Revision of Corporate Philosophy and New Commitment

Olympus will celebrate the 100th anniversary of its founding in 2019, and we have redefined our corporate philosophy in light of this momentous occasion. The philosophy maintains the desire to contribute to society through our businesses that we have fostered and built upon throughout our long history. At the same time, it incorporates the new ideas and attitudes that will be necessary in order to continue growing in this highly volatile era. The redefinition of our corporate philosophy was advanced through a massive project that involved participation from more than 300 employees across the globe. This approach was adopted with the aim of having employees root the philosophy in their own actions, rather than having it be a creation of management handed down.

Olympus has much to pride itself on, including its employees, products, and the value it provides to society in the form of early diagnosis and minimally invasive therapy through its endoscope operations, which are No. 1 in the world. However, a glance to the future will reveal that we cannot become complacent. We cannot expect past successes to continue to be applicable as society and markets change. Rather, we must be able to escape from current norms and preconceptions to enact swift action so that we can always address the most fundamental aspects of customer needs if we hope to win out against global competition. Moreover, as our organization grows rapidly on a global scale, it will be crucial to share our values and behavior expectations with employees around the world in order to remove the barriers dividing employees in different regions and advance as a united One Olympus. It was this recognition that inspired us to redefine our corporate philosophy.

It can be expected that a company with a firm set of values and a clear sense of direction will produce better results and grow more continuously than one that lacks these qualities. The new corporate philosophy defines Our Purpose and Our Core Values. These principles represent our promise to stakeholders. I hope that all stakeholders, not just all employees, will recognize the commitment encapsulated in the corporate philosophy.
Our Purpose is “making people’s lives healthier, safer and more fulfilling.”

As we continue to exercise the spirit of our founders, we will also require an ability to swiftly change course founded on a receptiveness toward new ideas that are in tune with the times and on a propensity toward quick decisions and actions. We aim to evolve Olympus into a truly global company with a strong corporate constitution in order to achieve ongoing growth and development. Our new corporate philosophy will guide us in this pursuit.

Hiroyuki Sasa
President and Representative Director

Operating Environment and Impact on Performance

Looking at the macroeconomic environment from a medium-to-long-term perspective, we will see that there has been no significant change from the initial outlook for megatrends put forth at the time of the formulation of 16CSP. This holds true for trends such as the growing presence of emerging countries, rising medical needs due to declining birth rates and aging populations, and growing pressure to limit medical costs as well as for the impact of these operating environment trends on our businesses. Nevertheless, we are witnessing changes in the current operating environment. These changes can be seen in the enactment of the new European Union Medical Devices Regulation; the increase in regulatory requirements for medical device application and registration centered on emerging countries; the stricter requirements for cleaning, disinfection, and sterilization (reprocessing) being implemented largely in the United States; and other factors pertaining to quality and regulatory assurance. These changes are accelerating at a pace that is exceeding all expectations.

Throughout fiscal 2018, we proceeded to address this tightening of quality and regulatory assurance requirements. We instituted a massive shift of personnel to quality and regulatory assurance divisions based on a top-down approach while fundamentally revising the process of development activities to rationalize this process. We thereby aimed to enhance our ability to respond to operating environment changes. In the short term, these efforts restricted our ability to move ahead with the development of new products, resulting in delays in the launch of certain products and otherwise having a significant impact on our operations. As the necessary internal systems have begun taking shape, we will be working to return our businesses to the growth track going forward.
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.

![Management Goals Diagram]

Policies:

1. To be the greatest “Business to Specialist” Company
2. One Olympus

Strategies of 16CSP:

1. Take action to grow businesses
2. Acquire necessary management resources in a timely manner and fully leverage these resources
3. Advance forward-looking preparation to realize continued growth
4. Pursue further business efficiency improvements
5. Enhance management on a global and Groupwide basis
6. Strengthen Quality / Regulatory assurance functions and internal control, promote strict compliance

<table>
<thead>
<tr>
<th>Management Goals*</th>
<th>FY2017 (JGAAP)</th>
<th>FY2018 (IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>10.2%</td>
<td>9.6%</td>
</tr>
<tr>
<td>EBITDA (¥129.8 billion)</td>
<td>–</td>
<td>+7% (¥133.9 billion)</td>
</tr>
<tr>
<td>Equity Ratio</td>
<td>43%</td>
<td>41%</td>
</tr>
</tbody>
</table>

* Announced on March 30, 2016

Equity Ratio:

43% (JGAAP) 41% (IFRS) 45% (IFRS)

Effectively Utilize Capital and Funds

• Growth investments (R&D, M&A, etc.)
• Internal reserve enhancement
• Appropriate shareholder returns

Optimally Allocate Management Resources

Generate Management Resources

Balance-Oriented Management Emphasizing ROE

Priority Strategies of 16CSP

1. Take action to grow businesses
2. Acquire necessary management resources in a timely manner and fully leverage these resources
3. Advance forward-looking preparation to realize continued growth
4. Pursue further business efficiency improvements
5. Enhance management on a global and Groupwide basis
6. Strengthen Quality / Regulatory assurance functions and internal control, promote strict compliance

One Olympus Report 2018
Review of 16CSP

Performance has not quite gone as anticipated over the past two years. Nevertheless, the Medical Business posted an 80% increase in revenue in comparison with six years ago. This business has continued to grow steadily while driving Companywide performance, even posting record-breaking revenue despite its mainstay gastrointestinal endoscopes being in the latter half of their product cycle. The strong growth of the Medical Business has helped us achieve a roughly 30% increase in consolidated revenue, despite the contraction of the Imaging Business.

