# FINANCIAL SECTION

## 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 opaque 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.

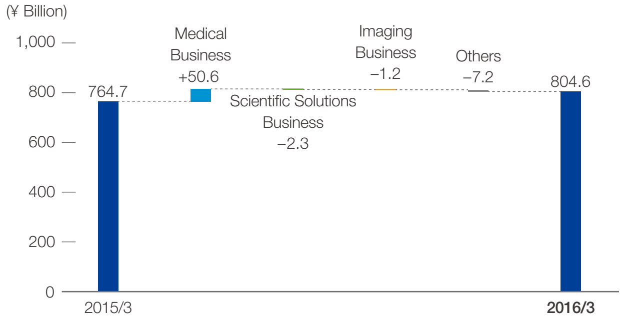
Faced with this business environment, the Olympus Group continued to push vigorously ahead with respect to the basic strategies set forth in the medium-term vision (corporate strategic plan) launched in fiscal 2013. Furthermore, under the new organizational structure associated with the Group's reorganization 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 lineups 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 lineups 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.

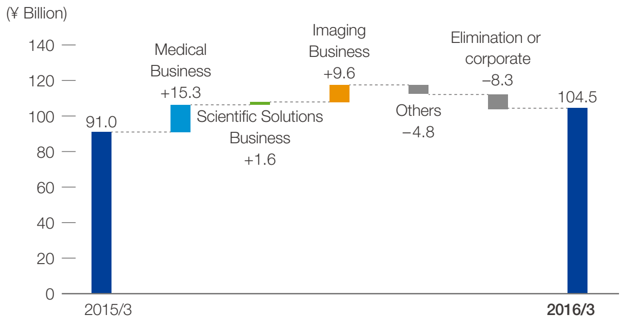
#### ■ Net Sales

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 ¥104,464 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.




#### ■ 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. Anti-kickback 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 mainstay 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-Glide 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 STM7 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

In the Imaging Business, consolidated net sales came to ¥78,284 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 mirrorless camera 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 in response 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.

### ■ Others

In the Others Business, consolidated net sales amounted to ¥15,759 million, down 31.5% year on year, and operating loss was ¥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.

## Fiscal 2017 Outlook

Looking ahead with respect to the global economy, concerns for a downturn in economic conditions are likely to intensify amid 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, opaque 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.

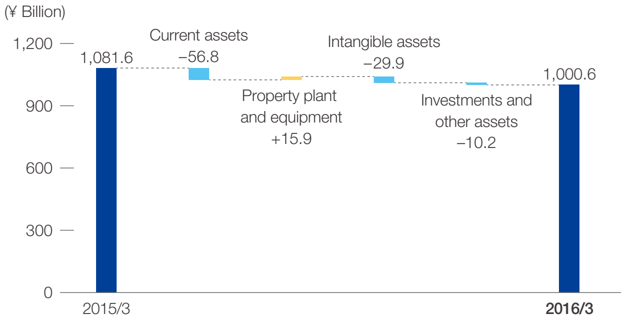
Given this environment, the Olympus Group formulated 2016 Corporate Strategic Plan (16CSP), a five-year, medium-term management plan that launched in fiscal 2017. With the basic policies of “Business to Specialist” Company and One Olympus, we will forge ahead with strengthening business foundations and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

In the Medical Business, we 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 GI&R (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 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.

## Financial Position

### Total Assets

As of March 31, 2016, total assets stood at ¥1,000,614 million, down ¥80,937 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.



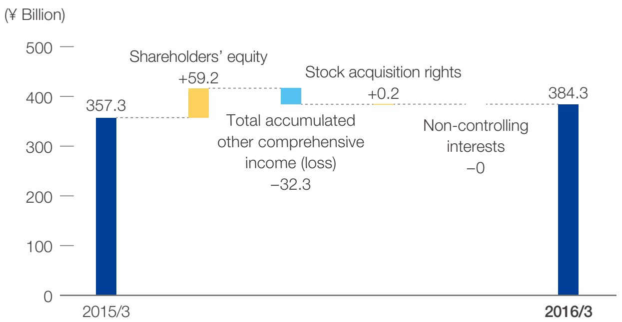

### Liabilities

As of March 31, 2016, total liabilities amounted to ¥616,331 million, down ¥107,966 million from a year earlier. This decrease was due mainly to the rebound from the recording of provision for loss related to the investigation under U.S. Anti-kickback Act and the related Act of ¥58,883 million in fiscal 2015 as well as a ¥74,479 million reduction in short-term borrowings. These factors outweighed a ¥41,196 million increase in long-term debt, less current maturities.

### Total Net Assets and Equity Ratio

Total net assets at the end of the fiscal year amounted to ¥384,283 million, up ¥27,029 million from the previous fiscal year-end. This rise was primarily due to the posting of net income, which offset the recording of total accumulated other comprehensive loss arising from fluctuations in foreign exchange and stock prices.

As a result of the above, the equity ratio increased from 32.9% at the end of the previous fiscal year to 38.2%.




## 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.

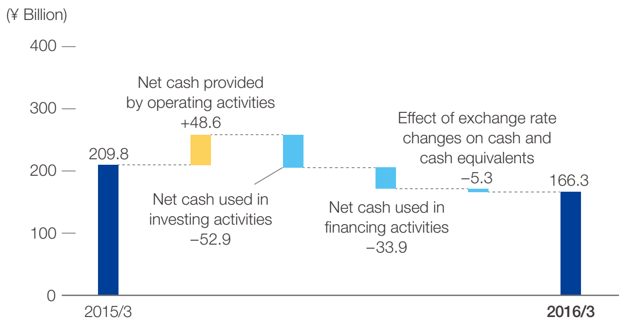
### Cash Flows from Investing Activities

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 ¥3,214 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 ¥78,240 million and decrease in short-term borrowings of ¥23,820 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.



# Risk Information

The following are the main factors, other than management decisions, and risks inherit 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 and material manner due to healthcare system reforms or that some 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 these 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 other interested parties. 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, etc., 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 (Altis Co., Ltd., NEWS CHEF, Inc., and Humalabo 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 have been filed against the Company with pending claims totaling ¥76,974 million.

In regard to the pending lawsuits as of March 31, 2016, the Company recorded ¥567 million as provision for loss on litigation in current liabilities in consideration of the state of progress of lawsuits.

1. On June 28, 2012, 49 plaintiffs (of which one company withdrew its claim before the complaint was received), including the Teachers' Retirement System of the State of Illinois as well as non-Japanese institutional investors and pension funds that are shareholders of the Company, filed a complaint against the Company (the date the Company received the complaint was November 12, 2012). After a subsequent petition to change the object of claim and withdrawal of claim by several plaintiffs, the lawsuit has now been changed so that currently 45 plaintiffs are claiming compensation for damages of ¥20,828 million and 5% per annum interest on this amount for the period from November 8, 2011, up to the payment of the principal.

   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 agrees to pay 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.
2. 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 several plaintiffs, the lawsuit has been changed so that currently 59 plaintiffs are claiming compensation for damages of ¥5,749 million and 5% per annum interest on this amount for the period from October 14, 2011, up to the payment of the principal.
3. 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, up to the payment of the principal.

   On March 27, 2015, an out-of-court settlement was reached with investors, including the plaintiffs regarding this lawsuit for damages, under which the Company agrees to pay the counterparties a settlement package of up to ¥11,000 million in total, including the amount to be paid for lawsuit 1. above. 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 ¥27,915 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 incurred 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 reliable financial reporting and effective 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 as well as their distributors and suppliers operate in countries or regions in which there has been governmental corruption 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 legal violations, 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 FCPA 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 Group 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 Antimonopoly 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 consultations 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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and deposits (Notes 5 and 27) | ¥ 209,875 | ¥ 166,554 | $1,473,929 |
| Notes and accounts receivable (Notes 5 and 7) | 148,127 | 140,666 | 1,244,832 |
| Allowance for doubtful accounts | (4,269) | (6,590) | (58,319) |
| Lease receivables and leased investment assets (Notes 18 and 29) | 31,683 | 33,565 | 297,035 |
| Inventories (Note 8) | 107,387 | 111,558 | 987,239 |
| Deferred income taxes (Note 15) | 40,341 | 38,461 | 340,363 |
| Other current assets | 44,384 | 36,478 | 322,815 |
| Total current assets | 577,528 | 520,692 | 4,607,894 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | 16,073 | 22,832 | 202,053 |
| Buildings and structures | 127,751 | 136,344 | 1,206,584 |
| Machinery and equipment | 258,832 | 259,888 | 2,299,894 |
| Leased assets | 16,703 | 19,200 | 169,912 |
| Construction in progress | 5,595 | 9,799 | 86,716 |
| | 424,954 | 448,063 | 3,965,159 |
| Less–Accumulated depreciation | (274,809) | (281,999) | (2,495,566) |
| Net property, plant and equipment | 150,145 | 166,064 | 1,469,593 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 5 and 6) | 72,263 | 71,141 | 629,566 |
| Deferred income taxes (Note 15) | 9,480 | 11,421 | 101,071 |
| Goodwill | 114,025 | 97,190 | 860,088 |
| Net defined benefit assets (Note 12) | 36,547 | 24,749 | 219,018 |
| Other assets (Notes 18 and 29) | 131,119 | 118,411 | 1,047,885 |
| Allowance for doubtful accounts (Note 13) | (9,556) | (9,054) | (80,124) |
| Total investments and other assets | 353,878 | 313,858 | 2,777,504 |
| Total assets | ¥1,081,551 | ¥1,000,614 | $8,854,991 |

