

Interview with the President



Hiroyuki Sasa
President and
Representative Director

Olympus finds its strength in its technologies, and that will not change. We will boldly push forward with aggressive management, paving the road toward meeting the goals of the medium-term vision, and realizing the growth that waits beyond, with strategic measures to overcome the obstacles placed before us.

Q₁**Would you please provide an overview of fiscal 2014?****A****While the global economy presented a harsh environment, particularly with regard to conditions in Europe and China, we realized strong income improvements in fiscal 2014, with our core Medical Business presenting a record-breaking performance.**

In fiscal 2014, consolidated net sales declined 4% year on year, to ¥713.3 billion, largely as a result of the transference of the Information & Communication Business in fiscal 2013. Operating income, however, doubled over the year, reaching ¥73.4 billion, and ordinary income showed even more impressive growth, climbing to ¥50.9 billion, roughly four times the figure for fiscal 2013. Net income suffered, due to losses associated with litigation and the withdrawal from the biologics business, but still exceeded the previous year's level at ¥13.6 billion.

A major contributing factor to these strong improvements in income was our core Medical Business. Supported by the strong foundation of its gastrointestinal endoscope operations, this business turned in a record-breaking performance, posting new highs for both net sales and operating income. The Scientific Solutions Business, previously known as the Life Science & Industrial Business, recorded increases in both net sales and operating income, and the restructured Imaging Business saw a substantial decrease in operating loss.

Q₂**Looking back at your two years as president, what would you say have been the Company's triumphs?****A****Guided by the medium-term vision formulated by the new management team, we pushed forward with business initiatives based on a strong sense of commitment toward keeping the promises we had made. Over these two years, we worked to escape a very negative situation, and I believe we made great progress in such a short period and that our triumphs are clear.**

Two years ago, Olympus was in a state of crisis on all fronts. The Company suffered from issues with its corporate governance systems and its finances and performance were problematic with regard to its low equity ratio, poor balance sheet, and lacking profitability.

Today, I believe we are receiving fewer complaints with regard to our corporate governance systems. In terms of performance, the Medical Business, which has been positioned as a major earnings driver, is making massive contributions to the overall performance of the Group. In addition, the reforms described for our business portfolio in the medium-term vision are nearly complete. The implementation of business reforms has advanced at a speed that exceeded expectations. These reforms include the transference of the Information & Communication Business, the withdrawal from the biologics business, and the sale

and liquidation of subsidiaries and affiliates from which we could not expect synergies with core businesses. We also reduced the size of compact camera operations in response to rapid market contraction. Furthermore, we addressed the issues with our financial position by commencing a business and capital alliance with Sony, procuring approximately ¥110 billion in capital from overseas markets, and reducing interest-bearing debt. As a result, the equity ratio improved substantially, to more than 30%, at the end of March 2014. Looking at specific performance indices, we accomplished our fiscal 2017 targets for the operating margin and the equity ratio three years in advance, while return on invested capital (ROIC) and free cash flow are improving smoothly and are in line with our plans.



It would appear Olympus has been quite triumphant over the past two years. Conversely, what issues do you believe remain to be faced?



We are faced with pressing issues to be addressed by management in all three core businesses. Fiscal 2015 has been deemed to be a crucial year for implementing measures to resolve these issues and for setting the course for long-term growth on our quest to maximize shareholder value.

Specifically, we will advance five initiatives to address pressing management issues during fiscal 2015.

Issues in Core Businesses

Medical Business	Conduct strategic investment targeting long-term growth to further strengthen the surgical device field
Scientific Solutions Business	Revise basic strategies to move away from strategies based on product lineups to pursue those oriented toward customer groups
Imaging Business	Expand mirrorless camera operations by leveraging the OM-D series and pursue risk minimization by developing BtoB operations in consideration of risks in the mirrorless camera market

Initiatives to Support Core Businesses

Cost structures	Examine possible integration of business units to accelerate the optimization of Group organizations and the rationalization of indirect departments
Risk management	Secure a stable financial base in preparation for securities litigation risks



Looking at efforts in our core businesses, I can proudly say that progress in the Medical Business is in line with plans. However, the same cannot be said of the Imaging Business and the Scientific Solutions Business.

In the Imaging Business, we are faced with a need to achieve a stable position of profitability. We are accelerating our shift toward high-margin mirrorless cameras to accomplish this objective. From a long-term perspective, we see that the risk of the market for digital single-lens reflex camera maturing and contracting further will increase. This fact must be considered in future business initiatives. The Scientific Solutions Business, meanwhile, is facing harsh macro-economic conditions. In this difficult environment, we are introducing new strategic products in both the life science

and industrial fields while also advancing structural production reforms in the pursuit of higher profitability. However, the business is deviating from our expectations in terms of profitability, and we therefore must quickly revise our strategies to correct this situation. While I mentioned that the Medical Business is progressing according to plan, I was referring to its impressive performance, which set new records for both net sales and operating income. Looking closely at the business itself, we will see some divergence from our plans. New gastrointestinal and surgical endoscope products were introduced, and these products can be said to be generating results. The energy device business, however, has failed to live up to expectations. The strong overall performance in the Medical Business was a result of other areas compensating for the lackluster performance in the energy device business. This, of course, is an issue needing to be addressed.