The 16CSP may have gotten off to a slow start, but this does not change the basic strategies we need to implement. However, I regret having to state that, given the current operating environment, we currently need to prioritize addressing the more stringent quality and regulatory assurance requirements, improving our reprocessing systems, and creating the foundations for rationalizing the process of development activities. We therefore would like another two to three years to reach the targets set forth in 16CSP.

Medical Business Progress and Future Policies

The Medical Business continues to function as Olympus’ growth driver. In this business, we have proceeded to implement the up-front investments required for future growth while moving forward with initiatives based on the priority measures of 16CSP. We have made particular progress in the surgical device field, which we recognize as being core to the growth of the Medical Business. The 4K surgical endoscopy system, which is positioned as a strategic product, has helped us convert customers using competitors’ products to our products. In addition, through coordination with Image Stream Medical, Inc. (ISM), which we acquired in June 2017, we have had success in new business negotiations with several major integrated delivery networks in North America, the largest market for the Medical Business. Also in North America, we have been developing a system that integrates marketing, development, and manufacturing with the aim of boosting production and improving efficiency of the continuously growing THUNDERBEAT energy device. Looking to other regions, performance has been exceptionally favorable in Asia and Oceania, which has demonstrated consistent, double-digit growth driven by strong performance in the gastrointestinal endoscope field, the surgical device field, and the endotherapy device field.

That being said, there are still issues needing to be addressed, and we recognize that a top priority going forward will be ensuring that new mainstay products can be launched in all fields without further delays. I am convinced that the course set in our strategies for the Medical Business is not mistaken. We will therefore be continuing this course as we strategically allocate resources to the surgical device field to make up for delays.

Scientific Solutions Business Progress and Future Policies

In the Scientific Solutions Business, we will advance global structural reforms to boost efficiency and profitability.

In the life science field, we are revising our strategies based on current conditions. The execution of government research budgets in developed countries is proving sluggish in this field. Against this backdrop, we will selectively concentrate resource allocation, changing our focus to boosting profitability rather than pursuing the expansion of sales. In regard to our biological microscopes, which have large market shares, we will supply cutting-edge solutions aimed at the cancer, neuroscience, and stem cell research markets, among others. At the same time, we will look to cater to new needs arising from the increase in digital pathological examinations stimulated by the advancement of preventive medicine and the acceleration of regenerative medicine and drug discovery research through private-public partnerships. It is likely that biological microscope operations will only experience limited growth during the period of 16CSP. We will therefore be seeking to generate profits through business structure reforms.

The industrial field, meanwhile, is enjoying strong performance in all regions. However, growth fell below targets in this field during the first year of 16CSP as a result of poor market conditions. Looking ahead, we will pursue profitable growth in the industrial field by accelerating the expansion of portfolios targeting customer segments that are anticipated to drive growth. Specifically, we will forge ahead with the customer segment-oriented strategies described in 16CSP amid the favorable conditions being seen in the global market as we pursue growth in existing businesses while simultaneously bolstering product portfolios. We will also address new needs in fields where we anticipate future growth, such as smart factories, automotive inspection, and infrastructure monitoring.
Future Policies for the Imaging Business and Position as a Companywide Technology Driver

The Imaging Business, which has represented a major issue for management, is steadily moving toward a state in which it can continue generating operating profit as we advance the measures of 16CSP. In fact, we were able to achieve our long-held goal of turning a profit in this business in fiscal 2017, the first year of 16CSP. To further entrench profitability into this business, we decided to cease operations at the Olympus factory in Shenzhen, China, in May 2018. Overseas production for the Imaging Business will be consolidated into the Vietnam factory going forward, and we will also concentrate investments on this factory in order to develop production technologies and cost control technologies along with a production system that boasts higher quality and competitiveness.

Moreover, as we explained to stakeholders in the past, the Imaging Business boasts incredibly sophisticated imaging technologies as well as advanced digital and network technologies that are a step ahead of the technologies of the Medical Business and the Scientific Solutions Business. In this business, we have succeeded in the development of cutting-edge, high-performance image stabilization technologies and high-speed imaging technologies that have yet to be incorporated into endoscopes and microscopes and that eclipse those of our competitors. The Imaging Business thus functions as a driver of Companywide technologies by enabling us to apply the technologies it develops to the Medical Business and the Scientific Solutions Business. Currently, we have divided our camera development staff into two teams. One team is responsible for the development of sophisticated camera technologies. The other team is tasked with working together with development teams from the Medical Business and the Scientific Solutions Business to reduce costs. Moving forward, we will commence full-fledged, low-cost mass production in the Medical Business to expand our single-use device operations. The camera mass production technologies of the Imaging Business will have an important role to play in this undertaking.

