

Message from the President

“What must Olympus do to survive in a rapidly changing operating environment?”

We must take this to heart as we accelerate the implementation of strategies on a global basis.



Hiroyuki Sasa

President and Representative Director

Operating Environment

Fiscal 2017 was a year characterized by the rapid and frequent occurrence of new developments. Such new developments over the year included the drop in the prices of crude oil and resources, the Kumamoto earthquakes, the United Kingdom's decision to leave the European Union, and the presidential election in the United States. In addition, a yen appreciation trend persisted from the beginning of the fiscal year. Each one of these changes had at least some impact on Olympus' businesses. Given the large portion of our sales that comes from overseas, we are particularly sensitive to foreign exchange rate fluctuations. This year made especially clear the need to implement measures to counter foreign exchange influences over the medium-to-long term.

Despite these changes, the overarching trends we had recognized in the global operating environment when formulating the 16CSP medium-term management plan remain relatively unchanged. These trends include growth in the global economy, the declining of birth rates and aging of populations around the world, and the growing presence of emerging countries in the global market. Looking at the operating environments of individual businesses,

a prominent trend in the mainstay Medical Business is the implementation of more rigorous medical field regulations in the North American market, the largest market for the Medical Business, and in other parts of the world. Meanwhile, in the Scientific Solutions Business, the drop in resource prices is causing stagnancy in related markets. As a result, capital expenditure is currently limited in the industrial field, despite our projection for medium-to-long-term market growth in this field. Nonetheless, we view overall market conditions in the Scientific Solutions Business to be recovering. The Imaging Business, however, was able to achieve full-year operating income for the first time in seven years, even while it suffered the impacts of the Kumamoto earthquakes. Although we were successful in transitioning to a cost structure that will enable this business to stably generate income, we will still have to face the ongoing contraction of the overall camera market.

It is clear that Olympus will be unable to survive this highly uncertain operating environment without increasing its resilience to change. We must take this to heart as we accelerate the implementation of strategies on a global basis.

Review of the First Year of the 16CSP Medium-Term Management Plan

Performance in the first year of 16CSP was impacted by the strong yen, and I therefore am forced to admit that the start this plan got off to was not as smooth as had been anticipated. Nevertheless, our commitment to achieving the targets set out for the final year of 16CSP, four years from now, is unwavering. We will make the necessary investments while focusing on productivity and efficiency improvements, striking a balance with performance as we muster our collective strengths to advance initiatives to move us toward these goals.

Personally, I would say that, in fiscal 2017, we did succeed in achieving performance that was more or less in line with our plans. The basis for this decision includes the ability to transition to a structure that will enable the Imaging Business to generate

operating income, which had been an ongoing challenge faced by management up until now. I must also note that return on equity and the equity ratio, indicators for which targets have been set, both improved in line with our expectations. Conversely, from the perspective of business profitability and growth potential, I cannot ignore how the start of 16CSP was slower than had been anticipated due to such factors as the negative impacts of foreign exchange rates. This is thus an area in which I recognize the need to make swift rectifications. However, I do not mean to say that trends in foreign exchange rates will influence our overall mission. We should not be tempted to limit selling, general and administrative expenses purely for the purpose of securing profits. Rather, it is absolutely essentially that we pursue future growth by investing in

Evaluation of First Year of 16CSP

Key Points	Evaluation	One-Year Progress (Fiscal 2017)
Key Performance Indicators	Good	<ul style="list-style-type: none"> Increased ROE to 19% (up 2 pts. year on year), higher than the target of 15% Achieved equity ratio of 43% (up 5 pts. from Mar. 31, 2016), made improvements to financial position moving us toward target of 50% Posted slow growth in operating margin (profitability) and EBITDA (business growth) primarily due to impacts of foreign exchange influences
Strategic Measures (Priority Strategies 1-3)	Excellent	<ul style="list-style-type: none"> Introduced major new products in Medical, Scientific Solutions, and Imaging businesses to fuel business growth Enhanced network of endoscope training centers centered on emerging countries (Thailand for Southeast Asia, Dubai for the Near and Middle East) to lay groundwork for sustainable growth in the future Commenced massive reforms entailing reorganization, consolidation, and establishment of Medical Business repair bases in areas centered on Europe and the United States Ramped up initiatives in the operating room integration business through the acquisition of Image Stream Medical, Inc., to drive surgical device field growth
Corporate Constitution Reinforcement, Structural Reforms (Priority Strategies 4-6)	Good	<ul style="list-style-type: none"> Started Business Process Reengineering Project to improve productivity, profitability, and efficiency Entrenched mind-set based on matrix style of business operation and began cross-business application of best practices Reinforced global management system by appointing senior managers from subsidiaries in Europe and the Americas to executive management team Kicked off Global Brand Project for reforming corporate culture Began establishing internal control framework to serve as foundation for enhancement of global and Groupwide corporate governance Assembled Global Compliance Operation Team to entrench compliance awareness on a global scale Reinforced quality and regulatory assurance function frameworks and organizations through massive staff expansion

