

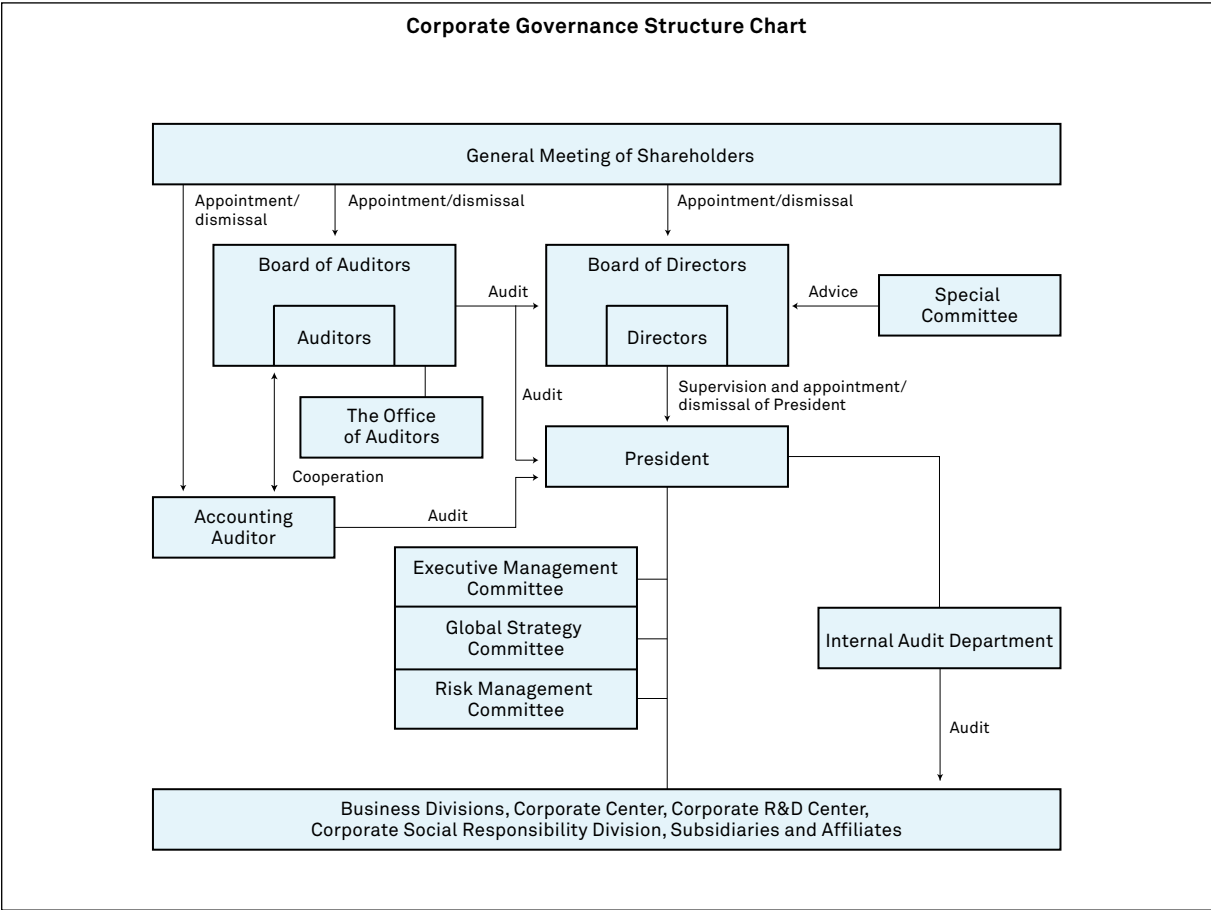
# CORPORATE GOVERNANCE

> The Olympus Group, which is an active member of society and shares its sense of values, proposes new value through its business endeavors, thereby seeking to contribute to people’s health and happiness. We call this concept “Social IN,” describing the basic philosophy underlying all our activities. Based upon this philosophy, Olympus believes that one of its key missions is to build and operate an optimal and appropriate corporate governance structure from a global perspective.

## MANAGEMENT STRUCTURE

### Corporate Structure with Auditor System

> Olympus adopted a corporate structure with an auditor system based on Japan’s Corporation Law. Our corporate governance system consists of a Board of Directors, which audits and supervises the performance of directors; and auditors and a Board of Auditors, which are independent from the Board of Directors and audit the performance of directors. In recent years, listed Japanese companies have been adopting one of two methods for corporate governance: a corporate structure with an auditor or a committee system. Olympus believes that our auditor system-based corporate governance system is ideally suited to the task of ensuring efficient and fair management, given the current business environment. Olympus adheres to the following structure in its efforts to maintain and improve corporate governance.



