



Discussion between a Long-Term Investor and an Outside Director (Chairman of the Board of Directors)

Path to Creation of Global-Level Governance Structure Targeted by Olympus and Enhancement of Effectiveness

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Difference between Olympus' Past and Current Board of Directors

Hiruta

When Olympus instated the new management team in 2012 in wake of the series of scandals, the Company's first priority was to establish a corporate governance structure that would allow it to recover from the state of crisis in which it was placed after the scandals and to ensure the effectiveness of this structure. Comparing the past structure with the current one, a major difference we will see is that the Board of Directors comprises a majority of outside directors who are also designated as independent directors. Another major difference is that, although Olympus employs the Company with Board of Company Auditors system described in the Companies Act of Japan, it has also voluntarily established three independent committees—namely, the Nominating Committee, the Compensation Committee, and the Compliance Committee—which are all chaired by outside directors and membered by a majority of such directors. What I want to emphasize here is how Olympus implemented its governance system while also providing support from the Board of Directors, which entailed improving the capabilities of the staff of each function.

Olympus then moved on to a new stage for governance during which it shifted its focus toward growth strategies. In this stage, the Company adopted a forward-looking perspective as it reorganized its operations, discerning those businesses that would be continued and those from which it would withdraw, and drastically reallocating management resources to growth fields. As such, one focus of Olympus was constructing an optimal executive management system for supporting those efforts. On the governance front, one positive change that arose from the process was the fact that briefings, which are attended by outside directors as well as Audit & Supervisory Board members, are now always held prior to meetings of the Board of Directors. These briefings provide an opportunity for us to point out areas in which the materials and information provided are lacking and for exchanges of opinion to be conducted between outside directors. Representing a majority of the Board of Directors, outside directors must be well versed

on the internal information needed to judge the effectiveness of operational execution and also have an effective understanding of the circumstances within the Company if they are to make responsible decisions. To facilitate such understanding, Olympus regularly holds forums for making announcements regarding internal manufacturing activities and for reporting on the progress of R&D projects. All directors attend these forums to receive the information necessary for making judgments. As a result, over the past five years there has not been one case in which differences of opinion arose due to a lack of information.

Era

I understand it was quite challenging to recover the trust of stakeholders after the accounting scandals came to light. At the time, a report issued by the Third Party Committee indicated that the root cause of the scandals could be identified in the Company's excessively top-down-oriented management style of the Company and in its corporate culture. This likely means that there was no one in the Company who was willing to speak out against management. Have you observed any significant changes in Olympus' current corporate culture in comparison to when you initially assumed your position?

Hiruta

Olympus' corporate culture is changing steadily. For example, the Board of Directors now follows a procedure in which opinions are solicited from relevant specialized divisions with regard to important agenda items and attached to proposals before they are introduced or discussed at meetings of the Board. Looking at these changes, I can see the great improvements that are taking place in Olympus' corporate culture. These improvements are founded on an overarching culture that has been fostered within Olympus. In this culture, rather than feeling as though they are unable to speak out against management, business execution divisions see no need to speak up, instead devoting themselves to carrying out the instructions issued by senior management.

Olympus seeks to create a corporate governance structure that is suited to a truly global company, and the Company is working to establish such a structure and enhance its effectiveness. We arranged for a discussion to be held between a long-term investor of Olympus and the chairman of the Board of Directors on the governance structure targeted by the Company, which is entering into a new stage, and what is necessary for this structure to be effective.



Shiro Hiruta

Outside Director (Chairman of the Board of Directors)
Olympus Corporation

Era

I noticed that the Board of Directors at Olympus met 23 times a year, nearly twice the frequency of an average Japanese company. What was the focus and agendas of these meetings?

Hiruta

The greatest duty of outside directors is to check the strategies put forth by the executive management team to determine whether or not they effectively reflect changes in economic and social trends and address possible future trends. We must also offer advice from this perspective. For example, it is possible that the executive management team might seek to expand a certain business based on the assumption that people's sensibilities

and the operating environment will remain unchanged.

However, viewed from the differing perspective of an outside director, it might be apparent that this business should be exited. Accordingly, we can contribute to Olympus' growth by providing advice on business plans based on new values that differ from the logic and values seen within the Company. As the next step in the evolution of the functions currently carried out by outside directors, I hope to see finance, human resource, and other business execution divisions within Olympus rise to a level at which they are able to break away from their conventional values and frameworks to judge the appropriateness of their activities from a third-person perspective.