Medium-Term Management Plan **16CSP**

(For five years from fiscal 2017 to fiscal 2021)

Ideal Vision

Grow into a strong global player in the medical field

Management Policies

- To be the greatest “Business to Specialist” Company
- One Olympus

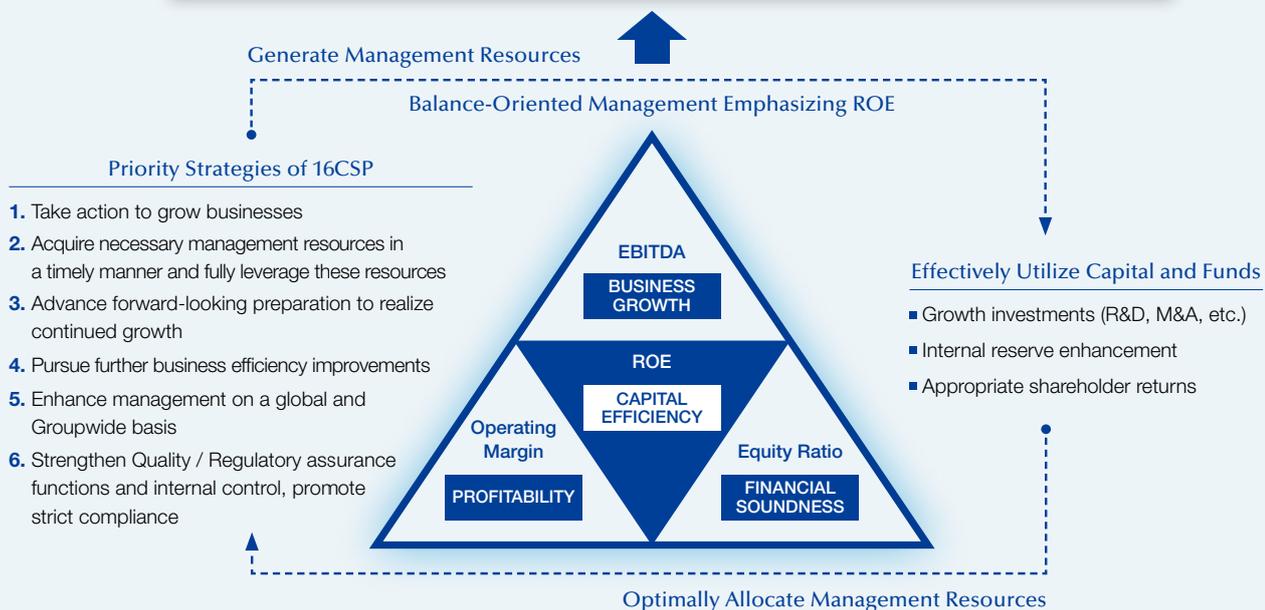
Based on these policies, we will meet and exceed the expectations of all stakeholders through ongoing growth while acting as a good corporate citizen* to contribute to society by making people’s lives healthier, safer, and more fulfilling around the world.

* Olympus defines a good corporate citizen as a company that adheres to social norms, makes appropriate contributions to society, and fulfills other basic expectations as normal parts of everyday action

Management Goals

After securing an appropriate level of financial soundness, we will constantly achieve ROE (capital efficiency) of 15% through balanced improvements in profitability and business growth and double the bottom EPS (earnings) over the next five years.

KPI	Capital Efficiency: ROE 15%	Profitability: Operating Margin 15%
	Business Growth: EBITDA Double-digit growth	Financial Soundness: Equity Ratio 50%



Progress on Management Goals

KPI	FY2016 (Results) (JGAAP)	FY2017 (Results) (JGAAP)	FY2017 (Results) (IFRS)	FY2021 (Targets)
ROE	17%	19%	11%	15%
Operating Margin	13%	10%	10%	15%
EBITDA	¥154.2 billion (+10%)	¥129.8 billion (-16%)	¥124.0 billion	¥240.0 billion (Double-digit growth)
Equity Ratio	38%	43%	41%	50%

innovation so that we can continue providing society with new value. These investments will be indispensable to the survival of our business and to the improvement of our corporate value. Conducting decisive investments when we stand to gain an

advantage is crucial to winning out against the competition. As such, we will seek to augment cash generation capabilities and control costs through the efficient utilization of management resources as we take the necessary action to achieve our targets.

