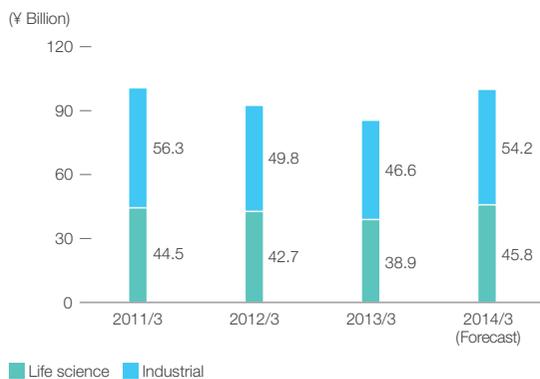


## Message from the Group President

We will contribute to society by leveraging the strengths of our technology development capabilities and high market share to respond to a diverse range of needs.

In the life science field, the Company is advancing structural production reforms in pursuit of higher profitability. At the same time, new business areas are being proactively explored in the industrial field. Looking ahead, we will strengthen sales of new products in conjunction with the recovery of business conditions as we target a higher market share.

### Net Sales



### Operating Income / Operating Margin



## Fiscal 2013 Business Results and Activities

In the life science field, we introduced the new FV1200 and FV1200MPE into our lineup of FLUOVIEW laser scanning microscopes, which are used to conduct advanced life science research. The industrial field, meanwhile, saw the launch of the IPLEX TX, the world's thinnest industrial articulating videoscope with a tip diameter of 2.4mm. Also in the industrial field, sales were strong of the 45MG ultrasonic thickness gage. Regardless of these efforts, overall net sales were down in the Life Science & Industrial Business due to the impacts of limited capital expenditure and budget delays

among public research institutions stemming from the global economic recession.

In fiscal 2013, we took steps to improve operational efficiency and rationalize production sites through such means as closing a plant in the Philippines and consolidating sites in Nagano Prefecture, in Japan. However, these efforts were unable to absorb the impacts of the lower net sales, and operating income decreased in the Life Science & Industrial Business accordingly.

## Business Environment and Projections

Starting in the fourth quarter of fiscal 2013, we began seeing improvement in the business environment on the back of a recovery trend in capital expenditure. This recovery was stimulated by an upward turn in global economic conditions and the depreciation of the yen, a result of the economic stimulus measures instituted by the new government administration in Japan. In response to the improved

business environment, we will work to address recovering demand through the introduction of new products in hopes of expanding our market share.

The biological research market is projected to expand following the acceleration of research targeting the practical application of induced pluripotent stem cells (iPS cells) and the influences of the BRAIN Initiative in the United States.

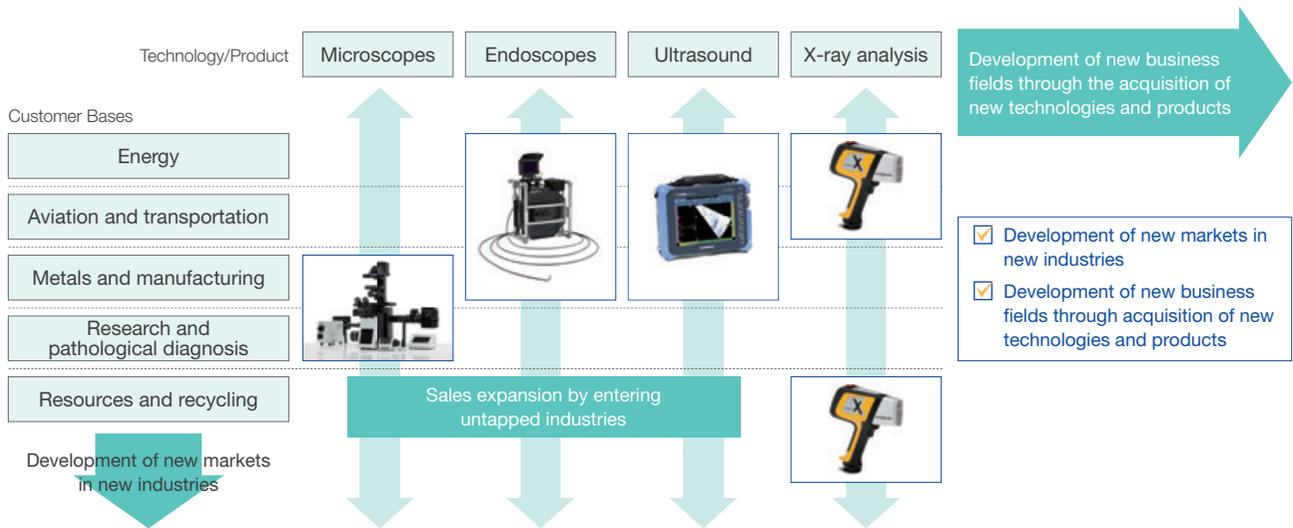
## Challenges and Business Strategies

Initiatives will be accelerated in the life science field with the aim of maximizing the benefits of the production structure reforms advanced in fiscal 2013, and we will establish a revenue base that is responsive to changes in the business environment. At the same time, we will promote sales of high-margin, high-value-added products to enhance