As all businesses are diverging from our plans, it is imperative that we act to return them to the proper course. Aiming to ensure the goals of the medium-term vision are met, we will conduct strategic investment in the Medical Business from a long-term perspective while working to strengthen the foundations of the Scientific Solutions Business and the Imaging Business.

Groupwide cost structures is also an area needing prompt attention. For this reason, we are reviewing the current business units and will undertake a Groupwide reorganization. Through these efforts, we hope to boost cost-competitiveness by strengthening head office functions, eliminating redundant functions throughout the Group, and realizing more efficient usage of management resources.

Q
4

Would you please provide details regarding the Group's strategic investments in the Medical Business?

A

The strategic investments are geared toward reinforcing the operating foundations of the Medical Business to achieve the goals of the medium-term vision and continue growing thereafter. We will invest approximately ¥18 billion in fiscal 2015 to strengthen sales forces and advance R&D ventures while reducing manufacturing costs.

We have earmarked ¥18 billion for strategic investments. Of this amount, ¥12 billion will be allocated to expanding sales forces and conducting sales promotions in the surgical device field, which has been positioned as a future growth driver. These sales-oriented investments are designed to ensure that we achieve the targets set for fiscal 2017. The remaining ¥6 billion will be used for upfront investment in R&D ventures for realizing future growth following the completion of the medium-term vision.

► For more information, please refer to the Medical Business section of Review of Business Segments beginning on page 30.

In regard to expanding sales forces, we plan to introduce an additional 1,000 people into our staff during fiscal 2015. However, we do not believe that sales will grow naturally if we simply increase staff numbers. We are fully aware of the importance of technologies, and we realize that products lacking in quality will not sell. Up to now, we have developed our business centered on gastrointestinal endoscopes, so expanding our sales force for surgical devices and endotherapy products is currently a major priority.

To compete effectively in markets in the United States and Europe, we will need to foster specialized sales forces that have been endowed with the techniques and other in-depth knowledge necessary to properly explain the advantages of Olympus surgical devices and how they are used. Accordingly, we will hire new sales personnel in phases and work to expand sales while training these new personnel. I am confident that this course of action will lead to the accomplishment of the medium-term vision's goals.

At the same time, we must advance research and development to create the products that will be needed for long-term future growth. For this reason, we will actively conduct R&D investments in growing areas, such as ENT and gynecology, as well as in robotics and other advanced technologies.

We hope to transform Olympus into a world-leading medical equipment manufacturer over the medium-to-long term. However, undergoing this transformation will require that we make these strategic investments now, and this will be a top priority in fiscal 2015.

Q
5

Olympus has a dominating share of the gastrointestinal endoscope market. As for the surgical device market, competition from European and U.S. manufacturers is fierce, making for a difficult operating environment. How will Olympus differentiate itself in this environment?

A

Compared with the gastrointestinal endoscope market, where we have a dominant position, we will face difficulty in the surgical device market. However, Olympus possesses technologies for the development and manufacture of devices that meet needs spanning from those for early diagnoses to those for minimally invasive treatments, and these capabilities will be a power tool in this market.

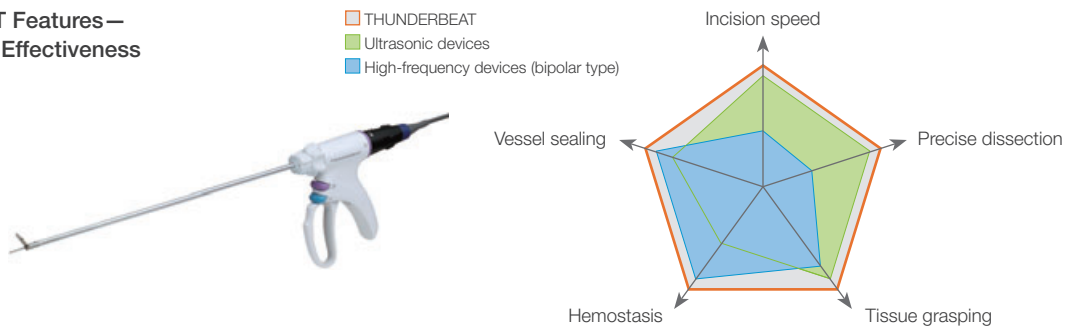
Efforts aimed at limiting medical costs have become an urgent priority around the world. Olympus is in a prime position to support such efforts. Our success in the surgical device market will be determined by our how we utilize this position. Success will also depend on our ability to provide the devices needed for new minimally invasive treatment methods and to propose the techniques and training that will allow these methods to be employed.