See accompanying notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES: | | | |
| Short-term borrowings (Notes 5, 9 and 18) | ¥ 29,118 | **¥ 6,656** | **$ 58,903** |
| Current maturities of long-term debt (Notes 5, 10 and 18) | 72,017 | **50,000** | **442,478** |
| Notes and accounts payable (Notes 5 and 11) | 39,155 | **40,597** | **359,265** |
| Other payables | 37,450 | **36,762** | **325,327** |
| Income taxes payable (Note 15) | 12,612 | **9,120** | **80,708** |
| Accrued expenses | 83,391 | **90,438** | **800,336** |
| Provision for warranty costs | 5,116 | **6,314** | **55,876** |
| Provision for loss on business liquidation | 481 | **298** | **2,637** |
| Provision for customer points program | — | **207** | **1,832** |
| Provision for loss on litigation | 11,000 | **567** | **5,018** |
| Provision for loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25) | 58,883 | **—** | **—** |
| Other current liabilities | 25,570 | **25,666** | **227,132** |
| Total current liabilities | 374,793 | **266,625** | **2,359,512** |
| | | | |
| NON-CURRENT LIABILITIES: | | | |
| Long-term debt, less current maturities (Notes 5, 10 and 18) | 253,286 | **264,482** | **2,340,549** |
| Deferred income taxes (Note 15) | 39,160 | **28,386** | **251,204** |
| Liabilities for retirement benefits (Note 12) | 38,463 | **38,683** | **342,327** |
| Other non-current liabilities | 18,595 | **18,155** | **160,664** |
| Total non-current liabilities | 349,504 | **349,706** | **3,094,744** |
| Total liabilities | 724,297 | **616,331** | **5,454,256** |
| | | | |
| CONTINGENT LIABILITIES (Note 17) | | | |
| | | | |
| NET ASSETS (Note 16): | | | |
| Common stock: | | | |
| Authorized—1,000,000,000 shares | | | |
| Issued—342,671,508 shares as of March 31, 2015 and 2016 | 124,520 | **124,520** | **1,101,947** |
| Capital surplus | 90,940 | **90,940** | **804,779** |
| Retained earnings | 113,817 | **172,989** | **1,530,876** |
| Treasury stock, at cost | (1,111) | **(1,122)** | **(9,929)** |
| Total shareholders' equity | 328,166 | **387,327** | **3,427,673** |
| Net unrealized holding gains on available-for-sale securities, net of taxes | 24,764 | **24,947** | **220,770** |
| Net unrealized losses on hedging derivatives, net of taxes | (8) | **(7)** | **(62)** |
| Foreign currency translation adjustments | 15,285 | **(8,686)** | **(76,867)** |
| Retirement benefits liability adjustments | (12,745) | **(21,222)** | **(187,806)** |
| Total accumulated other comprehensive income (loss) | 27,296 | **(4,968)** | **(43,965)** |
| 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** |
| Total liabilities and net assets | ¥1,081,551 | **¥1,000,614** | **$8,854,991** |

# Consolidated Statements of Operations

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Net sales | ¥764,671 | **¥804,578** | **$7,120,159** |
| Cost of sales (Note 8) | 274,820 | **269,341** | **2,383,549** |
| Gross profit | 489,851 | **535,237** | **4,736,610** |
| Selling, general and administrative expenses (Note 19) | 398,889 | **430,773** | **3,812,150** |
| Operating income | 90,962 | **104,464** | **924,460** |
| Other income (expenses): | | | |
| Interest expense, net | (8,274) | **(6,871)** | **(60,805)** |
| Gain on available-for-sale securities, net | 1,121 | **3,455** | **30,575** |
| Foreign currency exchange loss, net | (1,669) | **(3,704)** | **(32,779)** |
| Equity in losses of affiliates, net | (2,791) | **(2,675)** | **(23,673)** |
| Legal settlement compensation received (Note 20) | — | **72** | **637** |
| Bank loans-related expenses in conjunction with repayment made prior to due date | (1,117) | **—** | **—** |
| Impairment loss on fixed assets (Note 21) | (119) | **—** | **—** |
| Loss on liquidation of business (Note 22) | (1,820) | **(189)** | **(1,673)** |
| Business restructuring expenses (Note 23) | — | **(1,209)** | **(10,699)** |
| Loss related to securities litigation (Note 24) | (6,816) | **(2,072)** | **(18,336)** |
| Soil improvement cost | (745) | **—** | **—** |
| Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25) | (53,866) | **(18,814)** | **(166,496)** |
| Other, net | (5,932) | **(1,657)** | **(14,663)** |
| Total | (82,028) | **(33,664)** | **(297,912)** |
| Income before income taxes and non-controlling interests | 8,934 | **70,800** | **626,548** |
| Income taxes (Note 15): | | | |
| Current | 20,076 | **10,944** | **96,850** |
| For prior periods (Note 26) | — | **3,172** | **28,071** |
| Deferred | (2,271) | **(5,967)** | **(52,806)** |
| Total | 17,805 | **8,149** | **72,115** |
| (Loss) income before non-controlling interests | (8,871) | **62,651** | **554,434** |
| Non-controlling interests | 134 | **(57)** | **(505)** |
| Net (loss) income | ¥ (8,737) | **¥ 62,594** | **$ 553,929** |

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| (Loss) income before non-controlling interests | ¥ (8,871) | **¥ 62,651** | **$ 554,434** |
| | | | |
| Other comprehensive income (loss) (Note 30): | | | |
| Net unrealized holding gains on available-for-sale securities, net of taxes | 12,928 | **183** | **1,619** |
| Net unrealized (losses) gains on hedging derivatives, net of taxes | (7) | **1** | **9** |
| Foreign currency translation adjustments | 28,759 | **(24,008)** | **(212,460)** |
| Retirement benefits liability adjustments | (7,013) | **(8,477)** | **(75,018)** |
| Share of other comprehensive income of affiliates accounted for by the equity method | 4 | **(4)** | **(35)** |
| Total other comprehensive income (loss) | 34,671 | **(32,305)** | **(285,885)** |
| Comprehensive income | ¥25,800 | **¥ 30,346** | **$ 268,549** |
| | | | |
| Total comprehensive income (loss) attributable to: | | | |
| Shareholders of Olympus Corporation | ¥25,867 | **¥ 30,330** | **$ 268,407** |
| Non-controlling interests | ¥ (67) | **¥ 16** | **$ 142** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

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

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at April 1, 2014** | ¥124,520 | ¥131,871 | ¥ 81,534 | ¥(1,098) | ¥336,827 |
| Cumulative effects of changes in accounting policies | | | 89 | | 89 |
| Restated balance | 124,520 | 131,871 | 81,623 | (1,098) | 336,916 |
| Net loss | | | (8,737) | | (8,737) |
| Transfer to retained earnings from capital surplus | | (40,931) | 40,931 | | — |
| Acquisition of treasury stock | | | | (13) | (13) |
| Disposal of treasury stock | | | | | — |
| Net change in items other than those in shareholders' equity | | | | | — |
| Net changes during the year | — | (40,931) | 32,194 | (13) | (8,750) |
| **Balance at April 1, 2015** | ¥124,520 | ¥ 90,940 | ¥113,817 | ¥(1,111) | ¥328,166 |
| Dividends | | | (3,422) | | (3,422) |
| Net income | | | 62,594 | | 62,594 |
| Acquisition of treasury stock | | | | (12) | (12) |
| Disposal of treasury stock | | | | 1 | 1 |
| Net change in items other than those in shareholders' equity | | | | | — |
| Net changes during the year | — | — | 59,172 | (11) | 59,161 |
| **Balance at March 31, 2016** | **¥124,520** | **¥ 90,940** | **¥172,989** | **¥(1,122)** | **¥387,327** |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Net unrealized holding gains on available-for-sale securities, net of taxes | Net unrealized gains (losses) on hedging derivatives, net of taxes | Foreign currency translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income (loss) | Stock acquisition rights | Non-controlling interests | Total net assets |
| **Balance at April 1, 2014** | ¥11,836 | ¥(1) | ¥(13,411) | ¥ (5,732) | ¥ (7,308) | ¥115 | ¥1,650 | ¥331,284 |
| Cumulative effects of changes in accounting policies | | | | | | | | 89 |
| Restated balance | 11,836 | (1) | (13,411) | (5,732) | (7,308) | 115 | 1,650 | 331,373 |
| Net loss | | | | | — | | | (8,737) |
| Acquisition of treasury stock | | | | | — | | | (13) |
| Disposal of treasury stock | | | | | — | | | — |
| Net change in items other than those in shareholders' equity | 12,928 | (7) | 28,696 | (7,013) | 34,604 | 145 | (118) | 34,631 |
| Net changes during the year | 12,928 | (7) | 28,696 | (7,013) | 34,604 | 145 | (118) | 25,881 |
| **Balance at April 1, 2015** | ¥24,764 | ¥(8) | ¥ 15,285 | ¥(12,745) | ¥27,296 | ¥260 | ¥1,532 | ¥357,254 |
| Dividends | | | | | | | | (3,422) |
| Net income | | | | | — | | | 62,594 |
| Acquisition of treasury stock | | | | | — | | | (12) |
| Disposal of treasury stock | | | | | — | | | 1 |
| Net change in items other than those in shareholders' equity | 183 | 1 | (23,971) | (8,477) | (32,264) | 168 | (36) | (32,132) |
| Net changes during the year | 183 | 1 | (23,971) | (8,477) | (32,264) | 168 | (36) | 27,029 |
| **Balance at March 31, 2016** | **¥24,947** | **¥(7)** | **¥ (8,686)** | **¥(21,222)** | **¥ (4,968)** | **¥428** | **¥1,496** | **¥384,283** |