profitability. In the industrial field, the competitive position Olympus has established in current areas of operation will be leveraged to drive expansion into new fields. By introducing new products into new fields, we will increase the scale of our earnings.

## Proactive Expansion of the Product Portfolio

We will effectively expand business fields based on the needs of customers and technologies/products by leveraging the Olympus Group's global infrastructure.



## TOPICS

### Launch of Laser Scanning Microscopes Allowing for High-Resolution, 3D Cell Observation

A common research technique in the life sciences is the use of live cells to elucidate the role and function of proteins or nerves and to search for these applications in the drug discovery or other new fields. Laser scanning microscopes are frequently used to conduct research in this field for their capabilities to produce 3D images of detailed cell structures. This is because they can obtain depth-direction information difficult to acquire using a conventional microscope. Our FLUOVIEW series of laser scanning microscopes employ the Company's optical technologies to provide 3D images with high contrast.

In fiscal 2013, Olympus introduced two new additions to its FLUOVIEW series: the FLUOVIEW FV1200 biological laser confocal scanning microscope and the FLUOVIEW FV1200MPE multi photon laser scanning microscope. These microscopes feature superior rigidity and ease of use, higher sensitivity, and lower noise when compared with other models, and they have also been adapted to meet researchers' needs stemming from greater diversity of research subjects and longer observation periods. These new microscopes represent Olympus technology that is supporting iPS cell and other advanced life science research.



FLUOVIEW FV1200 biological laser confocal scanning microscope



FLUOVIEW FV1200MPE multi photon laser scanning microscope

# IMAGING BUSINESS

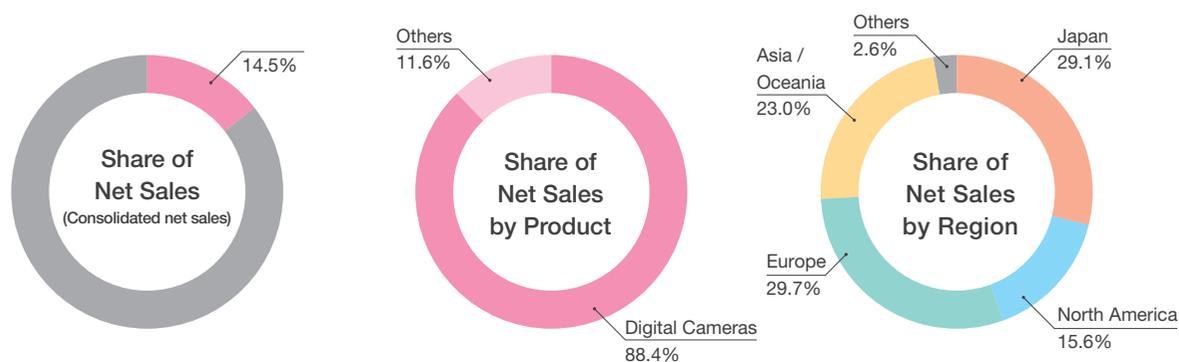


(Millions of yen)

Years ended March 31		2011	2012	2013
Operating Results	Net Sales	131,417	128,561	107,638
	Operating Expenses	146,436	139,321	130,711
	Operating Loss	(15,019)	(10,760)	(23,073)
	Operating Margin (%)	—	—	—
Sales by Product	Digital Cameras	116,864	115,237	95,101
	Domestic	22,330	27,333	27,234
	Overseas	94,534	87,904	67,867
	Others	14,553	13,324	12,537
	Domestic	3,757	4,018	4,126
	Overseas	10,796	9,306	8,411
Segment Data	R&D Expenditures (¥ Billion)	11.7	9.6	10.2
	Capital Expenditures (¥ Billion)	4.8	5.2	3.1
	Number of Employees*	13,246	11,644	8,180

\* Including average number of temporary employees

## Composition (Fiscal year ended March 31, 2013)



Olympus provides products that overturn the conventional wisdom of mirrorless cameras and open up new possibilities in photography, such as the OM-D mirrorless camera incorporating new mirrorless and electronic viewfinder technologies and the compact, lightweight PEN series of mirrorless cameras. Olympus will continue its quest to increase the fun of photography and audio recording and listening by offering groundbreaking digital cameras and voice recorders.

