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Consolidated Financial Results for the Three Months of the Fiscal Year Ending March 31, 2020 <under IFRS>



August 2, 2019

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 to submit the Quarterly Securities Report: August 2, 2019

Scheduled date to commence dividend payments: –

Presentation of supplementary material on quarterly financial results: Yes

Holding of quarterly 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 Three Months of the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to June 30, 2019)

(1) Consolidated Results of Operations (cumulative) (% indicate changes from the same period of the previous fiscal year)

	Revenue		Operating profit		Profit before tax		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Three months ended								
June 30, 2019	181,885	0.7	14,736	–	13,607	–	8,643	–
June 30, 2018	180,554	5.1	(11,639)	–	(14,708)	–	(16,709)	–

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share		Diluted earnings per share	
	(¥ million)	%	(¥ million)	%	(¥)	(¥)	(¥)	(¥)
Three months ended								
June 30, 2019	8,637	–	(773)	–	6.32	6.32	6.32	6.32
June 30, 2018	(16,685)	–	(13,456)	–	(12.22)	(12.22)	(12.22)	(12.22)

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
	(¥ million)	(¥ million)	(¥ million)	%
As of				
June 30, 2019	938,295	431,189	429,956	45.8
March 31, 2019	932,030	442,387	441,193	47.3

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2019	–	0.00	–	30.00	30.00
Fiscal year ending March 31, 2020	–				
Fiscal year ending March 31, 2020 (Forecast)		0.00	–	10.00	10.00

Notes: 1. Revisions of the forecast most recently announced: No

2. 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 ending March 31, 2020 (forecast). (Reference) Without reflecting the stock split, the annual dividend per share for the year ending March 31, 2020 (forecast) would be ¥40.00.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020

(From April 1, 2019 to March 31, 2020)

(% indicate changes from the same period of the previous fiscal year)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full year	800,000	0.8	90,000	218.2	86,000	327.5	63,000	673.3	46.13

Note: Revisions of the forecast most recently announced: No

* Notes

(1) Changes in significant subsidiaries during the three months 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 “2. Condensed Consolidated Financial Statements and Significant Notes Thereto (6) Notes to Condensed Consolidated Financial Statements (Significant accounting policies)” on page 13 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 shares)

As of June 30, 2019	1,370,853,396 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 June 30, 2019	5,168,872 shares
As of March 31, 2019	5,170,080 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2019	1,365,683,992 shares
Three months ended June 30, 2018	1,365,592,232 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.

* Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.

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

(Caution concerning forward-looking statements)

The forward-looking statements, including forecast of financial results, contained in these materials include predictions about the future based on assumptions, forecasts and plans as of the date of release of these materials. Actual financial results may differ substantially from the stated forecast amounts due to risks and uncertainties relating to the global economy, competition circumstances, foreign currency exchange fluctuations, and so forth. For information on the forecast of financial results, please refer to page 5.

Attached Material
Contents

- 1. Qualitative Information Regarding Settlement of Accounts for the Three Months 2
 - (1) Explanation of Results of Operations..... 2
 - (2) Financial Position..... 4
 - (3) Cash Flows 4
 - (4) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements..... 5

- 2. Condensed Consolidated Financial Statements and Significant Notes Thereto 6
 - (1) Condensed Consolidated Statements of Financial Position..... 6
 - (2) Condensed Consolidated Statements of Profit or Loss 8
 - (3) Condensed Consolidated Statements of Comprehensive Income 9
 - (4) Condensed Consolidated Statements of Changes in Equity 10
 - (5) Condensed Consolidated Statements of Cash Flows..... 11
 - (6) Notes to Condensed Consolidated Financial Statements 13
 - (Notes on premise of going concern) 13
 - (Reporting entity) 13
 - (Basis of preparation) 13
 - (Significant accounting policies)..... 13
 - (Significant accounting estimates and associated judgments)..... 15
 - (Segment information) 15

