Re view

Deferral of Losses on Past Investments

In the 1990s, Olympus incurred substantial losses stemming from financial assets. The Company deferred recording these losses by transferring them to multiple funds that existed outside the scope of consolidation. It then overpaid fees associated with the acquisitions of certain companies, diverting these overpayments to the funds to compensate for the losses. Subsequent to that, the Company attempted to resolve the unrealized losses through the recording of amortization of goodwill on its financial statements. As a result, we continued to conduct inappropriate accounting practices for a number of years.

Problems Identified within Olympus

1. **Overconcentration of Authority in Senior Management**
   The president at that time possessed authority for decisions regarding selection of director candidates and the compensation of directors, and there was an overconcentration of authority attributable to senior managers, thereby preventing sufficient supervision of these managers.
2. **Lack of Supervisory Function of the Board of Directors**
   Both inside and outside directors were selected by the president, which impeded their ability to supervise management objectively.
3. **Corporate Culture with Low Compliance Awareness**
   Compliance awareness was exceptionally low, and there were Companywide problems with corporate governance structures, including neglect for internal reporting and internal control divisions without sufficient independence.
4. **Insufficient Information Disclosure Systems**
   There were no solid systems for information disclosure, and decisions related to disclosure were made arbitrarily by the Company's senior management. As a result, the disclosure of information for investors was insufficient.

1990s
- Losses on investment in financial assets expand following the collapse of Japan's bubble economy.
- Prior to the introduction of market value accounting in April 2000, unrealized losses on the relevant financial assets had been separated from the consolidated accounts by transferring them to multiple funds at book values.

2008–2010
- The off-balance-sheet losses are eliminated by taking advantage of the purchase of three domestic subsidiaries.

November 2011
- Deferred recording of past losses is discovered.
- The Third Party Committee is established to investigate the issue.

December 2011
- The investigation report is received from the Third Party Committee.
- The committee explains the need to improve governance and take steps to prevent recurrences.
- The Company establishes the Management Reform Committee, the Director Liability Investigation Committee, and the Non-Director Liability Investigation Committee.

January 2012
- The reports of the Director Liability Investigation Committee and the Non-Director Liability Investigation Committee are received, and a suit for damages is filed against past managers.
- The Company's stock is designated by the TSE as a Security on Alert (January 21).

March 2012
Clarification of improvement measures

April 2012 — **May 2012** — **June 2012**

Development of system

Development of regulations

Internal system development period

Measures to Prevent Recurrences

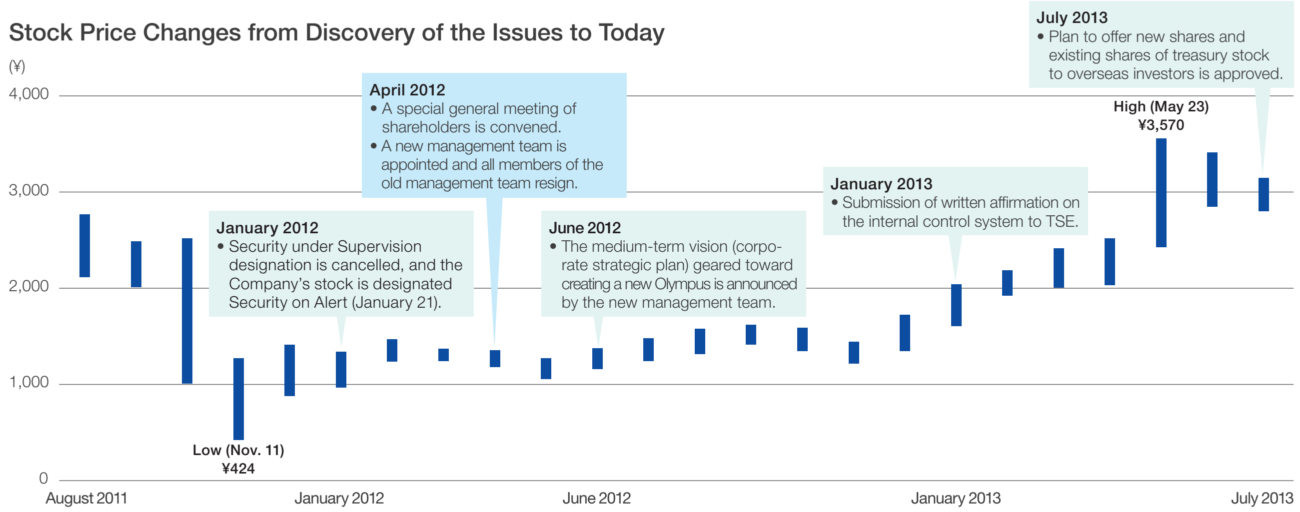
The Company has established internal scrutiny teams, which have developed the following measures to prevent the reoccurrence of such issues. In formulating these measures, the teams took into consideration the areas of weakness and recommended measures to prevent recurrences identified in an investigation report prepared by the Third Party Committee as well as the advice of the Management Reform Committee.