| | Thousands of U.S. dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at April 1, 2015** | $1,101,947 | $804,779 | $1,007,230 | $(9,832) | $2,904,124 |
| Dividends | | | (30,283) | | (30,283) |
| Net income | | | 553,929 | | 553,929 |
| Acquisition of treasury stock | | | | (106) | (106) |
| Disposal of treasury stock | | | | 9 | 9 |
| Net change in items other than those in shareholders' equity | | | | | |
| Net changes during the year | | | 523,646 | (97) | 523,549 |
| **Balance at March 31, 2016** | **$1,101,947** | **$804,779** | **$1,530,876** | **$(9,929)** | **$3,427,673** |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Net unrealized holding gains on available-for-sale securities, net of taxes | Net unrealized gains (losses) on hedging derivatives, net of taxes | Foreign currency translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income (loss) | Stock acquisition rights | Non-controlling interests | Total net assets |
| **Balance at April 1, 2015** | $219,150 | $(71) | $ 135,265 | $(112,788) | $ 241,556 | $2,301 | $13,558 | $3,161,539 |
| Dividends | | | | | | | | (30,283) |
| Net income | | | | | — | | | 553,929 |
| Acquisition of treasury stock | | | | | — | | | (106) |
| Disposal of treasury stock | | | | | — | | | 9 |
| Net change in items other than those in shareholders' equity | 1,620 | 9 | (212,132) | (75,018) | (285,521) | 1,487 | (319) | (284,353) |
| Net changes during the year | 1,620 | 9 | (212,132) | (75,018) | (285,521) | 1,487 | (319) | 239,196 |
| **Balance at March 31, 2016** | **$220,770** | **$(62)** | **$ (76,867)** | **$(187,806)** | **$ (43,965)** | **$3,788** | **$13,239** | **$3,400,735** |

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes and non-controlling interests | ¥ 8,934 | ¥ 70,800 | $ 626,548 |
| Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | 41,219 | 39,912 | 353,204 |
| Impairment loss on fixed assets (Note 21) | 119 | — | — |
| Amortization of goodwill | 9,421 | 9,867 | 87,319 |
| Bank loans-related expenses in conjunction with repayment made prior to due date | 1,117 | — | — |
| Loss related to the investigation under U.S. Anti-kickback Act and the related Act (Note 25) | 53,866 | 18,814 | 166,496 |
| Loss on liquidation of business | 1,820 | — | — |
| (Decrease) increase in provision for retirement benefits | (914) | 2,712 | 24,000 |
| Increase in prepaid pension cost | (7,501) | (5,500) | (48,673) |
| Loss related to securities litigation | 6,816 | 2,072 | 18,336 |
| (Decrease) increase in provision for warranty costs | (3,580) | 1,420 | 12,566 |
| Interest income | (644) | (1,021) | (9,035) |
| Interest expense | 8,918 | 7,892 | 69,841 |
| Equity in losses of affiliates, net | 2,791 | 2,675 | 23,673 |
| Gain on available-for-sale securities, net | (1,121) | (3,455) | (30,575) |
| Decrease in provision for loss on business liquidation | (3,679) | (177) | (1,566) |
| (Increase) decrease in accounts receivable | (13,020) | 2,006 | 17,752 |
| Increase in inventories | (7,214) | (7,008) | (62,018) |
| (Decrease) increase in accounts payable | (5,740) | 1,965 | 17,389 |
| Increase (decrease) in other payables | 3,772 | (1,572) | (13,912) |
| Increase in accrued expense | 7,672 | 5,179 | 45,832 |
| Increase in non-current lease receivables | (3,772) | (5,083) | (44,982) |
| Other, net | 6,460 | 12,011 | 106,292 |
| Sub-total | 105,740 | 153,509 | 1,358,487 |
| Interest and dividends received | 2,247 | 2,362 | 20,903 |
| Interest paid | (9,055) | (7,987) | (70,681) |
| Bank loans-related expenses in conjunction with repayment made prior to due date paid | (1,117) | — | — |
| Loss related to securities litigation paid (Note 24) | (4,716) | (13,975) | (123,673) |
| Loss related to the investigation under U.S. Anti-kickback Act and the related Act paid (Note 25) | — | (72,455) | (641,195) |
| Income taxes paid | (26,288) | (12,833) | (113,566) |
| Net cash provided by operating activities | 66,811 | 48,621 | 430,275 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES: | | | |
| Deposits in time deposits | (312) | (217) | (1,920) |
| Withdrawals from time deposits | 1,002 | 35 | 310 |
| Purchases of property, plant and equipment | (35,955) | (50,422) | (446,212) |
| Purchases of intangible assets | (5,143) | (5,987) | (52,982) |
| Purchases of investment securities | (328) | (271) | (2,398) |
| Sales of investment securities | 1,157 | 3,214 | 28,442 |
| Net increase from sales of investments in subsidiaries resulting in changes in scope of consolidation (Note 28) | 254 | — | — |
| Proceeds from loans receivable | 29 | 25 | 221 |
| Payment for transfer of business | (798) | — | — |
| Other, net | 482 | 726 | 6,424 |
| Net cash used in investing activities | (39,612) | (52,897) | (468,115) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Increase (decrease) in short-term borrowings | 7,977 | (23,820) | (210,796) |
| Proceeds from long-term borrowings | 1,545 | 73,886 | 653,858 |
| Repayments of long-term borrowings | (77,061) | (78,240) | (692,389) |
| Payments for acquisition of treasury stock | (12) | (13) | (115) |
| Dividends paid to shareholders | — | (3,422) | (30,283) |
| Dividends paid to non-controlling shareholders | (46) | (53) | (469) |
| Other, net | (2,588) | (2,208) | (19,541) |
| Net cash used in financing activities | (70,185) | (33,870) | (299,735) |
| Effect of exchange rate changes on cash and cash equivalents | 1,451 | (5,340) | (47,257) |
| Net decrease in cash and cash equivalents | (41,535) | (43,486) | (384,832) |
| Cash and cash equivalents at beginning of year | 251,344 | 209,809 | 1,856,717 |
| Cash and cash equivalents at end of year (Note 27) | ¥209,809 | ¥ 166,323 | $1,471,885 |

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

Olympus Corporation and Consolidated Subsidiaries

## 1. Summary of Significant Accounting Policies

### (a) Basis of Presenting 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" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either IFRS 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 reformatted 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. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

On November 8, 2011, based on the finding of the independent Third-Party Committee, the Company announced that it had deferred recognition of losses on securities investments from around the 1990s and was using a number of non-consolidated funds (collectively, the "Funds") for the acquisition transactions for three domestic subsidiaries (Altis Co., Ltd., NEWS CHEF, Inc. and Humalabo Co., Ltd., hereinafter, collectively, the "Three Domestic Subsidiaries") and Gyrus Group PLC (Gyrus) to settle such losses.

Based on such findings of the investigation of the independent Third-Party Committee, it was determined that the Company substantially controlled the Funds, which had losses on securities investments and had not previously been consolidated for the purpose of deferring recognition of losses.

The consequences of these findings were reflected in the current and prior year financial statements, including the following:

- Upon discovery of the illegitimate payments to external collaborators, the Company recorded a non-current receivable and off-setting allowance for doubtful accounts of the Funds (Note 13 "Allowance for doubtful accounts").
- As an indirect consequence of these events, the Company has been investigated by various authorities and received various claims in connection with various lawsuits brought against the Company (Note 17 "Contingent liabilities").

In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classification used in the 2016 consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the exchange rate of ¥113 to US$1.00, the approximate rate of exchange prevailing at March 31, 2016. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### (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 investees 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 are 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.

### (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 defer 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:

| | 2015 | **2016** |
|---|---|---|
| Buildings and structures | 9.1% | **6.9%** |
| Machinery and equipment | 32.7% | **26.7%** |

### (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 applied 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), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 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 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. These methods shall be applied prospectively.

Furthermore, the presentation for "net 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 reclassified its consolidated financial statements for the fiscal year ended March 31, 2015.

In addition, in 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 57-4 (4) of the Accounting Standard for Business Divestitures. The Company applied the said 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 depreciating 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 ensure 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 method 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' 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.

## 4. New Accounting Standard Not Yet Applied

Revised “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance 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 receivable—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 payable—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 fix interest expense for certain debt-bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions 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 hedged 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.

In executing derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transaction data are submitted to the director in charge of treasury function and the Board of Directors for their review.

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

(4) 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).

| | Millions of yen | | |
|---|---|---|---|
| As of March 31, 2015 | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| 1) Cash and deposits | ¥209,875 | ¥209,875 | ¥ — |
| 2) Notes and accounts receivable | 148,127 | 148,127 | — |
| 3) Investment securities | 67,483 | 67,483 | — |
| Total | ¥425,485 | ¥425,485 | ¥ — |
| Liabilities: | | | |
| 1) Notes and accounts payable | ¥ 39,155 | ¥ 39,155 | ¥ — |
| 2) Short-term borrowings | 29,118 | 29,118 | — |
| 3) Bonds, including current maturities | 55,000 | 55,669 | 669 |
| 4) Long-term borrowings, including current maturities | 270,303 | 275,195 | 4,892 |
| Total | ¥393,576 | ¥399,137 | ¥5,561 |
| Derivatives* | ¥ (1,254) | ¥ (1,254) | ¥ — |

| | Millions of yen | | |
|---|---|---|---|
| **As of March 31, 2016** | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| 1) Cash and deposits | **¥166,554** | **¥166,554** | **¥ —** |
| 2) Notes and accounts receivable | **140,666** | **140,666** | **—** |
| 3) Investment securities | **67,871** | **67,871** | **—** |
| Total | **¥375,091** | **¥375,091** | **¥ —** |
| Liabilities: | | | |
| 1) Notes and accounts payable | **¥ 40,597** | **¥ 40,597** | **¥ —** |
| 2) Short-term borrowings | **6,656** | **6,656** | **—** |
| 3) Bonds, including current maturities | **55,000** | **55,614** | **614** |
| 4) Long-term borrowings, including current maturities | **259,482** | **268,603** | **9,121** |
| Total | **¥361,735** | **¥371,470** | **¥9,735** |
| Derivatives* | **¥ 217** | **¥ 217** | **¥ —** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| **As of March 31, 2016** | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| 1) Cash and deposits | **$1,473,929** | **$1,473,929** | **$ —** |
| 2) Notes and accounts receivable | **1,244832** | **1,244832** | **—** |
| 3) Investment securities | **600,628** | **600,628** | **—** |
| Total | **$3,319,389** | **$3,319,389** | **$ —** |
| Liabilities: | | | |
| 1) Notes and accounts payable | **$ 359,265** | **$ 359,265** | **$ —** |
| 2) Short-term borrowings | **58,903** | **58,903** | **—** |
| 3) Bonds, including current maturities | **486,726** | **492,159** | **5,433** |
| 4) Long-term borrowings, including current maturities | **2,296,301** | **2,377,018** | **80,717** |
| Total | **$3,201,195** | **$3,287,345** | **$86,150** |
| Derivatives* | **$ 1,920** | **$ 1,920** | **$ —** |

* The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing a net liability position.