1. Qualitative Information Regarding Settlement of Accounts for the Three Months

(1) Explanation of Results of Operations

Overall

	(Millions of yen)			
	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	180,554	181,885	1,331	0.7
Operating profit (loss)	(11,639)	14,736	26,375	–
Profit (loss) attributable to owners of parent	(16,685)	8,637	25,322	–
Exchange rate (Yen/U.S. dollar)	109.07	109.90	0.83	–
Exchange rate (Yen/Euro)	130.06	123.49	(6.57)	–
Exchange rate (Yen/Renminbi)	17.13	16.07	(1.06)	–

In line with the reorganization of the Medical Business, effective the three months ended June 30, 2019, we have presented business operations by segment by dividing up the Medical Business into the Endoscopic Solutions Business and the Therapeutic Solutions Business. For details, please see “2. Condensed Consolidated Financial Statements and Significant Notes Thereto (6) Notes to Condensed Consolidated Financial Statements (Segment information)” on page 15.

While the global economy stayed on an overall recovery path during the three months ended June 30, 2019, the situation remained unclear due to trade friction between the U.S. and China and the U.K.’s actions regarding its withdrawal from the EU. The Japanese economy continued to recover gradually, mainly as corporate earnings and employment conditions improved and personal consumption showed signs of picking up, despite continued weakness in exports and production.

Amid this business environment, Olympus Group continues to work to achieve sustainable growth by announcing its business transformation plan “Transform Olympus” in January 2019 to develop itself as a truly global medical technology company, in addition to having conducted business operations in accordance with the “Business to Specialist” Company and One Olympus basic policies of the five-year medium-term management plan, 2016 Corporate Strategic Plan (“16CSP”), which was launched in the fiscal year ended March 31, 2017.

The Olympus Group’s overall consolidated revenue increased for the three months ended June 30, 2019 to ¥181,885 million (up 0.7% year on year), due to increased sales in the Endoscopic Solutions Business, Therapeutic Solutions Business and Scientific Solutions Business. Operating profit was ¥14,736 million (compared with an operating loss of ¥11,639 million in the same period of the previous fiscal year) due to profit growth in the Endoscopic Solutions Business and Scientific Solutions Business, and the large improvement resulting from a reduction in selling, general and administrative expenses and the absence of ¥27,865 million in “Other expenses” recorded as one-time costs in the same period of the previous fiscal year relating to a monetary settlement following damages claim litigation settlements, costs associated with the restructuring of the Imaging Business’s manufacturing locations, and the damages resulting from the judgment regarding a lawsuit involving a Chinese production subsidiary. Moreover, while finance costs declined, an increase in income taxes led to profit attributable to owners of parent of ¥8,637 million (compared with loss attributable to owners of parent of ¥16,685 million in the same period of the previous fiscal year).

Regarding foreign exchange, the yen remained level against the U.S. dollar, on the other hand, it appreciated against the euro and the renminbi compared to the previous fiscal year. The average exchange rate during the period was ¥109.90 against the U.S. dollar (¥109.07 in the same period of the previous fiscal year), ¥123.49 against the euro (¥130.06 in the same period of the previous fiscal year) and ¥16.07 against the renminbi (¥17.13 in the same period of the previous fiscal year) which caused revenue and operating profit to down by ¥3,843 million and ¥734 million, respectively, year on year.

Endoscopic Solutions Business

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	92,939	95,410	2,471	2.7
Operating profit	21,526	21,918	392	1.8

Consolidated revenue in the Endoscopic Solutions Business amounted to ¥95,410 million (up 2.7% year on year), while operating profit amounted to ¥21,918 million (up 1.8% year on year).

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

Operating profit in the Endoscopic Solutions Business increased mainly due to the contribution of increased revenue.

Therapeutic Solutions Business

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	50,977	52,056	1,079	2.1
Operating profit	5,856	5,676	(180)	(3.1)

Consolidated revenue in the Therapeutic Solutions Business amounted to ¥52,056 million (up 2.1% year on year), while operating profit amounted to ¥5,676 million (down 3.1% year on year).

