

Message from Outside Directors

Olympus shifted to a Company with Nominating Committee, etc. in June 2019 with the aim of becoming a truly global company based on its transformation plan, *Transform Olympus*. Through this, the Company will strive to accelerate decision-making in business execution, strengthen corporate governance, and further enhance transparency. In this section, we hear from four outside directors on the new structure and desired future direction.

Expectations of Ongoing Growth by Realizing the Goals of *Transform Olympus*

Sumitaka Fujita

Outside Director
(Chairman of the Board / Chairman of the Nominating Committee)

Steering the Focus of Board Discussion to a Medium- and Long-Term Management Strategy Following the Shift to a Company with Nominating Committee, etc.

Olympus seized upon the opportunity brought about by the scandals that came to light in 2011 to make major reforms and appoint a new management team. The four-year period from 2012 saw a reorganizing of management foundations as a means to break away from the scandals that included

efforts to rebuild Olympus' management foundation through a policy of selection and concentration for businesses and strengthen its financial situation. Since 2016, Olympus has pushed ahead with certain priority strategies alongside the Medium-Term Management Plan 16CSP in order to achieve sustainable growth. In addition to moving onto a new phase in management, the themes of Board of Directors' deliberations have been shifted to more aptly reflect future aspirations, including key medium- and long-term challenges, in line with the change to the management phase. Olympus has also taken unique steps in its corporate governance system that

include creating a Board of Directors consisting of a majority of independent outside directors, appointing an independent outside director as Chairman of the Board and voluntarily establishing committees in the three areas of nominations, compensation and compliance that are chaired by an outside independent director although Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan.

I have been engaged in the management of Olympus as an outside director since 2012 and during that time the effectiveness of the Board has increased steadily. Now, Olympus has shifted to a Company with Nominating Committee, etc. in line with the globalization of business under *Transform Olympus*, which aims to drive further corporate evolution. Moving ahead, I believe the Board could focus more on discussions of its medium- and long-term strategy while increasing the speed of business execution through the separation of corporate monitoring and business execution. Fundamentally, my role as Chairman of the Board has not changed under the new management structure and I will continue working to ensure highly effective debate and management on the part of the Board of Directors.

Importance of Continued Evaluation of the Performance of Directors and Corporate Officers by the Nominating Committee

I was appointed Chairman of the Nominating Committee in June 2019. Generally, Japanese companies function somewhat as a "company community" where directors are chosen from among employees, the president is chosen from among these directors, and his or her successor is chosen by the president personally in line with an employment system characterized by lifetime employment and seniority based on the length of service. While this is not entirely bad, it can at times be detrimental. A nominating committee mechanism of which the majority is comprised of outside directors is vital to addressing the above situation. It's important that the Nominating Committee continuously evaluation of the performance of Directors and Corporate Officers, however, rather than suddenly nominating or dismissing someone. Also, it's necessary to clearly define the qualities required for critical positions in management and business execution, make a list of personnel with such a qualities, and establish solid succession plans from the perspective of management continuity.

The Importance of a Stronger Awareness of the Executive Officers

Olympus holds briefings for outside directors prior to board meetings as well as regular meetings that consist solely of outside directors in order to improve the effectiveness of the Board. The issues that converge during the meeting solely of outside directors are then fed back into the executive management team. Shifting to a Company with Nominating Committee, etc. has further strengthened corporate governance, and a vital component of this is monitoring through the Company's internal control systems. With well-functioning internal control systems, the Board is able to entrust business execution to executive officers so the Board can focus its attention more on monitoring. I intend to make sure the Company's internal control systems are functioning appropriately through my role on the Board in order to permeate corporate governance globally throughout the Group. What's important is how the company is actually being run in addition to making formal changes to the governance structure and establishing a framework for internal control. I believe that this requires a strong awareness of business execution and a mindset to pursue true corporate transformation and sustainable growth as well as foster a better corporate culture.

Expectations for Sustainable Growth under *Transform Olympus*

In 2018, the Board of Directors held considerable discussion concerning *Transform Olympus*. In particular, it was decided that diversity in the composition of the Board was of utmost importance to achieve Olympus' aim of becoming a competitive global medtech company. With this in mind, Olympus appointed three new foreign directors to the Board.