In the surgical device field, the 3D laparoscopy surgical system we introduced in 2013 has been performing better than expected, despite being more expensive than conventional 2D systems. This strong performance is because the depth of information provided by the 3D system is crucial in operating the laparoscope and to the safety of surgical procedures. I believe that this is how we should differentiate Olympus from competitors.

Another major advantage of Olympus is the ability to leverage synergies with its area of specialty: imaging equipment. Our strategies entail that we utilize this advantage to expand our market share centered on the energy device field, which will be a major growth driver in the surgical device field. In addition, our differentiated THUNDERBEAT energy device features leading technologies in its field. Going forward, we plan to strengthen sales systems for

surgical imaging equipment, while leveraging our existing sales channels, and thereby support physicians in developing new surgical techniques. At the same time, we will actively expand our participation in the surgical device market by bolstering our product lineup, possibly introducing products geared toward procedures requiring opening the abdominal cavity and other treatments.

**THUNDERBEAT Features—
Comparison of Effectiveness**



Q₆

The digital camera market continues to shrink, creating a harsh environment for the Imaging Business. What are the Company’s plans for the future of this business?

A

There are technological synergies between the Imaging Business and the Medical Business and between the Imaging Business and the Scientific Solutions Business, and I therefore believe that there is significant meaning to the existence of the Imaging Business. However, I also realize that, if we are going to continue this business, we will have to make sure it can generate stable profits.



An important role of the Imaging Business is to create state-of-the-art imaging technologies that can be applied to the Medical Business and the Scientific Solutions Business. It is the short product cycles and intensely competitive environment, populated by countless rivals, of the Imaging Business that bring these technologies into existence. When the digitization trend began, the camera business was among the first to be affected. Since then, the Imaging Business has continued to stand at the forefront of technological innovation, driving the advance of digital imaging technologies throughout the entire Company. Looking at Olympus as a whole, I believe that continuing to place the Imaging Business in this role will allow for technologies to be developed in the most efficient manner. The development cycle for gastrointestinal endoscopes is five to six years. Accordingly, the imaging

technologies used in these products are already old by the time they reach the market, meaning that it is difficult to determine how far technology has advanced by looking at marketed products alone. However, Olympus is always in possession of the latest digital imaging technologies. Just as we were among the first to make the jump from fiberscopes to videoscopes in the endoscope field, we will continue to create world-leading products by utilizing the technologies born out of the Imaging Business. In this manner, I believe the Imaging Business will help Olympus to maintain its dominating market shares.

At the same time, I also realize that the Imaging Business cannot be allowed to continue recording losses. We must restructure this business to make sure it can generate stable

profits over the medium-to-long term. We will accomplish this by cutting costs and shifting our product portfolio toward high-margin mirrorless cameras. On a monetary basis, the mirrorless camera market is expanding steadily, and we can at least expect this market to continue growing over the next several years. Nonetheless, the mirrorless camera market does present risks when looked at from a long-term perspective. For this reason, we plan to gradually transition the Imaging Business toward the growing business-to-business market. We expect to see business opportunities in various fields for the Company's advanced optical and imaging technologies. In fact, we are already seeing potential customers to be served with these technologies in the Medical Business and the Scientific Solutions Business.



In closing, is there a message you would like to convey to the stakeholders of Olympus?



Olympus is a company that finds its strength in its technologies, and that will not change. It is our technologies that have enabled us to survive until today, and I am convinced that these technologies will also help us find new potential centered on the Medical Business.

The markets for the products of the Medical Business continue to grow, and there are no indications of this trend coming to an end. Olympus is able to cater to these markets with its strength in digital technologies. The Company can also call upon its ability to combine its technologies with its expertise while making minute adjustments for the perfect match, a characteristic of the Japanese manufacturing industry that could be considered an analog technique. Olympus remains today because it continues to pass these techniques on from one employee to another, and I am convinced that this tradition will also ensure the Company's survival into the future. It is that perspective we will adopt as we advance technological development and work to beat out the competition.

In addition, our operations in the industrial field represent very high potential markets in which we have very strong positions. For example, our non-destructive testing technologies are expected to become increasingly important going forward. Demand for these technologies is growing along with global infrastructure demand, which continues to rise due to the accelerated installation of infrastructure that is accompanying economic development in emerging countries as well as the aging of roads, buildings,

and other infrastructure in developed countries. Moreover, non-destructive testing equipment like ultrasonic flaw detectors and industrial videoscopes employ technologies similar to those used in the Medical Business. For this reason, we aim to take advantage of growth opportunities while utilizing these technologies.

We will boldly push forward with aggressive management, paving the road toward meeting the goals of the medium-term vision, and realizing the growth that waits beyond, with strategic measures to overcome the obstacles placed before us. As we work to expand earnings and grow further, we will maintain our uncompromising stance toward excellence in terms of technologies and product creation, banding together to continue introducing the world to new and innovative products that are top in their class. I am confident that we will be able to show our stakeholders results that live up to their expectations in the future.

August 2014

Hiroyuki Sasa

President and Representative Director

A handwritten signature in black ink, appearing to read 'Hiroyuki Sasa'.