Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 <under IFRS>

May 29, 2020

Company Name: Olympus Corporation
Code Number: 7733
(URL: https://www.olympus.co.jp/)
Stock Exchange Listing: First Section of Tokyo Stock Exchange
Representative: Yasuo Takeuchi, Director, Representative Executive Officer, President and CEO
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Scheduled date of General Meeting of Shareholders:	July 30, 2020
Scheduled date to submit the Securities Report:	July 6, 2020
Scheduled date to commence dividend payments:	July 31, 2020
Presentation of supplementary material on financial results:	Yes
Holding of financial results presentation meeting:	Yes (for analysts and institutional investors)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

(1) Consolidated Results of Operations

(% indicate changes from the previous fiscal year)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
Fiscal year ended	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
March 31, 2020	797,411	0.4	83,469	195.1	77,798	286.7	51,655	541.8	51,670	534.2	33,269	316.0
March 31, 2019	793,862	0.9	28,281	(65.1)	20,117	(73.8)	8,049	(85.9)	8,147	(85.7)	7,997	(86.9)

	Basic earnings per share	Diluted earnings per share	Ratio of equity attributable to owners of parent to profit	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
Fiscal year ended	(¥)	(¥)	%	%	%
March 31, 2020	39.37	39.36	12.7	8.0	10.5
March 31, 2019	5.97	5.96	1.8	2.1	3.6

Reference: Share of profit (loss) of investments accounted for using equity method:
Fiscal year ended March 31, 2020: ¥485 million Fiscal year ended March 31, 2019: ¥603 million

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. The stock split is reflected in the amounts of "basic earnings per share" and "diluted earnings per share."

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	(¥ million)	(¥ million)	(¥ million)	%	(¥)
March 31, 2020	1,015,663	371,958	370,747	36.5	288.39
March 31, 2019	932,030	442,387	441,193	47.3	323.06

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. The stock split is reflected in the amounts of "equity attributable to owners of parent per share."

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
Fiscal year ended	(¥ million)	(¥ million)	(¥ million)	(¥ million)
March 31, 2020	133,544	(62,430)	(19,462)	162,717
March 31, 2019	66,943	(60,296)	(82,948)	114,563

2. Dividends

	Annual dividends per share					Total amount of cash dividends	Payout ratio	Ratio of dividends to equity attributable to owners of parent
	First quarter	Second quarter	Third quarter	Year-end	Total	(Annual)	(Consolidated)	(Consolidated)
	(¥)	(¥)	(¥)	(¥)	(¥)	(¥ million)	%	%
Fiscal year ended March 31, 2019	–	0.00	–	30.00	30.00	10,243	125.7	2.3
Fiscal year ended March 31, 2020	–	0.00	–	10.00	10.00	12,856	25.4	3.3
Fiscal year ending March 31, 2021 (Forecast)	–	–	–	–	–		–	

Notes: 1. On April 1, 2019, the Company conducted a four-for-one stock split of common stock. For the fiscal year ended March 31, 2019, the actual amounts of dividends prior to the stock split are presented. The stock split is reflected in the dividend for the fiscal year ended March 31, 2020. (Reference) Without reflecting the stock split, the annual dividend per share for the year ended March 31, 2020 is ¥40.00.

2. The forecast dividend for the fiscal year ending March 31, 2021 is yet to be determined due to the difficulties of making a reasonable calculation of the forecast of financial results at the current point in time because of the impact of the spread of novel coronavirus disease (COVID-19).

3. The Company has changed the record date for dividends for the fiscal year ended March 31, 2020 to the end of May. However, total dividends are calculated using the number of shares as of March 31, 2020.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021 (From April 1, 2020 to March 31, 2021)

The forecast of consolidated financial results for the fiscal year ending March 31, 2021 had not been determined at the current point in time due to the difficulties of making a reasonable calculation because of the impact of COVID-19. We intend to promptly disclose such information when the forecast of consolidated financial results can be calculated.

* Notes

(1) Changes in significant subsidiaries during the fiscal year under review (changes in specified subsidiaries resulting in the changes in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes
2) Changes in accounting policies due to other reasons: No
3) Changes in accounting estimates: No

Note: For details, please see “3. Consolidated Financial Statements and Significant Notes Thereto (6) Notes to Consolidated Financial Statements (Significant accounting policies)” on page 22 of the Consolidated Financial Results (Attached Material).

(3) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury stock)

As of March 31, 2020	1,370,914,963 shares
As of March 31, 2019	1,370,853,396 shares

2) Total number of treasury shares at the end of the period

As of March 31, 2020	85,329,780 shares
As of March 31, 2019	5,170,080 shares

3) Average number of shares during the period

Fiscal year ended March 31, 2020	1,312,285,087 shares
Fiscal year ended March 31, 2019	1,365,659,152 shares

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. Concerning the number of shares for the previous fiscal year, “Total number of issued shares at the end of the period,” “Total number of treasury shares at the end of the period” and “Average number of shares during the period” have been calculated and presented as if the stock split was conducted at the beginning of the previous fiscal year.

Reference: Summary of Non-Consolidated Financial Results

Financial Results for the Fiscal Year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

(1) Non-Consolidated Results of Operations (% indicate changes from the previous fiscal year)

	Revenue		Operating profit		Ordinary profit		Profit	
Fiscal year ended	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
March 31, 2020	375,258	(0.4)	(2,506)	–	13,266	(69.8)	9,861	(67.4)
March 31, 2019	376,812	(0.2)	(6,495)	–	43,984	212.2	30,223	99.1

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	(¥)	(¥)
March 31, 2020	7.51	7.51
March 31, 2019	22.13	22.12

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. The stock split is reflected in the amounts of "basic earnings per share" and "diluted earnings per share."

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
March 31, 2020	771,026	376,219	48.7	292.24
March 31, 2019	745,793	471,411	63.1	344.80

Reference: Equity as of March 31, 2020: ¥375,702 million March 31, 2019: ¥470,887 million

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. The stock split is reflected in the amounts of "net assets per share."

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of the forecast of financial results, and other special matters

The forward-looking statements contained in these materials are based on information currently available as of the date of release of these materials and on certain assumptions deemed to be reasonable. Actual business and other results may differ substantially due to various factors.

Attached Material

Contents

1. Overview of Operating Results and Others

(1) Analysis of Business Results

(Review of Operations)

Analysis of the overall operations

(Millions of yen)

	Revenue	Operating profit	Profit before tax	Profit attributable to owners of parent	Basic earnings per share
Fiscal year ended March 31, 2020	797,411	83,469	77,798	51,670	¥39.37
Fiscal year ended March 31, 2019	793,862	28,281	20,117	8,147	¥5.97
Increase (Decrease) ratio (%)	0.4	195.1	286.7	534.2	559.5

Comparison Table of Average Exchange Rate (Yen)

	Current fiscal year	Previous fiscal year
Against the U.S. dollar	108.74	110.91
Against the euro	120.82	128.41
Against the renminbi	15.60	16.54

The global economy suddenly slowed down in the fiscal year under review due to the trade friction between the U.S. and China and the U.K.'s withdrawal from the EU, followed by the serious impact of the sudden global spread of COVID-19 from the beginning of this year. The Japanese economy had been recovering gradually, supported by corporate earnings and improvement in the employment and income environments, but the sudden spread of COVID-19 led to substantial downward pressure through until the end of the fiscal year, as was the case for the global economy.

Amid this business environment, the Olympus Group announced its business transformation plan "Transform Olympus" in January 2019 to develop itself as a truly global medtech company, and we made the transition from a company with an Audit & Supervisory Board to a company with a three committees board structure for the purposes of faster decision-making in business execution, reinforced governance and further increased transparency in June 2019. We also announced a medium- and long-term management strategy based on "Transform Olympus" in November 2019. This management strategy replaces the medium-term management plan, 2016 Corporate Strategic Plan ("16CSP"), announced in April 2016 and indicates the long-term direction of the Company. Going forward, we will work to achieve sustainable growth based on this management strategy.