Sales of single-use products of endo-therapy devices for use in endoscopic diagnosis and treatment of biliary and pancreatic ducts and others were strong. Additionally, sales of single-use products of the “THUNDERBEAT” integrated energy device with both advanced bipolar and ultrasonic energy continued to grow, leading to higher revenue year on year in the Therapeutic Solutions Business.

Operating profit in the Therapeutic Solutions Business decreased mainly due to the absence of “Other income,” that was recorded in the same period of the previous fiscal year due to the revisions of the retirement benefit plan leading to recognition of a one-time gain at a European subsidiary, despite the increase in revenue.

Scientific Solutions Business

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	21,089	22,613	1,524	7.2
Operating profit (loss)	(382)	1,644	2,026	—

Consolidated revenue in the Scientific Solutions Business amounted to ¥22,613 million (up 7.2% year on year), while operating profit amounted to ¥1,644 million (compared with an operating loss of ¥382 million in the same period of the previous fiscal year).

Sales of products for hospitals and life science research were steady in North America and China. In addition to strong sales of industrial endoscopes for aviation and electricity markets, sales of non-destructive testing equipment increased in North America, leading to higher revenue year on year in the Scientific Solutions Business.

Operating profit in the Scientific Solutions Business rose mainly due to the contribution of increased revenue.

Imaging Business

(Millions of yen)				
	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	13,891	10,189	(3,702)	(26.7)
Operating loss	(5,785)	(2,341)	3,444	–

Consolidated revenue in the Imaging Business amounted to ¥10,189 million (down 26.7% year on year), while operating loss amounted to ¥2,341 million (compared with an operating loss of ¥5,785 million in the same period of the previous fiscal year).

In addition to waiting to introduce new products, the effect of a deterioration in the mirrorless market and other factors 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 same period of the previous fiscal year.

Others

(Millions of yen)				
	Three months ended June 30, 2018	Three months ended June 30, 2019	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	1,658	1,617	(41)	(2.5)
Operating loss	(662)	(646)	16	–

Consolidated revenue in other businesses amounted to ¥1,617 million (down 2.5% year on year), while operating loss amounted to ¥646 million (compared with an operating loss of ¥662 million in the same period of the previous fiscal year).

Biomedical materials business was solid, and both revenue and operating loss were at the same level as the same period of the previous fiscal year.

(2) Financial Position

As of the end of the first quarter under review, total assets increased by ¥6,265 million compared to the end of the previous fiscal year to ¥938,295 million.

As for total assets, property, plant and equipment increased ¥29,018 million primarily due to the impact of the application of IFRS 16 “Leases” from the first quarter under review, on the other hand, trade and other receivables decreased ¥22,462 million.

Total liabilities increased in comparison to the end of the previous fiscal year by ¥17,463 million to ¥507,106 million, mainly as a net result of a ¥23,900 million increase in other financial liabilities in current liabilities due to the impact of the application of IFRS 16 “Leases” from the first quarter under review and a ¥7,667 million decrease in trade and other payables.

Total equity decreased in comparison to the end of the previous fiscal year by ¥11,198 million to ¥431,189 million. Its decrease was primarily the net result of an increase in retained earnings reflecting ¥8,637 million in profit attributable to owners of parent and a decrease in retained earnings reflecting ¥10,243 million of dividends, and a ¥9,035 million decrease in other components of equity (exchange differences on translation of foreign operations, etc.).

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 45.8%.

(3) Cash Flows

Cash and cash equivalents at the end of the first quarter under review reached ¥113,745 million, a decrease of ¥818 million compared to the end of the previous fiscal year. The following are the cash flows for the three months ended June 30, 2019.