Cultivation of Human Resources for Supporting Future Management

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This evolution also appears to be closely related to how Olympus will grow its next generation of leaders from a long-term perspective. How much discussion has been held with regard to management succession plans?

Hiruta

In addition to improving the level of its business execution divisions, Olympus seeks to enhance the management capabilities it can exercise as a team. To this end, we are shifting to an executive management system that is capable of cultivating a management team in which the officers responsible for the business and function sides of operations under the matrix style organizational structure are able to view overall business operations from various perspectives. Succession plans will need to be formulated going forward based on consideration of what role each officer is playing in this framework and what roles they will be expected to perform in the future.

Era

You mentioned how the ideal form of management changes based on the Company's business status. Do you feel that the role of president has also changed or may change in the future?

Hiruta

The fundamental mission of the president, I feel, remains

unchanged. When evaluating candidates for the position of president, it is important to judge their individual personalities and whether or not they have the career and mind-set necessary to effectively respond to the changing operating environment.

Era

So, the qualifications for the role of president role are subject to change depending on the direction of the business and the operating environment, and the candidates should be examined based on their fundamental qualities.

Hiruta

What is important is for candidates to possess the qualities necessary to the specific era. Companies must maximize their corporate value by contributing to society. The mission of the president is to lead their company to accomplish this task, and this mission has not changed one bit over the years. When it actually comes time to choose a new president, we will need to choose a successor by examining candidates from this perspective.

Era

The Company's approach is much clear to me now. The fact that such discussions are taking place at the Board level is reassuring for investors.

Governance and Challenges of Olympus in the Next Stage

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Since 2012, Olympus' corporate governance structure has undergone a massive overhaul, and the majority of the Board of Directors are now non-executive directors. There have also been changes in the qualifications of the members of the Board during this process. Today, many of Olympus' non-executive directors have management experience as leaders of prominent companies. And of course, Mr. Hiruta, you are one such director. Has there been any change in the Company's policy regarding the skill sets of members of the Board?

Hiruta

Breaking the evolution of governance at Olympus into stages, the first stage was characterized by a drive to recover from the state of crisis seen after the scandals while the second stage was represented by the shift toward growth strategies. The third stage that lies before us will entail a transition to a global management structure. During the first stage, it was necessary for Olympus to fill its Board of Directors with individuals possessing experience as certified public accountants and lawyers. In the following growth strategy stage, individuals with corporate management experience were desirable. As Olympus seeks transition to a global management structure, it will, of course, need directors with experience in global expansion. At the same time, however, it will be important for the Board of Directors to be diverse in terms of senses of value. I see no problem with the membership of the Board of Directors changing as necessitated by the mission of and the priorities for the governance structure at any given time.

Era

Is Olympus currently at the stage of transitioning to a global management structure?

Hiruta

At the moment, Olympus is moving toward the third stage of its

growth. Roughly 80% of the Company's sales currently come from overseas, and it is therefore becoming ever more important for Olympus to shift toward corporate governance systems that are suited to a global company. This is especially true given how these systems will be vital to developing global operations that incorporate various senses of value. Accordingly, we recognize that the most pressing corporate governance issues facing Olympus at this moment are the establishment of executive management and a corporate governance structure from a global perspective. Addressing these issues will be crucial to ensuring more robust growth in the future.

Era

Olympus has expressed its intent to further incorporate diversity into management. BlackRock also recognizes the importance of diversity. What is difficult about diversity is determining the appropriate balance of different forms of diversity. It is important to focus not only on genders and nationalities (non-Japanese), but also on thoughts and values. However, diversity of thoughts and values is often very difficult to recognize, particularly for an outsider. How are these matters discussed within Olympus?

Hiruta

In the end, it will be necessary to incorporate a more diverse range of individuals into the Board of Directors, perhaps appointing female or non-Japanese directors with varied career backgrounds. However, Olympus is not yet at that stage. At its current stage, it is more important to focus on the diversity of the executive management team. Increasing the diversity of the Board of Directors should be considered as necessary from the perspective of what is required of the Board in order to provide effective oversight for an increasingly global executive management team.

Perspective, Evaluation Criteria, and Necessary Information Needed for Investors to Weigh Judge Long-Term Corporate Value

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Investors entrust capital to companies and management, expecting that this capital will be used to enhance corporate value. Institutional investors, including myself, often have a diversified portfolio and invest in a number of companies. Because of this, unfortunately, we are often unable to meet with the entire management team at the companies in which we invest. This is why we emphasize the importance of corporate governance. If a company is able to articulate its policies, strategies, and the progress of its initiatives regarding management and corporate governance structures, investors will be able to place further confidence in the company upon investing. I feel that the perspective of investors in evaluating the long-term value of companies is quite similar to that of management. However, in the case of investors, these evaluations are made from outside. Therefore, in order for investors and managers to be aligned in their perspectives, it is important for companies to actively provide information to investors in a comprehensive manner.

