Consolidated Financial Results for the Three Months of the Fiscal Year Ending March 31, 2018 <under IFRS>

August 8, 2017

Company Name: Olympus Corporation
Code Number: 7733
(URL: http://www.olympus.co.jp/)
Stock Exchange Listing: First Section of Tokyo Stock Exchange
Representative: Hiroyuki Sasa, Representative Director, President
Contact: Takayuki Aoyagi, General Manager, Accounting Department
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Scheduled date to submit the Quarterly Securities Report: August 8, 2017
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, 2018 (From April 1, 2017 to June 30, 2017)

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

	Revenue		Operating profit		Profit before tax		Profit	
Three months ended	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
June 30, 2017	171,846	1.9	12,707	(4.9)	11,924	5.4	10,084	12.0
June 30, 2016	168,620	–	13,364	–	11,314	–	9,005	–

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Three months ended	(¥ million)	%	(¥ million)	%	(¥)	(¥)
June 30, 2017	10,055	12.0	16,354	–	29.38	29.37
June 30, 2016	8,981	–	(26,211)	–	26.24	26.23

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
As of	(¥ million)	(¥ million)	(¥ million)	%
June 30, 2017	966,867	402,919	401,492	41.5
March 31, 2017	960,032	396,228	394,751	41.1

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2017	–	0.00	–	28.00	28.00
Fiscal year ending March 31, 2018	–				
Fiscal year ending March 31, 2018 (Forecast)		0.00	–	28.00	28.00

Note: Revisions of the forecast most recently announced: No

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

(% 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)	%	(¥)
Six months	366,000	5.0	35,000	(0.6)	32,000	3.6	27,000	15.4	78.89
Full year	766,000	3.4	79,000	11.0	72,000	15.2	55,000	28.6	160.71

Notes: 1. The percentage changes from the same period of the previous fiscal year are calculated using the figures for the results of the fiscal year ended March 31, 2017 that conform to the International Financial Reporting Standards (IFRS).

2. 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: No
2) Changes in accounting policies due to other reasons: No
3) Changes in accounting estimates: No

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

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

As of June 30, 2017	342,671,508 shares
As of March 31, 2017	342,671,508 shares

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

As of June 30, 2017	435,484 shares
As of March 31, 2017	435,289 shares

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

Three months ended June 30, 2017	342,236,151 shares
Three months ended June 30, 2016	342,234,661 shares

* Quarterly financial results reports are not required to be subjected to quarterly reviews pursuant to the Financial Instruments and Exchange Act.

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

(Adoption of IFRS)

The Olympus Group has adopted IFRS starting from the first quarter of the fiscal year ending March 31, 2018. Figures for the same period of the previous fiscal year and the fiscal year ended March 31, 2017 are also presented in accordance with IFRS. For details about the differences between IFRS and Japanese GAAP with respect to financial figures, please refer to the section of “First-time adoption” on page 25 of the attached material.

(Caution concerning forward-looking statements)

The forward-looking statements, including forecast of financial results, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Accordingly, the Company cannot make promises to achieve such forecasts. Actual business and other results may differ substantially due to various factors. Please refer to the section of “Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements” on page 4 of the attached material for the conditions that form the assumptions for the forecast and cautions concerning the use thereof.

Attached Material
Contents

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

(1) Explanation of Results of Operations

Beginning in the three months ended June 30, 2017, the Olympus Group has adopted IFRS. In addition, figures for the three months ended June 30, 2016, as well as those for the fiscal year ended March 31, 2017 have been restated according to IFRS for comparative analysis.

Overall

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	168,620	171,846	3,226	1.9
Operating profit	13,364	12,707	(657)	(4.9)
Profit attributable to owners of parent	8,981	10,055	1,074	12.0
Exchange rate (Yen/U.S. dollar)	108.14	111.09	2.95	
Exchange rate (Yen/Euro)	122.02	122.19	0.17	

In the global economy during the three months ended June 30, 2017, the U.S. economy continued to recover and there was also a trend of improvement in Europe and China. However, uncertainty over the future continued due to the political trends in the U.S. and Europe and the increasing geopolitical risk in the East Asian and the Middle Eastern regions. In the Japanese economy, the continued improvement in corporate earnings has led in turn to improvement in capital investment and the employment environment, with the trend of moderate recovery continuing.

Amid this business environment, the Olympus Group's overall consolidated revenue increased for the three months ended June 30, 2017 to ¥171,846 million (up 1.9% year on year), due to increased sales in the Medical Business and the Scientific Solutions Business. Operating profit decreased to ¥12,707 million (down 4.9% year on year), due to decline in profits in the Medical Business. Moreover, a reduction in finance costs such as interest expenses and a reduction in income taxes resulted in profit attributable to owners of parent of ¥10,055 million (up 12.0% year on year).

Regarding foreign exchange, the yen depreciated against both the U.S. dollar and the euro compared to the same period of the previous fiscal year. The average exchange rate during the period was ¥111.09 against the U.S. dollar (¥108.14 in the same period of the previous fiscal year) and ¥122.19 against the euro (¥122.02 in the same period of the previous fiscal year), which caused revenue and operating profit to rise by ¥1,707 million and ¥1,147 million, respectively, year on year.

Medical Business

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	130,759	134,436	3,677	2.8
Operating profit	25,385	23,197	(2,188)	(8.6)

Consolidated revenue in the Medical Business amounted to ¥134,436 million (up 2.8% year on year), while operating profit amounted to ¥23,197 million (down 8.6% year on year).

In the gastrointestinal endoscope field, the mainstay endoscopy platform systems are reaching the second half of their product cycles, and sales were unchanged year on year. In the surgical field, surgical endoscopy systems equipped with 4K technologies and 3D laparoscopy systems generated firm results, while sales of the "THUNDERBEAT" integrated energy device with both advanced bipolar and ultrasonic energy continued to grow. In the therapeutic devices field, sales of "VisiGlide 2" disposable guidewire for use in endoscopic diagnosis and treatment of biliary and pancreatic ducts and others were strong.

Operating profit in the Medical Business declined due to the effect of product mix, etc.

Scientific Solutions Business

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	18,622	19,973	1,351	7.3
Operating loss	(1,068)	(584)	484	−

Consolidated revenue in the Scientific Solutions Business amounted to ¥19,973 million (up 7.3% year on year), while operating loss amounted to ¥584 million (compared with an operating loss of ¥1,068 million in the same period of the previous fiscal year).

Sales of products for hospitals and life science research were strong in Japan and the U.S. Moreover, in addition to maintained strong sales of industrial microscopes for semiconductor and smart phone component inspection, sales of non-destructive testing equipment increased with the bottoming-out in resource prices and the completion of large deals, leading revenue in the Scientific Solutions Business to rise year on year.

Operating loss for the Scientific Solutions Business decreased due to the increase in revenue.

Imaging Business

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	15,263	15,131	(132)	(0.9)
Operating profit (loss)	(285)	886	1,171	−

Consolidated revenue in the Imaging Business amounted to ¥15,131 million (down 0.9% year on year), while operating profit amounted to ¥886 million (compared with an operating loss of ¥285 million in the same period of the previous fiscal year).

In the mirrorless camera field, sales increased as the Olympus Group maintained strong sales of the flagship mirrorless camera “OM-D E-M1 Mark II,” introduced in the previous fiscal year. Meanwhile, in the compact camera field, the Olympus Group continued to limit the number of units sold in response to market shrinkage. Consequently, revenue in the Imaging Business overall decreased year on year.

The Imaging Business returned to profitability after having recorded a loss in the same period of the previous fiscal year due to progress made in pushing down expenses.

Others

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	Increase (Decrease) Ratio (%)
Revenue	3,976	2,306	(1,670)	(42.0)
Operating loss	(981)	(479)	502	−

Consolidated revenue in other businesses amounted to ¥2,306 million (down 42.0% year on year) and operating loss was ¥479 million (compared with an operating loss of ¥981 million in the same period of the previous fiscal year).

As we pushed ahead with the reorganization of our non-core business domains, such as by transferring shares in Nippon Outsourcing Corporation, a subsidiary of the Company, on October 31, 2016, revenue for other businesses declined. Also, operating loss for other businesses decreased, reflecting a reduction of expenses.

(2) Explanation of Financial Position

As of the end of the first quarter under review, total assets increased ¥6,835 million compared to the end of the previous fiscal year to ¥966,867 million.

This was primarily as a result of increases in inventories of ¥13,681 million and goodwill of ¥6,370 million, and decreases in cash and cash equivalents of ¥9,347 million and trade and other receivables of ¥18,282 million.

Total liabilities increased ¥144 million compared to the end of the previous fiscal year to ¥563,948 million due mainly to increases in other financial liabilities of ¥2,420 million in current liabilities and other non-current liabilities of ¥2,471 million, and decreases in bonds and borrowings of ¥1,976 million in current liabilities and income taxes payable of ¥4,321 million.