1. Strengthen Corporate Governance Structure
- Clear separation of executive and supervisory functions
- Reinforcement of supervisory authority and functions over executive functions
- Fairness in selection of outside directors and audit & supervisory board members, and expansion of the roles and functions of outside directors and audit & supervisory board members
- Active disclosure of information

2. Improve Internal Control Systems
- Improvement of internal checks and balances
- Appropriate management of business investments, subsidiaries, and affiliated companies
- Prevention of fraudulent activities through improvements to human resource management systems
- Enhancement of internal audits

3. Review Compliance Systems
- Improvement of management team's compliance awareness, and establishment of clear accountability
- Establishment of systems to support further reinforcement of compliance promotion
- Fostering of consistent awareness of compliance
- Improvement of whistle-blowing systems

Stock Price Changes from Discovery of the Issues to Today



In conjunction with the discovery of the deferred recording of past losses in November 2011, the Company's stock price plummeted to ¥424 per share, its lowest level ever. Since then, we have received guidance from the Third Party Committee and formulated measures to prevent reoccurrence while also revising internal systems and implementing an array of other initiatives. As a result, we were able to submit a written affirmation on the internal control system to the Tokyo Stock Exchange (TSE) in January 2013. Later, in May 2013, the Company's stock price recovered to the level seen before the scandal came to light, regardless of the fact that Olympus was still undergoing investigations.

Further, immediately after the issues surfaced, coverage of Olympus by sell-side analysts dropped to one company, but the number has since recovered to 11 as of July 2013.

Reborn

Corporate Governance Structure of the New Olympus

Improvement Measures and Olympus of Today

1. Overconcentration of Authority in Senior Management ▶ **Establishment of Independent Committees** 1 2

We have established the Nominating Committee and the Compensation Committee, which are comprised primarily of highly independent outside officers, effectively separating authority related to corporate officer nomination and compensation from management.

Under the guidance of these committees, the Company has transformed significantly. At the suggestion of the Compensation Committee, we introduced a stock option system to reflect our shareholders' perspective into compensation. Also, based on the nomination of the Nominating Committee, we appointed a female outside director.

2. Lack of Supervisory Function of the Board of Directors ▶ **Clear Segregation of Business Execution and Supervisory Functions** 3

The Board of Directors now consists of a majority of outside directors, and these and other corporate officers are appointed based on the nominations of the Nominating Committee, ensuring complete independence from management. This system also allows for clear segregation of the business execution function, handled by inside directors and executive officers, and the decision-making function and supervisory function of the Board of Directors. Further, the outside directors offer advice backed by their specialized knowledge, which serves to improve the quality of management.

3. Corporate Culture with Low Compliance Awareness ▶ **Appointment of a CCO and Establishment of the Compliance Committee** 4

We have appointed a chief compliance officer (CCO) to promote compliance in a managerial capacity and established the Compliance Committee, which is chaired by an outside director. This new system has been used to foster compliance awareness and advance Groupwide governance reforms. In addition, an internal compliance-related reporting system has been established to cultivate a more open corporate culture.