The Olympus Group's overall consolidated revenue increased to ¥797,411 million (up 0.4% year on year), due to increased sales in the Endoscopic Solutions Business, Therapeutic Solutions Business and Scientific Solutions Business. Operating profit was ¥83,469 million (up 195.1% year on year) due to profit growth in the Endoscopic Solutions Business, Therapeutic Solutions Business and Scientific Solutions Business, and the large improvement resulting from increased cost-effectiveness and a decrease of "Other expenses." In the previous fiscal year, ¥44,103 million was recorded in "Other expenses" as one-time costs relating to a monetary settlement following damages claim securities litigation settlements, costs associated with the restructuring of the Imaging Business's manufacturing locations, damages resulting from the judgment regarding a lawsuit involving a Chinese production subsidiary, costs associated with a lawsuit between the Company's consolidated subsidiary and the former officers, costs associated with entering into a plea agreement with the U.S. Department of Justice, additional tax amount expected as a result of the voluntary investigation into indirect tax payments of the Company's overseas subsidiaries, etc. In addition, finance costs declined mainly due to exchange losses. As a result, profit attributable to owners of parent amounted to ¥51,670 million (up 534.2% year on year).

Although the impact of COVID-19 was evident in all businesses, Endoscopic Solutions Business performed very well with continued growth in China for mainstay gastrointestinal endoscopes. In the Therapeutic Solutions Business, sales grew for energy devices and endo-therapy devices for use in diagnosis and treatment of biliary and pancreatic ducts and others posting record high sales in the medical field. The Scientific Solutions Business posted a record high operating profit as a result of improved efficiencies in selling, general and administrative expenses, in addition to the solid sales of biological microscopes in all regions. Although a harsh operating environment led to a decline in revenue, the loss in the Imaging Business declined due to advancement of improved cost-effectiveness in addition to the absence of the one-time costs associated with the restructuring of manufacturing locations in the previous fiscal year.

During the fiscal year under review, the Olympus Group invested ¥91,589 million on research and development, and spent ¥77,184 million on capital investments with the aim of achieving sustainable future growth.

Regarding foreign exchange, the yen appreciated against the U.S. dollar, the euro and the renminbi compared to the previous fiscal year. The average exchange rate during the period was ¥108.74 against the U.S. dollar (¥110.91 in the previous fiscal year), ¥120.82 against the euro (¥128.41 in the previous fiscal year) and ¥15.60 against the renminbi (¥16.54 in the previous fiscal year) which caused revenue and operating profit to down by ¥26,659 million and ¥10,450 million, respectively, year on year.

Consolidated revenue and consolidated operating profit increased 4% and 232% year on year, respectively, excluding the impact of the foreign exchange rate.

Analysis of the performance by segment

(Millions of yen)

	Revenue			Operating profit (loss)		
	Previous fiscal year	Current fiscal year	Increase (Decrease) ratio (%)	Previous fiscal year	Current fiscal year	Increase (Decrease) ratio (%)
Endoscopic Solutions	418,833	425,742	1.6	89,771	109,424	21.9
Therapeutic Solutions	215,468	216,075	0.3	22,163	26,191	18.2
Scientific Solutions	104,225	105,189	0.9	8,135	9,997	22.9
Imaging	48,679	43,615	(10.4)	(18,268)	(10,393)	–
Others	6,657	6,790	2.0	(3,521)	(2,744)	–
Subtotal	793,862	797,411	0.4	98,280	132,475	34.8
Elimination or Unallocation	–	–	–	(69,999)	(49,006)	–
Consolidated total	793,862	797,411	0.4	28,281	83,469	195.1

Note: Businesses are segmented by adding similarities of sales market to the business established based on line of products.

Endoscopic Solutions Business

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio
Revenue	418,833	425,742	6,909	1.6%
Operating profit (loss)	89,771	109,424	19,653	21.9%

Consolidated revenue in the Endoscopic Solutions Business amounted to ¥425,742 million (up 1.6% year on year), while operating profit amounted to ¥109,424 million (up 21.9% year on year).

Although the mainstay endoscopy systems are reaching the second half of their product life cycles in developed countries, strong sales were maintained in China, which is continuing to grow. Additionally, “VISERA ELITE II” surgical endoscopy systems also performed strongly, leading to higher revenue year on year in the Endoscopic Solutions Business.

Despite posting ¥10,368 million as costs to respond to the market for the autonomous replacement of old products with fixed tip caps to new products with detachable tip caps, which are simple to wash and disinfect, for duodenoscopes in the current fiscal year, operating profit in the Endoscopic Solutions Business increased due to improved cost-effectiveness and the absence of expenses, such as the costs associated with entering into a plea agreement with the U.S. Department of Justice, recorded as “Other expenses” in the previous fiscal year.

Revenue and operating profit increased 5% and 30% year on year, respectively, excluding the impact of the foreign exchange rate.

Therapeutic Solutions Business

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio
Revenue	215,468	216,075	607	0.3%
Operating profit (loss)	22,163	26,191	4,028	18.2%

Consolidated revenue in the Therapeutic Solutions Business amounted to ¥216,075 million (up 0.3% year on year), while operating profit amounted to ¥26,191 million (up 18.2% year on year).
Sales of new flexible endoscopy products for urology and rhinology/otology and single-use products of endo-therapy devices for use in diagnosis and treatment of biliary and pancreatic ducts and others were solid. Additionally, sales of single-use products of the “THUNDERBEAT” integrated energy device with both advanced bipolar and ultrasonic energy, and therapeutic devices for EBUS procedures in the Respiratory Business continued to grow, leading to higher revenue year on year in the Therapeutic Solutions Business.
Operating profit in the Therapeutic Solutions Business increased mainly due to the increase in revenue and improved cost-effectiveness.
Revenue and operating profit increased 4% and 26% year on year, respectively, excluding the impact of the foreign exchange rate.

Scientific Solutions Business

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio
Revenue	104,225	105,189	964	0.9%
Operating profit (loss)	8,135	9,997	1,862	22.9%

Consolidated revenue in the Scientific Solutions Business amounted to ¥105,189 million (up 0.9% year on year), while operating profit amounted to ¥9,997 million (up 22.9% year on year).

Sales of products for hospitals and life science research were strong in all regions. Sales of industrial endoscopes were strong for the main markets such as aviation and infrastructure, and sales of non-destructive testing equipment also increased in the aviation market in North America and in the infrastructure market in China and other countries in Asia, leading to higher revenue year on year in the Scientific Solutions Business.

Operating profit in the Scientific Solutions Business increased due to the increase in revenue and improved cost-effectiveness.

Revenue and operating profit increased 4% and 37% year on year, respectively, excluding the impact of the foreign exchange rate.

Imaging Business

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio
Revenue	48,679	43,615	(5,064)	(10.4)%
Operating profit (loss)	(18,268)	(10,393)	7,875	–

Consolidated revenue in the Imaging Business amounted to ¥43,615 million (down 10.4% year on year), while operating loss amounted to ¥10,393 million (compared with an operating loss of ¥18,268 million in the previous fiscal year).

A harsh operating environment due to the rise of smartphones, etc. led to a decline in revenue in the Imaging Business.

Operating loss for the Imaging Business declined due to the recording of one-time costs associated with the restructuring of manufacturing locations in the previous fiscal year as “other expenses,” in addition to the advancement of improved cost-effectiveness.

Others

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio
Revenue	6,657	6,790	133	2.0%
Operating profit (loss)	(3,521)	(2,744)	777	–

Consolidated revenue for other businesses amounted to ¥6,790 million (up 2.0% year on year) and operating loss was ¥2,744 million (compared with an operating loss of ¥3,521 million in the previous fiscal year).

Mainly, the biomedical materials business was solid, and revenue in other businesses increased.

Operating loss in other businesses declined due to improvements in the cost-effectiveness of activities of seeking out new business.

(Forecast for the Fiscal Year Ending March 31, 2021)

Forecast for the overall business and analysis of its preconditions

As a result of the spread of COVID-19, there has been a rapid slowdown of the economic environment in Japan and overseas, and there have been partial restrictions and delays in the business activities of the Olympus Group.