Total equity increased ¥6,691 million compared to the end of the previous fiscal year to ¥402,919 million, primarily due to an increase in retained earnings reflecting ¥10,055 million in profit attributable to owners of parent, a decrease in retained earnings reflecting dividends of ¥9,583 million, and an increase in other components of equity of ¥6,804 million arising from fluctuations in foreign exchange.

As a result of the foregoing, equity attributable to owners of parent to total assets increased from 41.1% as of the end of the previous fiscal year to 41.5%.

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

Regarding the forecasts of consolidated financial results for the six months ending September 30, 2017 and the fiscal year ending March 31, 2018, the forecasts are unchanged from the forecasts announced in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2017, which was released on May 2, 2017.

2. Condensed Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed Consolidated Statements of Financial Position

(Millions of yen)

	IFRS transition date (April 1, 2016)	As of March 31, 2017	As of June 30, 2017
ASSETS			
Current assets			
Cash and cash equivalents	166,379	199,465	190,118
Trade and other receivables	159,125	157,469	139,187
Other financial assets	2,498	1,618	5,909
Inventories	112,265	125,319	139,000
Income taxes receivable	14,282	5,146	7,585
Other current assets	14,497	12,902	15,825
Subtotal	469,046	501,919	497,624
Non-current assets held for sale	–	3,828	3,653
Total current assets	469,046	505,747	501,277
Non-current assets			
Property, plant and equipment	158,816	159,735	162,232
Goodwill	97,190	95,568	101,938
Intangible assets	83,941	75,858	78,953
Retirement benefit asset	24,510	24,544	23,463
Investments accounted for using equity method	1,926	51	40
Trade and other receivables	18,706	18,303	18,246
Other financial assets	77,273	37,895	39,413
Deferred tax assets	43,866	41,437	40,266
Other non-current assets	1,700	894	1,039
Total non-current assets	507,928	454,285	465,590
Total assets	976,974	960,032	966,867

(Millions of yen)

	IFRS transition date (April 1, 2016)	As of March 31, 2017	As of June 30, 2017
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Trade and other payables	75,404	70,834	71,279
Bonds and borrowings	56,570	68,777	66,801
Other financial liabilities	11,834	11,018	13,438
Income taxes payable	9,121	11,710	7,389
Provisions	4,070	5,675	5,780
Other current liabilities	121,106	118,436	117,373
Total current liabilities	278,105	286,450	282,060
Non-current liabilities			
Bonds and borrowings	263,731	217,193	217,157
Other financial liabilities	7,574	6,926	7,904
Retirement benefit liability	38,751	37,872	38,568
Provisions	365	425	589
Deferred tax liabilities	10,604	9,565	9,826
Other non-current liabilities	11,262	5,373	7,844
Total non-current liabilities	332,287	277,354	281,888
Total liabilities	610,392	563,804	563,948
Equity			
Share capital	124,520	124,520	124,520
Capital surplus	91,368	91,779	91,779
Treasury shares	(1,122)	(1,122)	(1,123)
Other components of equity	21,378	(5,652)	1,152
Retained earnings	128,988	185,226	185,164
Total equity attributable to owners of parent	365,132	394,751	401,492
Non-controlling interests	1,450	1,477	1,427
Total equity	366,582	396,228	402,919
Total liabilities and equity	976,974	960,032	966,867

(2) Condensed Consolidated Statements of Profit or Loss

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Revenue	168,620	171,846
Cost of sales	57,348	58,957
Gross profit	111,272	112,889
Selling, general and administrative expenses	96,034	99,526
Share of profit (loss) of investments accounted for using equity method	(517)	(187)
Other income	606	1,136
Other expenses	1,963	1,605
Operating profit	13,364	12,707
Finance income	691	1,149
Finance costs	2,741	1,932
Profit before tax	11,314	11,924
Income taxes	2,309	1,840
Profit	9,005	10,084
Profit attributable to:		
Owners of parent	8,981	10,055
Non-controlling interests	24	29
Profit	9,005	10,084
Earnings per share		
Basic earnings per share	¥26.24	¥29.38
Diluted earnings per share	¥26.23	¥29.37

(3) Condensed Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	9,005	10,084
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(1,100)	1,683
Remeasurements of defined benefit plans	2,071	(769)
Total of items that will not be reclassified to profit or loss	971	914
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(35,785)	5,299
Cash flow hedges	(400)	70
Share of other comprehensive income of associates accounted for using equity method	(2)	(13)
Total of items that may be reclassified to profit or loss	(36,187)	5,356
Total other comprehensive income	(35,216)	6,270
Comprehensive income	(26,211)	16,354
Comprehensive income attributable to:		
Owners of parent	(26,199)	16,325
Non-controlling interests	(12)	29
Comprehensive income	(26,211)	16,354

(4) Condensed Consolidated Statements of Changes in Equity

Three months ended June 30, 2016

	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, 2016	124,520	91,368	(1,122)	21,378	128,988	365,132	1,450	366,582
Profit					8,981	8,981	24	9,005
Other comprehensive income				(35,180)		(35,180)	(36)	(35,216)
Comprehensive income	–	–	–	(35,180)	8,981	(26,199)	(12)	(26,211)
Purchase of treasury shares			(1)			(1)		(1)
Dividends from surplus					(5,818)	(5,818)	(59)	(5,877)
Transfer from other components of equity to retained earnings				(2,113)	2,113	–		–
Total transactions with owners	–	–	(1)	(2,113)	(3,706)	(5,820)	(59)	(5,879)
Balance at June 30, 2016	124,520	91,368	(1,123)	(15,915)	134,263	333,113	1,379	334,492

Three months ended June 30, 2017

	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, 2017	124,520	91,779	(1,122)	(5,652)	185,226	394,751	1,477	396,228
Profit					10,055	10,055	29	10,084
Other comprehensive income				6,270		6,270	0	6,270
Comprehensive income	–	–	–	6,270	10,055	16,325	29	16,354
Purchase of treasury shares			(1)			(1)		(1)
Dividends from surplus					(9,583)	(9,583)	(79)	(9,662)
Transfer from other components of equity to retained earnings				534	(534)	–		–
Total transactions with owners	–	–	(1)	534	(10,117)	(9,584)	(79)	(9,663)
Balance at June 30, 2017	124,520	91,779	(1,123)	1,152	185,164	401,492	1,427	402,919

(5) Condensed Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Cash flows from operating activities		
Profit before tax	11,314	11,924
Depreciation and amortization	12,656	12,651
Interest and dividend income	(669)	(535)
Interest expenses	2,137	1,759
Share of loss (profit) of investments accounted for using equity method	517	187
Decrease (increase) in trade and other receivables	14,736	20,785
Decrease (increase) in inventories	(7,971)	(11,670)
Increase (decrease) in trade and other payables	(1,130)	1,048
Increase (decrease) in retirement benefit liability	2,536	(243)
Decrease (increase) in retirement benefit asset	(1,355)	2,078
Other	2,440	(10,687)
Subtotal	35,211	27,297
Interest received	107	211
Dividends received	562	324
Interest paid	(1,037)	(994)
Legal settlement compensation received	85	–
Loss on litigation paid	(630)	(217)
Loss related to the US Anti-kickback Statute paid	(4,704)	–
Income taxes paid	(4,707)	(6,483)
Net cash provided by operating activities	24,887	20,138
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,747)	(11,289)
Purchase of intangible assets	(2,563)	(5,012)
Proceeds from sale of investments	734	960
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(8,726)
Net increase from sales of investment in subsidiaries related to changes in scope of consolidation	–	2,261
Other	6	979
Net cash used in investing activities	(12,570)	(20,827)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	7,056	(2,051)
Dividends paid	(5,519)	(9,139)
Dividends paid to non-controlling interests	(59)	(79)
Other	(285)	1,122
Net cash provided by (used in) financing activities	1,193	(10,147)
Effect of exchange rate changes on cash and cash equivalents	(10,467)	1,489
Net increase (decrease) in cash and cash equivalents	3,043	(9,347)
Cash and cash equivalents at beginning of period	166,379	199,465
Cash and cash equivalents at end of period	169,422	190,118

(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 medical, 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 "Ordinance 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 Ordinance.

The Olympus Group first adopted IFRS from the first quarter of the fiscal year ending March 31, 2018 with the date of transition to IFRS on April 1, 2016. In the transition to IFRS, the Olympus Group has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter, "IFRS 1"). Effects of the transition to IFRS on the Olympus Group's financial position, operating results and cash flows and applied exemptions under IFRS 1 are as provided in Note "First-time adoption."

These condensed consolidated financial statements were approved by the Board of Directors meeting on August 8, 2017.

(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 described in Note "Significant accounting policies."

(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.

(4) Early adopted standards and interpretations

The Olympus Group has early adopted IFRS 9 "Financial Instruments" (revised in July 2014) (hereinafter, "IFRS 9"), IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (hereinafter, "IFRS 15" collectively), from April 1, 2016.