Transform Olympus is a key plan guiding Olympus on its way to becoming a truly global medtech company and further enhancing corporate value. The journey will by no means be smooth sailing, but I expect the steady implementation of the plan to contribute to the realization of sustainable growth and to "Making people's lives healthier, safer and more fulfilling," which is "Our Purpose" based on Olympus' corporate philosophy.

Message from Outside Directors

Maintain Audit Quality and Explore New Initiatives

Olympus has entered a new stage by shifting to a Company with Nominating Committee, etc. with the aim of transforming into a truly global medtech company. However, I don't believe this necessitates any major change to the traditional method of auditing.

For example, although ties between the accounting auditor and Audit Committee members remain essential, there is fundamentally no change in their relationship due to the shift in corporate governance structure. Both parties can still readily exchange information through regular meetings, joint visits to overseas subsidiaries and evaluations. That's why I see this year as a time to facilitate a smooth transition to a Company with Nominating Committee, etc. while maintaining a standard level of audit quality. In terms of auditing method itself, I would like to explore new initiatives while continuing to implement a direct approach through inventory audits and other means and an indirect approach based on cooperation with the Audit Division, as in the past.

Although Olympus had an statutory auditors meeting, it has operated as an independent system, thus tending to focus rather strongly on the more defensive aspects of governance. Since I also have the right to vote in the board from the standpoint of a director, I intend to actively voice my opinion and offer advice and devise proposals as required that make the best use of my outside experience in order to help drive growth in Olympus as a global medtech company.

Although it is optional for a Company with Nominating Committee, etc. to have standing Audit Committee members, Olympus has elected two such members. I think this is a really good move. To ensure the auditing function is performing effectively, it is important to share information with standing members who actively gather information internally, which makes it possible for me to provide advice that reflects my specialized knowledge as an outside director.

A Year for Maintaining Audit Quality and Exploring New Initiatives

Atsushi Iwasaki

Outside Director
(Member of the Audit Committee)

Aiming to Strengthen Internal Audit Globally

Overseas revenue account for 80% of the total at Olympus, so it's vital that the Company conducts audits with an awareness of global perspectives. Up until now, each region has been served by an internal audit division, with Japan handling global oversight. In April 2019, Olympus shifted to a system in which a Chief Internal Audit Officer (CIAO), who reports directly to the CEO, will be responsible for managing and supervising the Group's overall internal auditing in Europe, North America, and Asia, including Japan. Under this new system, it will be necessary to analyze risk from a global standpoint and efficiently and effectively invest resources into the required regions and divisions.

The major audits by the Audit Committee are based on internal control systems. Accordingly, it will be extremely important to coordinate closely with internal audit divisions around the world to make sure the Company's internal control systems are functioning effectively worldwide. In addition to establishing a new framework for the internal audit divisions following the significant change made in April 2019, I also believe it is the role of an Audit Committee member to make sure that directives are taken on board locally and awareness has changed. Moving ahead, I have high expectations that Olympus employees will continue to act based on "Our Core Values" and that Olympus will strive vigorously toward becoming a company that contributes to the purpose of "Making people's lives healthier, safer and more fulfilling." I personally will do everything I can to support Olympus through this major transition period.



Creating Greater Healthcare Impact and Enhanced Corporate Value

D. Robert Hale

Outside Director
(Member of the Nominating Committee)

Working in Partnership with the Board and Management Team to Support Value Creation

I believe Olympus is one of the world's best medical technology companies, and it is an honor to serve all Olympus stakeholders as an Outside Director.

My firm, ValueAct Capital, is a major shareholder of Olympus. ValueAct Capital's business model is to identify and study the world's best companies and invest with a long-term outlook when we believe one of these companies is at a strategic inflection point and poised to create substantial corporate value. We then work in partnership with the board and management team to support value creation for the benefit of all stakeholders. A ValueAct partner often joins the company's board of directors during our investment period based on a shared belief that such an aligned partnership can be helpful to the company.

In that way my ValueAct colleagues and I have all together served in 52 public company board positions since our firm was founded in the year 2000, including for leading global technology companies like Microsoft, Rolls Royce and Motorola. For investments where we have served on the board, our average investment period is over five years, so we are in the "same boat" as long-term shareholders. We also try to uphold high standards of corporate governance.