The forecast of consolidated financial results for the fiscal year ending March 31, 2021 had not been determined at the current point in time due to the difficulties of making a reasonable calculation because of uncertainties regarding when the COVID-19 crisis will be over, the responses of each country and region, and the impact those factors will have on market trends and economic trends. We intend to promptly disclose such information when the forecast of consolidated financial results can be calculated.

The Olympus Group will set up a global task force to ensure business continuity and conduct business operations in accordance with policies to prevent the spread of COVID-19 issued by each government, giving priority to the preservation of health and safety of our employees, healthcare providers, patients, and the community. Furthermore, we will put in the maximum amount of effort to be able to continue the provision of products, services, etc. to stakeholders such as healthcare professionals.

(2) Analysis of Financial Position and Cash Flows

Analysis of assets, liabilities and equity

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020	Increase (Decrease)	Increase (Decrease) ratio (%)
Total assets	932,030	1,015,663	83,633	9.0
Total equity	442,387	371,958	(70,429)	(15.9)
Equity attributable to owners of parent to total assets	47.3%	36.5%	(10.8)%	–

As of the end of the fiscal year under review, total assets increased ¥83,633 million compared to the end of the previous fiscal year to ¥1,015,663 million.

As for total assets, cash and cash equivalents increased ¥48,068 million, inventories increased ¥13,973 million, property, plant and equipment increased ¥25,226 million primarily due to the impact of the application of IFRS 16 “Leases” from the fiscal year ended March 31, 2020, and intangible assets increased ¥5,523 million. On the other hand, trade and other receivables in current assets decreased ¥12,259 million.

Total liabilities increased in comparison to the end of the previous fiscal year by ¥154,062 million to ¥643,705 million, mainly as a net result of a ¥78,269 million increase in bonds and borrowings in non-current liabilities, a ¥22,934 million increase in other financial liabilities in non-current liabilities due to the impact of the application of IFRS 16 “Leases” from the fiscal year ended March 31, 2020.

Total equity decreased in comparison to the end of the previous fiscal year by ¥70,429 million to ¥371,958 million. Its decrease was primarily the net result of an increase in retained earnings reflecting ¥51,670 million in profit attributable to owners of parent, a decrease in retained earnings reflecting ¥10,243 million of dividends, a ¥93,371 million decrease in purchase of treasury shares, and a ¥14,517 million decrease in other components of equity.

As a result of the foregoing, equity attributable to owners of parent to total assets decreased from 47.3% as of the end of the previous fiscal year to 36.5%.

Analysis of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Increase (Decrease)
Cash flows from operating activities	66,943	133,544	66,601
Cash flows from investing activities	(60,296)	(62,430)	(2,134)
Cash flows from financing activities	(82,948)	(19,462)	63,486
Cash and cash equivalents at end of year	114,563	162,717	48,154

"Cash flows from operating activities" increased by ¥133,544 million. Increasing factors mainly included a recording of ¥77,798 million in profit before tax and an adjustment for noncash item of ¥68,309 million in depreciation and amortization. Decreasing factors mainly included an ¥16,401 million increase in inventories and ¥19,528 million of income taxes paid.

"Cash flows from investing activities" decreased by ¥62,430 million. Decreasing factors mainly included ¥37,774 million in purchase of property, plant and equipment and ¥28,155 million in purchase of intangible assets.

"Cash flows from financing activities" decreased by ¥19,462 million. Decreasing factors mainly included ¥58,874 million in repayments of long-term borrowings, ¥10,243 million in dividends paid, and ¥93,381 million in payments for purchase of treasury shares. Increasing factors mainly included ¥69,534 million in net increase in short-term borrowings and commercial papers, ¥39,780 million in proceeds from long-term borrowings, and ¥49,793 million in proceeds from issuance of bonds.

As a result, cash and cash equivalents at the end of the current fiscal year reached ¥162,717 million, an increase of ¥48,154 million compared to the end of the previous fiscal year.

(Indicators)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Ratio of equity attributable to owners of parent to total assets (%)	41.1	45.2	47.3	36.5
Market value ratio of equity attributable to owners of parent to total assets (%)	151.0	140.9	176.1	197.7
Interest-bearing debt to cash flows ratio (years)	2.8	2.6	2.7	2.1
Interest coverage ratio (times)	12.9	14.9	14.5	36.5

Notes: Ratio of equity attributable to owners of parent to total assets: Equity attributable to owners of parent/Total assets
Market value ratio of equity attributable to owners of parent to total assets: Total market capitalization/Total assets
Interest-bearing debt to cash flows ratio: Interest-bearing debt/Cash flow
Interest coverage ratio: Cash flow/Interest payment

1. Each index was calculated by financial index of consolidated basis.
2. Total market capitalization is calculated on the basis of the number of issued shares excluding treasury stock.
3. Cash flows from operating activities are used as "Cash flow" for calculation purposes.
4. Interest-bearing debts include all of those debts reported on the consolidated statements of financial position on which interest is paid.

(3) Basic Strategy for Profit Sharing and Dividend for the Current Fiscal Year and Following Fiscal Year

Aiming to boost corporate value, premised on securing a stable financial base, the Company places priority on investing in growth fields, particularly the medical field. Based on this, our basic strategy is to continuously implement stable dividend distribution to respond to the expectations of our shareholders.

In accordance with the above policy and in consideration of comprehensive factors that include our consolidated financial results for the fiscal year ended March 31, 2020, the Company’s financial standing and future investment in operations, we intend to pay a year-end dividend of ¥10 per share for the fiscal year under review. The annual dividend will therefore amount to ¥10 per share.

Furthermore, when not considering the stock split with an effective date of April 1, 2019 (one share of common stock of the Company split into four shares), the dividend per share is ¥40 (year-end dividend of ¥40), a ¥10 increase in dividends from the previous fiscal year.

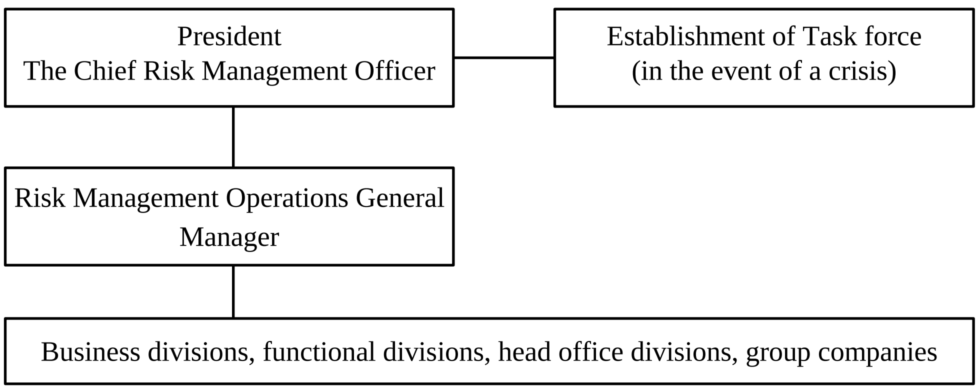
Regarding the dividend for the fiscal year ending March 31, 2021, this has not yet been decided due to the difficulties of forecasting the financial results at the current point in time. We intend to disclose the forecast amount of dividend at the same time as we are able to announce the forecast of consolidated financial results.

(4) Business Risks

The Company applies the regulations in Note (31) listed in Form 2 of the “Cabinet Office Order on Disclosure of Corporate Affairs” following amendment in accordance with the “Cabinet Office Order Partially Amending the Cabinet Office Order on Disclosure of Corporate Affairs” (Cabinet Office Order No. 3 of January 31, 2019).

The business performances of the Olympus Group may be materially influenced by various factors which may occur in the future. Olympus has established “The Policy of Risk Management and Crisis Response” and related rules based on which we develop global risk management systems to mitigate business risks.