(Significant accounting policies)

(1) Basis of consolidation

1) Subsidiaries

A subsidiary is an entity that is controlled by the Olympus Group. The Olympus Group considers that it has control over an entity when it has exposures or rights to variable returns arising from its involvement with the entity, while having the ability to affect those returns through the exercise of its power over the entity. Financial statements of a subsidiary are consolidated from the date on which the Olympus Group obtains control over such subsidiary, until the date on which the control is lost.

Intra-Group balances of receivables and payables and intra-Group transactions, as well as unrealized gains or losses arising from the intra-Group transactions shall be eliminated at the time when consolidated financial statements are prepared.

Comprehensive income of the subsidiaries is attributed to the owners of parent and to the non-controlling interests even if non-controlling interests have a deficit balance.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration is recognized directly in equity attributable to owners of parent.

If the Group loses control over the subsidiary, gains or losses derived from such loss shall be recognized in profit or loss.

2) Associates

An associate is an entity over which the Olympus Group has significant influence on its financial and operating policies but does not have control or joint control. Investments in associates are accounted for by the equity method from the date the Olympus Group gains significant influence until the date it loses that influence.

Investments in associates include goodwill recognized on acquisition.

(2) Business combinations

Business combinations are accounted for by using the acquisition method. Consideration for an acquisition is measured at the sum of the acquisition-date fair value of the assets transferred, liabilities assumed, and equity instruments issued by the Olympus Group in exchange for the control over the acquiree. Consideration for an acquisition includes contingent consideration. If consideration for an acquisition exceeds the fair value of identifiable assets and liabilities, such excess is recognized as goodwill in the consolidated statements of financial position. If, conversely, the consideration turns out to be less than the fair value, the balance shall be directly recognized in profit or loss in the consolidated statements of income. Acquisition-related costs incurred shall be recognized in profit or loss.

For a business combination that is achieved in stages, interest in the acquiree that was previously held by the Olympus Group is remeasured at fair value at the date of acquisition of control, and the resulting gains or losses are recognized in profit or loss.

(3) Foreign currency translations

1) Foreign currency transactions

Foreign currency transactions are translated into a functional currency of each Group company using the exchange rate at the date of transactions or an exchange rate that approximates it. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into functional currencies using the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated into functional currencies using the exchange rate at the date when such fair value was measured. Translation differences arising from translations and settlements are recognized in profit or loss for the period; provided, however, that translation differences arising from financial assets measured at fair value through other comprehensive income are recognized as other comprehensive income.

2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rates at the end of the reporting period. Income and expenses are translated into Japanese yen using the average exchange rates for the fiscal year unless exchange rates significantly fluctuate during the period. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. Such translation differences of foreign operations are recognized in profit or loss for the period in which the foreign operations concerned are disposed of.

(4) Financial instruments

The Olympus Group has early adopted IFRS 9.

1) Financial assets

(i) Initial recognition and measurement

The Olympus Group initially recognizes trade and other receivables on the day when they are incurred, and other financial assets at the transaction date when the Olympus Group becomes a party to the contract for the financial assets. At the initial recognition, financial assets are measured at fair value plus transaction expenses, except for those measured at fair value through profit or loss.

(ii) Classification and subsequent measurement

The Olympus Group classifies the financial assets at initial recognition as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss.

(Financial assets measured at amortized cost)

Financial assets are classified into financial assets measured at amortized cost, on the condition that they meet both of the following criteria:

- Financial assets are held based on the business model to hold financial assets for the purpose of collecting contractual cash flows
- Contractual terms associated with financial assets gives rise to cash flows on specified dates, consisting only of payment of the principal and interest on the principal balance

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method subsequent to the initial recognition.

(Financial assets measured at fair value through other comprehensive income)

Equity instruments such as shares held mainly for the purpose of maintaining or strengthening business relationships with investees are designated at initial recognition as financial assets measured at fair value through other comprehensive income.

Any change in fair value of equity financial assets measured at fair value through other comprehensive income is recognized as other comprehensive income subsequent to the initial recognition. If such assets are derecognized or the fair value decreased significantly, accumulated other comprehensive income is directly transferred to retained earnings.

Dividends from such financial assets are recognized in profit or loss.

(Financial assets measured at fair value through profit or loss)

Financial assets other than above are classified as financial assets measured at fair value through profit or loss.

Changes in fair value of financial assets measured at fair value through profit or loss are recognized in profit or loss subsequent to the initial recognition.

(iii) Impairment of financial assets

For financial assets measured at amortized cost, the Olympus Group recognized allowance for doubtful accounts for expected credit losses.

The Olympus Group evaluates at the end of each reporting period whether there is a significant increase in credit risk of financial assets since initial recognition. When there is no significant increase in the credit risk since initial recognition, the amount equal to expected credit losses for 12 months are recognized as allowance for doubtful accounts. When there is a significant increase in credit risk since initial recognition, the amount equal to expected credit losses for the remaining life of the financial assets are recognized as allowance for doubtful accounts.

For trade receivables, contract assets and lease receivables, allowance for doubtful accounts are always recognized at the amount equal to expected credit losses for the remaining life of the assets.

With regard to financial assets on which impairment losses were previously recognized, when the amount of impairment losses decreased due to any event that occurred after the initial recognition of the impairment losses, the previously recognized impairment losses are reversed and recognized in profit or loss.

(iv) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to receive the cash flows from the financial asset are assigned and substantially all the risks and rewards of ownership are transferred.

2) Financial liabilities

(i) Initial recognition and measurement

The Olympus Group initially recognizes financial liabilities at the transaction date when the Olympus Group becomes a party to the contract for the financial liabilities. All financial liabilities are measured at fair value at initial recognition, whereas financial liabilities measured at amortized cost are measured at the amount less directly attributable transaction costs.

(ii) Classification and subsequent measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost at initial recognition.

Changes in fair value of financial liabilities measured at fair value through profit or loss are recognized in profit or loss subsequent to the initial recognition.

Financial liabilities measured at amortized cost are measured at amortized cost subsequent to the initial recognition, by using the effective interest method. Amortization by the effective interest method, as well as gains and losses associated with the derecognition shall be recognized in profit or loss.

(iii) Derecognition

The Olympus Group derecognizes a financial liability when it is extinguished, namely when the obligation specified in the contract is discharged, cancelled or becomes invalid.

3) Offsetting financial instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statements of financial position, only if the Olympus Group holds a legal right to set off the balance, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

4) Derivatives and hedge accounting

The Olympus Group uses derivatives such as forward exchange contracts and interest rate swaps, as hedging instruments against foreign exchange risk and interest rate risk. These derivatives are classified as financial assets measured at fair value through profit or loss and financial liabilities measured at fair value through profit or loss. Derivatives that meet criteria for hedge accounting are designated as hedging instruments, and hedge accounting is applied to the derivatives.

For the application of hedge accounting, the Olympus Group officially makes designation and prepares documentation at the inception of the hedge, regarding the hedging relationship as well as the risk management objectives and strategies. Such document contains hedging instruments, hedged items, the nature of the risks to be hedged and the method for evaluating the hedging effectiveness. The Olympus Group continually evaluates whether the hedging relationship is effective prospectively.

The Olympus Group applies cash flow hedges to interest rate-related derivative transactions that meet criteria for hedge accounting.

Of changes in fair value associated with hedging instruments in cash flow hedges, the effective portion is recognized in other comprehensive income, and recognized as other components of equity until the hedged transaction is executed and recognized in profit or loss. The ineffective portion is recognized in profit or loss.

The amount associated with hedging instruments recognized in other components of equity is transferred to profit or loss, at the point in time when the hedged transactions exerts impact on profit or loss. If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the associated amount recognized in other components of equity is accounted for as adjustment to the initial book value of the non-financial asset or the non-financial liability.

When any forecast transaction is no longer expected to occur, hedge accounting is discontinued, and any related cumulative gain or loss that has been recognized as other components of equity is transferred to profit or loss. Even if hedge accounting was discontinued, the amount that had been recognized as other components of equity until hedge accounting was discontinued continues to be recognized in other components of equity until future cash flows occur when these future cash flows are expected to occur.

The Group does not use fair value hedges or net investment hedges in foreign operations.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash, readily available deposits, and short-term, highly liquid investments having maturities of three months or less of the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower value between cost or net realizable value. The costs of inventories are calculated principally by using the weighted average method, which include purchase cost, processing cost, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is determined at the estimated selling price in the ordinary course of business less estimated cost required up to the completion of the process and estimated selling expenses.

(7) Property, plant and equipment

Property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The costs of property, plant and equipment include any costs directly attributable to the acquisition of assets, dismantlement, removal and restoration costs as well as borrowing costs eligible for capitalization.

Except for assets that are not depreciated such as land, each asset is depreciated over its estimated useful life on a straight-line method. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 50 years
- Machinery and vehicles: 3 to 10 years
- Tools, furniture and fixtures: 2 to 15 years

The estimated useful lives, residual values and depreciation methods are subject to review at the end of each reporting period, and any change to them is prospectively applied as a change in an accounting estimate.