Notes:

1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits and Notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Investment securities

The fair value of stocks is based on quoted market prices. The fair value of debt securities and investment trust fund is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6 “Securities.”

Notes and accounts payable and Short-term borrowings

Since these items are settled in a short period of time, their carrying value approximates fair value.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| 1) Non-listed equity securities | ¥ 226 | **¥ 177** | **$ 1,566** |
| 2) Others | 1,843 | **1,147** | **10,150** |
| Total | ¥2,069 | **¥1,324** | **$11,716** |

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.

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

| | Millions of yen | | | |
|---|---|---|---|---|
| As of March 31, 2015 | Within a year | Over a year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits | ¥209,829 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable | 148,127 | — | — | — |
| Investment securities: | | | | |
| Held-to-maturity debt securities: | | | | |
| 1) National and local government bonds | — | — | — | — |
| 2) Corporate bonds | — | — | — | — |
| Other marketable securities with maturities: | | | | |
| 1) Corporate bonds | — | — | — | — |
| 2) Other | 382 | 1,269 | — | — |
| Total | ¥358,338 | ¥1,269 | ¥— | ¥— |

| | Millions of yen | | | |
|---|---|---|---|---|
| **As of March 31, 2016** | Within a year | Over a year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits | **¥166,516** | **¥ —** | **¥—** | **¥—** |
| Notes and accounts receivable | **140,666** | **—** | **—** | **—** |
| Investment securities: | | | | |
| Held-to-maturity debt securities: | | | | |
| 1) National and local government bonds | **—** | **—** | **—** | **—** |
| 2) Corporate bonds | **—** | **—** | **—** | **—** |
| Other marketable securities with maturities: | | | | |
| 1) Corporate bonds | **—** | **—** | **—** | **—** |
| 2) Other | **648** | **308** | **—** | **—** |
| Total | **¥307,830** | **¥308** | **¥—** | **¥—** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| **As of March 31, 2016** | Within a year | Over a year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits | **$1,473,593** | **$ —** | **$—** | **$—** |
| Notes and accounts receivable | **1,244,832** | **—** | **—** | **—** |
| Investment securities: | | | | |
| Held-to-maturity debt securities: | | | | |
| 1) National and local government bonds | **—** | **—** | **—** | **—** |
| 2) Corporate bonds | **—** | **—** | **—** | **—** |
| Other marketable securities with maturities: | | | | |
| 1) Corporate bonds | **—** | **—** | **—** | **—** |
| 2) Other | **5,735** | **2,726** | **—** | **—** |
| Total | **$2,724,160** | **$2,726** | **$—** | **$—** |

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

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| As of March 31, 2015 | Within a year | Over a year but within two years | Over two years but within three years | Over three years but within four years | Over four years but within five years | Over five years |
| Short-term borrowings | ¥ 29,118 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds | — | 30,000 | — | 25,000 | — | — |
| Long-term borrowings | 72,017 | 23,025 | 57,117 | 54,721 | 48,205 | 15,218 |
| Lease payables | 2,481 | 2,462 | 1,745 | 1,015 | 366 | 185 |
| Total | ¥103,616 | ¥55,487 | ¥58,862 | ¥80,736 | ¥48,571 | ¥15,403 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| **As of March 31, 2016** | Within a year | Over a year but within two years | Over two years but within three years | Over three years but within four years | Over four years but within five years | Over five years |
| Short-term borrowings | **¥ 6,656** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** |
| Bonds | **30,000** | **—** | **25,000** | **—** | **—** | **—** |
| Long-term borrowings | **20,000** | **55,000** | **53,663** | **81,804** | **—** | **49,015** |
| Lease payables | **3,253** | **2,742** | **1,972** | **1,225** | **409** | **18** |
| Total | **¥59,909** | **¥57,742** | **¥80,635** | **¥83,029** | **¥409** | **¥49,033** |

Note: Repayment dates of security deposits included in other interest-bearing debt are not determined.

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| **As of March 31, 2016** | Within a year | Over a year but within two years | Over two years but within three years | Over three years but within four years | Over four years but within five years | Over five years |
| Short-term borrowings | **$ 58,903** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Bonds | **265,487** | **—** | **221,239** | **—** | **—** | **—** |
| Long-term borrowings | **176,991** | **486,726** | **474,894** | **723,929** | **—** | **433,761** |
| Lease payables | **28,788** | **24,265** | **17,451** | **10,841** | **3,619** | **159** |
| Total | **$530,169** | **$510,991** | **$713,584** | **$734,770** | **$3,619** | **$433,920** |

## 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

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | **2016** | | | **2016** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥34,047 | ¥67,018 | ¥32,971 | **¥27,787** | **¥62,112** | **¥34,325** | **$245,903** | **$549,664** | **$303,761** |
| Others | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | ¥34,047 | ¥67,018 | ¥32,971 | **¥27,787** | **¥62,112** | **¥34,325** | **$245,903** | **$549,664** | **$303,761** |

Securities with book value not exceeding acquisition cost

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | **2016** | | | **2016** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥527 | ¥465 | ¥(62) | **¥6,700** | **¥5,759** | **¥(941)** | **$59,292** | **$50,965** | **$(8,327)** |
| Others | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | ¥527 | ¥465 | ¥(62) | **¥6,700** | **¥5,759** | **¥(941)** | **$59,292** | **$50,965** | **$(8,327)** |

Note: In the year ended March 31, 2015, the Company recognized impairment loss of ¥2 million on available-for-sale securities with fair value. No impairment loss was recorded on available-for-sale securities for the year ended March 31, 2016.

The Company recognizes an impairment loss when the fair market value of marketable and investment securities declines to less than 50% of the acquisition cost at the end of the period. In addition, an impairment loss is also recognized when the fair market value declines more than 30% but less than 50%, and the recovery of the fair market value is not expected due to market conditions, trends of earnings and other key measures.

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:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | **2016** | | | **2016** | | |
| | Sales proceeds | Aggregate gain | Aggregate loss | Sales proceeds | Aggregate gain | Aggregate loss | Sales proceeds | Aggregate gain | Aggregate loss |
| Equity securities | ¥568 | ¥122 | ¥455 | **¥3,152** | **¥2,296** | **¥ —** | **$27,894** | **$20,319** | **$ —** |
| Others | 103 | 0 | 27 | **33** | **1** | **183** | **292** | **8** | **1,619** |
| Total | ¥671 | ¥122 | ¥482 | **¥3,185** | **¥2,297** | **¥183** | **$28,186** | **$20,327** | **$1,619** |

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

| | Book value | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars |
| | 2015 | **2016** | **2016** |
| Investments in unconsolidated subsidiaries and affiliates | ¥2,711 | **¥1,946** | **$17,221** |
| Total | ¥2,711 | **¥1,946** | **$17,221** |

## 7. Notes and Accounts Receivable

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Unconsolidated subsidiaries and affiliates | ¥ 46 | **¥ 24** | **$ 212** |
| Trade | 148,081 | **140,642** | **1,244,620** |
| Total | ¥148,127 | **¥140,666** | **$1,244,832** |

## 8. Inventories

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Finished goods | ¥ 57,179 | **¥ 54,245** | **$480,044** |
| Work in process and raw materials | 50,208 | **57,313** | **507,195** |
| Total | ¥107,387 | **¥111,558** | **$987,239** |

Write-downs of inventories for the years ended March 31, 2015 and 2016, net of the amount of the reversal, were included in the following account:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Cost of sales | ¥5,883 | **¥5,230** | **$46,283** |