This is ValueAct's first investment in Japan, but I think Olympus is already really a global company, with over 80% of its sales outside of Japan. I also think Olympus has one of the best businesses in the global medical technology industry.

It is especially unique to have the market leadership that Olympus has in GI endoscope systems. I don't think it is overstatement to say that without Olympus, the entire specialty of gastroenterology would not exist as it does today. Hundreds of millions of patients around the world have been diagnosed and treated using Olympus technologies with life-saving results.

I think Olympus can build further on its success in medical devices. Takeuchi-san has a strong vision for Olympus to

become a global champion for medical technology based in Japan. I support this goal.

Bringing Learning and Experiences to Support Olympus to Become a Competitive Global Medtech Company

Olympus investors I have spoken with who do not know ValueAct Capital well want to know what I will do as an Olympus board director. My first answer is that I am just one board director among a diverse group of 15. I look forward to participating in fact-based discussions so that collectively we can make the best governance decisions. My second answer is that I bring learnings from personal and ValueAct experiences serving on boards outside of Japan that I think are universally applicable in areas like strategic planning, budgeting and financial analysis, talent and compensation, communications, etc.

My third answer is that each company, Olympus included, has specific focus areas that are critical to the future. I think these specific focus areas at Olympus relate to what is most important to enhance to become a competitive global medtech company. I see cost structure and efficiency, product development cycle and quality/regulatory assurance, and capital allocation (business development, portfolio management, capital structure) as particularly critical. I hope I can help Takeuchi-san and his team in some small way as they work on these areas.

I am optimistic about what Olympus can achieve going forward, with all board members and employees around the world cooperating. The opportunities for greater healthcare impact and more corporate value creation in the years to come at Olympus are truly exciting.

Message from Outside Directors

Maximize Growth Potential in the Therapeutic Solutions Division by Increasing Management Agility

Olympus is a company that I have been aware of and admired almost since my first day in a healthcare business over 30 years ago. Through the years, Olympus technology, physician training and procedural development has no doubt saved thousands and thousands of lives. These real-world results have helped Olympus create excellent positions in key medical markets, particularly gastrointestinal endoscopes. As a result, I am extremely excited to be here at the beginning of the next 100 years for the company.

To me, the potential of the company seems significant. The bedrock of Olympus historical success has been investment in outstanding new technologies. This has been particularly evident in flexible endoscopy. The images physicians can see today are simply amazing. With its strong market positions, Olympus now stands on the cusp of even more innovation that will help even more patients.

At the same time, the evolving regulatory environment, changing markets and medical economic realities demand an even more sophisticated, global approach. The hurdle required to obtain and maintain clearance to market products is increasing in almost every region of the world. The potential for new, disruptive technologies entering the market is as high as it's ever been. Established markets are struggling with ways in to serve an ever-increasing aging population at affordable costs. Governments in emerging markets are attempting to provide quality healthcare to broader and broader segments of their populations within constrained budgets.

In order to meet these challenges, Olympus embarked on the *Transform Olympus* initiative. The team recognized the need to become a truly global medical technology company by increasing management agility to maximize potential in the Therapeutic Solutions Division.

Becoming more global, agile, and successful at therapeutics means many things. It means growing and maintaining a deep understanding of local markets and regulatory hurdles around the world. It means that R&D must be as close to the customer as possible from a relationship standpoint and even a geographic one. It also means fast decision action cycles based on these insights.

Leverage Experience and Know-How Gained at Global Medical Device Companies

Moving to a Board with three committee structure is a key step in this transformation. It allows for faster decision making in the business while maintaining high levels of accountability for management. I believe the increasing diversification of the Board with members that have broad, global experiences is also important. It greatly improves the company's ability to tackle global challenges as well as to attract and retain talent with deep expertise in markets around the world.

Olympus has to have the processes and the capability to get technology to each regulated region or country around the world. I have a lot of experience with that and more than 30 years' experience in innovation, market expansion, global growth, and business development at global medical device companies. I have confidence this will aid me in being a strong team member on an already strong and impressive Board. I look forward to working with my colleagues and management in the dawn of the next 100 years of Olympus.

Strive for Further Innovation
in Therapeutic Devices to
Help Even More Patients

Jim C. Beasley

Outside Director
(Member of the Compensation Committee)