In particular, the Olympus Group applies uniform process and standard to identify and evaluate risk factors that may prevent it from achieving corporate strategy, fiscal year strategy, and fiscal year targets so that it may prioritize the risk factors and formulate efficient and effective measures based on the degree of importance of each risk factor. Those measures are discussed and formulated as Olympus Group level issues, and the Olympus Group has further established a system to track and periodically monitor progress of the said measures. The Group has also started to standardize risk management processes globally so that uniform risk management processes will apply when monitoring the achievement of business targets at each region. We believe these initiatives will enhance the achievement of our strategies and fiscal year targets.



Set out below are our principal business risk factors, aside from managerial decisions made by the Olympus Group, which may affect Olympus Group's business performances.

The future outlooks described below are based on the forecasts of the Olympus Group made as of the end of the fiscal year ended March 31, 2020.

(Risks associated with changes in policy of medical administration and strengthening of reprocessing regulations)

In the medical business, medical system reforms aimed at curbing healthcare expenditures and improving quality of life (QOL) are ongoing both in Japan and overseas, and regulatory requirements for medical device applications and registrations in all over the world, such as EU-MDR (European Medical Device Regulation), are increasing year by year. In addition, the requirements concerning reprocessing (i.e., cleaning, disinfection, and sterilization) are becoming more complex.

The Olympus Group’s earnings may be adversely affected if: (i) amendments to healthcare laws and regulations or related administrative policies, or other unexpected environmental changes occur; and (ii)-a Olympus Group fails to launch new products or services in a timely manner or (ii)-b Olympus Group otherwise needs to take certain actions corresponding to such amendments or changes .

In March 2018, the U.S. Food and Drug Administration (FDA) has issued warning letters to duodenal endoscopy manufacturers including Olympus group, due to incompliance with the mandatory post-marketing surveillance studies relating to the cleaning and disinfection of such products. Although we have since performed the post-marketing surveillance research requirements with having dialogues with the FDA, further regulatory actions may be taken by the FDA depending on the future progress.

(Risks Associated with Market Competition)

In the business fields where the Olympus Group relates to, there are risks that: (i) severe competitions with our competitors may cause decline in the unit price of our products our or in our market shares; and that (ii) the alternative technologies or products may emerge.

In addition to the research and development activities we have engaged in in the past, we will conduct both research and development activities and marketing and sales activities utilizing the technologies which we will acquire through alliances and open innovations however, depending on the outcome, the Olympus Group's earnings may be adversely affected.

(Risks Associated with Selling Activities)
As government-sponsored healthcare systems are widely developed around the world in the field of the medical business, the Olympus Group and many of the distributors and suppliers engages in business with government-affiliated companies, healthcare providers and officials. The Olympus Group and the distributors and suppliers operate in countries or jurisdictions where there has been governmental corruption in the past, and we are working to educate employees to carry out proper transactions. On the other hand, there are wide-range of laws and regulations that cover fraud and misconduct in the healthcare industry; if such laws and regulations or their application change in the future, that may adversely affect the Olympus Group’s sales or marketing activities.

In the Scientific Solutions Business, system provision to research activities funded by national budgets of countries accounts for a high proportion of earnings of the Olympus Group. Therefore, if such national budgets are curtailed in the wake of unfavorable macroeconomic fluctuations, the Olympus Group's ability to secure its earnings may be adversely affected.

In the digital camera field of the Imaging Business, if the market contracts more sharply than anticipated, the Olympus Group may be unable to adequately counter the resulting sales decline with the restructuring measures currently implementing, and this may adversely affect the Olympus Group's earnings.

(Risks Associated with Production/Development Activities)

For products and parts that depend on certain suppliers, if the procurement are restrained by such suppliers, the Olympus Group's ability to produce and supply products may be adversely affected. In addition, if we are unable to appropriately respond to sudden changes in market conditions, the Olympus Group's earnings as well as our supply chain may be adversely affected.

The Olympus Group and its manufacturing contractors manufacture products in accordance with strict quality standards. However, if any product deficiency, malfunction, etc. occurs, not only substantial costs including those of a recall would be incurred but also the Olympus Group’s reputation from the market would be undermined, which may adversely affect the Olympus Group's earnings.

The Olympus Group is continuing to advance development of products adopting cutting-edge technologies. However, if a technological innovation causes unexpected change in market environment, and the Olympus Group fails to develop new products which adequately meets customers' needs in a timely manner, the Olympus Group's earnings may be adversely affected. In addition, if Olympus Group suffers cost increase due to the extension of development period and impairment loss of capitalized R&D assets, the Olympus Group's earnings may be adversely affected.

(Risks Associated with Foreign Currencies Exchange Rate Fluctuations)

The Olympus Group provides products and services in various markets all over the world, and the overseas sales ratio on a consolidated basis accounts for approximately 82% in the year ended March 31, 2020. Also, some of our production bases are located overseas.

Olympus mainly uses forward exchange contracts to reduce the risk of foreign exchange fluctuations. However, if (i) sudden fluctuations in foreign currency exchange rates occur or (ii) the amounts of accounts receivable or payable covered by such contracts significantly differ than expected, then the Olympus Group's business performance may be adversely affected.

(Risks Associated with Business Collaborations and Corporate Acquisitions)

The Olympus Group has built long-term strategic partnerships with leading enterprises in connection with technologies, product development, sales and marketing. If we fail to maintain such partnerships due to reasons such as occurrence of financial or any other business-related issues or change of our or their strategies, our business activities may be adversely affected.

The Olympus Group may acquire a business enterprise in order to expand its business. If the Olympus Group fails to integrate the acquired business in line with its corporate strategy or to utilize the existing business or the acquired business in an efficient manner, Olympus Group’s business may be adversely affected, or its business performances and financial position may be adversely affected due to impairment of goodwill, loss on sale of business or liquidation resulting and the like, or other related expenses.

The Olympus Group holds investment securities for business purposes which include facilitating business alliances. As such, our business performance and financial position could be adversely affected under some situations involving considerable volatility with respect to stock prices and valuations of such investments brought about by developments that include market fluctuations and changes in the financial position of entities targeted for investment.

The Olympus Group has been attempting to transfer of all the equity interests in Olympus (Shenzhen) Industrial Ltd., a consolidated subsidiary in Shenzhen, China and owned by Olympus (China) Co., Ltd., another consolidated subsidiary. However, depending on the future outcomes, the Olympus Group's business performance and financial position may be adversely affected.

(Risks Associated with Overall Investment)

The Olympus Group is investing in various areas related to its business, and upon making investments, we make assessments from various aspects. However, in the event of an unexpected change in circumstances, such as a sudden change in the external environment, the Olympus Group's business performance and financial position may be adversely affected.

(Risks Associated with Leakage of Information)

The Olympus Group possesses important confidential information such as technology information, as well as the personal information of its customers and other related parties. In order to prevent external leakages of this information, we take various countermeasures including the establishment of internal regulations, the provision of training programs to our employees widely and thoroughly, and the strengthening of security systems. Nevertheless, in case of unauthorized leakage of such information, the Olympus Group may suffer damage to its corporate value, loss of social credibility, and indemnity obligations to customers and related parties affected by such information leakage, which may in turn cause adverse effect to its business performances and financial position.

(Risks Associated with Internal Control System)

The Olympus Group has developed and is maintaining and continuously improving a system to ensure appropriate and reliable financial reporting. However, no matter how effective the internal control system is, there is a potential risk that it may not properly operate for reasons such as any actions made by willful misconduct or gross negligence or our employees or other persons. If the Olympus Group fails to properly respond to such a situation, of the Olympus Group may breach the laws and regulations, which may result in payment of fines under administrative action, penalties under criminal proceedings, or indemnity civil lawsuits. Moreover, in such case, we may suffer an adverse impact on our business from a loss of our social trust, which in turn may cause an adverse impact on our operating results.

In addition, The Olympus Group has developed, and is operating and continuously improving a system to ensure valid and efficient work processes. However, there is a potential risk that the said system may not properly work due to reasons such as unexpected changes in the business and social environment which invalidates the system, or mishandlings by internal organizations or functions. If the Olympus Group fails to properly respond to such situations, the Olympus Group's business performance and financial position may be adversely affected.