Cash flows from operating activities

Net cash provided by operating activities for the three months ended June 30, 2019 was ¥28,406 million (compared with ¥25,028 million provided for the three months ended June 30, 2018). The main sources of cash included a ¥13,607 million in profit before tax, an adjustment for noncash items of ¥17,427 million in depreciation and amortization, and a decrease in trade and other receivables of ¥17,770 million. The main uses of cash included a ¥10,829 million increase in inventories and ¥5,440 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities for the three months ended June 30, 2019 was ¥15,513 million (compared with ¥17,378 million used for the three months ended June 30, 2018). The main uses of cash included ¥11,004 million in purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities for the three months ended June 30, 2019 was ¥11,285 million (compared with ¥9,099 million used for the three months ended June 30, 2018). Increasing factors mainly included ¥29,446 million in net increase in short-term borrowings and commercial papers. Decreasing factors mainly included ¥28,000 million in repayments of long-term borrowings and ¥10,243 million in dividends paid.

(4) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements

Regarding the forecasts of consolidated financial results for the fiscal year ending March 31, 2020, the forecasts are unchanged from the forecasts announced in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019,” which was released on May 10, 2019.

2. Condensed Consolidated Financial Statements and Significant Notes Thereto**(1) Condensed Consolidated Statements of Financial Position**

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	114,426	113,261
Trade and other receivables	155,321	132,859
Other financial assets	2,155	2,433
Inventories	153,623	162,434
Income taxes receivable	7,931	7,496
Other current assets	16,867	17,829
Subtotal	450,323	436,312
Assets held for sale	5,709	5,610
Total current assets	456,032	441,922
Non-current assets		
Property, plant and equipment	176,908	205,926
Goodwill	101,188	97,955
Intangible assets	69,269	67,467
Retirement benefit asset	30,239	28,391
Investments accounted for using equity method	2,440	2,415
Trade and other receivables	14,618	16,173
Other financial assets	32,808	31,419
Deferred tax assets	47,267	45,165
Other non-current assets	1,261	1,462
Total non-current assets	475,998	496,373
Total assets	932,030	938,295

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities		
Trade and other payables	61,724	54,057
Bonds and borrowings	59,707	60,830
Other financial liabilities	9,391	22,773
Income taxes payable	8,043	6,298
Provisions	10,803	10,556
Other current liabilities	133,311	126,881
Subtotal	282,979	281,395
Liabilities directly associated with assets held for sale	4,532	4,327
Total current liabilities	287,511	285,722
Non-current liabilities		
Bonds and borrowings	121,628	120,716
Other financial liabilities	7,799	31,699
Retirement benefit liability	43,116	42,521
Provisions	6,468	7,230
Deferred tax liabilities	12,101	9,486
Other non-current liabilities	11,020	9,732
Total non-current liabilities	202,132	221,384
Total liabilities	489,643	507,106
Equity		
Share capital	124,606	124,606
Capital surplus	91,310	91,094
Treasury shares	(4,764)	(4,763)
Other components of equity	(8,234)	(17,269)
Retained earnings	238,275	236,288
Total equity attributable to owners of parent	441,193	429,956
Non-controlling interests	1,194	1,233
Total equity	442,387	431,189
Total liabilities and equity	932,030	938,295

(2) Condensed Consolidated Statements of Profit or Loss

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Revenue	180,554	181,885
Cost of sales	62,205	65,175
Gross profit	118,349	116,710
Selling, general and administrative expenses	105,011	101,074
Share of profit (loss) of investments accounted for using equity method	(8)	92
Other income	3,818	336
Other expenses	28,787	1,328
Operating profit (loss)	(11,639)	14,736
Finance income	619	528
Finance costs	3,688	1,657
Profit (loss) before tax	(14,708)	13,607
Income taxes	2,001	4,964
Profit (loss)	(16,709)	8,643
Profit (loss) attributable to:		
Owners of parent	(16,685)	8,637
Non-controlling interests	(24)	6
Profit (loss)	(16,709)	8,643
Earnings per share		
Basic earnings (loss) per share	¥(12.22)	¥6.32
Diluted earnings (loss) per share	¥(12.22)	¥6.32