(8) Goodwill

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment in each period or whenever there is an indication of impairment. Impairment loss of goodwill is recognized in profit or loss and cannot be reversed thereafter.

Goodwill measurements at initial recognition are presented in “(2) Business combinations.”

(9) Intangible assets

Intangible assets are measured by using the cost model and are carried at cost less accumulated amortization and accumulated impairment losses.

The costs of intangible assets acquired separately include any costs directly attributable to the acquisition of assets. Intangible assets acquired through business combinations is measured at fair value at the acquisition date. With regard to internally generated intangible assets, development expenses eligible for capitalization are recognized, whereas such costs that are not eligible are recognized as expenses when incurred.

Except for intangible assets with indefinite useful lives, each asset is amortized over the estimated useful life on a straight-line method. The estimated useful lives of major asset items are as follows:

- Capitalized development costs: 4 to 8 years
- Software: 3 to 5 years
- Other: 3 to 15 years

The estimated useful lives and amortization methods are reviewed at the end of fiscal year, and any change to them is prospectively applied as a change in an accounting estimate.

Intangible assets with indefinite useful lives and those yet to be usable are not amortized and are tested for impairment in each period or whenever there is an indication of impairment.

(10) Leases

Lease transactions involving transfer of substantially all the risks and rewards associated with the ownership of the leased assets are classified into finance lease, while other type of lease transactions are classified into operating lease.

1) Leases as lessee

The Olympus Group leases property, plant and equipment or intangible assets as the lessee.

Leased assets and lease obligations in finance lease transactions are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Leased assets are depreciated on a straight-line method over the shorter of their estimated useful lives and lease terms. Furthermore, lease payments are categorized into amounts equivalent to the principal and interest of lease obligations, and the amount equivalent to the interest apportioned to each fiscal period is calculated so as to achieve a constant rate of interest on the lease obligation balance at each period-end, and recognized in profit or loss.

In operating lease transactions, lease payments are recognized as expenses over the lease terms on a straight-line method.

2) Leases as lessor

The Olympus Group leases property, plant and equipment as the lessor.

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 in the consolidated statements of financial position, and lease payments receivable are recognized as revenue over the lease terms on a straight-line method.

(11) Impairment of non-financial assets

For the carrying amount of non-financial assets (excluding inventories, deferred tax assets, retirement benefit asset and non-current assets held for sale), the Olympus Group assesses at the end of each reporting period whether there is an indication of impairment. If any such indication exists, impairment test is performed. However, goodwill, intangible assets with indefinite useful lives and those yet to be usable are tested for impairment in each period or whenever there is an indication of impairment.

Assets that are not individually tested in impairment testing are integrated into the smallest cash-generating unit that generates cash inflows largely independent of cash inflows from other assets or asset groups. Corporate assets do not generate independent cash inflows. Therefore, if there is an indication that corporate assets may be impaired, impairment test is conducted based on the recoverable amount of the cash-generating unit to which the corporate assets belong.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and fair value less cost of disposal. In calculation of value in use, estimated future cash flows are discounted to the present value using the pretax discount rate reflecting monetary time value and risks specific to the asset.

Impairment losses are recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Impairment losses recognized in association with a cash-generating unit are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to other assets of the cash-generating unit on a pro-rate basis based on the carrying amount of each asset.

When there is an indication of reversal in respect of impairment losses recognized in prior periods and the recoverable amount of the asset or cash-generating unit exceeds its carrying amount, impairment losses are reversed. The carrying amount after reversal of impairment losses does not exceed the carrying amount that would have been determined when depreciation or amortization had been continued until the reversal occurred if any impairment loss had never been recognized for the asset. Impairment losses associated with goodwill are not reversed.

(12) Non-current assets held for sale

Non-current assets or disposal groups whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets or disposal groups held for sale if it is highly probable that the assets or disposal groups will be sold within one year and is available for immediate sale in its present condition, and the Olympus Group’s management is committed to a plan to sell.

Non-current assets are not depreciated or amortized while they are classified as held for sale or are part of a disposal group classified as held for sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of the book value and fair value less costs to sell.

(13) Provisions

Provisions are recognized when the Olympus Group has present obligations as a result of past events, it is highly probable that outflows of economic resources will be occurred to settle the obligations, and reliable estimates of the obligations can be made.

Where time value of money is material, provisions are measured by discounting estimated future cash flows into present value by using the interest rate reflecting the time value of money as well as the risks inherent to the associated liabilities

(14) Contingent liabilities

With regard to liabilities held by the Olympus Group as of the end of the reporting period that may be incurred, when it cannot be confirmed whether or not the liabilities are liabilities as of the end of the reporting period, or when the liabilities do not meet criteria for recognition of provisions, information on such liabilities is provided in the note on contingent liabilities, unless it is believed that the possibility of an outflow of economic resources by performance of the liabilities is remote at the end of the reporting period.

(15) Government grants

Government grants are recognized at fair value, if there is reasonable assurance that the Olympus Group will comply with the conditions attaching to them and that will receive the grants. Government grants associated with expenses are recognized in revenue over the period the expenses, which the grant is intended to compensate, are incurred. Government grants related to acquisition of assets are recognized as deferred income and then recognized in profit or loss over the expected useful life of the relevant asset on a systematic basis.

(16) Employee benefits accruals

1) Post-employment benefits

The Olympus Group adopts defined benefit pension plans and defined contribution pension plans.

The Olympus Group calculates the present value of defined benefit obligations and associated current service cost as well as past service cost by using the projected unit credit method.

Discount rate used for discounting to the present value of defined benefit obligations is determined by reference to market yields on high quality corporate bonds of which currency and due date are consistent with those of the post-employment benefit obligations.

Asset or liability associated with a defined benefit plan is calculated by subtracting the fair value of plan assets from the present value of defined benefit obligations of each plan.

Any difference due to remeasurement arising from defined benefit pension plans is recognized as other comprehensive income in the period when the difference arose, and immediately transferred to retained earnings. Past service costs are expensed as incurred.

Contributions to defined contribution pension plans are recognized as expenses according to the period during which employees rendered the relevant services.

2) Short-term employee benefits

Short-term employee benefits are recognized as expenses in the period in which the employee renders the related service without discounting. When the Olympus Group has present legal or constructive obligations to make payments resulting from past services rendered by the employees and the amount can be estimated reliably, the amount estimated to be paid is recognized as liabilities.

3) Other long-term employee benefits

The Olympus Group has special leave system and incentive payment plans according to a specific number of service years as long-term employee benefits other than pension plans. The amount of obligations to other long-term employee benefits is recognized as liabilities at the amount calculated by discounting the estimated amount of future benefits earned in exchange for service that employees provided in prior fiscal years and the current fiscal year to the present value.

(17) Equity

Common shares are recognized in share capital at their issue price. Expenses incidental to issuance of common shares are deducted at the amount net of tax effect from equity.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized associated with the purchase, sale or retirement of treasury shares of the Company. Any difference between the book value and the consideration received from the sale is recognized as equity.

(18) Share-based payment

The Company has following equity-settled stock option plans as incentive plans for its directors (excluding outside directors) and executive officers.

Share options

Share options are measured at fair value at the grant date and recognized as expense over the vesting periods with corresponding increases to equity and taking into account the estimated number of options to be vested. Fair value of stock options is calculated using the Black-Scholes model.

(19) Revenue

The Group has early adopted IFRS 15.

With regard to contracts with customers, the Olympus Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc. under IFRS 9 and lease payments receivable under IAS 17 “Leases”).

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Olympus Group is principally engaged in the manufacture and sales of medical, scientific, imaging and other products. With regard to the sales of these products, the Olympus Group mainly recognizes revenue at the time of delivery of a product since in many cases, it considers that the customer obtains control over the product and performance obligations are satisfied at the time of delivery of the product.

Revenue is measured at the amount of promised consideration in contracts with customers less discounts, rebates, sales returns and others.

(20) Finance income and finance costs

Finance income mainly comprises interest income, dividend income, exchange gains and changes in fair value of financial assets and liabilities measured at fair value through profit or loss. Interest income is recognized as incurred using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Finance costs mainly comprise interest expenses, interest on bonds, exchange losses and changes in fair value of financial assets and liabilities measured at fair value through profit or loss. Interest expenses and interest on bonds are recognized as incurred using the effective interest method.

(21) Income taxes

Income tax costs comprise current taxes and deferred taxes. These taxes are recognized in profit or loss, except in cases where they arise from items that are recognized directly in other comprehensive income or equity, and where they arise from business combinations.

1) Current taxes

Current taxes are measured at an expected amount of taxes to be paid to or of refund from the tax authorities. The tax rates and tax laws used to determine the amount of taxes are tax rates and tax laws that have been enacted, or substantially enacted by the end of the reporting period.