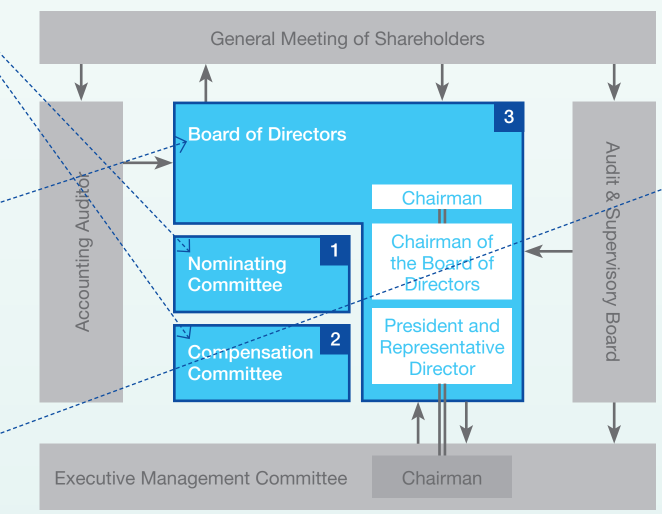
4. Insufficient Information Disclosure Systems ▶ **Development of More Stringent Internal Information Disclosure Rules**

The Company's internal information disclosure rules have been made more stringent, and we have developed unique disclosure standards that are even stricter than those of the TSE. Also, we actively disclose information that is deemed of importance to investors, regardless of whether or not this is called for under disclosure standards.

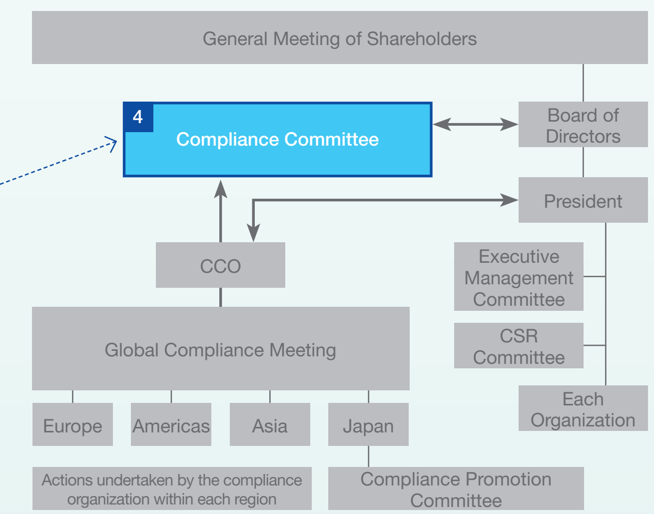
Number of timely disclosure documents released (April 2012–July 2013)	78

New Management Structure

Corporate Governance Structure (Summary)



Compliance Promotion System (Summary)



By adopting an executive officer system, Olympus has established a governance structure that separates the functions of executive officers, who are responsible for the performance of business operations, and directors, who are responsible for management decision making and the supervision of the performance of operations. In addition, in consideration of the scandal, we are further clarifying this separation, strengthening supervisory functions, and taking steps to reinforce systems for promoting compliance.

For more information regarding the new corporate governance structure, please refer to ▶ page 48

April 2012
- A special general meeting of shareholders is convened.
- A new management team consisting of a majority of outside directors is appointed and all members of the old management team resign.

June 2012
- The medium-term vision (corporate strategic plan) geared toward creating a new Olympus is announced by the new management team.

"Back to Basics" is established as a new slogan, and Olympus sets about making a fresh start.

August 2012
- The transference of the Information & Communication Business is announced.

The reorganization of non-core business domains is accelerated to help rebuild the Company's business portfolio.

September 2012
- A business and capital alliance with Sony Corporation is announced.

Improved financial soundness is pursued, and synergies are created in business domains through such means as establishing a joint venture medical company.

January 2013
Submission of written affirmation on the internal control system to TSE.

May 2013
- Restructuring measures for the Imaging Business are announced.

Basic policy of risk minimization is defined, and the development of earnings structures that do not depend on scale of sales is targeted.

June 2013
Removal of the Security on Alert Designation
On January 21, 2012, the TSE designated the Company's stock as Security on Alert. Aiming to have this designation lifted, we formed an internal project team and pulled together to rebuild the corporate governance structure and strengthen compliance functions. As a result of these efforts, the designation was removed from the Company's stock on June 11, 2013.

June 2013
- A stock option system is introduced for corporate officer compensation.

Corporate officer compensation schemes are changed to strengthen link to performance and stock price.

Development of system
Development of regulations
Implementation of improvement measures

May 2012 | June 2012 | July–December 2012 | January 2013 | February–June 2013

Internal system development period
Internal system operational period
Inspection period