## 9. Short-Term Borrowings

Short-term borrowings consisted principally of bank loans. The annual interest rates on these borrowings ranged from 0.50% to 5.04% 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| (Unsecured long-term debt) | | | |
| 2.15% yen bonds, due July 2018 | ¥ 25,000 | **¥ 25,000** | **$ 221,239** |
| 1.94% yen bonds, due March 2017 | 20,000 | **20,000** | **176,991** |
| 1.98% yen bonds, due September 2016 | 10,000 | **10,000** | **88,496** |
| 2.53% loan from a Japanese bank, due September 2017 | 35,000 | **35,000** | **309,735** |
| 2.70% loan from a Japanese bank, due July 2018 | 33,100 | **33,100** | **292,920** |
| 2.33% loan from a Japanese bank, due September 2015 | 23,000 | **—** | **—** |
| 1.89% loan from a Japanese bank, due March 2016 | 20,000 | **—** | **—** |
| 2.65% loan from a Japanese bank, due September 2018 | 20,000 | **20,000** | **176,991** |
| 2.49% loan from a Japanese bank, due September 2016 | 20,000 | **10,000** | **88,496** |
| 1.99% loan from a Japanese bank, due September 2016 | — | **10,000** | **88,496** |
| 2.64% loan from a Japanese bank, due August 2017 | 20,000 | **2,000** | **17,699** |
| 2.14% loan from a Japanese bank, due August 2017 | — | **18,000** | **159,292** |
| 2.25% loan from a Japanese bank, due September 2019 | 20,000 | **20,000** | **176,991** |
| 1.58% loan from a Japanese bank, due May 2015 | 17,000 | **—** | **—** |
| 2.28% loan from a Japanese bank, due May 2019 | 18,000 | **18,000** | **159,292** |
| 2.00% loan from a Japanese bank, due May 2019 | 10,000 | **10,000** | **88,496** |
| 2.04% loan from a Japanese bank, due May 2021 | 15,000 | **15,000** | **132,743** |
| 2.82% loan from a foreign bank, due March 2023 | — | **16,902** | **149,575** |
| 2.91% loan from a foreign bank, due February 2023 | — | **16,902** | **149,575** |
| 2.78% loan from a foreign bank, due March 2020 | — | **23,663** | **209,407** |
| 2.70% loan from a foreign bank, due March 2020 | — | **10,141** | **89,743** |
| Other loans from foreign banks | 216 | **211** | **1,867** |
| Other loans from Japanese banks | 12,618 | **563** | **4,983** |
| (Secured long-term debt) | | | |
| Other loans from Japanese banks | 6,369 | **—** | **—** |
| | 325,303 | **314,482** | **2,783,027** |
| Less–current maturities | (72,017) | **(50,000)** | **(442,478)** |
| | ¥253,286 | **¥264,482** | **$2,340,549** |

As of March 31, 2016, the aggregate annual maturities of long-term debt were as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2017 | ¥ 50,000 | $ 442,478 |
| 2018 | 55,000 | 486,726 |
| 2019 | 78,663 | 696,133 |
| 2020 | 81,804 | 723,929 |
| 2021 | — | — |
| 2022 and thereafter | 49,015 | 433,761 |
| Total | ¥314,482 | $2,783,027 |

## 11. Notes and Accounts Payable

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Unconsolidated subsidiaries and affiliates | ¥ 667 | **¥ 1,749** | **$ 15,478** |
| Trade | 38,488 | **38,848** | **343,787** |
| Total | ¥39,155 | **¥40,597** | **$359,265** |

## 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):

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Retirement benefit obligation at April 1 | ¥171,637 | **¥192,261** | **$1,701,424** |
| Cumulative effects of changes in accounting policies | (142) | **—** | **—** |
| Restated balance at April 1 | 171,495 | **192,261** | **1,701,424** |
| Service cost | 6,230 | **6,626** | **58,637** |
| Interest cost | 4,713 | **4,913** | **43,478** |
| Actuarial loss | 14,925 | **7,605** | **67,301** |
| Retirement benefit paid | (5,486) | **(6,282)** | **(55,593)** |
| Transfer to defined contribution plans in foreign subsidiary | (11,553) | **—** | **—** |
| Prior service cost | 6 | **—** | **—** |
| Effect of foreign exchange translation | 9,939 | **(8,220)** | **(72,743)** |
| Effect of changing from simplified method to standard method | 1,888 | **88** | **779** |
| Other | 104 | **45** | **398** |
| Retirement benefit obligation at March 31 | ¥192,261 | **¥197,036** | **$1,743,681** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Plan assets at April 1 | ¥175,196 | **¥191,399** | **$1,693,798** |
| Expected return on plan assets | 7,795 | **8,433** | **74,628** |
| Actuarial gain (loss) | 13,662 | **(8,987)** | **(79,531)** |
| Contributions by the Company | 5,568 | **5,276** | **46,690** |
| Retirement benefit paid | (5,113) | **(5,757)** | **(50,947)** |
| Transfer to defined contribution plans in foreign subsidiary | (11,553) | **—** | **—** |
| Effect of foreign exchange translation | 5,996 | **(6,128)** | **(54,230)** |
| Other | (152) | **(23)** | **(204)** |
| Retirement benefit obligation at March 31 | ¥191,399 | **¥184,213** | **$1,630,204** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Provision for retirement benefits at April 1 | ¥ 2,633 | **¥1,019** | **$9,018** |
| Retirement benefit expense | 242 | **205** | **1,815** |
| Retirement benefit paid | (88) | **(63)** | **(558)** |
| Effect of changing from simplified method to standard method | (1,676) | **(88)** | **(779)** |
| Other | (92) | **—** | **—** |
| Liability for retirement benefits at March 31 | ¥ 1,019 | **¥1,073** | **$9,496** |

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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Funded retirement benefit obligation | ¥ 181,425 | ¥ 183,471 | $ 1,623,637 |
| Plan assets at fair value | (191,399) | (184,213) | (1,630,204) |
| | (9,974) | (742) | (6,567) |
| Unfunded retirement benefit obligation | 11,856 | 14,638 | 129,540 |
| Net liability for retirement benefits in the balance sheet | 1,882 | 13,896 | 122,973 |
| Liability for retirement benefits | 38,429 | 38,645 | 341,991 |
| Net defined benefit assets | (36,547) | (24,749) | (219,018) |
| Net amount | ¥ 1,882 | ¥ 13,896 | $ 122,973 |

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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Service cost | ¥ 6,230 | ¥ 6,626 | $ 58,637 |
| Interest cost on projected benefit obligation | 4,713 | 4,913 | 43,478 |
| Expected return on plan assets | (7,795) | (8,433) | (74,628) |
| Amortization of actuarial loss | 427 | 1,185 | 10,487 |
| Amortization of prior service cost | (1,897) | (930) | (8,230) |
| Retirement benefit expense for consolidated subsidiaries adopting the simplified method | 211 | 205 | 1,814 |
| Amortization of changing from simplified method to standard method | 212 | — | — |
| Other | 94 | 157 | 1,389 |
| Retirement benefit expense | ¥ 2,195 | ¥ 3,723 | $ 32,947 |

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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Prior service cost | ¥1,930 | ¥ 921 | $ 8,150 |
| Actuarial loss | 2,245 | 14,385 | 127,301 |
| Total | ¥4,175 | ¥15,306 | $135,451 |

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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Unrecognized prior service cost | ¥ (791) | ¥ 130 | $ 1,150 |
| Unrecognized actuarial loss | 13,103 | 27,488 | 243,257 |
| Total | ¥12,312 | ¥27,618 | $244,407 |

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

| | 2015 | 2016 |
|---|---|---|
| Bonds | 40% | 36% |
| Stocks | 29% | 22% |
| General accounts | 28% | 33% |
| Other | 3% | 9% |
| Total | 100% | 100% |

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:

| | 2015 | 2016 |
|---|---|---|
| Discount rate | mainly 1.5% | mainly 0.4% |
| Expected rate of return on plan assets | mainly 4.0% | mainly 4.0% |

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." Illegitimate payments for fees to external collaborators of ¥7,211 million and ¥7,211 million ($63,814 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:

| | First series of stock subscription rights | Second series of stock subscription rights | Third series of stock subscription rights |
|---|---|---|---|
| Qualified beneficiaries | 5 directors, 20 executive officers | 5 directors, 20 executive officers | 5 directors, 19 executive officers |
| Class and number of shares for which new subscription rights were offered | Common stock 40,100 | Common stock 41,000 | Common stock 38,700 |
| Grant date | August 26, 2013 | July 11, 2014 | July 13, 2015 |
| Exercise period | From August 27, 2013 to August 26, 2043 | From July 12, 2014 to July 11, 2044 | From July 14, 2015 to July 13, 2045 |
| Number of unvested stock options: | | | |
| As of March 31, 2015 | — | — | — |
| Granted | — | — | 38,700 |
| Forfeited | — | — | — |
| Vested | — | — | 38,700 |
| As of March 31, 2016 | — | — | — |
| Number of vested stock options: | | | |
| As of March 31, 2015 | 39,100 | 40,000 | — |
| Vested | — | — | 38,700 |
| Exercised | 400 | — | — |
| Forfeited | — | — | 300 |
| As of March 31, 2016 | 38,700 | 40,000 | 38,400 |
| For stock options exercised during the year: | | | |
| Exercise price (yen) | ¥1 | ¥1 | ¥1 |
| Average price of common stock at the date of exercise (yen) | ¥4,835 | ¥— | ¥— |
| Fair value per share at the grant date: | | | |
| Exercise price (yen) | ¥2,940 | ¥3,625 | ¥4,490 |

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

| | Second series of stock subscription rights | Third series of stock subscription rights |
|---|---|---|
| Estimate method | Black-Scholes option pricing model | Black-Scholes option pricing model |
| Expected volatility (Note 1) | 48.81% | 47.44% |
| Expected life (Note 2) | 15 years | 15 years |
| Expected dividend (Note 3) | ¥0 per share | ¥5 per share |
| Risk-free interest rate (Note 4) | 0.98% | 0.82% |

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 1999 to August 2014. 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 2000 to July 2015.
2. Because of the insufficient data and difficulty in making a reasonable estimate, the expected life was based on the assumption that the stock subscription rights would have been exercised at the midpoint of the exercise period.
3. Expected dividend for Second series of stock subscription rights was based on the dividend paid over the last two terms. Expected dividend for Third series of stock subscription rights was based on the dividend paid over the last two terms.
4. Risk-free interest rate represented the interest rate of Japanese Government Bonds (JGBs) corresponding to the expected life of the options.