Future initiatives in the Imaging Business will include improving production capabilities and efficiency through the smooth transfer of production to the Vietnam factory and boosting competitiveness through the creation of products that are appealing to specialists. The Imaging Business will continue to contribute as a Companywide technology driver as we advance these initiatives.

Evolution into a Truly Global Company for the Next 100 Years

Under 16CSP, we will solidify our foundations for achieving ongoing growth to prepare us to become a world leader in the Medical Business and to evolve into a truly global company going forward. Reforms to the awareness of employees will be crucial to this evolution. Currently, around 80% of Olympus’ sales come from overseas, indicating the global nature of its businesses. At the same time, we understand that there is a significant disparity between the Company and what has become standard for the global market. Reforming awareness will require time, but we are committed to evolving into a truly global company by entrenching this awareness and recognition and realizing improvements based thereon.

Innovation Initiatives

In October 2017, we established the Technology Innovation Office. This move was taken based on the acknowledgment that investments in innovation for constantly generating new value for society will be absolutely essential to the continuity of our business and to the improvement of our corporate value. One particular focus of this office will be the acceleration of open innovation through the development of systems for collaborating with external entities. Within this office, we have assembled engineers from throughout Olympus who specialize in advanced technologies that are competitive. This includes the inventor who was awarded the Medal with Purple Ribbon as part of the Cabinet Office’s Biannual Conferment of Decorations in spring 2017 for the development of an endoscopy system that utilizes the Company’s narrow band imaging (NBI) technologies. This team will aspire to create the innovation necessary for the future of Olympus. For example, Olympus has taken its first step toward the provision of solutions that contribute to better surgery quality by expanding the range of information surgeons can acquire through visual means in the operating room.

Furthermore, Image Stream Medical, Inc. (ISM), which was acquired in June 2017, possesses technologies that instantly integrate various images and data from operating rooms to be deployed both inside and outside of these facilities. These technologies can be used to create solutions that contribute to better surgery quality and are also innovations that Olympus would not have been able to develop by itself, even after years of effort. As we advance into the future, our goal will always be to align ourselves with the needs of the times. With this in mind, we will accelerate the evolution of our technologies, incorporating outside technologies when appropriate, in the pursuit of ongoing growth.

The ability to make decisive investment decisions, or to strike when the iron is hot, so to say, will be crucial to winning out against the competition. For this reason, we plan to strengthen our ability to generate cash flow while efficiently allocating management resources so that we can implement the initiatives necessary for accomplishing our objectives.

For details, please refer to “R&D Activities” on page 48.
Reinforcement of Frameworks to Target Higher Levels

An important measure in reinforcing our frameworks for sharing values and strategies on a global basis was the transition to a matrix-style operational structure conducted in April 2015. Three years have passed since this transition, during 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. This decision was based on our realization that we could not compete with only Japanese people in global positions. This ability to overcome language barriers and HR-related obstacles to actively appoint global talent to global positions will be important and of significant meaning to Olympus as it seeks to compete with overseas rivals as a global company. Olympus currently employs 36,000 individuals, over 60% of whom work overseas. Non-Japanese individuals have also been appointed to head our compliance and legal affairs functions. In the future, we will examine the possibility of introducing global human resource systems that allow for talented, non-Japanese individuals to be assigned to important positions as part of our efforts to develop a business base that will enable us to compete on the global stage.

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. With the strengthening of global and Groupwide corporate governance underpinning these efforts, we will also seek to effectively assess and control risks that threaten 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. This framework therefore incorporates general principles on the extent to which specific risks should be controlled.

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. Meanwhile, the Medical Affairs Office has been established to promote the acquisition and verification of medical evidence, while the Government Affairs Office, which was formed in January 2018, is responsible for coordination with government agencies. Nevertheless, given the central position of the Medical Business at Olympus, we recognize that there is a need to further bolster our compliance systems and to enhance quality and regulatory assurance systems on a global basis. It will therefore be crucial for us to view all aspects of this business, including human resource systems, financial strategies, and compliance systems, through the lens of global standards as we determine the changes that need to be made. Olympus is poised to evolve into a truly global company, and we need to seize this opportunity in order to live up to the expectations of our stakeholders.

Pursuit of Higher Corporate Value

We expect that the operating environment will undergo various changes as we move forward. It will therefore be all the more important for us to share and entrench Our Core Values, which define the values we share throughout our global operations, among everyone at the Olympus 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 in 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 subsequent 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.

Always mindful of Our Core Values, everyone at Olympus is united in their commitment to achieve Our Purpose: “making people’s lives healthier, safer and more fulfilling.”

“Spiraling Up” is Olympus’ key underlying concept for strengthening corporate value