■ Targeting of Higher Levels to Become a Truly Global Company and Continue Growing over the Next 100 Years

One of the priority strategies of 16CSP is to enhance management on a global and Groupwide basis. In our quest to become a truly global company, we have put forth the concept of One Olympus, which embodies our policy of sharing values and strategies on a global and Groupwide basis. A large step forward in developing critical systems for supporting this policy came when we underwent the transition to a matrix style operational structure. Two years have passed since this transition, over which we have seen the steady entrenchment of the mind-set of the matrix style of business operation. In addition, we have been making progress in the cross-business application of superior initiatives, successful undertakings, and other best practices, and the steady changes occurring during this period have become palpable.

In April 2017, we instituted a new executive management team. With choosing members for this new team, we took steps to reinforce our global management system by appointing non-Japanese senior managers from subsidiaries in Europe and the Americas as executive officers. These two individuals have distinguished track records in their respective regions. Our decision to invite these two to join the executive management team was a human resource maneuver that will be important and meaningful to our efforts to compete with overseas rivals as a global company.

Becoming a truly global company will require that we target a higher stage as we strengthen our various systems. Therefore, accomplishing this objective will entail reworking organizational structures and chains of command and reporting to better match the matrix style of business operation. In addition, we will need to furnish a global and Groupwide management framework that will allow for more rapid decision making and strategy execution coupled with more effective control of risks pertaining to

management. As one measure to this end, we began establishing an internal control framework in fiscal 2017. This basic framework for internal control will be formulated based on a series of discussions among management and will serve as the foundation for our efforts to strengthen global and Groupwide corporate governance. At the same time, we will seek to effectively assess and control risks that threaten the Company's ability to realize its corporate philosophy and vision or that have the potential to impede the strategies of 16CSP. We will need to sufficiently examine those risks that could have a particularly large impact on the accomplishment of our targets. However, if we overexert ourselves in controlling smaller risks, Olympus could lose momentum, which in turn would impact its strategies. The internal control framework therefore incorporates general principles on the extent to which specific risks should be controlled. Looking ahead, we will seek to entrench understanding regarding the matrix style of business operation on a global scale while making speedy decisions. Turning now to the Medical Business, the pillar supporting our growth, it is not enough that we only address current regulations. Instead, we will need to strengthen our compliance systems in this business with an eye to the regulations that could be enacted 10 years from now. We have been enhancing compliance divisions across the globe, starting in the United States and then expanding these efforts to other regions, and making our regulations and standards more rigorous as part of this undertaking. Nevertheless, given the central position of the Medical Business at Olympus, we recognize that there is a need to further bolster our compliance system and to enhance quality and regulatory assurance systems on a global basis in light of the implementation of more rigorous medical field regulations.

■ Business Process Reengineering Project for Growing into a Stronger Company

A major issue faced by Olympus is that it lacks efficiency in comparison with other global medical equipment manufacturers. If we are to accomplish our targets, it will require us to grow into a stronger company. This objective should be accomplished by reforming cost structures to improve profitability, all with operational efficiency at the forefront of our minds. The Business Process Reengineering Project is the plan through which we will approach this endeavor. As we advance this project, it will also be important to reform our corporate culture by encouraging employees to remain appropriately aware of the dangers surrounding us based on an understanding of conditions both inside and outside of the Company. The success of the Business Process Reengineering Project will hinge on the ability of each and every employee to carry out their work with increased efficiency and to improve their skills in order to work more

productively. In fiscal 2017, the project was only just in the phase of analyzing the areas in which improvements should be pursued, formulating plans, and establishing promotional systems. Fiscal 2018 will thus see us transition to the phase in which we implement business process restructuring measures and begin reaping their benefits. There is no end to the pursuit of efficiency, and it will always be a theme of extreme importance. Our efforts on this front will not produce results overnight. Still, we are thoroughly dedicated to improving operational efficiency and productivity through a drastic, global review of our operating processes. In this manner, we will heighten the productivity and profitability of each employee to build a strong business infrastructure and low-cost structures for supporting management. (For details on the Business Process Reengineering Project, please refer to "Special Feature 1" on page 21.)

