

Corporate Governance

—Conversation between an Outside Director
(Chairman of the Board of Directors) and the President—

Establishment of a Corporate Governance System Expected of a Truly Global Company

Under the current management team, Olympus pursued the establishment of an ideal corporate governance system and the exercise of its effectiveness as top priorities, undertaking such measures as forming a Board of Directors membered by a majority of highly independent outside directors and creating voluntary committees. The following is a frank exchange of opinions about the past, present, and future of the Company's corporate governance system between Outside Director Shiro Hiruta, who has participated in the management of Olympus since his days on the Management Reform Committee following the series of scandals and is now the chairman of the Board of Directors, and President Sasa.



Hiroyuki Sasa
President and
Representative Director

Unique Governance System Matched to Olympus

Hiruta
The current corporate governance system at Olympus realized two major improvements. The first improvement was the institution of a management team consisting of a Board of Directors with 11 members, of which 6 members, or a majority, are highly independent outside directors. By injecting the experience and insight of these outside directors, this governance system ensures that the executive management side of the team is able to make effective decisions without being trapped within the internal logic of the Company. I and the other outside directors strive to always examine the measures proposed to resolve the issues Olympus faces in order to determine their adequacy and identify when they are based solely on the Company's traditional perspective. Given this approach, I feel that sufficient discussion is conducted with regard to the appropriateness of such matters as plans for responding to the new operating environment. Furthermore, briefings are held prior to meetings of the Board of Directors. Audit & supervisory board members also attend these briefings, which serve as an initial opportunity to discuss and uncover issues with proposals. Later, at the actual meeting of the Board of Directors, we are able to devote time to further discussing issues and other important matters with the entire Board. There are times when we are unable to reach a unanimous decision regarding certain proposals and times when several revisions are suggested to proposals. This type of deliberation is not traditionally seen in the governance systems' of Japanese companies, and it

represents a massive improvement for Olympus.

The second major improvement was the establishment of three independent committees—namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee—which are all chaired by outside directors. These committees make the corporate governance system of Olympus a sort of hybrid system with measures first being thoroughly examined by the appropriate committee before being submitted to the Board of Directors for approval. In this manner, while Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan, it is also able to receive the benefits of the Company with Nominating Committee, etc. system. This hybrid system is a massive improvement over the Company's previous system.

Sasa
I too feel that the improvements to our corporate governance system over the past four years have been great. However, when viewed from the outside, there may be some concerns as to whether or not this system is functioning appropriately. When we initially transitioned to the current system, we began by focusing on the form of the system. It was because this form was functional that we were able to build the Olympus of today, and our improvements in this area are ongoing. The actual content of the discussions that take place among management cannot be seen from the outside. One example of the products of these discussions, however, would be when, based on our need to



Shiro Hiruta
Outside Director
(Chairman of the Board
of Directors)

strengthen compliance on a global scale, we appointed an individual who could perform duties on the global stage as our chief compliance officer and developed a framework in which reports would be issued directly to the president, by which I mean me. In addition, targeting even higher levels of compliance, we

established the Medical Affairs Division as an independent organization for housing our cross-organizational medical affairs functions. Measures such as these are examined and approved by the Board of Directors, and I believe they serve as prime examples of the functionality of our corporate governance system.

Sincere Fulfillment of Roles Expected by Stakeholders

Hiruta
It is incredibly rare among Japanese companies for an outside director to serve as the chairman of the Board of Directors. Even though I hold this position, I do not feel I have any special role or mission. Rather, I feel that my role is the same as that of other outside directors and that it is important for me, in my capacity as an outside director, to support the execution of management. If there is any special role for me as the chairman, it is probably to ensure that the proceedings of the Board of Directors advance smoothly and to decide the timing for votes on measures after determining that discussion has been sufficient and that all members have participated. If I judge that discussion has been insufficient, I must choose whether to reexamine the proposal without voting or make decisions after

receiving additional opinions. I believe my obligation to the Board of Directors is to provide this type of leadership.

Sasa
I have responsibilities as a member of the executive management team. For this reason, if I cannot follow through with the measures I pass at the Board of Directors, management will cease to function. My stance is to carry out any proposal I make. Sometimes, the outside directors point out issues that I had not anticipated. Such guidance enables us as executives to formulate even better implementation plans by endeavoring to deconstruct and thoroughly understand the issues identified. Given this ability, I feel that the Board of Directors is functioning exceptionally well.

Development of the Optimal Governance System over the Future

Hiruta
The optimal governance system is dependent upon the environment surrounding a company and the stage of that company's development. For the present Olympus,

I believe that the governance system we have now is the most ideal. In terms of diversity, while the Board of Directors only has one female director, I do not feel that it is the number of women that is the question. Rather, I think it is

more important to consider whether or not the Company's outside directors and audit & supervisory board members possess the skills necessary for the operating environment faced at the time. Similarly, we should prioritize considerations of how the Board of Directors is to lead the Company, remaining prepared to make changes if the Board proves incapable of practicing such leadership. It is also crucial to develop a successor framework. When thinking about the future of Olympus, an idea of what type of person will be suited to being the next leader should be established, and the type of person necessary must be cultivated in line with a set career plan. Plans for fostering such human resources are best discussed by the Nominating Committee.