(Risks Associated with Laws and Regulations)

We globally operate our businesses, including the medical business, which is a regulated business. We are subject to various laws, including the healthcare-related laws, antimonopoly laws both in Japan and other jurisdictions, as well as 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 jurisdictions. We are also subject to various laws targeting fraud and misconduct in the healthcare industry, including the Act against Unjustifiable Premiums and Misleading Representations in Japan, and the Anti-Kickback Statute and the False Claims Act in the United States.

Violations of these laws may be punishable by criminal or civil fines, imprisonment and/or exclusion from participation in certain national healthcare programs. Furthermore, since many of our customers rely on reimbursement from public health insurance and other government programs to subsidize their medical expenditures, if our participation in such programs is restricted as a result of a violation of these laws, that could adversely affect the demand for our products and the number of surgical procedures performed with our devices.

The plea agreement, which we executed on December 3, 2018 with the U.S. Department of Justice, requires our subsidiary, Olympus Medical Systems, Corp. (OMSC), to "undertake steps to enhance its regulatory compliance processes and procedures, and to regularly make certain certifications that OMSC is meeting the expectations of the settlement." Depending on OMSC’s performance of the said obligation, it may be subject to additional measures by the U.S. Department of Justice.

We strive to fully comply with these laws, however, if we violate any of them, regardless such violation is intentionally or not, it may affect our business, financial condition, results of operations and cash flows as well as the price of shares of our common stock.

(Risks Associated with Litigation)

The Olympus Group may be subject to lawsuits, disputes and other legal proceedings in connection with our domestic and international businesses. If a material lawsuit such as indemnity claim or injunction is filed by a third party, the Olympus Group's business performance and financial position may be adversely affected.

The Olympus Group uses various intellectual property rights in the course of its R&D and production activities, and although it believes that Olympus Group lawfully own or are licensed to use such rights, if any third party asserts that we have unknowingly infringed any of these intellectual property rights and files litigation, the Olympus Group's earnings may be adversely affected.

Civil litigations have been filed in the United States alleging that plaintiffs have suffered damages with respect to the duodenoscopes that our group manufactures and markets. Considering the current status of these cases, we believe they will not give a significant impact on our business results and financial situation.

Olympus (Shenzhen) Industrial Ltd., a consolidated subsidiary in Shenzhen, China and owned by Olympus (China) Co., Ltd., another consolidated subsidiary had been sued by Shenzhen Anping Tai Investment and Development Co., Ltd. on December 23, 2016, and its judgement was handled down on July 30, 2018. We objected to this judgement and filed an appeal on August 17, 2018, but it may affect the Olympus Group’s business performance and financial position depending on the future progress.

(Risks Associated with Financing)

The Olympus Group finances itself by, amongst others, loans from financial institutions as well as issuance of bonds. Changes in the financial markets may have an impact on our financing capacities. Furthermore, if our financing costs rise due to reasons such as deterioration in our business performances, this may also have an adverse impact on our financing capacities.

(Risks Associated with Business Structure Reform)

In November 2019, the Olympus Group announced the corporate strategy aiming as a truly global med-tech company to achieve sustainable growth of the Olympus Group.

In this corporate strategy, the endoscopic solutions division aims to expand its portfolio with single-use endoscopes, and the therapeutic solutions division seeks to achieve sales growth by introducing new products in its focus areas. In addition, we expect to implement large-scale efficiency improvements in the areas of products (cost of sales and R&D), commercials (sales and marketing, and maintenance services), and corporate (indirect expenses for corporate functions), as a company-wide efficiency improvement program.

If this program does not progress as scheduled, the Olympus Group's business performance and financial position may be adversely affected.

(Other Comprehensive Risks)

Through its domestic and overseas subsidiaries and affiliates, we operate our businesses globally. Our businesses may be subject to investigations by domestic and overseas authorities; or we may have consultations with or report to authorities pursuant to laws and regulations (such as responding to the examinations under the antimonopoly acts or those related to pharmaceutical and medical device related laws, or voluntary disclosure to the U.S. Department of Justice under the Foreign Corrupt Practices Act). Our earnings may be adversely affected depending on the results of such investigations and consultations.

In addition, we are expanding our business globally, and our tax burden may be increased due to changes in applicable tax laws or changes in their interpretations and application guidelines in each jurisdiction. The valuation allowance for deferred tax assets may need to be increased as a result of recoverability reassessment due to changes in business conditions or the implementation of organizational restructuring. If such situations occur, it may adversely affect the financial condition and business performance of the Group.

Moreover, occurrence of natural disaster, disease, war, or terrorist attack may adversely affect Olympus Group's earnings.

(Risks Associated with COVID-19 Infections)

Since the repeatedly reported outbreaks of COVID-19 infections in Wuhan, Hubei Province, China in December 2019, and the outbreaks have been reported all over the world.

Due to the outbreak, in our business activities, visits to medical institutions are restricted, and there are some restrictions on sales activities as well. In addition, the Olympus Group is requesting the domestic and overseas employees to work from home, etc. with the purpose of preventing the infections and the spread of the COVID-19, which causes some restrictions and delays not only in sales activities but also other business activities such as the announcement of financial results for FY2020 and convocation of the 152nd General Meeting of Shareholders.

If Medical institutions will be compelled to prioritize the responsive measures to COVID-19, the number of medical treatments related to our business may decrease, in which case, our sales activities may be further adversely affected. In addition, if the spread of the infection continues for a long period, (i) the procurement of specific products and parts will be restricted and the production and supply capacity of the Olympus Group may be affected, and (ii) Business activities such as the announcement of financial results and the General Meeting of Shareholders may delay.

We have set up a global task force to ensure business continuity and enacted measures to maintain stable supply of our products and services to our customers, while maintaining the top priority of protecting the health and safety of our employees, healthcare professionals, patients, and communities.

2. Basic Rationale for Selecting the Accounting Standards

The Olympus Group has voluntarily applied the International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ended March 31, 2018, with the aim of improving the international comparability of financial information in the capital market, improving the effectiveness of corporate management by applying one unified accounting rule in the Group, and reinforcing governance.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	114,426	162,494
Trade and other receivables	155,321	143,062
Other financial assets	2,155	3,424
Inventories	153,623	167,596
Income taxes receivable	7,931	3,521
Other current assets	16,867	20,336
Subtotal	450,323	500,433
Assets held for sale	5,709	6,274
Total current assets	456,032	506,707
Non-current assets		
Property, plant and equipment	176,908	202,134
Goodwill	101,188	98,328
Intangible assets	69,269	74,792
Retirement benefit asset	30,239	31,111
Investments accounted for using equity method	2,440	2,267
Trade and other receivables	14,618	19,685
Other financial assets	32,808	27,266
Deferred tax assets	47,267	51,156
Other non-current assets	1,261	2,217
Total non-current assets	475,998	508,956
Total assets	932,030	1,015,663

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities		
Trade and other payables	61,724	59,557
Bonds and borrowings	59,707	81,018
Other financial liabilities	9,391	20,188
Income taxes payable	8,043	11,276
Provisions	10,803	20,598
Other current liabilities	133,311	136,912
Subtotal	282,979	329,549
Liabilities directly associated with assets held for sale	4,532	4,221
Total current liabilities	287,511	333,770
Non-current liabilities		
Bonds and borrowings	121,628	199,897
Other financial liabilities	7,799	30,733
Retirement benefit liability	43,116	49,607
Provisions	6,468	7,281
Deferred tax liabilities	12,101	13,147
Other non-current liabilities	11,020	9,270
Total non-current liabilities	202,132	309,935
Total liabilities	489,643	643,705
Equity		
Share capital	124,606	124,643
Capital surplus	91,310	91,157
Treasury shares	(4,764)	(98,135)
Other components of equity	(8,234)	(22,751)
Retained earnings	238,275	275,833
Total equity attributable to owners of parent	441,193	370,747
Non-controlling interests	1,194	1,211
Total equity	442,387	371,958
Total liabilities and equity	932,030	1,015,663