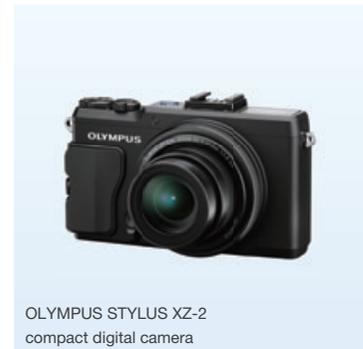
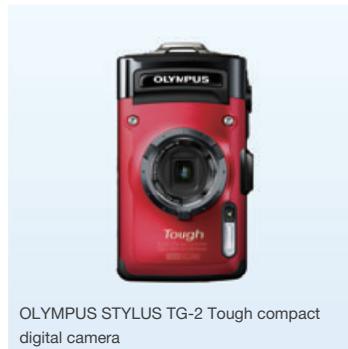
## Main Areas and Products

### Digital Cameras

Digital single-lens cameras, compact digital cameras, digital camera related products, digital camera lens barrels, optical components

### Others

IC recorders, binoculars



## Restructuring of the Imaging Business

Minimize risks in compact camera operations	Focus resources on high-margin mirrorless cameras	Improve responsiveness to market changes
<p><b>Significantly reduce business scale and limit risk</b></p> <ul style="list-style-type: none"> <li>Substantially reduce number of compact camera models (cease production of low-priced models)</li> <li>Reduce target for compact camera sales volumes to half of FY2013's target (FY2014 forecast: 2.7 million units)</li> </ul>	<p><b>Focus allocation of management resources on mirrorless cameras</b></p> <ul style="list-style-type: none"> <li>Focus management resources on major cities where mirrorless camera demand is expected to grow</li> <li>Accelerate investment in sales channels highly suited to mirrorless cameras</li> </ul>	<p><b>Respond swiftly and objectively based on monitoring findings</b></p> <ul style="list-style-type: none"> <li>Monitor plan progression in timely manner</li> <li>Make Companywide decisions based on objective viewpoints</li> </ul>

Construct cost structure appropriate for business scale

# IMAGING BUSINESS

**Haruo Ogawa**  
President,  
Imaging Group

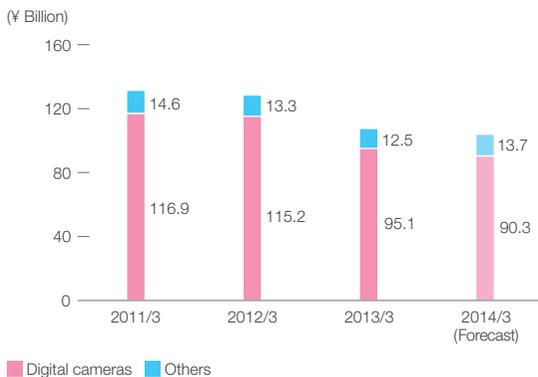


## Message from the Group President

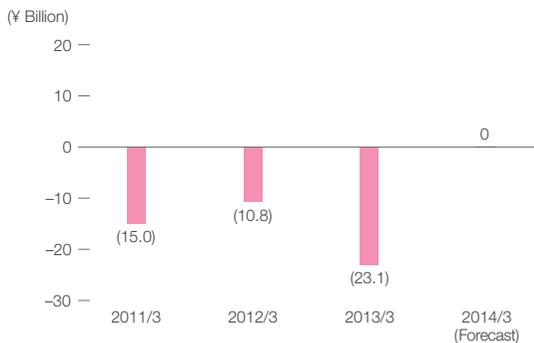
**We will pursue solid growth while minimizing risks in consideration of market changes.**

In accordance with the policy of risk minimization, we will significantly shrink our lineup of low-priced compact cameras and expand operations in the growing mirrorless camera market. Our first target will be to breakeven on an operating income basis by controlling costs so that they remain at a level that is appropriate to our business scale.

### Net Sales



### Operating Loss



## Fiscal 2013 Business Results and Activities

In the field of digital single-lens reflex (SLR) cameras, the OLYMPUS OM-D E-M5, a highly functional, mirrorless camera equipped with an electronic viewfinder and the world's first 5-axis image stabilization system, recorded higher sales both in Japan and overseas. In compact cameras, sales were strong for new high-value-added camera models, such as the TG-1 and TG-2 high-resolution compact cameras that feature Olympus-levels of toughness and bright F2.0 lenses. However, the spread of smartphones led to the rapid shrinking of the

market for low-priced compact cameras. As a result, both sales volumes and selling prices were down for these cameras, and overall net sales for the Imaging Business decreased accordingly.