### **The Board of Directors and Corporate Officer Systems**

- › The Board of Directors consists of 15 members, including three outside directors. In principle, the Board of Directors meets once per month to make timely decisions regarding business strategies and other important management matters and to conduct appropriate oversight of business execution. Directors are appointed to one-year terms of office, and the performance of each director is evaluated annually in order to clearly identify responsibilities. In addition, in order to enhance eligibility and expertise as a director, all except outside directors regularly participate in seminars outside the Company. Furthermore, Olympus established an Executive Management Committee, which in principle convenes three times per month, to act as a body in support of the President's decision-making.

To further strengthen corporate governance, Olympus also adopted an executive officer system that separates the Board of Directors' responsibilities for decision-making and oversight of execution of duties from executive officers' responsibilities for business execution. The number of executive officers stands at 28.

### **Outside Directors and Their Principal Activities**

- › Under Japan's Corporation Law companies with an auditor system are not required to have outside directors on their boards of directors. Olympus, however, appointed Messrs. Rikiya Fujita, Masanobu Chiba and Junichi Hayashi to serve as its independent outside directors for the purpose of introducing objective points of view in its management and further reinforcing the auditing function in its business operations. As a doctor of medicine Rikiya Fujita brings a wealth of knowledge and expertise mainly to the Medical and Life Science Businesses; Masanobu Chiba has extensive knowledge and expertise from his career as a director at Nikkei, Inc. and its group companies; and Junichi Hayashi offers vast experience from his career in the securities industry and broad knowledge and expertise as a director of an investment consulting company.

Outside directors participate in Olympus' Board of Directors' meetings and will act as members of the Special Committee, which gives advice to the Company from a position independent of Olympus' top management should a large-scale acquisition (over 20%) of shares be proposed.

### **Auditors, Board of Auditors**

- › Olympus adopted an auditor system, which requires the appointment of three or more auditors, at least half of whom are to be from outside the Company, and the establishment of a Board of Auditors. At the present time, there are four auditors, including two outside auditors. Auditors are appointed for four-year terms.

The major functions of the Board of Auditors include auditing management's daily activities, such as director performance. In order to fulfill this duty, the Board of Auditors meets in principle once per month. At Board of Auditors' meetings, auditors make reports and exchange opinions regarding the accomplishments of the Board of Directors. Together with this, the Board of Auditors exchanges views with the President four times per year and with all other directors excluding outside directors and executive officers once a year. Auditors participate in important meetings, including Board of Directors' meetings, and periodically exchange opinions with executive officers, major subsidiaries' auditors, accounting auditors and the Internal Audit Department to ensure auditing efficiency.

Outside auditors participate in the Board of Directors' meetings and will act as members of the Special Committee, which gives advice to the Company from a position independent of Olympus' top management should a large-scale acquisition (over 20%) of shares be proposed. In addition, outside auditors deepen their awareness of Olympus' source of value creation through visits to plants and research centers.

### **Accounting Auditors**

- › Olympus entered into a contract with KPMG AZSA & Co. concerning audits based on the Company Law and accounting audits based on the Financial Instruments and Exchange Law. The independent auditor is approved by the General Meeting of Shareholders. CPAs of the Company's independent auditors are periodically replaced. Overseas, Olympus mainly requests that KPMG carry out accounting audits in accordance with generally accepted accounting principles in each country.

### **Appointment of Directors and Auditors**

- › Director appointments and dismissals are determined at the General Meeting of Shareholders. The Board of Directors selects candidates for the position of director, passing its proposals to the General Meeting of Shareholders for approval. Auditor appointments and dismissals also require approval from the General Meeting of Shareholders.

### **Director and Auditor Compensation**

- › Director compensation is determined by the Board of Directors, depending on each director's job description. Olympus introduced a balance score card (BSC) system and a performance-linked executive compensation system based on the degree to which goals are achieved in four categories: financial, customer service, business operation process and growth potential. The total amount of a director's monthly compensation is approved by the General Meeting of Shareholders, the Board of Directors deciding on a figure for each director's compensation that falls within this amount. The cap on auditor compensation is determined by a resolution by the General Meeting of Shareholders.

Following a review of its compensation system for directors and auditors carried out as a part of management reforms, Olympus abolished its executive retirement benefits system in June 2006.

