

Conversation between Outside Directors

We will help maximize shareholder value in our capacity of fulfilling the supervisory function for business execution.

Olympus is constructing internal systems to contribute to the maximization of shareholder value, including the Board of Directors, which is membered by a majority of outside directors, and various independent committees. The following is a conversation between Takuya Goto and Shiro Hiruta, both outside directors who have also been appointed to the independent Nominating Committee, about the Company's current corporate governance system and the ideal form for future systems.

Benefits of Committees

Unique "Hybrid" Corporate Governance System

Goto Olympus Corporation is a Company with Auditors, as described by the Companies Act of Japan, but it also has independent committees: namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee. However, Olympus differs from a Company with Committees based on the Companies Act in that decision-making authority with regard to business execution lies with the Board of Directors and that the committees exist for the purpose of making proposals to the board.

Hiruta In the past, the president of Olympus would choose the successor to the position, with the involvement of the Board of Directors in the decision being limited to approving the selection post-fact. This system resulted in an overconcentration of authority on the president. The other extreme would be a Company with Committees, which is highly transparent as the authority for appointment decisions lies with outside committees. However, this system can be problematic when people inside the company are not involved in making appointment decisions. I think that such situations, when officers are selected entirely by people from outside the company who are not properly versed in its business, should be avoided. Taking into consideration the advantages and disadvantages of these systems, Olympus arrived at its current system of corporate governance. Under this system, the appointment process begins with the president recommending candidates to the Nominating Committee. The committee then discusses the candidates to determine if there would be any issues with their appointment. After such discussion, the committee's verdict is submitted to the Board of Directors, which makes the final decision. In this manner, the system adopted by Olympus combines the benefits of both a Company with Auditors and a Company with Committees to form what could be called a "hybrid" corporate governance system.

Goto Today, the Nominating Committee is actively conversing and swapping opinions with the individuals who we anticipate will find positions on the next senior management team. Moreover, when inviting an employee from Sony Corporation to serve as an outside director at Olympus, we met in advance to determine whether or not this individual would be appropriate for the position in terms of career and disposition. I therefore believe that the Nominating Committee is effectively serving its desired purpose as part of the Company's governance system.

Takuya Goto

Outside Director
(Chairman of Nominating Committee)



The Company's Board of Directors as Viewed by Outside Directors

Evaluation of the Governance System and Issues to Resolve

Hiruta Outside directors represent a majority in the Board of Directors at Olympus. Generally, the role of a board of directors is to supervise business execution and make major decisions regarding the directions a company will take. In the case of Olympus, this responsibility rests firmly in the hands of outside directors. For this reason, outside directors must be incredibly knowledgeable about the Company in order to ensure that decisions about business execution are appropriate. Based on this recognition, the outside directors, myself included, make extra efforts to deepen their understanding of Olympus. For example,

we toured every Olympus plant in Japan immediately after our appointment, and we all attend internal presentations announcing research findings. With this understanding of Olympus as the base, the outside directors call upon their past experience when formulating opinions, and these opinions are made clear. Management actively reflects these opinions in business execution, which I feel is a key characteristic of the Board of Directors at Olympus. Compared with other companies, I believe that the outside directors at Olympus take their participation in management one step further.

Goto The outside directors at Olympus all come from different backgrounds, including accounting and finance, law, manufacturing, and fund-raising. As such, exchanges at



Shiro Hiruta
Outside Director
(Member of Nominating Committee)

meetings of the Board of Directors are lively with suggestions coming from various perspectives. Sometimes an outside director will offer an opinion with relation to a large guiding policy, future business strategies, or organizational structures for example. Other times, suggestions will be more precise, such as a recommendation regarding a specific aspect of the documents accompanying a proposal.

Hiruta I believe that the supervisory function of the Board of Directors is effective in accomplishing its task. Proposals from the business execution side of the Company are discussed by the Board of Directors, and we have rejected several proposals to date. Basically, what I mean to say is this: the Board of Directors is active in management; we are not simply around to put our signature on proposals that have already been instituted.

Goto Briefings are held before each meeting of the Board of Directors. If a director raises issue with any of the matters brought up during these briefings, they are revised and re-discussed by the board. Proposals to be brought before the Board of Directors are decided at the Executive Management Committee, which convenes prior to board meetings and consists of representatives from the business execution side of the Company. As we find ourselves unable to approve certain proposals, we sometimes ask the Executive Management Committee about the reasoning behind certain proposals.

Hiruta It is difficult to determine the ideal degree of involvement for outside directors to have in management. It is possible that we are a bit too involved at the moment, a situation that likely arose from concern created by the past scandal. However, I am sure the appropriate level will be found with time, and I believe that the current system is incredibly effective from a governance standpoint. Were I to rate the corporate governance system at Olympus on a scale from 1 to 100, its score would exceed 90.

I do not, however, mean to say that the Company's corporate governance system is without issue. For example, I think that management needs to be more selective with the matters it brings before the board. In Japan, it is rare for a company that is not a Company with Committees to have a majority of outside directors on its board of directors. A more conventional system would entail a board of directors being given responsibility for business execution. If the unique system at Olympus is utilized in the same manner as a conventional system, it will result in matters that could have been entrusted entirely to the business execution side being brought before the Board of Directors for discussion. This situation could cause delays in management decision making, and I therefore believe that this situation needs to be rectified.

Expectations for the Future of Olympus Construction of a New Governance System to Further Business Growth

Goto In recent years, Olympus has been receiving a number of suggestions for its corporate governance system from individuals claiming that their proposals are necessary from a "globalization" standpoint. These critics often make overarching statements about governance systems, like how many outside directors is required, all based on the belief that there is one "right" answer when it comes to governance. Quite the contrary, the best governance system is different for every company. Olympus will need to find its own ideal corporate governance system going forward, and this search should include big-picture discussions on such factors as future business plans.

Hiruta Olympus is currently in the process of restructuring its business centered on the Medical Business. This process is advancing smoothly, and the next steps will be to clarify the direction for future growth strategies and then consider what type of governance system will be ideal for implementing these strategies and realizing their goals. The Medical Business is a field that is demonstrating high growth potential. For this reason, I believe that Olympus will continue to grow if it can find a governance system that suits those future strategies.