Throughout fiscal 2013, product mix revisions, manufacturing function revisions, and SG&A expense reduction measures were implemented. Unfortunately, the benefits of these efforts were outweighed by the drop in net sales, and the operating loss grew as a result.

## Business Environment and Projections

The compact camera market is rapidly contracting due to the spread of smartphones, and this market is expected to shrink by about 20% in fiscal 2014. Conversely, the mirrorless camera market, an area the

Company will emphasize going forward, is expected to grow by an average of 20% per year for the foreseeable future.

## Challenges and Business Strategies

There were two fundamental factors that resulted in the decline in profitability in the Imaging Business. One was the unexpected degree of contraction in the compact camera market. The other was our delayed response to this shrinking market. In order to address both of these issues, we have restructured the Imaging Business and defined risk minimization

as the core policy for future business development. Previously, we managed this business with the aim of expanding the scale of sales. However, we have since changed our focus to prioritize preventing losses.

Based on this directive, we have defined the following three basic policies.

**1** Minimize risks in compact camera operations

**2** Focus resources on high-margin mirrorless cameras

**3** Improve responsiveness to market changes

### 1 Minimize risks in compact camera operations

The main culprit in the decline in profitability was compact cameras. For this reason, we have significantly reduced sales volume targets to minimize risks. In particular, we will cease the future development of models in the V Series of low-priced models, and we are focusing on reducing inventories. With regard to high-priced compact cameras, we will only develop and sell models that realize significant

technological synergies with mirrorless cameras. In conjunction with these measures, we have halved our fiscal 2014 sales volume targets for compact cameras, which represent an exceptionally conservative stance in comparison to the market projections released by the Camera & Imaging Products Association (CIPA), or, in other words, the collective opinion of the industry.

### 2 Focus resources on high-margin mirrorless cameras

Olympus is highly competitive in the Japanese market for mirrorless cameras, holding the top share of approximately 30% in the domestic market. As we reduce the scale of our compact camera operations, a portion of the management resources freed as a result will be allocated to the growing mirrorless camera market as we strive to effectively utilize our resources. In terms of sales regions as well, we will

direct marketing primarily toward major cities, where mirrorless camera demand is expected to grow. Likewise, emphasis will be placed on sales channels that are highly suited to mirrorless cameras, such as specialty stores and the Internet. By strategically allocating resources in this manner, we are committed to realizing solid growth that parallels that of the market.

### 3 Improve responsiveness to market changes

In the future, the efforts of both management and business divisions will be incorporated to conduct real-time monitoring of business plan progress and, thereby, expedite decision making. The market has the potential to change at

any moment. In recognition of this, we will install systems that enable us to quickly minimize inventory risks and implement appropriate cost control measures in response to market changes.

### In addition to these policies, Olympus is working to drastically reform the cost structure of the Imaging Business.

Manufacturing systems were also significantly reorganized, with the five sites previously used in this business consolidated into two. We believe this will contribute to improvements in production efficiency during fiscal 2014. In addition, we will greatly decrease the number of compact camera models developed, which will lead to a decline in R&D expenditures and sales-related costs and allow us to reduce the number of employees in development, manufacturing, and sales divisions. Overseas sales bases will also be reorganized to reduce costs and facilitate sales of mirrorless cameras, with bases being consolidated and sales channels selectively limited to those deemed highly efficient. Through these efforts, we are targeting a total reduction of approximately ¥23 billion in manufacturing costs and SG&A expenses. This should enable us to breakeven on an operating income basis in fiscal 2014 and put us in a position

to further emphasize mirrorless cameras in fiscal 2015 and onward, thereby developing a business structure that can secure profits in the range of several billion yen.

### Reduction Targets for Manufacturing Costs and SG&A Expenses

Initiative	FY2014 (YoY)
Improve manufacturing cost ratio by shifting to mirrorless cameras (adjusting product mix)	+ ¥4 billion
Reduce costs by reorganizing manufacturing systems	+ ¥3 billion
Reduce costs by decreasing inventory expenses	+ ¥4 billion
Lower R&D expenditures by reducing number of models, etc.	+ ¥3 billion
Reduce expenses by consolidating sales bases and channels	+ ¥2 billion
Implement other reduction measures (IT/distribution expenses, system revisions, etc.)	+ ¥7 billion
Total reductions	Approx. + ¥23 billion