## 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:

| | 2015 | **2016** |
|---|---|---|
| Normal statutory tax rates | 35.6% | **33.1%** |
| Non-deductible expenses | 247.5 | **2.5** |
| Non-taxable income | (2.5) | **(0.6)** |
| R&D tax credits | (12.8) | **(2.2)** |
| Effect of lower tax rates applied for foreign subsidiaries | (43.9) | **(4.2)** |
| Decrease in valuation allowance | (88.7) | **(43.3)** |
| Amortization of goodwill | 37.5 | **4.6** |
| Effect of reorganization of Group structure | — | **17.0** |
| Decrease in deferred tax assets and liabilities due to tax rate change | 22.5 | **(0.2)** |
| Other, net | 4.1 | **4.8** |
| Effective tax rates | 199.3% | **11.5%** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Deferred tax assets: | | | |
| Inventories | ¥ 6,962 | **¥ 7,722** | **$ 68,336** |
| Prepaid expenses | 5,287 | **6,972** | **61,699** |
| Accrued bonuses | 6,033 | **6,339** | **56,097** |
| Investments in consolidated subsidiaries | 5,268 | **1,707** | **15,106** |
| Unrealized intercompany profits | 6,837 | **4,380** | **38,761** |
| Depreciation of property, plant and equipment | 6,438 | **5,297** | **46,876** |
| Amortization of intangible assets | 4,134 | **4,710** | **41,681** |
| Liability for retirement benefits | 11,738 | **12,759** | **112,912** |
| Securities | 7,366 | **4,526** | **40,053** |
| Loss carryforwards | 43,327 | **28,710** | **254,071** |
| Other | 38,355 | **33,129** | **293,178** |
| Sub-total | 141,745 | **116,251** | **1,028,770** |
| Valuation allowance | (78,959) | **(50,403)** | **(446,044)** |
| Total deferred tax assets | 62,786 | **65,848** | **582,726** |
| Net defined benefit assets | (10,937) | **(7,398)** | **(65,469)** |
| Basis differences in assets acquired and liabilities assumed upon acquisition | (15,956) | **(12,545)** | **(111,018)** |
| Other | (26,751) | **(25,747)** | **(227,850)** |
| Total deferred tax liabilities | (53,644) | **(45,690)** | **(404,337)** |
| Net deferred tax assets | ¥ 9,142 | **¥ 20,158** | **$ 178,389** |

Following the enactment of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) on March 29, 2016 in the Japanese Diet, the corporation tax rates were changed for the fiscal years beginning on or after April 1, 2016. In line with these changes, the effective tax rate used to measure deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be reversed in the fiscal years beginning on April 1, 2016 and 2017, and to 30.6% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2018. As a result of these tax rate changes, deferred tax assets (net of deferred tax liabilities) decreased by ¥507 million ($4,487 thousand), net unrealized holding gains on available-for-sale securities increased by ¥501 million ($4,434 thousand) and retirement benefits liability adjustments of defined benefit plans decreased by ¥216 million ($1,912 thousand) as of March 31, 2016, and deferred income tax expense increased by ¥792 million ($7,009 thousand) for the year ended March 31, 2016.

## 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.

(1) March 31, 2015

A summary of information regarding the consolidated statement of changes in net assets for the year ended March 31, 2015 was as follows:

Total number and class of shares issued and treasury stock

| Class of shares | As of April 1, 2014 (Number of shares) | Increase (Number of shares) | Decrease (Number of shares) | As of March 31, 2015 (Number of shares) |
|---|---|---|---|---|
| Shares issued: | | | | |
| Common stock | 342,671,508 | — | — | 342,671,508 |
| Treasury stock: | | | | |
| Common stock (Note) | 431,063 | 3,173 | — | 434,236 |

Note: The increase in the number of common stock in treasury includes 3,173 shares through the purchase of stock of less than one trading unit.

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

| Resolution | Class of shares | Amount of dividends paid (Millions of yen) | Funds of distribution | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| General Shareholders' Meeting (June 26, 2015) | Common stock | ¥3,422 | Retained earnings | ¥10.00 | March 31, 2015 | June 29, 2015 |

**(2) March 31, 2016**

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

| Class of shares | As of April 1, 2015 (Number of shares) | Increase (Number of shares) | Decrease (Number of shares) | As of March 31, 2016 (Number of shares) |
|---|---|---|---|---|
| Shares issued: | | | | |
| Common stock | **342,671,508** | **—** | **—** | **342,671,508** |
| Treasury stock: | | | | |
| Common stock (Notes 1 and 2) | **434,236** | **2,771** | **400** | **436,607** |

Notes:
1. The increase in the number of common stock in treasury includes 2,771 shares through the purchase of stock of less than one trading unit.
2 The decrease in the number of common stock in treasury includes 400 shares through the exercise of stock options.

Share subscription rights

Please refer to Note 14 "Stock option plans."

Dividends paid

| Resolution | Class of shares | Amount of dividends paid (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| General Shareholders' Meeting (June 26, 2015) | Common stock | ¥3,422 ($30,283 thousand) | ¥10.00 ($0.088) | March 31, 2015 | June 29, 2015 |

Dividends resolved during the year ended March 31, 2016 that will be effective after March 31, 2016

| Resolution | Class of shares | Amount of dividends paid (Millions of yen) | Funds of distribution | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| General Shareholders' Meeting (June 28, 2016) | Common stock | ¥5,818 ($51,487 thousand) | Retained earnings | ¥17.00 ($0.150) | March 31, 2016 | June 29, 2016 |

## 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 ¥567 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Lease receivables and leased investment assets | ¥14,781 | **¥—** | **$—** |
| Other assets | 6,369 | **—** | **—** |
| | ¥21,150 | **¥—** | **$—** |

The obligations secured by such collateral were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Long-term debt | ¥ 6,369 | **¥—** | **$—** |
| Short-term borrowings | 14,781 | **—** | **—** |
| | ¥21,150 | **¥—** | **$—** |

## 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Advertising and promotion expenses | ¥ 42,906 | **¥ 40,945** | **$ 362,345** |
| Salaries and allowance | 124,863 | **135,247** | **1,196,876** |
| Bonuses | 28,073 | **30,826** | **272,796** |
| Retirement benefit expenses | 4,659 | **7,130** | **63,097** |
| Amortization of goodwill | 9,421 | **9,867** | **87,319** |
| Research and development expenses | 35,697 | **41,753** | **369,496** |
| Depreciation and amortization | 29,794 | **30,550** | **270,354** |

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 deferral 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:

| Use | Type of assets | Location | Millions of yen |
|---|---|---|---|
| Idle properties | Buildings and structures | Aomori | ¥119 |
| Total | | | ¥119 |

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-Globaledge 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Settlement charge | ¥6,760 | **¥2,072** | **$18,336** |
| Compensation for damage | 56 | **—** | **—** |
| Total | ¥6,816 | **¥2,072** | **$18,336** |

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 ¥18,814 million ($166,496 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Cash and deposits | ¥209,875 | **¥166,554** | **$1,473,929** |
| Less–time deposits with maturities over three months | (66) | **(231)** | **(2,044)** |
| Cash and cash equivalents | ¥209,809 | **¥166,323** | **$1,471,885** |

## 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-Globaledge 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:

| | Millions of yen |
|---|---|
| Current assets | ¥ 3,050 |
| Non-current assets | 324 |
| Current liabilities | (1,836) |
| Non-current liabilities | (120) |
| Minority interests | (6) |
| Loss on liquidation of business | (1,122) |
| Transfer price for business | 290 |
| Cash and cash equivalents | (36) |
| Proceeds from sales of investment securities in subsidiaries, net | ¥ 254 |

## 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of March 31 | 2015 | **2016** | **2016** |
| (Equivalent amount) | | | |
| Acquisition cost | ¥ 23 | **¥—** | **$—** |
| Accumulated depreciation | (21) | **—** | **—** |
| Accumulated loss on impairment | — | **—** | **—** |
| Net book value | ¥ 2 | **¥—** | **$—** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of March 31 | 2015 | **2016** | **2016** |
| (Future lease payments) | | | |
| Due within one year | ¥ 2 | **¥—** | **$—** |
| Due after one year | — | **—** | **—** |
| Total | ¥ 2 | **¥—** | **$—** |
| Balance of impairment loss account on leased assets included in the outstanding future lease payments | ¥— | **¥—** | **$—** |

| For the years ended March 31 | Millions of yen 2015 | 2016 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| (Lease payments and pro forma information) | | | |
| Lease payments | ¥15 | ¥2 | $18 |
| Equivalent of depreciation expense | 13 | 1 | 9 |
| Equivalent of interest expense | 0 | 0 | 0 |

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using the interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Operating Lease Transactions (Lessee):

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

| | Millions of yen | | |
|---|---|---|---|
| As of March 31, 2015 | Due within one year | Due after one year | Total minimum lease payments |
| | ¥1,671 | ¥2,207 | ¥3,878 |

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| **As of March 31, 2016** | Due within one year | Due after one year | Total minimum lease payments | Due within one year | Due after one year | Total minimum lease payments |
| | **¥1,619** | **¥4,009** | **¥5,628** | **$14,327** | **$35,478** | **$49,805** |

Finance Lease Transactions (Lessor):

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

| | Millions of yen 2015 | 2016 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Lease receivables and leased investment assets: | | | |
| Lease receivable components of leased investment assets | ¥25,490 | ¥26,021 | $230,274 |
| Estimated residual value | 3,083 | 2,118 | 18,743 |
| Interest income | (2,943) | (2,596) | (22,973) |
| Leased investment assets | ¥25,630 | ¥25,543 | $226,044 |

| | Millions of yen 2015 | 2016 | Thousands of U.S. dollars 2016 |
|---|---|---|---|
| Other assets: | | | |
| Lease receivable components of leased investment assets | ¥37,614 | ¥33,446 | $295,982 |
| Estimated residual value | 2,480 | 7,889 | 69,814 |
| Interest income | (3,851) | (3,827) | (33,867) |
| Leased investment assets | ¥36,243 | ¥37,508 | $331,929 |