With regard to uncertain tax positions of income taxes, the Olympus Group recognizes the reasonably estimated amount as assets or liabilities, when it is more likely than not, based on interpretations for the purpose of tax laws, that the tax positions will be sustained.

2) Deferred taxes

Deferred taxes are recognized for temporary differences, which are differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes at the end of the reporting period, tax losses carried forward and tax credits carried forward.

Deferred tax assets or liabilities are not recognized for the following cases:

- Taxable temporary differences arising from the initial recognition of goodwill
- Temporary differences on the initial recognition of assets or liabilities arising from a transaction other than a business combination that affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences associated with investments in subsidiaries and associates when the Olympus Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
- Deductible temporary differences associated with investments in subsidiaries and associates when it is probable that the temporary difference will not reverse in the foreseeable future, or when it is not probable that there will be sufficient taxable profits against which the deductible temporary differences can be utilized.

Deferred tax assets are recognized to the extent that it is expected that taxable profits will be available against which deductible temporary differences, unused tax credits carried forward and tax losses carried forward can be utilized. In principle, deferred tax liabilities are recognized for all taxable temporary differences.

In recognizing deferred tax assets, the Olympus Group assesses the probability that deductible temporary differences or tax losses carried forward can be utilized against future taxable profits. In assessment of the recoverability of deferred tax assets, the scheduled reversal of deferred tax liabilities, projected taxable profits and tax planning are taken into account.

Deferred tax assets and liabilities are measured based on tax rates and tax laws that have been enacted, or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Olympus Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity, or different taxable entities that intend either to settle on a net basis or to realize the tax asset or settle the liability simultaneously.

The Company and some of its subsidiaries have adopted the consolidated tax system.

Quarterly income taxes are calculated based on the estimated average annual effective tax rate.

(22) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to common shareholders of parent by the weighted-average number of common share outstanding, subject to the adjustment to the number of treasury shares for the period concerned.

Diluted earnings per share are calculated reflecting adjustments for the effect of all potential dilutive common shares.

(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.

Information regarding the judgments made by the Olympus Group that may have material impacts on the condensed consolidated financial statements is as follows:

- Scope of subsidiaries and associates (Significant accounting policies (1) Basis of consolidation)
- Accounting for arrangements containing leases (Significant accounting policies (10) Leases)
- Revenue (Significant accounting policies (19) Revenue)

Information on accounting estimates and assumptions that may have material impacts on the condensed consolidated financial statements is as follows:

- Evaluation of inventories (Significant accounting policies (6) Inventories)

  Inventories are measured at cost. However, if net realizable value falls below the cost as of the end of the reporting period, inventories are measured at the net realizable value and any difference between the value and the cost is recognized in cost of sales in principle. For inventories that are not in the normal operating cycle process and remain unused, the net realizable value and others are calculated reflecting future demand and market trends. If the net realizable value decreased significantly due to the market environment that became worse than expected, losses may be incurred.

- Impairment of non-financial assets (Significant accounting policies (11) Impairment of non-financial assets)

  The Olympus Group performs impairment tests on property, plant and equipment, goodwill, and intangible assets in accordance with Note “Significant accounting policies.” Assumptions concerning future cash flows, discount rates, etc., are set to calculate recoverable amounts in testing for impairment. Although these assumptions are determined based on management’s best estimates and judgment, they may be affected as a result of changes in uncertain future economic conditions. Should those assumptions require change, the consolidated financial statements may be significantly affected.

- Measurement of provisions (Significant accounting policies (13) Provisions)

  Provisions are measured based on best estimates of expenditures required to settle obligations in the future at the end of the fiscal period. The amount of expenditures required to settle obligations in the future is calculated, comprehensively taking into account future possible outcomes. Assumptions used in the measurement of these provisions may be affected by changes in uncertain future economic conditions, and have risk of causing a material adjustment to the measurement of provisions in the future.

- Contingent liabilities (Significant accounting policies (14) Contingent liabilities)

  Contingent liabilities are disclosed when it turns out that there is any item that may have significant impacts on future businesses after all evidence available on the reporting date is examined and the probability and impact in terms of the amount are taken into consideration.

- Measurement of defined benefit obligation (Significant accounting policies (16) Employee benefits accruals)

  For defined benefit corporate pension plans, the net amount of defined benefit obligations and fair value of plan assets is recognized as a liability or asset. Defined benefit obligations are determined based on actuarial calculation, and assumptions for actuarial calculation include estimates of discount rate, retirement rate, mortality, salary increase rate and others. These assumptions are determined by comprehensively assessing all sorts of information available such as the market trend of interest rate fluctuations. The assumptions for actuarial calculation may be affected by changes in uncertain future economic circumstances or social situations, etc. and have risk of causing a material adjustment to the measurement of defined benefit obligations in the future.

- Recoverability of deferred tax assets (Significant accounting policies (21) Income taxes)

  Deferred tax assets are recognized to the extent that it is likely that taxable profit will be available against which the deductible temporary differences can be utilized. In determining the probability that taxable profit will be available, the Olympus Group estimates the timing and the amount of the taxable profit based on the business plan. Although these estimates are management’s best estimates, the actual results may differ as a result of changes in uncertain future economic conditions.

(Segment information)

(1) Overview of reportable segments

The reportable segments of the Olympus Group are components of the Company whose separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing the performance.

The Olympus Group, based on the four businesses, Medical Business, Scientific Solutions Business, Imaging Business and Others, formulates comprehensive strategies for Japan and abroad with respect to products and services handled and deploys business activities.

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

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

Reportable Segment	Principal products and services
Medical Business	Gastrointestinal endoscopes, surgical endoscopes, endo-therapy devices, ultrasound endoscopes
Scientific Solutions Business	Biological microscopes, industrial microscopes, industrial endoscopes, non-destructive testing equipment
Imaging Business	Digital cameras, voice recorders
Others	Biomedical materials, system development

(2) Revenue and business results for reportable segments

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

Three months ended June 30, 2016

(Millions of yen)

	Reportable Segment					Adjustment (Note 2)	Amount on condensed consolidated financial statements
	Medical	Scientific Solutions	Imaging	Others	Total		
Revenue							
Revenue from outside customers	130,759	18,622	15,263	3,976	168,620	–	168,620
Revenue among segments (Note 1)	–	8	1	172	181	(181)	–
Total revenue	130,759	18,630	15,264	4,148	168,801	(181)	168,620
Operating profit (loss)	25,385	(1,068)	(285)	(981)	23,051	(9,687)	13,364
Finance income							691
Finance costs							2,741
Profit before tax							11,314
Other items							
Share of profit (loss) of investments accounted for using equity method	(427)	4	–	(94)	(517)	–	(517)
Depreciation and amortization	9,810	1,608	336	132	11,886	770	12,656
Impairment losses (non-financial assets)	230	–	–	–	230	–	230

Notes:
1. Revenue among segments are 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.

Three months ended June 30, 2017

(Millions of yen)

	Reportable Segment					Adjustment (Note 2)	Amount on condensed consolidated financial statements
	Medical	Scientific Solutions	Imaging	Others	Total		
Revenue							
Revenue from outside customers	134,436	19,973	15,131	2,306	171,846	–	171,846
Revenue among segments (Note 1)	–	25	–	136	161	(161)	–
Total revenue	134,436	19,998	15,131	2,442	172,007	(161)	171,846
Operating profit (loss)	23,197	(584)	886	(479)	23,020	(10,313)	12,707
Finance income							1,149
Finance costs							1,932
Profit before tax							11,924
Other items							
Share of profit (loss) of investments accounted for using equity method	(188)	1	–	–	(187)	–	(187)
Depreciation and amortization	9,659	1,469	530	151	11,809	842	12,651
Impairment losses (non-financial assets)	–	–	–	–	–	–	–

Notes:
1. Revenue among segments are 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.

(First-time adoption)

The Olympus Group disclosed the condensed consolidated financial statements under IFRS for the first time from the first quarter of this fiscal year. The latest consolidated financial statements under Japanese GAAP are prepared for the fiscal year ended March 31, 2017, and the IFRS transition date is April 1, 2016.

IFRS 1 stipulates that an entity adopting IFRS for the first time shall, in principle, apply the standards required under IFRS retrospectively to prior periods. However, IFRS 1 allows certain exemptions from the retrospective application and provides exceptions that prohibit retrospective application on a mandatory basis with respect to certain aspects required by IFRS. The Olympus Group has applied the following exemptions.

(1) Exemption under IFRS 1

1) Business combinations

IFRS 1 permits an entity not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred prior to the date of transition to IFRS. The Olympus Group elected to apply this exemption and, consequently, the amount of goodwill arising from business combinations before the date of transition is based on the book value as of the date of transition under Japanese GAAP. Further, the Olympus Group performed an impairment test on goodwill at the date of transition regardless of whether there was any indication that the goodwill may be impaired.

2) Transition differences of foreign operations

Under IFRS 1, an option is allowed whereby cumulative translation differences of foreign operations as at the date of transition to IFRS may be assumed to be nil. The Olympus Group has adopted the exception.