(2) Consolidated Statements of Profit or Loss

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Revenue	793,862	797,411
Cost of sales	284,297	297,844
Gross profit	509,565	499,567
Selling, general and administrative expenses	437,510	405,023
Share of profit (loss) of investments accounted for using equity method	603	485
Other income	6,234	2,976
Other expenses	50,611	14,536
Operating profit	28,281	83,469
Finance income	2,183	1,942
Finance costs	10,347	7,613
Profit before tax	20,117	77,798
Income taxes	12,068	26,143
Profit	8,049	51,655
Profit attributable to:		
Owners of parent	8,147	51,670
Non-controlling interests	(98)	(15)
Profit	8,049	51,655
Earnings per share		
Basic earnings per share	¥5.97	¥39.37
Diluted earnings per share	¥5.96	¥39.36

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	8,049	51,655
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(3,254)	(1,126)
Remeasurements of defined benefit plans	858	(4,227)
Total of items that will not be reclassified to profit or loss	(2,396)	(5,353)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,855	(13,273)
Cash flow hedges	491	337
Share of other comprehensive income of associates accounted for using equity method	(2)	(97)
Total of items that may be reclassified to profit or loss	2,344	(13,033)
Total other comprehensive income	(52)	(18,386)
Comprehensive income	7,997	33,269
Comprehensive income attributable to:		
Owners of parent	8,094	33,284
Non-controlling interests	(97)	(15)
Comprehensive income	7,997	33,269

(4) Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2018	124,560	91,502	(4,775)	(5,810)	237,316	442,793	1,466	444,259
Profit					8,147	8,147	(98)	8,049
Other comprehensive income				(53)		(53)	1	(52)
Comprehensive income	–	–	–	(53)	8,147	8,094	(97)	7,997
Purchase of treasury shares			(8)			(8)		(8)
Disposal of treasury shares		(20)	19			(1)		(1)
Dividends from surplus					(9,559)	(9,559)	(368)	(9,927)
Transfer from other components of equity to retained earnings				(2,371)	2,371	–		–
Share-based payment transactions	46	21				67		67
Equity transactions with non-controlling interests		(193)				(193)	193	–
Total transactions with owners	46	(192)	11	(2,371)	(7,188)	(9,694)	(175)	(9,869)
Balance at March 31, 2019	124,606	91,310	(4,764)	(8,234)	238,275	441,193	1,194	442,387

Fiscal year ended March 31, 2020

(Millions of yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2019	124,606	91,310	(4,764)	(8,234)	238,275	441,193	1,194	442,387
Profit					51,670	51,670	(15)	51,655
Other comprehensive income				(18,386)		(18,386)		(18,386)
Comprehensive income	–	–	–	(18,386)	51,670	33,284	(15)	33,269
Purchase of treasury shares			(93,381)			(93,381)		(93,381)
Disposal of treasury shares		(10)	10			0		0
Dividends from surplus					(10,243)	(10,243)	(126)	(10,369)
Transfer from other components of equity to retained earnings				3,869	(3,869)	–		–
Share-based payment transactions	37	15				52		52
Equity transactions with non-controlling interests		(158)				(158)	158	–
Total transactions with owners	37	(153)	(93,371)	3,869	(14,112)	(103,730)	32	(103,698)
Balance at March 31, 2020	124,643	91,157	(98,135)	(22,751)	275,833	370,747	1,211	371,958

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before tax	20,117	77,798
Depreciation and amortization	58,669	68,309
Impairment losses (reversal of impairment losses)	3,618	5,501
Interest and dividend income	(1,901)	(1,911)
Interest expenses	4,617	3,810
Loss related to securities litigation	19,380	–
Loss related to duodenoscope investigation	9,653	–
Share of loss (profit) of investments accounted for using equity method	(603)	(485)
Decrease (increase) in trade and other receivables	5,584	1,276
Decrease (increase) in inventories	(14,357)	(16,401)
Increase (decrease) in trade and other payables	3,114	731
Increase (decrease) in retirement benefit liability	1,632	(2,303)
Decrease (increase) in retirement benefit asset	(2,391)	2,136
Increase (decrease) in provisions	9,866	9,637
Other	2,892	6,752
Subtotal	119,890	154,850
Interest received	1,299	1,456
Dividends received	602	455
Interest paid	(4,622)	(3,689)
Loss on litigation paid	(19,380)	–
Loss related to duodenoscope investigation	(9,653)	–
Income taxes paid	(21,193)	(19,528)
Net cash provided by operating activities	66,943	133,544
Cash flows from investing activities		
Purchase of property, plant and equipment	(47,094)	(37,774)
Proceeds from sales of property, plant and equipment	4,300	198
Purchase of intangible assets	(14,372)	(28,155)
Purchase of investments in associates	(2,440)	–
Payments for loans receivable	(1,564)	(872)
Collection of loans receivable	1,193	1,755
Proceeds from sales of investments	5,031	3,031
Payments for acquisition of business	(3,743)	(571)
Other	(1,607)	(42)
Net cash used in investing activities	(60,296)	(62,430)

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from financing activities		
Increase (decrease) in short-term borrowings and commercial papers	647	69,534
Repayments of lease liabilities	–	(15,604)
Proceeds from long-term borrowings	9,425	39,780
Repayments of long-term borrowings	(64,302)	(58,874)
Dividends paid	(9,559)	(10,243)
Dividends paid to non-controlling interests	(368)	(126)
Proceeds from issuance of bonds	9,947	49,793
Redemption of bonds	(25,000)	–
Payments for purchase of treasury shares	(8)	(93,381)
Other	(3,730)	(341)
Net cash used in financing activities	(82,948)	(19,462)
Effect of exchange rate changes on cash and cash equivalents	(375)	(3,498)
Net increase (decrease) in cash and cash equivalents	(76,676)	48,154
Cash and cash equivalents at beginning of period	191,239	114,563
Cash and cash equivalents at end of period	114,563	162,717

(6) Notes to Consolidated Financial Statements

(Notes on premise of going concern)

No items to report

(Reporting entity)

Olympus Corporation (hereinafter, the “Company”) is a joint stock company located in Japan. The address of its registered head office is Hachioji-shi, Tokyo. The Company’s consolidated financial statements comprise the Company and its subsidiaries (hereinafter, the “Olympus Group”) and interests in the Company’s associates.

The Olympus Group is principally engaged in the manufacture and sales of endoscopic, therapeutic and scientific, imaging and other products. Details of each business are as described in Note “Segment information.”

(Basis of preparation)

(1) Statement of the consolidated financial statements’ compliance with IFRS

The consolidated financial statements of the Olympus Group have been prepared in accordance with IFRS. Since the requirements for “Specified Company of Designated International Accounting Standards” set forth in Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” are satisfied, the Olympus Group adopts the provisions of Article 93 of the same Ordinance.

(2) Basis of measurement

The Olympus Group’s consolidated financial statements have been prepared on an acquisition cost basis, except for specific financial instruments.

(3) Functional currency and presentation currency

The Olympus Group’s consolidated financial statements are presented in Japanese yen, which is also the Company’s functional currency, and figures are rounded off to the nearest million yen.

(Significant accounting policies)

The significant accounting policies adopted for the consolidated financial statements of the Olympus Group for the fiscal year ended March 31, 2020 are the same as those applied for the fiscal year ended March 31, 2019 with exception of the items described below.

The Olympus Group has adopted IFRS 16 “Leases” (hereinafter, “IFRS 16”) from the fiscal year ended March 31, 2020. IFRS 16 introduces a single lessee accounting model, instead of classifying leases into operating leases and finance leases. IFRS 16 requires a lessee to recognize right-of-use assets representing its rights to use the underlying leased assets and lease liabilities representing its obligations to make lease payments for all leases, in principle.

(1) Leases as lessee

Lease liabilities are measured at the present value of the total lease payments that are not paid at the commencement date. Right-of-use assets are initially measured at cost, which comprises the initial amount of lease liabilities adjusted for any initial direct costs, prepaid lease payments and restoration costs, etc. Right-of-use assets are depreciated on a straight-line method over the shorter of their estimated useful lives or lease terms.