The following table set forth amounts of lease receivables and leased investment assets to be collected subsequent to March 31, 2015 and 2016:

| As of March 31, 2015 | Millions of yen<br>Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| Lease receivables and leased investment assets: | | | | | | |
| Lease receivables | ¥ 6,053 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Lease receivable components of leased investment assets | 25,490 | — | — | — | — | — |
| Other assets: | | | | | | |
| Lease receivables | — | 3,713 | 2,455 | 1,322 | 527 | 26 |
| Lease receivable components of leased investment assets | — | 16,998 | 12,102 | 7,337 | 1,076 | 101 |

| **As of March 31, 2016** | Millions of yen<br>Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| Lease receivables and leased investment assets: | | | | | | |
| Lease receivables | **¥ 8,022** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** |
| Lease receivable components of leased investment assets | **26,021** | **—** | **—** | **—** | **—** | **—** |
| Other assets: | | | | | | |
| Lease receivables | **—** | **4,255** | **2,545** | **1,441** | **722** | **11** |
| Lease receivable components of leased investment assets | **—** | **16,557** | **11,490** | **4,551** | **842** | **6** |

| **As of March 31, 2016** | Thousands of U.S. dollars<br>Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| Lease receivables and leased investment assets: | | | | | | |
| Lease receivables | **$ 70,991** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Lease receivable components of leased investment assets | **230,274** | **—** | **—** | **—** | **—** | **—** |
| Other assets: | | | | | | |
| Lease receivables | **—** | **37,655** | **22,522** | **12,752** | **6,389** | **97** |
| Lease receivable components of leased investment assets | **—** | **146,522** | **101,681** | **40,274** | **7,451** | **53** |

Operating Lease Transactions (Lessor):

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

| As of March 31, 2015 | Millions of yen<br>Due within one year | Due after one year | Total minimum lease payments |
|---|---|---|---|
| | ¥5,149 | ¥7,309 | ¥12,458 |

| **As of March 31, 2016** | Millions of yen<br>Due within one year | Due after one year | Total minimum lease payments | Thousands of U.S. dollars<br>Due within one year | Due after one year | Total minimum lease payments |
|---|---|---|---|---|---|---|
| | **¥5,189** | **¥5,421** | **¥10,610** | **$45,920** | **$47,973** | **$93,894** |

## 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Net unrealized holding gains (losses) on available-for-sale securities, net of taxes: | | | |
| Amount arising during the year | ¥17,086 | ¥ 2,913 | $ 25,779 |
| Reclassification adjustments for gains and losses included in net income | 505 | (1,883) | (16,664) |
| Amount before tax effect | 17,591 | 1,030 | 9,115 |
| Tax effect | (4,663) | (847) | (7,496) |
| Net unrealized holding gains (losses) on available-for-sale securities, net of taxes | ¥12,928 | ¥ 183 | $ 1,619 |
| Net unrealized gains (losses) on hedging derivatives, net of taxes: | | | |
| Amount arising during the year | ¥ 0 | ¥ (10) | $ (88) |
| Reclassification adjustments for gains and losses included in net income | (7) | 8 | 71 |
| Amount before tax effect | (7) | (2) | (17) |
| Tax effect | — | 3 | 26 |
| Net unrealized gains (losses) on hedging derivatives, net of taxes | ¥ (7) | ¥ 1 | $ 9 |
| Foreign currency translation adjustments: | | | |
| Amount arising during the year | ¥28,651 | ¥(24,018) | $(212,549) |
| Reclassification adjustments for gains and losses included in net income | 108 | 10 | 89 |
| Foreign currency translation adjustments | ¥28,759 | ¥(24,008) | $(212,460) |
| Retirement benefits liability adjustments: | | | |
| Amount arising during the year | ¥ (5,224) | ¥(13,035) | $(115,354) |
| Reclassification adjustments for gains and losses included in net income | (1,470) | 249 | 2,204 |
| Amount before tax effect | (6,694) | (12,786) | (113,150) |
| Tax effect | (319) | 4,309 | 38,132 |
| Retirement benefits liability adjustments | ¥ (7,013) | ¥ (8,477) | $ (75,018) |
| Share of other comprehensive income (loss) of companies accounted for by the equity method: | | | |
| Amount arising during the year | ¥ 4 | ¥ (4) | $ (35) |
| Share of other comprehensive income (loss) of companies accounted for by the equity method | ¥ 4 | ¥ (4) | $ (35) |
| Total other comprehensive income (loss) | ¥34,671 | ¥(32,305) | $(285,885) |

## 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 derivative 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

| | Millions of yen | | |
|---|---|---|---|
| As of March 31, 2015 | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | |
| To buy U.S. dollars | ¥3,098 | ¥ 124 | ¥ 124 |
| To buy other currencies | 6,872 | (23) | (23) |
| To sell U.S. dollars | 8,548 | (1,349) | (1,349) |
| To sell other currencies | 9,056 | (225) | (225) |
| Foreign exchange option contracts: | | | |
| Put option | 7,630 | 208 | 208 |
| Foreign currency swap contracts: | | | |
| Receive British pounds / pay Euro | — | — | — |
| Receive other currencies / pay other currencies | 5,491 | 11 | 11 |

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| **As of March 31, 2016** | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | | | |
| To buy U.S. dollars | **¥ 646** | **¥ 48** | **¥ 48** | **$ 5,717** | **$ 425** | **$ 425** |
| To buy other currencies | **7,389** | **193** | **193** | **65,389** | **1,708** | **1,708** |
| To sell U.S. dollars | **6,642** | **117** | **117** | **58,779** | **1,035** | **1,035** |
| To sell other currencies | **14,301** | **(238)** | **(238)** | **126,558** | **(2,106)** | **(2,106)** |
| Foreign exchange option contracts: | | | | | | |
| Put option | **4,869** | **84** | **84** | **43,088** | **743** | **743** |
| Foreign currency swap contracts: | | | | | | |
| Receive British pounds / pay Euro | **3,790** | **(8)** | **(8)** | **33,540** | **(71)** | **(71)** |
| Receive other currencies / pay other currencies | **6,084** | **21** | **21** | **53,841** | **186** | **186** |

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

| | Millions of yen | |
|---|---|---|
| As of March 31, 2015 | Notional amount | Fair value |
| Forward foreign exchange contracts, accounted for by special hedge accounting: | | |
| To buy U.S. dollars | ¥ 6,599 | * |
| To buy other currencies | 296 | * |
| To sell U.S. dollars | 49,588 | * |
| To sell other currencies | 26,128 | * |
| Interest rate swap contracts, accounted for by special hedge accounting shortcut method: | | |
| Receive floating / pay fixed | 208,000 | ** |

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| **As of March 31, 2016** | Notional amount | Fair value | Notional amount | Fair value |
| Forward foreign exchange contracts, accounted for by special hedge accounting: | | | | |
| To buy U.S. dollars | **¥ 4,992** | * | **$ 44,177** | * |
| To buy other currencies | **—** | * | **—** | * |
| To sell U.S. dollars | **44,857** | * | **396,965** | * |
| To sell other currencies | **27,665** | * | **244,823** | * |
| Forward foreign exchange contracts for forecasted transactions: | | | | |
| To sell other currencies | **1,109** | **(10)** | **9,814** | **(88)** |
| Interest rate swap contracts, accounted for by special hedge accounting shortcut method: | | | | |
| Receive floating / pay fixed | **148,000** | ** | **1,309,735** | ** |

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

The fair value of interest rate swap contracts is estimated by obtaining quotes from financial institutions.

* 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.

## 32. 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.

Each business division of the Olympus Group formulates comprehensive strategies for Japan and abroad with respect to products and services handled and deploys business activities.

Accordingly, being composed of segments, based on these business divisions, that are categorized according to products and services, the Olympus Group has the following four reportable segments: Medical Business, Scientific Solutions Business, Imaging Business and Others.

The "Medical Business" manufactures and sells gastrointestinal endoscopes, surgical endoscopes, endotherapy devices and other products. The "Scientific Solutions Business" manufactures and sells biological microscopes, industrial microscopes, industrial endoscopes, non-destructive testing equipment and other products. The "Imaging Business" manufactures and sells digital cameras, voice recorders and other products. The "Others" business manufactures and sells biomedical materials and conducts system development and other business activities.

From the first quarter ended June 30, 2015, in conjunction with changes in the Company's organization, a new business previously classified under the Imaging Business (a new cross-functional business field aiming for a combination of medical systems and scientific solutions based on the engineering technology, electronic and imaging technology, network technology and manufacturing technology accumulated in the Imaging Business, and growth in this form) was included in "Others." The segment information for the fiscal year ended March 31, 2015 was restated to reflect such change in the segment classification.

### 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.

As noted under "Changes in Accounting Policies," with respect to the change in the method of depreciation of property, plant and equipment, effective April 1, 2015, the Company and its consolidated subsidiaries in Japan changed the method for depreciating property, plant and equipment (excluding lease assets) from the declining balance method to the straight-line method.

As a result of this change, each segment income for the fiscal year ended March 31, 2016 increased by ¥1,664 million ($14,726 thousand) in the Medical Business segment, and ¥297 million ($2,628 thousand) in the Scientific Solutions Business segment, while segment loss in the Imaging Business segment, the Others segment, and in Adjustments decreased by ¥621 million ($5,496 thousand), ¥51 million ($451 thousand) and ¥1,004 million ($8,885 thousand), respectively.