3) Borrowing costs

IFRS 1 allows entities to commence capitalization of borrowing costs relating to qualifying assets at the date of transition to IFRS. The Olympus Group adopts this exemption.

4) Designation of financial instruments recognized prior to date of transition

IFRS 1 allows entities to determine the classification under IFRS 9 based on facts and circumstances as of the date of transition, rather than facts and circumstances that exist at the time of initial recognition. In addition, IFRS 1 allows entities to designate equity financial assets as financial assets measured at fair value through other comprehensive income. The Olympus Group has applied this exemption and designated certain equity financial assets as financial assets measured at fair value through other comprehensive income.

(2) Mandatory exception under IFRS 1

IFRS 1 prohibits retrospective application of IFRS with respect to “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting,” “non-controlling interest,” and “classification and measurement of financial assets.” Thus the Olympus Group applies IFRS to these items from the IFRS transition date and onwards.

(3) Reconciliations

The reconciliations required to be disclosed at the first-time adoption of IFRS is as follows. In the reconciliations below, in principle, “Reclassification” includes items that do not affect retained earnings and comprehensive income, while “Differences in recognition and measurement” includes items that affect retained earnings and comprehensive income.

Reconciliation of equity

IFRS transition date (April 1, 2016)

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Assets						Assets
Current assets						Current assets
Cash and time deposits	166,554	(230)	55	166,379		Cash and cash equivalents
Notes and accounts receivable	140,666	32,154	(13,695)	159,125	A	Trade and other receivables
Lease receivables and lease investment assets	33,565	(33,565)	–			
		1,410	1,088	2,498		Other financial assets
Merchandise and finished goods	54,245	57,313	707	112,265		Inventories
Work in process	21,993	(21,993)	–			
Raw materials and supplies	35,320	(35,320)	–			
Deferred income taxes	38,461	(38,461)	–			
Other current assets	36,478	(36,478)	–			
Allowance for doubtful accounts	(6,590)	6,590	–			
		15,612	(1,330)	14,282		Income taxes receivable
		14,580	(83)	14,497		Other current assets
Total current assets	520,692	(38,388)	(13,258)	469,046		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	166,064	(792)	(6,456)	158,816	A, B	Property, plant and equipment
Goodwill	97,190	–	–	97,190		Goodwill
Intangible assets (Others)	53,607	1,191	29,143	83,941	D	Intangible assets
Investments and other assets						
Investment securities	71,141	(71,141)	–			
Net defined benefit asset	24,749	–	(239)	24,510		Retirement benefit asset
Other assets	64,804	(64,804)	–			
Allowance for doubtful accounts	(9,054)	9,054	–			
		1,926	–	1,926		Investments accounted for using equity method
		45,710	(27,004)	18,706	A	Trade and other receivables
		76,961	312	77,273		Other financial assets
Deferred income taxes	11,421	38,461	(6,016)	43,866	E	Deferred tax assets
		1,822	(122)	1,700		Other non-current assets
Total fixed assets	479,922	38,388	(10,382)	507,928		Total non-current assets
Total assets	1,000,614	–	(23,640)	976,974		Total assets

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	40,597	34,910	(103)	75,404		Trade and other payables
Short-term borrowings	26,656	30,000	(86)	56,570		Bonds and borrowings
Current maturities of bonds	30,000	(30,000)	–			
Other payable	36,762	(36,762)	–			
		5,229	6,605	11,834		Other financial liabilities
Accrued expenses	90,438	(90,438)	–			
Income taxes payable	9,120	–	1	9,121		Income taxes payable
Provision for product warranties	6,314	728	(2,972)	4,070	F	Provisions
Provision for points	207	(207)	–			
Provision for loss on business liquidation	298	(298)	–			
Provision for loss on litigation	567	(567)	–			
Other current liabilities	25,666	(25,666)	–			
		111,474	9,632	121,106	F, G	Other current liabilities
Total current liabilities	266,625	(1,597)	13,077	278,105		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term bonds, less current maturities	25,000	239,482	(751)	263,731		Bonds and borrowings
Long-term borrowings, less current maturities	239,482	(239,482)	–			
		7,381	193	7,574		Other financial liabilities
Net defined benefit liability	38,645	–	106	38,751		Retirement benefit liability
Provision for retirement benefits for directors and audit & supervisory board members	38	(38)	–			
Other non-current liabilities	18,155	(18,155)	–			
		365	–	365		Provisions
Deferred income taxes	28,386	1,338	(19,120)	10,604	E	Deferred tax liabilities
		10,706	556	11,262	G	Other non-current liabilities
Total non-current liabilities	349,706	1,597	(19,016)	332,287		Total non-current liabilities
Total liabilities	616,331	–	(5,939)	610,392		Total liabilities
Net Assets						Equity
Shareholders' equity						
Common stock	124,520	–	–	124,520		Share capital
Capital surplus	90,940	428	–	91,368		Capital surplus
Treasury stock, at cost	(1,122)	–	–	(1,122)		Treasury shares
Accumulated other comprehensive income	(4,968)	–	26,346	21,378	H, I	Other components of equity
Subscription rights to shares	428	(428)	–			
Retained earnings	172,989	–	(44,001)	128,988	A, B, D, E, F, G, H, I	Retained earnings
	382,787	–	(17,655)	365,132		Total equity attributable to owners of parent
Non-controlling interests	1,496	–	(46)	1,450		Non-controlling interests
Total net assets	384,283	–	(17,701)	366,582		Total equity
Total liabilities and net assets	1,000,614	–	(23,640)	976,974		Total liabilities and equity

As of June 30, 2016

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Assets						Assets
Current assets						Current assets
Cash and time deposits	169,583	(198)	37	169,422		Cash and cash equivalents
Notes and accounts receivable	115,180	29,201	(13,469)	130,912	A	Trade and other receivables
		810	2,381	3,191		Other financial assets
Merchandise and finished goods	55,518	58,247	881	114,646		Inventories
Work in process	19,298	(19,298)	–			
Raw materials and supplies	38,948	(38,948)	–			
Other current assets	105,800	(105,800)	–			
Allowance for doubtful accounts	(6,094)	6,094	–			
		16,376	(1,993)	14,383		Income taxes receivable
		14,700	(140)	14,560		Other current assets
Total current assets	498,233	(38,816)	(12,303)	447,114		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	158,492	(733)	(7,283)	150,476	A, B	Property, plant and equipment
Goodwill	85,886	–	2,065	87,951	C	Goodwill
Intangible assets (Others)	48,384	1,962	28,927	79,273	D	Intangible assets
Investments and other assets						
Investment securities	68,259	(68,259)	–			
Net defined benefit asset		24,989	(1,167)	23,822		Retirement benefit asset
Other assets	96,923	(96,923)	–			
Allowance for doubtful accounts	(8,897)	8,897	–			
		374	–	374		Investments accounted for using equity method
		41,480	(23,338)	18,142	A	Trade and other receivables
		75,481	303	75,784		Other financial assets
Deferred income taxes		50,286	(7,249)	43,037	E	Deferred tax assets
		1,262	(112)	1,150		Other non-current assets
Total fixed assets	449,047	38,816	(7,854)	480,009		Total non-current assets
Total assets	947,280	–	(20,157)	927,123		Total assets

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	38,337	35,669	(820)	73,186		Trade and other payables
Short-term borrowings	32,957	30,000	(54)	62,903		Bonds and borrowings
Current maturities of bonds	30,000	(30,000)	–			
		6,198	8,198	14,396		Other financial liabilities
Income taxes payable	5,410	–	29	5,439		Income taxes payable
Provision for product warranties	5,894	638	(2,659)	3,873	F	Provisions
Provision for points	213	(213)	–			
Provision for loss on business liquidation	224	(224)	–			
Provision for loss on litigation	567	(567)	–			
Other current liabilities	143,076	(143,076)	–			
		100,101	9,035	109,136	F, G	Other current liabilities
Total current liabilities	256,678	(1,474)	13,729	268,933		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term bonds, less current maturities	25,000	233,344	(643)	257,701		Bonds and borrowings
Long-term borrowings, less current maturities	233,344	(233,344)	–			
		7,627	112	7,739		Other financial liabilities
Net defined benefit liability	36,677	–	419	37,096		Retirement benefit liability
Other reserves	18	(18)	–			
Other non-current liabilities	44,146	(44,146)	–			
		373	–	373		Provisions
		26,751	(17,530)	9,221	E	Deferred tax liabilities
		10,887	681	11,568	G	Other non-current liabilities
Total non-current liabilities	339,185	1,474	(16,961)	323,698		Total non-current liabilities
Total liabilities	595,863	–	(3,232)	592,631		Total liabilities
Net assets						Equity
Common stock	124,520	–	–	124,520		Share capital
Capital surplus	90,940	428	–	91,368		Capital surplus
Treasury stock, at cost	(1,123)	–	–	(1,123)		Treasury shares
Accumulated other comprehensive income	(40,474)	–	24,559	(15,915)	H, I	Other components of equity
Subscription rights to shares	428	(428)				
Retained earnings	175,701	–	(41,438)	134,263	A, B, C, D, E, F, G, H, I	Retained earnings
	349,992	–	(16,879)	333,113		Total equity attributable to owners of parent
Non-controlling interests	1,425	–	(46)	1,379		Non-controlling interests
Total net assets	351,417	–	(16,925)	334,492		Total equity
Total liabilities and net assets	947,280	–	(20,157)	927,123		Total liabilities and equity