The lease term is estimated based on the non-cancelable period and adjusted for optional periods for which the Olympus Group is reasonably certain to exercise an option to extend or terminate the lease. The Olympus Group classifies total lease payments into the principal portion of the lease liability and the interest portion of the lease payments and recognizes in profit or loss the amount allocated to the interest portion of the lease payments in each fiscal year that is calculated at a consistent interest rate on the outstanding lease liabilities.

If the contract transfers the right to control the use of an identified asset for a period of time in exchange for a consideration, at the start of the contract, the contract is deemed to be a lease or to contain a lease.

For short-term leases and leases for which the underlying asset is of low value (“low-value leases”), the Olympus Group does not recognize the right-of-use assets and lease liabilities but recognizes lease payments as expenses.

Right-of-use assets and lease liabilities are included in and presented as “Property, plant and equipment” and “Other financial liabilities” respectively on the consolidated statements of financial position.

(2) Leases as lessor

The Olympus Group classifies lease transactions involving transfer of substantially all the risks and rewards associated with the ownership of the leased assets into finance lease, while classifies other type of lease transactions into operating lease.

In finance lease transactions, the present value of gross investments in the leases is recognized as revenue at the commencement of the lease term, and the correspondent amount is recognized as lease receivables. Unearned finance income is apportioned at a constant rate on the net investment over the lease term and recognized as revenue in the period to which it is attributable.

In operating lease transactions, the relevant leased properties are recognized on the consolidated statements of financial position, and lease payments receivable are recognized in revenue over the lease terms on a straight-line method.

With the application of IFRS 16, the Olympus Group adopts the method whereby the cumulative effect allowed as a transition measure is recognized at the adoption date. As a result of adopting such method, instead of restating comparative information, the Olympus Group recorded ¥38,499 million of lease-related assets including right-of-use assets and ¥38,499 million of lease liabilities in the consolidated statements of financial position as of April 1, 2019.

There is no impact for the opening balance of retained earnings because, when recognizing lease liability, the Olympus Group recognized lease-related assets at an amount equal to the lease liability.

In addition, the Olympus Group measures the aforementioned lease liabilities at the present value by discounting the remaining lease payments at the lessee’s incremental borrowing rate (rate that would apply for a borrowing from an external source separately) as of the adoption date. The weighted average of the lessee’s incremental borrowing rates applied to the lease liabilities recognized in the consolidated statements of financial position as of the adoption date is 1.13%.

Reconciliation of non-cancelable operating lease agreements applying IAS 17 at the end of the previous fiscal year and lease liabilities recognized on the consolidated statements of financial position as of the adoption date is as follows:

(Millions of yen)

Operating lease agreements disclosed on March 31, 2019	44,262
Operating lease agreements disclosed on March 31, 2019 (after discounting with the incremental borrowing rate)	42,232
Finance lease obligations (March 31, 2019)	9,035
Short-term leases and low-value leases	(896)
Options to extend or terminate the lease that the lessee is reasonably certain to exercise	13,539
Lease agreements entered into before the lease commencement date (Executing date)	(19,896)
Others	3,520
Lease liabilities as of April 1, 2019	47,534

In the application of IFRS 16, the Olympus Group has adopted the following practical expedients.

・ Applied a single discount rate to a portfolio of lease assets with similar characteristics

・ Accounted in the same way as short-term leases for leases with a lease term of 12 months or less

・ Excluded initial direct costs from the measurement as of the adoption date for the right-of-use assets that existed at the beginning of the fiscal year ended March 31, 2020

・ Used hindsight on exercising options to extend or terminate the lease when determining the lease term

(Significant accounting estimates and associated judgments)

In preparing IFRS-based consolidated financial statements, the management is required to make judgment, estimates and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis and the effect is recognized in the period in which the estimates are revised and in future periods.

Significant accounting estimates and associated judgments in the consolidated financial statements are consistent with the consolidated financial statements for the previous fiscal year.

(Consolidated Statements of Profit or Loss)

(1) Selling, general and administrative expenses

Major items of selling, general and administrative expenses are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)	Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)
Personnel expenses	224,087	223,277
Depreciation	29,866	38,332
Advertising and promotion expenses	27,745	21,503

Personnel expenses mainly include wages, bonuses, legal welfare expenses, expenses related to post-employment benefits, and personnel expenses incurred by the development division.

(2) Other income and other expenses

1) Other income

Major items of other income are as follows.

Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)

(Gain on revision of retirement benefit plan)

The Company recorded a gain on the revisions of the retirement benefit plan in Europe of ¥1,883 million in “Other income.”

(Gain on sale of fixed assets)

The Company recorded gain on sale of fixed assets of ¥1,059 million in “Other income.”

Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)

No significant transactions

2) Other expenses

Major items of other expenses are as follows.

Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)

(Loss related to securities litigation)

The Company 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 fiscal year ended March 31, 2001 through the first quarter of the fiscal year ended March 31, 2012. The Company recorded a monetary settlement of ¥19,380 million, which is the amount of settlements paid for the claims for damages, in “Other expenses.”

(Restructuring costs for Imaging Business’s manufacturing locations)

In May 2018, the Company resolved to restructure manufacturing locations of Imaging Business, and decided to discontinue operations of Olympus (Shenzhen) Industrial Ltd., a consolidated subsidiary of the Company, and to concentrate this production at Olympus Vietnam Co., Ltd.

The Company recorded ¥6,174 million in “Other expenses” as restructuring expenses for manufacturing locations in the Imaging Business, including economic compensation incurred with a series of restructuring.

(Loss related to litigation of consolidated subsidiary)

Regarding the lawsuit filed by Shenzhen Anping Tai Investment and Development Co., Ltd. against the Company’s consolidated subsidiary Olympus (Shenzhen) Industrial Ltd. (OSZ), the Shenzhen Intermediate People’s Court issued a verdict on July 30, 2018, which was sent to OSZ on August 3, 2018. While the verdict recognized some of the claims of the Company’s consolidated subsidiary, it was ordered to pay damages. To prepare for losses associated with the lawsuit, the Company recorded ¥3,817 million in “Other expenses” as a reasonable estimate of the required sum.

(Costs related to litigation of consolidated subsidiary)

Regarding costs associated with a lawsuit between the Company’s consolidated subsidiary KeyMed (Medical & Industrial Equipment) Ltd. and the former officers, the Company recorded ¥1,197 million in “Other expenses” as a reasonable estimate of the required sum.

(Investigation on duodenoscopes in the U.S.)

In March and August 2015, subpoenas were issued to Olympus Medical Systems Corp. (OMSC), a subsidiary of ours, by the U.S. Department of Justice (DOJ), seeking information relating to duodenoscopes that the Olympus Group manufactures and sells, and the DOJ had continued an investigation relating to the U.S. Federal Food, Drug and Cosmetic Act (FDCA). On December 3, 2018, OMSC entered into a plea agreement with the DOJ regarding this matter, and the agreement was approved by a U.S. federal court and thus became final on December 10, 2018. OMSC paid a criminal fine and criminal forfeiture in the amount of ¥9,653 million.

(Impairment losses)

Regarding business assets in the Imaging Business and development assets in the Therapeutic Solutions Business, as the revenue projected at the time the assets were acquired is now not expected due to changes in the market environment, values have been written down to the collectable amount, and impairment losses of ¥1,990 million and ¥1,332 million have been recognized, respectively, as “Other expenses.”

(Voluntary investigation into indirect tax payment of a consolidated subsidiary)

The Company recorded ¥5,328 million in order to provide for the additional tax amount expected as a result of the voluntary investigation into indirect tax payments of the Company’s overseas subsidiaries. Of that amount, ¥3,882 million was recorded in “Other expenses.”

Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)

(Business restructuring expenses)

The Company recorded ¥3,954 million for the cost related to promote the business transformation plan “Transform Olympus” in “Other expenses.”