Olympus does not exercise stock options. However, all of its directors and executive officers, excluding outside directors, possess the Company's own shares and constantly purchase them through the shareholders' association. Olympus discloses information regarding directors' share ownership.

### **Anti-Takeover Measures**

- › Olympus introduced anti-takeover measures to prevent large-scale purchases of the Company's shares, which would run counter to our corporate values and shareholder interests. This is prior warning-type rights plan stipulates a gratis issue of stock options in case of emergencies. In order to make objective judgments concerning the positive and negative aspects of anti-takeover measures, Olympus established a Special Committee made up of three outside directors, two outside auditors and one outside expert. This committee is independent of the Company's top management.

Should a purchaser acquire over 20% of Olympus' shares, the Company's Board of Directors will make a reasonable response to any offer after taking advice from the independent Special Committee and will disclose appropriate information in a timely manner. These anti-takeover measures will be valid for three years and require an approval from the General Meeting of Shareholders in the event of renewal. Given these conditions, the measures do not undermine shareholder interests, nor were they established to maintain the position of the Company's directors.

### **Company Spin-Offs**

- › To strengthen and improve the Imaging Systems and Medical Systems Businesses, Olympus spun off both and established Olympus Imaging Corp. and Olympus Medical Systems Corp. in October 2004. Olympus has also implemented company spin-offs at major overseas subsidiaries to establish a globalized system, to enhance market responsiveness tailored to the characteristics of each business as well as to accelerate business operations.

### **Performance Indicator**

- › The Olympus Group has adopted the Olympus Value Added (OVA) performance indicator. This enables the presentation of business operation results in consideration of capital cost. Consequently, Olympus OVA serves as a guideline and indicator for the selection and concentration of businesses.

### **IR Activities**

- › Olympus proactively discloses information to fulfill its corporate accountability, to ensure management transparency and in order for its stakeholders, including shareholders, to gain a better understanding of and develop trust for the Company. Several times a year, Olympus also holds financial result meetings and business briefings, in which the president or the director responsible gives presentations to investors, analysts and members of the press on management policies and business conditions. Overseas, the Company commenced IR activities in the early 1970s to provide opportunities to disclose information to overseas investors. Since 2007, Olympus has been joining forces with several major medical-related companies and holding briefings mainly for individual investors. Olympus has provided details of its Corporate Strategic Plan, financial results and presentation data, including concurrent disclosure in both Japanese and English, on its web site.

## INTERNAL CONTROLS

### **Compliance Structure**

- › In September 2004, the Olympus Group put in place the Olympus Group Corporate Conduct Charter and the Olympus Group Code of Conduct with the aim of complying with laws and regulations, to maintain a high level of ethics in carrying out fair and honest corporate activities, and to consolidate a system to share its sense of value and action principles on a global scale. Based on these guidelines, Olympus encouraged compliance in every aspect of its corporate activities, encompassing fair trading, trade controls, product safety and the environment. In addition to comprehensive in-house rules, we established a unique, Companywide set of operational standards—the Olympus International Standards (OIS)—to act as an employee code of behavior. As a company that specifically engages in the Medical Systems Business, that offers products involved with human life, Olympus is responsible for ensuring high-level product safety, quality and services. In addition, we developed rules and standards in Pharmaceutical Affairs Law-related fields to comply with a host of regulations around the world. In response to the Revised Pharmaceutical Affairs Law, Olympus established the Pharmaceutical Affairs Division in April 2004 to further reinforce its business structure.

Since awareness of compliance is enhanced in an open corporate culture, the President makes use of the Company's intranet system to send a monthly message to all employees. To provide the President with feedback, Olympus set up a system for employees to send their opinions directly to the president. To that end, we promote active Groupwide communication.

In October 2005, Olympus established the Compliance Department to further strengthen its compliance structure and set up a helpline as a point of contact for any employee inquiries about compliance. Should compliance-related problems arise, Olympus has in place a system that enables the directors responsible to report problems to the Board of Directors and the Board of Auditors. In addition, further evidence of the Company's commitment to thorough compliance is provided by the distribution of a compliance card, explaining the Code of Conduct, among all directors and employees, as well as the provision of e-learning and group training sessions.

### **Internal Controls regarding Financial Reporting**

- › Olympus established its J-SOX Act Compliance Dept., a special division to ensure the evaluation and reporting of internal controls regarding financial reporting, when this was required under the Financial Instruments and Exchange Law enforced in April 2008. Olympus makes continuous efforts to ensure that its internal control activities are being implemented efficiently.