As of March 31, 2017

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Assets						Assets
Current assets						Current assets
Cash and time deposits	199,431	–	34	199,465		Cash and cash equivalents
Notes and accounts receivable	137,924	34,889	(15,344)	157,469	A	Trade and other receivables
Lease receivables and lease investment assets	35,338	(35,338)	–			
		1,158	460	1,618		Other financial assets
Merchandise and finished goods	51,257	72,807	1,255	125,319		Inventories
Work in process	21,830	(21,830)	–			
Raw materials and supplies	50,977	(50,977)	–			
Deferred income taxes	36,729	(36,729)	–			
Other current assets	25,226	(25,226)	–			
Allowance for doubtful accounts	(5,720)	5,720	–			
		5,831	(685)	5,146		Income taxes receivable
		12,965	(63)	12,902		Other current assets
Sub-total	552,992	(36,730)	(14,343)	501,919		Subtotal
	–	3,828	–	3,828		Non-current assets held for sale
Total current assets	552,992	(32,902)	(14,343)	505,747		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	171,352	(4,427)	(7,190)	159,735	A, B	Property, plant and equipment
Goodwill	86,664	–	8,904	95,568	C	Goodwill
Intangible assets (Others)	44,426	1,693	29,739	75,858	D	Intangible assets
Investments and other assets						
Investment securities	28,946	(28,946)	–			
Net defined benefit asset	24,762	–	(218)	24,544		Retirement benefit asset
Other assets	66,994	(66,994)	–			
Allowance for doubtful accounts	(10,016)	10,016	–			
		51	–	51		Investments accounted for using equity method
		46,150	(27,847)	18,303	A	Trade and other receivables
		37,599	296	37,895		Other financial assets
Deferred income taxes	24,942	36,729	(20,234)	41,437	E	Deferred tax assets
		1,031	(137)	894		Other non-current assets
Total fixed assets	438,070	32,902	(16,687)	454,285		Total non-current assets
Total assets	991,062	–	(31,030)	960,032		Total assets

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	41,596	29,178	60	70,834		Trade and other payables
Short-term borrowings	68,852	–	(75)	68,777		Bonds and borrowings
Other payable	32,595	(32,595)	–			
		5,518	5,500	11,018		Other financial liabilities
Accrued expenses	80,944	(80,944)	–			
Income taxes payable	11,657	–	53	11,710		Income taxes payable
Provision for product warranties	8,474	232	(3,031)	5,675	F	Provisions
Provision for points	223	(223)	–			
Provision for loss on business liquidation	190	(190)	–			
Provision for loss on litigation	217	(217)	–			
Other current liabilities	29,981	(29,981)	–			
		108,228	10,208	118,436	F, G	Other current liabilities
Total current liabilities	274,729	(994)	12,715	286,450		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term bonds, less current maturities	25,000	192,505	(312)	217,193		Bonds and borrowings
Long-term borrowings, less current maturities	192,505	(192,505)	–			
		7,017	(91)	6,926		Other financial liabilities
Net defined benefit liability	37,737	–	135	37,872		Retirement benefit liability
Provision for retirement benefits for directors and audit & supervisory board members	21	(21)	–			
Other non-current liabilities	11,295	(11,295)	–			
		425	–	425		Provisions
Deferred income taxes	18,895	696	(10,026)	9,565	E	Deferred tax liabilities
		4,172	1,201	5,373	G	Other non-current liabilities
Total non-current liabilities	285,453	994	(9,093)	277,354		Total non-current liabilities
Total liabilities	560,182	–	3,622	563,804		Total liabilities
Net assets						Equity
Common stock	124,520	–	–	124,520		Share capital
Capital surplus	91,225	554	–	91,779		Capital surplus
Treasury stock, at cost	(1,122)	–	–	(1,122)		Treasury shares
Accumulated other comprehensive income	(31,178)	–	25,526	(5,652)	H, I	Other components of equity
Subscription rights to shares	554	(554)				
Retained earnings	245,362	–	(60,136)	185,226	A, B, C, D, E, F, G, H, I	Retained earnings
	429,361	–	(34,610)	394,751		Total equity attributable to owners of parent
Non-controlling interests	1,519	–	(42)	1,477		Non-controlling interests
Total net assets	430,880	–	(34,652)	396,228		Total equity
Total liabilities and net assets	991,062	–	(31,030)	960,032		Total liabilities and equity

Notes on reconciliations of equity

1) Differences in recognition and measurement

A Leases

With regard to lease transactions as lessor, some of transactions classified as finance leases under Japanese GAAP are classified as operating leases under IFRS. Consequently, the relevant lease receivables have been reversed, and property, plant and equipment have been recognized.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥11,934 million, ¥11,535 million, and ¥14,775 million, respectively.

B Depreciation of property, plant and equipment

With regard to depreciation of property, plant and equipment, the Olympus Group has reviewed estimates of useful lives and residual values in adopting IFRS. Consequently, the carrying amount of property, plant and equipment has decreased.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥6,947 million, ¥7,582 million, and ¥8,361 million, respectively.

C Goodwill

Under Japanese GAAP, goodwill was amortized on a straight-line method over the reasonable number of years, not exceeding 20 years. However, under IFRS, amortization of goodwill on and after the date of transition was discontinued, and impairment test is performed in each period.

In light of the above, retained earnings as of June 30, 2016 and March 31, 2017 increased by ¥2,180 million and ¥8,639 million, respectively.

D Capitalization of development expenses

Expenditures for research and development were expensed under Japanese GAAP. However, under IFRS, since certain expenditures are eligible for capitalization, those expenses are recognized as intangible assets.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 increased by ¥18,598 million, ¥19,323 million, and ¥19,860 million, respectively.

E Deferred taxes

With respect to the tax effects arising from the elimination of intercompany unrealized gains, the deferral method was applied under Japanese GAAP, but the asset and liability approach has been employed under IFRS.

In addition, the Olympus Group has assessed the recoverability of deferred tax assets under IFRS.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date) increased by ¥3,143 million, and retained earnings as of June 30, 2016 and March 31, 2017 decreased by ¥110 million, and ¥19,856 million, respectively.

Because temporary differences arose in line with the reconciliation from Japanese GAAP to IFRS, the amounts of deferred tax assets and deferred tax liabilities have been adjusted. The effect of the adjustments on retained earnings is stated in each other item.

F Warranty

With respect to warranty, expenses expected to be incurred in the future were recognized as provisions under Japanese GAAP. However, under IFRS, warranty has been separated into quality assurance warranty and service warranty, the amount corresponding to quality assurance warranty has been recognized as provisions, and for the portion of service warranty where services have not been provided, revenue has been deferred and recognized other current liabilities.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥1,364 million, ¥1,327 million, and ¥1,358 million, respectively.

G Accrued paid absences

Accrued paid absences were not recognized as liabilities under Japanese GAAP, but have been recognized as liabilities under IFRS.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥4,260 million, ¥4,260 million, and ¥4,476 million, respectively.

H Post-employment benefits

Under Japanese GAAP, actuarial gains or losses and past service costs were recorded in net assets through other comprehensive income when they are incurred and were expensed on a straight-line method over a certain number of years not exceeding the average remaining service period of employees. Under IFRS, actuarial gains or losses have been recognized in other components of equity through other comprehensive income as incurred, and then immediately transferred to retained earnings. Past service costs have been fully recognized in profit or loss as incurred.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥21,234 million, ¥19,642 million, and ¥20,132 million, respectively.

I Resetting of foreign currency translation adjustments

The Olympus Group has chosen to apply the exemption set forth under IFRS 1, and transferred all cumulative exchange differences on translation of foreign operations as of the date of transition to IFRS to retained earnings.

In light of the above, retained earnings as of April 1, 2016 (IFRS transition date), June 30, 2016, and March 31, 2017 decreased by ¥8,686 million, respectively.

2) Reclassification

J Reclassification on condensed consolidated statement of financial position

Certain reclassifications have been made to conform to provisions under IFRS. The major reclassifications are as follows:

(a) Deferred tax assets and deferred tax liabilities are classified to non-current assets and non-current liabilities.

(b) Financial assets and financial liabilities are disclosed separately.

(c) Investments accounted for using equity method is disclosed separately.

(d) Non-current assets or disposal groups held for sale are disclosed separately.