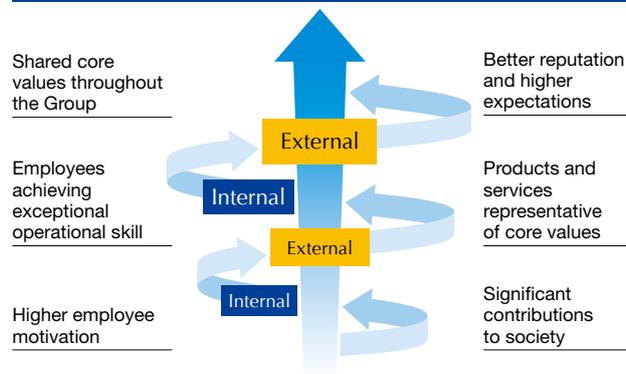
Global Brand Project for Nurturing Corporate Culture

We have put forth clear management strategies in 16CSP. However, no matter how well thought out a strategy may be, it will be doomed to fail if employees are not dedicated to corporate value and do not embody the corporate culture and exercise it in their daily work and actions. Olympus prides itself on its core values and its corporate culture. Articulating these aspects of Olympus, sharing them throughout the Group, and nurturing these principles will be an important step on our path to being a truly global company. It was based on this realization that we started up the Global Brand Project in March 2017. Through this project, we hope to reexamine Olympus' corporate culture and brand to redefine its core values and then spread these to the entire Group.

When every employee at Olympus fully understands the corporate value and raison d'être of the Company, reflecting this understanding in their work and their actions, we will be able to contribute to society with operational excellence and unparalleled products and services. These contributions will in turn lead to a higher reputation and increased performance for Olympus. Employee motivation will likely rise together with our reputation and performance, inspiring employees to practice even higher degrees of operational excellence, which will drive improvements in corporate value. This process will thus result in the "Spiraling Up" concept, and this is a concept that we are passionate about creating and sustaining. True brand value is found in the

intangible operational excellence that is cultivated through the "Spiraling Up" concept. Moreover, we see a brand as more than just a communication tool or an advertising strategy. To Olympus, its brand is a symbol of what we aspire to and how we will act based on this aspiration. The Olympus brand is, of course, formed through its products and services. However, it is our goal to make the Olympus brand into something transcendent, not simply a shorthand for certain products but rather a representation of the value of our cherished concept of One Olympus. If we can accomplish this, I am confident that the Olympus brand will be elevated to a higher and more esteemed status.

"Spiraling Up" is Olympus' key underlying concept for strengthening corporate value



Corporate Value Improvement from Catering to Social and Contemporary Needs

Aspects of 16CSP for which stakeholders have high evaluations include how it has positioned the Medical Business, a growth business, as the driver for the growth of Olympus. Stakeholders also have praise for how the Company is one of the few in the world from which they can expect strong, organic growth in the future. The Medical Business is central to 16CSP. There are two main areas of concern with regard to this business, which are whether or not Olympus will be able to achieve improvements in overall profitability and if the Company can attain strong growth in the surgical device field in line with its plans. Let me say that achieving our plans will require Olympus to transform into a Company that can win out against the competition in the global medical equipment market, where we will face numerous powerful rivals that dwarf the Company in terms of scale.

Our gastrointestinal endoscope operations are a core business within the Medical Business, due in part to their ability to address the social issue represented by the move to curtail medical expenses. In this business, constructing a model that is responsive to changes in the operating environment is a matter of strategic importance. We cannot anticipate a rise in hospital numbers going forward, despite the increase in procedure numbers that is expected to accompany the aging of populations going forward. Accordingly, we feel that it will be vital for Olympus to develop a unique procedure-based Medical Business model to respond to the social needs resulting from this trend. One step toward creating such a model will be to expand our

single-use device operations. We thus plan to go about bolstering our lineups of endotherapy devices, which are used in examinations and treatments by gastrointestinal endoscopes, and energy devices, which are used in surgical procedures. The unique business model that will be constructed through this process is expected to drive Companywide earnings growth. Once this model has been put in place, we will pursue ongoing growth as we continuously live up the expectation for Olympus to make social contributions by providing value to society through its business activities.

Changes in foreign exchange rates and other aspects of the operating environment are anticipated going forward. However, the operating environment will also present significant growth opportunities for Olympus. I am confident that Olympus possesses the market position and brand image necessary to take advantage of these opportunities. To guarantee that Olympus is able to make the most of these opportunities, we will effectively implement the strategies of 16CSP while aligning all employees, both in Japan and overseas, along a single vector characterized by a keen awareness of the corporate culture we emphasize, which is distinguished by diversity and teamwork, a willingness to take on challenges, a sense of speed, a broad perspective, and adherence to high ethical standards. Committed to prevailing as a team and acting quickly, we will take on the challenges to come as a united One Olympus and thereby build a strong corporate constitution and achieve ongoing growth.