

Comments from an Outside Director (Chairman of Compensation Committee)

In my role as outside director, I see it as my responsibility to guide Olympus in maximizing its corporate value by developing compensation schemes that motivate the Company's management and by providing guidance and recommendations from the perspective of general shareholders.



1. Corporate Governance Systems and the Board of Directors

Olympus had outside directors even before my colleagues and I were appointed, and at least to this extent, the Company's corporate governance system was well structured. Nevertheless, the Company caused a major scandal, demonstrating that the Company's systems were not functioning properly. However, recovering from this scandal, Olympus has succeeded in developing unique governance systems, which now form the basis for its management. Discussions at meetings of the Board of Directors are serious and fully engaged by all members, and, along with the other outside directors, I offer opinions from a variety of viewpoints.

At present, the majority of the Company's Board of Directors

consists of outside directors. Regardless, it is not the number of outside directors or any other aspect of the membership structure that is most important. Rather, what is most important is whether or not the governance systems are functioning properly. For this reason, I do not think it is enough to merely look at the structure of the Board of Directors or how it is operated. Instead, one must look at the overall management capabilities of a company, including its various internal systems, corporate officers, and employees. Further, a company must work to strengthen these overall management capabilities. In the future, I intend to make suggestions at meetings of the Board of Directors to help drive improvements to this end.

2. Corporate Officer Compensation Systems

The Compensation Committee, which I chair, is not designed to limit the compensation of corporate officers. Instead, its role is to create compensation schemes that are matched to the responsibilities of each executive officer and also to optimize their level of motivation. In the one year since it was established, the Committee has met well over 10 times. The first item on our agenda was the treatment of executive officers. The role of executive officers bears incredible responsibility. It was therefore decided that, instead of standard employment contracts, these officers should have contracts based on their fiduciary relationship with the Company, and we promptly switched to such a system. The next order of duty was to strengthen the link between corporate officer compensation and the Company's performance. We thus created a system under which officers are assigned goals toward accomplishing the Company's management targets, with the achievement of these goals influencing their compensation. I believe this system will help raise the motivation of corporate officers toward fulfilling their duties.

The recent introduction of a stock option system was based on the same principle. It was designed to further motivate officers to pursue the maximization of corporate value by linking a portion of corporate officer compensation to the Company's stock price. There are two reasons why we chose stock options over standard performance-linked compensation

schemes. The first is that linking compensation to stock prices helps officers achieve the same perspective as shareholders, as they share both the benefits and risks of stock price fluctuations. The other reason is to give corporate officers incentive to pursue long-term improvements in corporate value. Compensation schemes that are linked to yearly performance offer short-term incentives as they only reflect one year's performance. Conversely, while stock options are issued each year, officers are not able to exercise these options until after they retire, which effectively links compensation to long-term fluctuations in stock prices. Accordingly, we expect this system to motivate corporate officers to seek medium-to-long-term improvements in the corporate value of Olympus.

I think one possible policy for the future is to create compensation schemes that link medium-to-long-term incentives more directly to performance. For example, we could introduce a system under which corporate officers receive payment of a defined amount in full when the goals of medium-term plans are accomplished, but receive none of this amount if a certain level of progress is not realized. In Japan, people have traditionally held a negative view toward corporate officers receiving large sums of compensation. However, I believe that if officers contribute to heightened corporate value, then they should be entitled to compensation that matches their contribution. This is a concept I think investors can understand as well.

3. Role of Independent Outside Directors

It is common in Japan for director and auditor candidates to be selected by a company's president, in a de facto manner, rather than being nominated through some sort of standardized process. While it depends on the corporate culture of the company in question, this can often make it difficult for in-house directors or auditors to freely state their opinions to the president. I believe that this may be the situation at many Japanese companies. I also believe that this was one of the problems with the former governance systems of Olympus. For this reason, independent outside directors are charged with the important task of prioritizing the quest for higher corporate value above all else and, therefore, should freely state opinions and suggestions and perform checks

and balances to this end. When I say corporate value, I am referring to corporate value from the perspective of general shareholders and other stakeholders. I believe that it is the duty of outside directors to provide monitoring and guidance as necessary to protect the interests of general shareholders.

Of course, the duties of outside directors are not limited to such controls. They also provide viewpoints based on experience not found within the company itself. Luckily, discussions among the Board of Directors at Olympus are lively and open, which means that if there are issues with a proposal, directors will not be hesitant to point it out. I feel confident that this sort of frank discussion will help Olympus develop in the right direction.