(Impairment losses)

Regarding business assets related to a portion of products in the Endoscopic Solutions Business that are no longer expected to be used in the future and business assets in the Imaging Business, as the revenue projected at the time the assets were acquired is now not expected due to changes in the market environment, values have been written down to the collectable amount, and impairment losses of ¥1,522 million and ¥1,518 million have been recognized, respectively, as “Other expenses.”

(Segment information)

(1) Overview of reportable segments

The reportable segments of the Olympus Group are the units for which separate financial information is available and according to which reporting is periodically conducted to decide how to allocate management resources and assess business performance.

The Olympus Group reorganized its medical business on April 1, 2019, and separated the previous Medical Business into the Endoscopic Solutions Business and Therapeutic Solutions Business. Consequently, the Olympus Group has changed four reportable segments: Medical Business, Scientific

Solutions Business, Imaging Business and Others into five segments: Endoscopic Solutions Business, Therapeutic Solutions Business, Scientific Solutions Business, Imaging Business and Others.

Segment information for the previous fiscal year has been modified according to the new classification.

The principal products and services of each reportable segment are as follows.

Reportable Segment	Principal products and services
Endoscopic Solutions Business	Gastrointestinal endoscopes, surgical endoscopes, endoscopy systems, repair service
Therapeutic Solutions Business	Endo-therapy devices, energy devices, urology, gynecology and ENT products
Scientific Solutions Business	Biological microscopes, industrial microscopes, industrial endoscopes, non-destructive testing equipment
Imaging Business	Digital cameras, voice recorders
Others	Biomedical materials

(2) Revenue and business results for reportable segments

Revenue and business results of each reportable segment of the Olympus Group are as follows. The accounting method used for reportable segments is the same as the accounting policies of the Olympus Group that are described in “Significant accounting policies.”

Fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segment						Adjustment (Note 2, 3, 4, 5)	Amount on consolidated financial statements
	Endoscopic Solutions	Therapeutic Solutions	Scientific Solutions	Imaging	Others	Total		
Revenue								
Revenue from outside customers	418,833	215,468	104,225	48,679	6,657	793,862	–	793,862
Revenue among segments (Note 1)	–	–	79	1	581	661	(661)	–
Total	418,833	215,468	104,304	48,680	7,238	794,523	(661)	793,862
Operating profit (loss)	89,771	22,163	8,135	(18,268)	(3,521)	98,280	(69,999)	28,281
Finance income								2,183
Finance costs								10,347
Profit before tax								20,117
Other items								
Share of profit (loss) of investments accounted for using equity method	603	–	0	–	–	603	–	603
Depreciation and amortization	29,654	16,438	6,842	1,654	491	55,079	3,590	58,669
Impairment losses (non-financial assets)	9	1,332	–	1,990	73	3,404	214	3,618
Segment assets	392,432	225,574	97,191	47,283	5,813	768,293	163,737	932,030
Investments accounted for using equity method	–	2,440	–	–	–	2,440	–	2,440
Capital expenditures	37,190	13,812	6,688	4,027	553	62,270	4,560	66,830

Notes:
1. Revenue among segments is based on actual market prices.
2. Adjustment for operating profit (loss) is corporate expenses that consist of elimination of transactions among segments as well as general and administrative expenses and fundamental research expenses etc. that are not attributable to reportable segments.
3. Adjustment for segment assets is corporate expenses that are not attributable to reportable segments.
4. Adjustment for depreciation and amortization is the amount of depreciation and amortization related to corporate assets that are not attributable to reportable segments.
5. Adjustment for capital expenditures is the amount of increase in fixed assets related to corporate assets that are not attributable to reportable segments.

Fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segment						Adjustment (Note 2, 3, 4, 5)	Amount on consolidated financial statements
	Endoscopic Solutions	Therapeutic Solutions	Scientific Solutions	Imaging	Others	Total		
Revenue								
Revenue from outside customers	425,742	216,075	105,189	43,615	6,790	797,411	–	797,411
Revenue among segments (Note 1)	–	–	50	3	483	536	(536)	–
Total	425,742	216,075	105,239	43,618	7,273	797,947	(536)	797,411
Operating profit (loss)	109,424	26,191	9,997	(10,393)	(2,744)	132,475	(49,006)	83,469
Finance income								1,942
Finance costs								7,613
Profit before tax								77,798
Other items								
Share of profit (loss) of investments accounted for using equity method	561	(76)	–	–	–	485	–	485
Depreciation and amortization	34,239	18,062	7,638	1,503	1,166	62,608	5,701	68,309
Impairment losses (non-financial assets)	1,663	1,109	–	1,518	10	4,300	1,201	5,501
Segment assets	414,978	256,239	94,841	47,538	7,752	821,348	194,315	1,015,663
Investments accounted for using equity method	–	2,267	–	–	–	2,267	–	2,267
Capital expenditures	47,557	12,897	6,427	3,045	875	70,801	6,383	77,184

Notes:

1. Revenue among segments is based on actual market prices.
2. Adjustment for operating profit (loss) is corporate expenses that consist of elimination of transactions among segments as well as general and administrative expenses and fundamental research expenses etc. that are not attributable to reportable segments.
3. Adjustment for segment assets is corporate expenses that are not attributable to reportable segments.
4. Adjustment for depreciation and amortization is the amount of depreciation and amortization related to corporate assets that are not attributable to reportable segments.
5. Adjustment for capital expenditures is the amount of increase in fixed assets related to corporate assets that are not attributable to reportable segments.

(3) Information by region

Information by region of revenue of the Group is as follows.
The importance of the Chinese market is growing, so revenue from China that had previously been included in Asia/ Oceania will be classified separately from the fiscal year ended March 31, 2020.

Information by region for the previous fiscal year has been modified according to the new classification.

(Millions of yen)

	Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)	Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)
Japan	146,344	144,418
North America	267,411	266,704
Europe	191,965	191,276
China	91,328	103,036
Asia and Oceania	77,185	72,782
Others	19,629	19,195
Total	793,862	797,411

Notes: 1. Revenue is based on the location of the customer, and are classified by country or region.

2. Major countries and regions other than Japan are as follows:

(1) North America	USA, Canada
(2) Europe	Germany, UK, France, etc.
(3) Asia and Oceania	Singapore, Hong Kong, Korea, Australia, etc.
(4) Others	Central and South America, Africa, etc.

(Per-share data)

(1) Basic earnings per share and diluted earnings per share

	Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)	Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)
Basic earnings per share	¥5.97	¥39.37
Diluted earnings per share	¥5.96	¥39.36

(2) The basis for calculating basic earnings per share and diluted earnings per share

(Millions of yen)

	Fiscal year ended March 31, 2019 (April 1, 2018 - March 31, 2019)	Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020)
Profit used to calculate basic earnings per share and diluted earnings per share		
Profit attributable to owners of parent	8,147	51,670
Profit not attributable to common shareholders of parent	–	–
Profit used to calculate basic earnings per share	8,147	51,670
Adjustment to profit	–	–
Profit used to calculate diluted earnings per share	8,147	51,670
The weighted average number of shares of common stock used to calculate basic earnings per share and diluted earnings per share		
The weighted average number of shares of common stock	1,365,659 thousand shares	1,312,285 thousand shares
Increase in number of shares of common stock		
Subscription rights to shares relating to stock options	578 thousand shares	570 thousand shares
Common stock relating to performance-linked share-based remuneration	73 thousand shares	8 thousand shares
Average number of shares of diluted common stock during the period	1,366,310 thousand shares	1,312,863 thousand shares

Note: On April 1, 2019, the Company conducted a four-for-one stock split of common stock. The stock split is reflected in the amounts of “basic earnings per share” and “diluted earnings per share” as if the stock split were conducted at the beginning of the previous fiscal year.

(Additional information)

Against the backdrop of acquiring legal authorization for new products with detachable tip caps for duodenoscopes in America, the Company decided to autonomously replace old products with fixed tip caps with new products with detachable tip caps, which are simple to wash and disinfect, for duodenoscopes.
As expenses pertaining to this market response, the Company recorded ¥10,368 million in cost of sales in the

Endoscopic Solutions Business as a provision in the fiscal year under review.

(Important subsequent event)
No items to report