### **Risk Control Structure**

- › As part of its risk management rules, the Company established a Risk Management Committee, chaired by the president, to decide risk management policies and the evaluation, verification and procedural standards to respond to such risks. In addition, Olympus set up a Risk Management Bureau to collect and assess information, formulate countermeasures and ensure the effectiveness of any countermeasures initiated by full-time staff. Simultaneously, each in-house company, business site and affiliate company has developed its own risk management structure. Should any risks arise that have a significant impact on the maintenance of Olympus' corporate value, such risks shall be immediately reported to the president and the Risk Management Committee to determine the countermeasures and seek a prompt settlement of the issue. In the event that the level of risk escalates, Olympus has a structure in place to minimize any impact on its corporate value.

## BUSINESS RISKS

### **Business Risks**

- › A variety of risk factors could affect significantly the business performance of the Olympus Group. The following are the main risk factors, other than management decisions, that the Group has identified as having the potential to impact the Group's performance as of March 31, 2008. Based on these possibilities, the Group addresses risk prevention and takes countermeasures against such risks.

### **Risks Related to Sales Activities**

- › Price competition in the market for digital cameras is increasingly severe, and a sharper than expected decline in digital camera prices that cannot be offset through the Group's cost reduction measures may impact Group earnings.
- › In the Medical Systems Business, unexpected, large-scale changes in health service policies brought about by healthcare legislation reforms. Failure of the Group to adapt to such changes may impact Group earnings.
- › In the Bioscience Business, a high percentage of earnings are generated by supplying systems for research funded by the budgets of various nations. Accordingly, Group earnings may be impacted in the event of smaller national budgets that result from macroeconomic changes.

### **Risks Related to Production and Development Activities**

- › In the Imaging Systems Business, core production operations are located in China. Accordingly, a rise in the value of the yuan could lead to an increase in costs and impact Group earnings. Moreover, production activities may be impacted by anti-Japanese sentiment and/or a decline in political or security conditions.
- › Olympus depends upon certain suppliers to develop and manufacture some products and components that cannot be developed and produced inside of the Group. Accordingly, the Group's production and supply capacity may be impacted in the event that it is unable to procure limited amounts of the products and components it needs owing to conditions of suppliers.
- › Olympus products are manufactured according to meticulous quality-assurance standards, including products consigned to outside suppliers. However, in the event that product defects do arise, this situation may result in product recalls and increased costs, as well as a loss of consumer confidence in Olympus products, and earnings may be impacted accordingly.
- › Olympus is making continual advances in developing digital products by applying its cutting-edge Opto-Digital Technology. However, the progress of digital technology is extremely rapid, and the Group's earnings may be

impacted in the event that it is unable to sufficiently foresee market changes and develop new products that meet customer needs in a timely manner.

- › The Group applies a wide range of intellectual property in its R&D and production activities, including intellectual property that belongs to the Group and that which the Group is licensed to use. However, the Group's earnings may be impacted in the event that it is unexpectedly accused of having infringed upon the intellectual property of a third party, resulting in litigation or other related consequences.

### **Risks Related to Investments in Securities**

- › Olympus may not be able to achieve the capital gains it expects on investments in the event that cultivating a business takes longer than anticipated, or when such an investment cannot be sold for the expected price.
- › Stock prices are determined based upon market principles, and Olympus may not be able to obtain the sort of gains it expects on securities owing to changes in market conditions.

### **Risks Related to Business Mergers and Acquisitions**

- › Olympus has formed long-term, strategic partnerships related to technologies and product development with other leading companies in the industry. However, the Group's business activities may be adversely affected in the event that financial or other business-related issues arise in such strategic partnerships, and changes in goals and objectives do not allow for the continuation of such partnerships.
- › Olympus may acquire total or partial ownership of other companies for the purpose of business expansion. However, the Group's business may be impacted should it prove unable to integrate acquired businesses according to the Group's management strategies or unable to efficiently utilize the management resources of existing businesses or businesses it has acquired. In addition, the Group's performance and/or financial position may be affected due to the depletion of goodwill as well as the aforementioned possibilities.

### **Other Risks**

- › Olympus is expanding its business activities in a number of countries around the world, and the Group's earnings may be impacted by the occurrence of natural disasters, disease, war, terrorist acts or other incidents in areas where it operates, or by unforeseen increases in interest rates or changes in currency exchange rates.