(3) Condensed Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit (loss)	(16,709)	8,643
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	297	(371)
Remeasurements of defined benefit plans	(583)	(381)
Total of items that will not be reclassified to profit or loss	(286)	(752)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	3,420	(8,762)
Cash flow hedges	123	98
Share of other comprehensive income of associates accounted for using equity method	(4)	-
Total of items that may be reclassified to profit or loss	3,539	(8,664)
Total other comprehensive income	3,253	(9,416)
Comprehensive income	(13,456)	(773)
Comprehensive income attributable to:		
Owners of parent	(13,428)	(779)
Non-controlling interests	(28)	6
Comprehensive income	(13,456)	(773)

(4) Condensed Consolidated Statements of Changes in Equity

Three months ended June 30, 2018

(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 (loss)					(16,685)	(16,685)	(24)	(16,709)
Other comprehensive income				3,257		3,257	(4)	3,253
Comprehensive income	–	–	–	3,257	(16,685)	(13,428)	(28)	(13,456)
Purchase of treasury shares			(2)			(2)		(2)
Disposal of treasury shares		(14)	14			0		0
Dividends from surplus					(9,559)	(9,559)	(140)	(9,699)
Transfer from other components of equity to retained earnings				507	(507)	–		–
Share-based payment transactions		17				17		17
Total transactions with owners	–	3	12	507	(10,066)	(9,544)	(140)	(9,684)
Balance at June 30, 2018	124,560	91,505	(4,763)	(2,046)	210,565	419,821	1,298	421,119

Three months ended June 30, 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, 2019	124,606	91,310	(4,764)	(8,234)	238,275	441,193	1,194	442,387
Profit (loss)					8,637	8,637	6	8,643
Other comprehensive income				(9,416)		(9,416)		(9,416)
Comprehensive income	–	–	–	(9,416)	8,637	(779)	6	(773)
Purchase of treasury shares			(1)			(1)		(1)
Disposal of treasury shares		(2)	2			0		0
Dividends from surplus					(10,243)	(10,243)	(125)	(10,368)
Transfer from other components of equity to retained earnings				381	(381)	–		–
Share-based payment transactions		(56)				(56)		(56)
Equity transactions with non-controlling interests		(158)				(158)	158	–
Total transactions with owners	–	(216)	1	381	(10,624)	(10,458)	33	(10,425)
Balance at June 30, 2019	124,606	91,094	(4,763)	(17,269)	236,288	429,956	1,233	431,189

(5) Condensed Consolidated Statements of Cash Flows

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities		
Profit (loss) before tax	(14,708)	13,607
Depreciation and amortization	14,321	17,427
Interest and dividend income	(576)	(520)
Interest expenses	1,480	1,031
Loss related to securities litigation	19,028	–
Share of loss (profit) of investments accounted for using equity method	8	(92)
Decrease (increase) in trade and other receivables	22,592	17,770
Decrease (increase) in inventories	(6,721)	(10,829)
Increase (decrease) in trade and other payables	(2,648)	(3,976)
Increase (decrease) in retirement benefit liability	531	166
Decrease (increase) in retirement benefit asset	(2,216)	1,203
Other	1,801	(1,428)
Subtotal	32,892	34,359
Interest received	299	280
Dividends received	277	240
Interest paid	(980)	(1,033)
Income taxes paid	(7,460)	(5,440)
Net cash provided by operating activities	25,028	28,406
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,584)	(11,004)
Proceeds from sale of property, plant and equipment	1,474	60
Purchase of intangible assets	(3,490)	(4,339)
Proceeds from sale of investments	38	–
Payments for acquisition of business	(3,436)	(220)
Other	(380)	(10)
Net cash used in investing activities	(17,378)	(15,513)