Sasa
Just as you say, Mr. Hiruta, when determining what the optimal governance system is, we must first think of the current situation surrounding the Company. Given the present circumstances, I too feel that the governance system Olympus is using now is ideal. However, while it is easy to shape systems, cultivating awareness is more difficult. It is the awareness of a company's leader that drives management; a company's leader sets what is seen to be the right course and will stay on that course without slowing. However, outside directors help adjust and guide this course with the various opinions they offer, and it is for this reason that the Board of Directors needs a diverse range of members. So long as we maintain this perspective, our governance system will function effectively.

Involvement of the Board of Directors in Deciding Medium-to-Long-Term Management Policies and Strategies

Sasa
In regard to the functionality of our governance system, the Board of Directors held several discussions when formulating 16CSP, thoroughly examining the risks and opportunities placed before us during this process. It was in April 2015 when we undertook the integration of three companies and shifted to the new matrix style organizational structure to reallocate resources. When considering this integration, we were already engaged in the discussions that would culminate in 16CSP. At the time, it was important for us to determine how we could make full use of our limited management resources and shift these resources on a global basis. We examined and re-examined these issues to decide how best to address them. Also, as 16CSP was designed

based on our vision for 10 years from now, we discussed medium-to-long-term management policies when crafting this plan. Numerous suggestions were received from the outside directors over the course of deciding the plan's strategies. They offered specific advice about management policies, the definition of a "Business to Specialist" Company, and the concept of maintaining a balance between risks and risk buffers. We revised our strategies accordingly. I therefore feel confident in saying that the strategies of 16CSP were forged through an ideal process.

Hiruta
From the perspective of the effectiveness of the governance system, immediately after the scandals came to light the most pressing matters were resolving compliance issues and addressing the vulnerability of the Company in terms of its capital structure. As such, the advice offered to the executive management team was primarily related to those matters. As a result, we were able to guide Olympus in overcoming these problems in accordance with plans, and I therefore feel that the Board of Directors was functioning properly at that point. Having overcome these difficulties, Olympus has now entered a new stage, a stage in which it must consider future growth and global expansion policies. This fact is reflected in the new organizational structure and in 16CSP itself. This plan was formulated through a W-shaped process. Vigorous discussions were held through this process, which entailed the executive management



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team proposing basic policies on such matters as how to develop the Olympus Group’s business in the changing operating environment, discussing these proposals among the Board of Directors, and then reflecting these discussions back into the proposals. With regard to numeric targets, we did not so much discuss the figures themselves. It would be more accurate to say that we considered what level would be necessary to achieve from the standpoint of the Group’s business.

For example, a discussion of stock prices would examine such factors as the level of dividends that would be necessitated by certain stock price figures and, given the associated business risks, what dividend policies should be adopted. I also feel that we devoted sufficient time to having in-depth discussions of medium-to-long-term issues. From this perspective as well, I believe that the Board of Directors is being operated within an effectively functioning governance system.

Future Hopes and Tasks

Hiruta

My greatest hope for Olympus is for it to practice good compliance, mitigate risks, and continue steadfast growth. The goal of becoming the greatest “Business to Specialist” Company was raised due to the fact that the Company possesses the development and manufacturing infrastructure necessary for addressing the needs of specialists and doing so on a global scale. This goal also embodies my desire for the Company to grow by using this infrastructure to provide specialized Olympus products and services around the world. However, there are also tasks that the Company needs to address. In order to become a “Business to Specialist” Company that operates globally, it is vital that the currently different governance systems in each country be standardized and then reinforced. In addition, although there have been substantial improvements to the Company’s balance sheet, there is still a certain degree of unbalance when viewing it from the perspective of global management resource allocation. Furthermore, human resource evaluation and development programs—not just frameworks—will need to be based on global standards. It will take time to address these tasks, but I am hopeful that Olympus will be able to formulate effective plans and then put them into action. I will offer the Board of Directors as much

advice as possible on any risks I detect during this process. I believe that Olympus will be able to continue steadfast growth.

Sasa

In 16CSP, we set policies with the aim of realizing ongoing growth, and effectively exercising these policies will be of utmost importance. I am confident that Olympus is among the few companies with the chance to grow. However, there are aspects about the Company that, despite seeming completely normal to us, are significantly lacking in comparison to the global standards for medical equipment manufacturers. Significant time will be required before these deficiencies come to be recognized by the entire Company. However, by spreading recognition of these deficiencies and pursuing improvement in these areas, I am certain that Olympus will be able to climb to greater heights. In this endeavor, it will be important to examine the global standards for human resources systems, financial strategies, and compliance and then determine how we should change. That challenge itself represents a chance for Olympus to become a truly global company and achieve substantial growth. I am therefore committed to carrying out the necessary measures to live up to the expectations of us.