

June 27, 2016

News Release

Company: Olympus Corporation
Representative Director, President: Hiroyuki Sasa
(Code: 7733, First Section, Tokyo Stock Exchange)
Contact: Tetsuo Hyakutake, General Manager, Public Relations and IR Office

Certain Reports on the Company and its Subsidiary

Certain reports in the media have stated that Olympus (Shenzhen) Industrial Ltd. (“OSZ”), a Chinese subsidiary of the Company, was alleged to have made illegal payments to a consultant it retained to handle a tax issue with the Shenzhen Customs Authority in China.

The Company reported this matter to relevant foreign authorities during the last fiscal year and conducted an investigation by a committee (the “OSZ Investigation Committee”) comprised of outside directors and outside counsel. The results of the investigation, as described below, did not indicate a violation of any bribery-related laws of Japan, the U.S. or China. The OSZ Investigation Committee did identify internal control issues of the Company and its Group. The Company has explained the investigation results to relevant foreign authorities as necessary.

The Company has been actively enhancing its compliance and corporate governance systems since the new management group was introduced in April 2012. As a part of this endeavor, the Company voluntarily started the investigation on this matter. The Company will continue to actively enhance the compliance and corporate governance systems going forward.

This matter has no influence over the financial statements for previous fiscal years or business results for the current fiscal year.

1. Summary of the Matter

During an audit of OSZ conducted by the Chinese General Administration of Customs in 2006, it was found that the theoretical inventory amount of certain products and items was negative in OSZ’s customs clearance books (the “Negative Theoretical Inventory Issue”). OSZ started to resolve the Negative Theoretical Inventory Issue with the Shenzhen Customs authorities; however, the discussions did not progress. OSZ was very concerned that it might suffer a disadvantage if the Negative Theoretical Inventory Issue was not resolved by the time of the scheduled transition from the customs books to electronic records at the end of September 2014. Given this situation, OSZ hired Company A as a consultant and sought their guidance in resolving the Negative Theoretical Inventory Issue. Company A was a party which OSZ had consulted with previously regarding when the local fire department had raised an issue concerning the factory’s firefighting equipment in 2011. Thereafter, OSZ has also outsourced activities such as cafeteria operations and security services at its Shenzhen Factory to Company A.

In April 2014, OSZ entered into a consulting services agreement (the “Consulting Services Agreement”) to advise on a resolution of the Negative Theoretical Inventory Issue with Company A and a sale agreement regarding certain employee dormitories (the “Supplemental Agreement”). The Consulting Services Agreement was a performance-based agreement under which, with the aim of reducing the amount of penalties and similar payments to RMB 30 million (approximately JPY 500 million), OSZ would pay Company A as contingency fee 80% of any reduction of penalties

and similar payments below RMB 30 million, while 20% of any excess of penalties and similar payments above RMB 30 million will be borne by Company A. Moreover, under the Supplemental Agreement, the sale of the employee dormitories was conditioned on the resolution of the Negative Theoretical Inventory Issue.

After that, OSZ negotiated with the Shenzhen Customs authorities in accordance with advice from Company A, and reached an agreement with them that cleared the negative theoretical inventory. Ultimately no fine or other payment was imposed on OSZ by the Shenzhen Customs authorities. As a result, OSZ paid RMB 24 million (approximately JPY 400 million) to Company A as compensation pursuant to the Consulting Services Agreement in December 2014.

Given that the Negative Theoretical Inventory Issue was resolved very favorably to OSZ and the contingent fee to Company A ended up as a large amount, an Audit and Supervisory Board Member of the Company became aware of concerns related to the hiring of Company A, and the directors shared similar concerns. Accordingly, the Company established the OSZ Investigation Committee and started the investigation in February 2015.

2. Method of Investigation

The OSZ Investigation Committee hired outside law firms and an outside document collection vendor and conducted the investigation from February to October 2015. In the investigation, approximately five million documents were collected from 25 officers and employees who were considered to have likely been involved in the matter, and approximately 135,000 documents extracted through key word search were reviewed. Based on the results of the document review, 34 officers and employees who were considered to have likely been involved in the matter were interviewed.

3. Existence of Bribery

As a result of the investigation described above, no evidence was found to indicate that Company A provided money to the Shenzhen Customs personnel. On the other hand, it was found to be true that Company A provided OSZ with certain services such as advice for the resolution of the Negative Theoretical Inventory Issue. Company A denies that it has engaged in bribery. Based on those findings, the OSZ Investigation Committee concluded that although suspicion of bribery by Company A could not be completely ruled out based on circumstantial evidence, even after an extensive investigation, they had not been able to determine that bribery or conspiracy to bribe had been committed and thus there had been conduct that violated the bribery-related laws and regulations of Japan, the U.S. and China.

4. Internal Control Problems

The OSZ Investigation Committee identified internal control problems within Olympus and Olympus Group as below:

- (1) The internal rules of Olympus Corporation of Asia Pacific Limited (“OCAP”), which is a

regional headquarters supervising Asia, could be read as requiring that mainly Olympus's distributors and resellers be subjected to due diligence (investigation of a counterparty of a transaction) to prevent bribery; however, due diligence procedures on consultants, such as Company A, had not been adequately carried out at OSZ.

- (2) OSZ involved Company A in the Negative Theoretical Inventory Issue toward its resolution before executing the official Consulting Services Agreement, at the discretion of OSZ operating in the field and without obtaining appropriate approval.
- (3) The executives and employees of OSZ tried to adjust the consulting fee payment so that the consulting fee payment remained within OCAP's approval limit in order to complete the approval processes for the execution of the Consulting Services Agreement with Company A within OCAP. This is accounted for by the fact that certain comments from Olympus's management made in response to the prior briefing on the execution of the Consulting Services Agreement were construed by executives and employees of OSZ as meaning that the management wished the approval to be completed within OCAP.
- (4) The executives and employees of OSZ executed the Supplemental Agreement with Company A without obtaining approval of Olympus or OCAP in violation of the approval regulations and without providing prior briefing to Olympus or OCAP.
- (5) In 2015, OSZ's local staff requested approval for expensing approximately RMB 6,000 (approximately JPY 90,000)-RMB 7,000 (approximately JPY 110,000) worth of meals and gifts to a Customs official, and multiple executives and employees of OSZ provided meals and gifts to relevant officials, including authorities other than customs.
- (6) In the course of the investigation, it was revealed that there were funds managed off-the-books (total several million yen at the most) at OSZ. Such off-the-books funds were used for employee welcome or farewell events. It has not been found that bribes were sourced from such off-the-books funds.
- (7) Additionally, there are tasks to be addressed, such as improving the structure or operation of the approval regulations of Olympus or Olympus Group and providing training to the relevant executives and employees.

5. Responsibility of the Related Individuals and Prevention of Recurrence

Based on the results of the investigation by the OSZ Investigation Committee, Olympus has taken necessary disciplinary actions against the executives and employees involved in the sale of the company dormitories and the off-the-books funds, and, at the same time, it has taken educational measures, including trainings to Olympus's management and OCAP's executives and employees. Olympus has also been making efforts to prevent this from happening again through actions such as revising internal compliance-related rules and ensuring that people are made aware of such rules.

End