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings and commercial papers	–	29,446
Repayments of lease liabilities	–	(3,334)
Repayments of long-term borrowings	–	(28,000)
Dividends paid	(9,167)	(10,243)
Dividends paid to non-controlling interests	(140)	(125)
Other	208	971
Net cash used in financing activities	(9,099)	(11,285)
Effect of exchange rate changes on cash and cash equivalents	135	(2,426)
Net increase (decrease) in cash and cash equivalents	(1,314)	(818)
Cash and cash equivalents at beginning of period	191,239	114,563
Cash and cash equivalents at end of period	189,925	113,745

(6) Notes to Condensed 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 condensed 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 condensed consolidated financial statements’ compliance with IFRS

The condensed consolidated financial statements of the Olympus Group have been prepared in accordance with IAS 34. Since the requirements for “Specified Company of Designated International Accounting Standards” set forth in Article 1-2 of the “Regulation on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” are satisfied, the Olympus Group adopts the provisions of Article 93 of the same Regulation.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be used in conjunction with the Olympus Group’s annual consolidated financial statements as of March 31, 2019.

These condensed consolidated financial statements were approved by Director, Representative Executive Officer, President and CEO Yasuo Takeuchi, and Executive Officer and CFO Yasushi Sakai on August 2, 2019.

(2) Basis of measurement

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

(3) Functional currency and presentation currency

The Olympus Group’s condensed 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 condensed consolidated financial statements of the Olympus Group for the three months ended June 30, 2019 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 first quarter under review.

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 ending 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.

The details of significant accounting estimates and associated judgments in the condensed consolidated financial statements are unchanged from the contents described in the consolidated financial statements for the previous fiscal year.

(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. Consequently, the Olympus Group has changed the previous four reportable segments: Medical Business, Scientific Solutions Business, Imaging Business and Others into the five segments: Endoscopic Solutions Business, Therapeutic Solutions Business, Scientific Solutions Business, Imaging Business and Others.

Accordingly, the Olympus Group has the abovementioned five businesses as reportable segments.

Segment information for the three months ended June 30, 2018 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.”

Three months ended June 30, 2018

	Reportable Segment						Adjustment (Note 2)	Amount on condensed consolidated financial statements
	Endoscopic	Therapeutic	Scientific	Imaging	Others	Total		
Revenue								
Revenue from outside customers	92,939	50,977	21,089	13,891	1,658	180,554	–	180,554
Revenue among segments (Note 1)	–	–	8	–	118	126	(126)	–
Total revenue	92,939	50,977	21,097	13,891	1,776	180,680	(126)	180,554
Operating profit (loss)	21,526	5,856	(382)	(5,785)	(662)	20,553	(32,192)	(11,639)
Finance income								619
Finance costs								3,688
Loss before tax								(14,708)
Other items								
Share of profit (loss) of investments accounted for using equity method	(7)	–	(1)	–	–	(8)	–	(8)
Depreciation and amortization	7,143	4,072	1,695	380	122	13,412	909	14,321
Impairment losses (non-financial assets)	–	–	–	–	–	–	–	–

Notes:

- Revenue among segments is based on actual market prices.
- 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.

Three months ended June 30, 2019

	Reportable Segment						Adjustment (Note 2)	Amount on condensed consolidated financial statements
	Endoscopic	Therapeutic	Scientific	Imaging	Others	Total		
Revenue								
Revenue from outside customers	95,410	52,056	22,613	10,189	1,617	181,885	–	181,885
Revenue among segments (Note 1)	–	–	20	–	97	117	(117)	–
Total revenue	95,410	52,056	22,633	10,189	1,714	182,002	(117)	181,885
Operating profit (loss)	21,918	5,676	1,644	(2,341)	(646)	26,251	(11,515)	14,736
Finance income								528
Finance costs								1,657
Profit before tax								13,607
Other items								
Share of profit (loss) of investments accounted for using equity method	117	(25)	–	–	–	92	–	92
Depreciation and amortization	8,507	4,581	1,782	413	171	15,454	1,973	17,427
Impairment losses (non-financial assets)	–	–	–	545	–	545	–	545

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.