Factors that investors are interested in understanding include the set of values that direct business decisions and the business models that have been established based on these values. More specifically, we crave information on business characteristics, industry positioning, and how various management resources, such as people, technologies, and capital, are organically utilized in order to create value to differentiate the company from its competitors. Furthermore, information on how the company formulates, executes, and monitors strategies and plans, including the management targets and key performance indicators used in these processes, is also of great interest to investors. We also are interested in understanding the company's view on the balance between execution and oversight, including its ideal board structure. If such important matters are explained along with the rationale for these decisions, it would help investors to determine the appropriate time frame and indicators to be used when analyzing the company, and would also cultivate further mutual understanding among companies and investors.

Hiruta

For companies, it is important to address changes in the operating environment while constantly returning back to their basic values when practicing management. At the most fundamental level, I do see corporate earnings as something that can be created by reducing costs or raising selling prices. You see, companies are legal entities when viewed from society. For this reason, a crucial part of management is to always remain aware of a company's dignity. This dignity is tied to a company's ability to contribute to the resolution of social issues. The larger a company's contribution to society, the greater the value of its existence will be. Moreover, society will repay companies for their contributions in the form of corporate earnings. If management remains mindful of this mechanism, corporate value will improve. The degree to which this perspective is ingrained in management is exceptionally important given the ever-present risk of unforeseen circumstances arising in society. However, it does go a little too far to say, for example, that companies should preface all of their activities on the United Nations' Sustainable Development Goals (SDGs). Still, it is prudent for companies to align themselves with the vision of these goals and utilize their own unique potential to pursue corporate activities that are congruent with that vision. Looking at Olympus' Medical Business, for example, initiatives that could be considered for addressing environmental, social, and governance (ESG) issues include seeking means of contributing to the global curtailment of healthcare expenses or helping increase worldwide employment opportunities while making these contributions. Sufficient discussion with this regard has not yet been carried out among the Board of Directors or the executive management team. This is something that will need to be done going forward.

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From a social contribution standpoint, Olympus' core business seems to be providing a solution to societal issues. Such contributions can actually be achieved by focusing on

core business operations. Is this point strongly recognized by the Company?

Hiruta

Olympus has not yet effectively determined how its business can be linked to the 17 SDGs or to ESG issues. However, social contribution is an underlying part of the Company's corporate culture. As such, we naturally found ourselves engaging in extensive discussion about whether our plans would actually contribute to the global curtailment of healthcare expenses at meetings of the Board of Directors when formulating the medium-term management plan.

Era

Rising health care costs are becoming a major social issue not just in Japan, but also around the world. I think it will be increasingly important for the Company to connect the dots between such social issues and business solutions. How is the direction of the business being discussed among the Board and what are your thoughts on this point?

Hiruta

When formulating 16CSP, discussions were held about what goals the Company should target. Through these discussions, we reached the conclusion that Olympus differs from conventional business-to-consumer and business-to-business companies. Olympus is suited to providing technologies, products, and services that are ideal for enabling specialists to masterfully practice their craft. We thus determined that our aim should be to entrench this perspective throughout our various businesses. Olympus will no longer be able to survive by deploying products made for individual customers; it will need to dedicate itself to serving specialists, to become a "Business to Specialist" Company. This rings true for all of Olympus' business, whether they deal in cameras, microscopes, or industrial equipment. Discussion led us to decide that the Company should grow its business by supplying specialists with the best possible tools for their craft, and that business directives should be formulated accordingly. It was based on this decision that Olympus chose to adopt becoming a "Business to Specialist" Company as its goal.

Era

I had wondered why Olympus chose to focus on specialists, rather than focusing on a "Business to Doctor" approach, but the explanation you provided added clarity to this point. I think it would be beneficial for Olympus to further disclose information and explain the backgrounds of such discussions and decisions. It is difficult for external stakeholders to appropriately understand the rationale of such decisions unless a briefing on the decision making process is provided. Proactive information disclosure can change how investors view a particular company. If Olympus continues to actively disclose information on topics including what we discussed today, it would be helpful to the Company in earning trust from investors. I also look forward to supporting Olympus by providing feedback as an investor.