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

Millions of yen

| | For the year ended March 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Medical | Scientific Solutions | Imaging | Others | Total | Adjustments | Consolidated Total |
| Net sales: | | | | | | | |
| Third parties | ¥558,348 | ¥103,880 | ¥ 79,437 | ¥23,006 | ¥764,671 | ¥ — | ¥ 764,671 |
| Intersegment | 155 | 79 | 18 | 604 | 856 | (856) | — |
| Total | 558,503 | 103,959 | 79,455 | 23,610 | 765,527 | (856) | 764,671 |
| Segment profit (loss) | 124,894 | 6,837 | (11,710) | (970) | 119,051 | (28,089) | 90,962 |
| Assets | 673,058 | 88,282 | 79,422 | 14,193 | 854,955 | 226,596 | 1,081,551 |
| Depreciation and amortization | 28,850 | 5,260 | 2,594 | 540 | 37,244 | 3,975 | 41,219 |
| Amortization of goodwill | 8,715 | 677 | — | 29 | 9,421 | — | 9,421 |
| Increase in segment property, plant and equipment and intangible assets | 36,801 | 3,911 | 3,291 | 1,001 | 45,004 | 2,739 | 47,743 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | For the year ended March 31, 2016 | | | | | | |
| | Medical | Scientific Solutions | Imaging | Others | Total | Adjustments | Consolidated Total |
| Net sales: | | | | | | | |
| Third parties | ¥608,927 | ¥101,608 | ¥78,284 | ¥15,759 | ¥804,578 | ¥ — | ¥ 804,578 |
| Intersegment | 0 | 74 | 10 | 445 | 529 | (529) | — |
| Total | 608,927 | 101,682 | 78,294 | 16,204 | 805,107 | (529) | 804,578 |
| Segment profit (loss) | 140,220 | 8,482 | (2,064) | (5,800) | 140,838 | (36,374) | 104,464 |
| Assets | 642,788 | 80,865 | 65,741 | 13,282 | 802,676 | 197,938 | 1,000,614 |
| Depreciation and amortization | 30,416 | 4,472 | 1,685 | 517 | 37,090 | 2,822 | 39,912 |
| Amortization of goodwill | 9,252 | 598 | — | 17 | 9,867 | — | 9,867 |
| Increase in segment property, plant and equipment and intangible assets | 46,430 | 5,645 | 3,091 | 888 | 56,054 | 8,391 | 64,445 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | For the year ended March 31, 2016 | | | | | | |
| | Medical | Scientific Solutions | Imaging | Others | Total | Adjustments | Consolidated Total |
| Net sales: | | | | | | | |
| Third parties | $5,388,735 | $899,186 | $692,779 | $139,459 | $7,120,159 | $ — | $7,120,159 |
| Intersegment | 0 | 655 | 88 | 3,940 | 4,683 | (4,683) | — |
| Total | 5,388,735 | 899,841 | 692,867 | 143,399 | 7,124,842 | (4,683) | 7,120,159 |
| Segment profit (loss) | 1,240,885 | 75,062 | (18,265) | (51,328) | 1,246,354 | (321,894) | 924,460 |
| Assets | 5,688,389 | 715,619 | 581,779 | 117,540 | 7,103,327 | 1,751,664 | 8,854,991 |
| Depreciation and amortization | 269,168 | 39,575 | 14,912 | 4,575 | 328,230 | 24,974 | 353,204 |
| Amortization of goodwill | 81,876 | 5,292 | — | 151 | 87,319 | — | 87,319 |
| Increase in segment property, plant and equipment and intangible assets | 410,885 | 49,956 | 27,354 | 7,858 | 496,053 | 74,257 | 570,310 |

Notes:
1. Segment profit (loss) is adjusted to agree with operating income on the consolidated financial statements.
2. The deduction of ¥(856) million and ¥(529) million ($(4,683) thousand) for the years ended March 31, 2015 and 2016, respectively, in internal sales or transfer among segments represents elimination of transactions among segments.
3. Adjustments for segment profit (loss) include ¥(28,089) million and ¥(36,374) million ($(321,894) thousand) for the years ended March 31, 2015 and 2016, respectively, of corporate general administration and research and development center expenses, which are not allocable to the reportable segments.
4. Adjustments for segment assets include ¥226,596 million and ¥197,938 million ($1,751,664 thousand) as of March 31, 2015 and 2016, respectively, of corporate assets, which are not allocable to the reportable segments.
5. Adjustments for depreciation and amortization include ¥3,975 million and ¥2,822 million ($24,974 thousand) for the years ended March 31, 2015 and 2016, respectively, of depreciation and amortization for corporate assets, which are not allocable to the reportable segments.
6. Adjustments for increase in segment property, plant and equipment and intangible assets includes ¥2,739 million and ¥8,391 million ($74,257 thousand) for the years ended March 31, 2015 and 2016, respectively, of the increase in corporate assets, which are not allocable to the reportable segments.

## 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| Japan | ¥161,432 | ¥163,070 | $1,443,097 |
| North America | 249,896 | 282,108 | 2,496,531 |
| Europe | 195,223 | 195,606 | 1,731,027 |
| Asia | 139,274 | 145,986 | 1,291,912 |
| Other areas | 18,846 | 17,808 | 157,592 |
| | ¥764,671 | ¥804,578 | $7,120,159 |

Note: Each destination is determined by geographic adjacency.
North America includes the United States and Canada.
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:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Japan | ¥ 57,179 | **¥ 81,970** | **$ 725,398** |
| America | 44,881 | **37,925** | **335,619** |
| Europe | 28,024 | **28,505** | **252,257** |
| Asia | 20,061 | **17,664** | **156,319** |
| | ¥150,145 | **¥166,064** | **$1,469,593** |

Note: Each geographic location is determined by geographic adjacency.
America includes the United States, Canada, Mexico and Brazil.
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:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2015 | | | | |
| | Medical | Scientific Solutions | Imaging | Others | Consolidated Total |
| Outstanding balance of goodwill | ¥111,205 | ¥2,749 | ¥— | ¥71 | ¥114,025 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2016** | | | | |
| | Medical | Scientific Solutions | Imaging | Others | Consolidated Total |
| Outstanding balance of goodwill | **¥95,122** | **¥2,013** | **¥—** | **¥55** | **¥97,190** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | **2016** | | | | |
| | Medical | Scientific Solutions | Imaging | Others | Consolidated Total |
| Outstanding balance of goodwill | **$841,788** | **$17,814** | **$—** | **$486** | **$860,088** |

(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, 2015, 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 years ended March 31 | Yen | | U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Net income (loss): | | | |
| Basic | ¥(25.53) | **¥182.90** | **$1.619** |
| Diluted | — | **182.84** | **1.618** |

| As of March 31 | Yen | | U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Net assets | ¥1,038.64 | **¥1,117.24** | **$9.887** |

The bases for calculation are as follows:

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

| For the years ended March 31 | Number of shares | |
|---|---|---|
| | 2015 | **2016** |
| Average number of shares for basic net income (loss) | 342,238,820 | **342,235,989** |

(2) Net assets per share

| As of March 31 | Number of shares | |
|---|---|---|
| | 2015 | **2016** |
| Number of shares of common stock used for the calculation of net assets per share | 342,237,272 | **342,234,901** |

| As of March 31 | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | **2016** | **2016** |
| Total net assets | ¥357,254 | **¥384,283** | **$3,400,735** |
| Amounts deducted from total net assets: | | | |
| Stock acquisition rights | 260 | **428** | **3,788** |
| Non-controlling interests | 1,532 | **1,496** | **13,239** |
| Net assets attributable to shares of common stock | ¥355,462 | **¥382,359** | **$3,383,708** |

## 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:

| | Millions of yen |
|---|---|
| | 2015 |
| Total current assets | ¥17,666 |
| Total non-current assets | 3,453 |
| Total current liabilities | 15,738 |
| Total non-current liabilities | 3,726 |
| Total net assets | 1,655 |
| Net sales | 33,609 |
| Loss before income taxes | (4,352) |
| Net loss | (5,108) |

In the fiscal year ended March 31, 2016, all affiliated companies accounted for by the equity method, including Sony Olympus Medical Solutions Inc., decreased in materiality, thus information for the fiscal year ended March 31, 2016 is omitted.

## 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) |

(ii) Date of business combination

April 1, 2015

(iii) Legal form of business combination

Absorption-type company split in which Olympus Medical Systems Corp. becomes a splitting company and the Company becomes a succeeding company

(iv) Name of company after combination

Olympus Corporation

(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 | ¥39,298 million ($347,770 thousand) |
| Liabilities | ¥30,485 million ($269,779 thousand) |
| Net assets | ¥8,813 million ($77,991 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) |

(ii) Date of business combination

April 1, 2015

(iii) Legal form of business combination

Absorption-type merger in which the Company is a surviving company, and Olympus Imaging Corp. and Olympus Intellectual Property Services Co., Ltd. are absorbed companies

(iv) Name of company after combination

Olympus Corporation

(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 Divestitures" (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.

# Independent Auditor's Report

EY
Building a better working world

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## Independent Auditor's Report

The Board of Directors
Olympus Corporation

We have audited the accompanying consolidated financial statements of Olympus Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Olympus Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Emphasis of Matters*

1. We draw attention to Note 3 of the consolidated financial statements, which describes that, effective April 1, 2015, the Company and its consolidated subsidiaries in Japan changed the method for depreciating property, plant and equipment (excluding lease assets) from the declining balance method to the straight-line method.
2. We draw attention to Note 17 of the consolidated financial statements, which describes that, 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.

Our opinion is not qualified in respect of these matters.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 28, 2016
Tokyo, Japan

A member firm of Ernst & Young Global Limited