Reconciliation of profit or loss and comprehensive income

Three months ended June 30, 2016

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Net sales	168,438	(617)	799	168,620	A	Revenue
Costs of sales	56,432	595	321	57,348	A, B, D, F	Cost of sales
Gross profit	112,006	(1,212)	478	111,272		Gross profit
Selling, general and administrative expenses	101,198	(1,212)	(3,952)	96,034	B, C, D, F	Selling, general and administrative expenses
		(517)	–	(517)		Share of profit (loss) of investments accounted for using equity method
		627	(21)	606		Other income
		1,957	6	1,963		Other expenses
Operating income	10,808	(1,847)	4,403	13,364		Operating profit
Non-operating income	1,460	(1,460)	–	–		
Non-operating expenses	3,955	(3,955)	–	–		
Extraordinary income	13	(13)	–	–		
Extraordinary losses	990	(990)	–	–		
		846	(155)	691		Finance income
		2,471	270	2,741		Finance costs
Income before provision for income taxes	7,336	–	3,978	11,314		Profit before tax
Income taxes	(1,217)	–	3,526	2,309	E	Income taxes
Net income	8,553	–	452	9,005		Profit
						Profit attributable to:
Net income attributable to owners of the parent	8,530	–	451	8,981		Owners of parent
Net income attributable to non-controlling interests	23	–	1	24		Non-controlling interests

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Net income	8,553	–	452	9,005		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes	(1,195)	–	95	(1,100)	G	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of taxes	3,561	–	(1,490)	2,071	F	Remeasurements of defined benefit plans
						Items that may be reclassified to profit or loss
Foreign currency translation adjustments	(37,913)	–	2,128	(35,785)		Exchange differences on translation of foreign operations
Net unrealized gains (losses) on hedging derivatives, net of taxes	7	–	(407)	(400)		Cash flow hedges
Share of other comprehensive income of associates accounted for using equity method	(2)	–	–	(2)		Share of other comprehensive income of associates accounted for using equity method
Total other comprehensive income	(35,542)	–	326	(35,216)		Total other comprehensive income
Comprehensive income	(26,989)	–	778	(26,211)		Comprehensive income
						Comprehensive income attributable to:
Comprehensive income attributable to owners of the parent	(26,976)	–	777	(26,199)		Owners of parent
Comprehensive income attributable to non-controlling interests	(13)	–	1	(12)		Non-controlling interests

Fiscal year ended March 31, 2017

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Net sales	748,050	(3,148)	(4,345)	740,557	A	Revenue
Costs of sales	256,708	2,468	2,895	262,071	A, B, D, F	Cost of sales
Gross profit	491,342	(5,616)	(7,240)	478,486		Gross profit
Selling, general and administrative expenses	414,855	(5,616)	(11,542)	397,697	B, C, D, F	Selling, general and administrative expenses
		(1,253)	–	(1,253)		Share of profit (loss) of investments accounted for using equity method
		29,508	(23,858)	5,650	G	Other income
		14,323	(329)	13,994		Other expenses
Operating income	76,487	13,932	(19,227)	71,192		Operating profit
Non-operating income	3,998	(3,998)	–			
Non-operating expenses	18,336	(18,336)	–			
Extraordinary income	27,757	(27,757)	–			
Extraordinary losses	8,220	(8,220)	–			
		2,247	(81)	2,166		Finance income
		10,980	(103)	10,877		Finance costs
Income before provision for income taxes	81,686	–	(19,205)	62,481		Profit before tax
Total	3,471	–	16,200	19,671	E	Income taxes
Net income	78,215	–	(35,405)	42,810		Profit
						Profit attributable to:
Net income attributable to owners of the parent	78,191	–	(35,408)	42,783		Owners of parent
Net income attributable to non-controlling interests	24	–	3	27		Non-controlling interests

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	Presentation under IFRS
Net income	78,215	–	(35,405)	42,810		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Net unrealized holding gains (losses) on available-for-sale securities, net of taxes	(15,391)	–	16,526	1,135	G	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of taxes	1,169	–	1,550	2,719	F	Remeasurements of defined benefit plans
						Items that may be reclassified to profit or loss
Foreign currency translation adjustments	(12,020)	–	(762)	(12,782)		Exchange differences on translation of foreign operations
Net unrealized gains (losses) on hedging derivatives, net of taxes	7	–	1,140	1,147		Cash flow hedges
Share of other comprehensive income of associates accounted for using equity method	14	–	–	14		Share of other comprehensive income of associates accounted for using equity method
Total other comprehensive income	(26,221)	–	18,454	(7,767)		Total other comprehensive income
Comprehensive income	51,994	–	(16,951)	35,043		Comprehensive income
						Comprehensive income attributable to:
Comprehensive income attributable to owners of the parent	51,981	–	(16,955)	35,026		Owners of parent
Comprehensive income attributable to non-controlling interests	13	–	4	17		Non-controlling interests

Notes on reconciliations of profit or loss and comprehensive income

1) Differences in recognition and measurement

A Leases

With regard to lease transactions as lessor, some of transactions classified as finance leases under Japanese GAAP are classified as operating leases under IFRS. Consequently, the relevant lease receivables have been reversed, and property, plant and equipment have been recognized. In addition, revenue and cost of sales have increased or decreased.

In light of the above, comprehensive income increased by ¥1,416 million for the three months of the fiscal year ended June 30, 2016, and decreased by ¥2,874 million for the fiscal year ended March 31, 2017.

B Depreciation of property, plant and equipment

With regard to depreciation of property, plant and equipment, the Olympus Group has reviewed estimates of useful lives and residual values in adopting IFRS. Consequently, the carrying amount of property, plant and equipment has decreased. In addition, cost of sales and selling, general and administrative expenses have increased or decreased.

In light of the above, comprehensive income decreased by ¥126 million for the three months of the fiscal year ended June 30, 2016, and decreased by ¥1,490 million for the fiscal year ended March 31, 2017.

C Goodwill

Under Japanese GAAP, goodwill was amortized on a straight-line method over the reasonable number of years, not exceeding 20 years. However, under IFRS, amortization of goodwill on and after the date of transition was discontinued, and impairment test is performed in each period.

In light of the above, comprehensive income increased by ¥2,065 million for the three months of the fiscal year ended June 30, 2016, and increased by ¥8,912 million for the fiscal year ended March 31, 2017.

D Capitalization of development expenses

Expenditures for research and development were expensed under Japanese GAAP. However, under IFRS, since certain expenditures are eligible for capitalization, those expenses are recognized as intangible assets. In addition, cost of sales and selling, general and administrative expenses have increased or decreased.

In light of the above, comprehensive income increased by ¥310 million for the three months of the fiscal year ended June 30, 2016, and increased by ¥1,118 million for the fiscal year ended March 31, 2017.

E Deferred taxes

With respect to the tax effects arising from the elimination of intercompany unrealized gains, the deferral method was applied under Japanese GAAP, but the asset and liability approach has been employed under IFRS.

In addition, the Olympus Group has assessed the recoverability of deferred tax assets under IFRS.

In light of the above, comprehensive income decreased by ¥3,105 million for the three months of the fiscal year ended June 30, 2016, and decreased by ¥22,823 million for the fiscal year ended March 31, 2017.

Because temporary differences arose in line with the reconciliation from Japanese GAAP to IFRS, the amounts of deferred tax assets and deferred tax liabilities have been adjusted. The effect of the adjustments on retained earnings is stated in each other item.

F Post-employment benefits

Under Japanese GAAP, actuarial gains or losses and past service costs were recorded in net assets through other comprehensive income when they are incurred and were expensed on a straight-line method over a certain number of years not exceeding the average remaining service period of employees. Under IFRS, actuarial gains or losses have been recognized in other components of equity through other comprehensive income as incurred, and then immediately transferred to retained earnings. Past service costs have been fully recognized in profit or loss as incurred.

In light of the above, comprehensive income decreased by ¥3,076 million for the three months of the fiscal year ended June 30, 2016, and decreased by ¥3,000 million for the fiscal year ended March 31, 2017.

G Financial instruments

Under Japanese GAAP, gain on sales of investment securities was recorded as extraordinary income. However, under IFRS, it is allowed to designate equity financial assets as financial assets measured at fair value through other comprehensive income, and gain on sales of equity financial assets that has been designated so is recognized as other comprehensive income.

2) Reclassification

H Reclassifications on the condensed consolidated statement of income

Certain rebates were presented in selling, general and administrative expenses under Japanese GAAP, but are presented as deduction from revenue under IFRS.

With regard to items that were presented in non-operating income, non-operating expenses, extraordinary income and extraordinary losses under Japanese GAAP, financial items have been presented in finance income or finance costs, and other items have been presented in share of profit (loss) of investments accounted for using equity method, other income or other expenses according to the nature of each item, under IFRS.

(4) Note on reconciliation of cash flows

Major differences between the consolidated statements of cash flows under Japanese GAAP and those under IFRS are principally due to the change of lease transactions as lessor and capitalization of expenditures for research and development. Accordingly, cash flows from operating activities have increased, and cash flows from investing activities have decreased.