



In fiscal year 2002, ended March 31, 2002, consolidated net sales for the Olympus Group increased 13.2% from the previous fiscal year to ¥528,415 million (US\$4,227 million), operating income increased 19.1% to ¥42,283 million (US\$338 million), and net income declined 12.8% to ¥10,279 million (US\$82 million). The decline in net income was the result of the evaluation loss on marketable and investment securities. Due to the growth of digital cameras and increased sales of medical equipment internationally, however, Olympus was able to achieve an increase in revenues for the eighth year in a row. In the extremely harsh environment besieging the corporate management, it was a year marked by the keen consciousness of an expanding company with a new management structure headed by President Kikukawa, preserving the cornerstone of rising revenues and profits.

The figures recorded for consolidated net sales and operating income were the highest in our history.

Q: Could you explain the Company's performance in fiscal 2002, your first year as president of Olympus?

The figures recorded for consolidated net sales and operating income were the highest in our history. Though the global economy showed signs of recession, triggered by the collapse of the IT bubble, we were able to manage fair results.

Net sales increased 13.2% over the previous fiscal year to ¥528,415 million (US\$4,227 million), rising for the eighth year in a row. This growth in revenue was due mainly to increased sales of digital cameras, as well as higher sales of medical products in Europe and the United States.

Revenue from digital cameras leapt to ¥137,933 million (US\$1,103 million) from ¥109,948 million in the previous fiscal year, growing to be a core product that accounts for more than a quarter of sales revenue. In medical products, sales of medical endoscopes were robust, with international sales for the division notably rising 24.8%.

By segment, sales of the Imaging Systems Group grew 13.5%, and sales of the Medical Systems Group grew 19.4%. The Industrial Systems Group, however, led by falling demand from our client industries, such as electronics, posted a 3.8% decline in sales for the fiscal year.

Consolidated operating income for the Olympus Group increased 19.1% to ¥42,283 million (US\$338 million). Rising profits from medical products compensated for a deficit caused by worsening profit margins stemming from severe price competition for digital cameras. An income structure in which the profitable Medical Systems Group supports the entire company is more clearly

seen than ever before. Exchange rate fluctuations in which the yen weakened against other currencies also contributed to increased profits, as Olympus's export rate is greater than 70%.

However, amid lower share prices in the Japanese stock market, Olympus recorded an extraordinary loss of ¥11,021 million due mainly to the evaluation loss on marketable and investment securities, resulting in net income of ¥10,279 million (US\$82 million), a drop of 12.8% from the previous fiscal year.

Q: It has now been one year since a new corporate structure took effect, with a management reorganization centered on the introduction of an Internal Company System. Could you please explain the aims of this restructuring, and its results?

The new system created three internal companies organized by segment according to the customers they serve: the Imaging Systems Group for consumers, the Medical Systems Group for medical institutions, and the Industrial Systems Group for the industrial market.

There were two aims with the introduction of this system. The first was that each of the three companies would be aware of its independence as an operation, and not be dependent on the highly profitable Medical Systems Group, thereby increasing management efficiency. Once a week for the past year we convened the Executive Management Committee, where the presidents of each internal company could hold discussions, and I was impressed by how each of them approached their duties with such a high degree of motivation. The second aim of the new system was that by devolving authority, decisions could be made faster. This result is also being seen. Several plans are being implemented for a turnaround of the Imaging Systems Group, especially in regard to digital cameras.

Q: In the market for digital cameras, camera manufacturers and electronic equipment manufacturers are competing with increasing functionality and lower prices. Olympus holds a leading share of this market, but is in the red. Could you please explain your plans for a turnaround?

Olympus's digital camera business has a problem with its profit structure, namely that procurement from original equipment manufacturers (OEMs) makes up a full 70% of the sales volume. Dependence on outsourcing for the better part of production is a big handicap when fighting in a price competition.

The points for improvement are clear. First, we must lower our internal production costs. Second, we must increase the ratio of internal production. Our solution to these problems includes a plan to produce digital cameras in China. While all internal production has been done in Japan up to now, this

Our digital camera business has a problem with its profit structure. However, the points for improvement are very clear.

plan calls for 1 million cameras to be produced in China. At the same time, we are moving forward with the integration of domestic production and are investing ¥6 billion over the next three years in this reorganization. By having Japan concentrate on the creative aspects that lead to a high degree of added value, such as development, and China focus on high-quality, low-cost production, we will be able to drastically lower production costs. In addition, by opening up production in China, Olympus will be able to strengthen its internal supply structure and increase its internal production ratio. We are projecting an internal production ratio of 50% by the second half of fiscal 2003.

Q: What are your thoughts on a profit structure that is dependent on the Medical Systems Group?

The majority of Olympus's profit is generated by the Medical Systems Group. Why does Olympus not specialize in the Medical Systems Group is a question I have heard often from shareholders over the past year.

However, at this time we are neither thinking of spinning off nor withdrawing from the Imaging Systems Group or the Industrial Systems Group. One cannot assess the degree of contribution from each of the businesses solely on short-term profitability. The cross-fertilization and exchange of technologies from different fields has given rise to new core technologies. Synergies created in this process have been the foundation of Olympus's growth. That represents a strong corporate asset that makes Olympus different from other companies.

For example, consider Olympus's medical endoscopes, which have been received with an unparalleled confidence, holding approximately a 70% share of the world market. What underpins that competitiveness is the accumulation of optical and high-precision processing technologies acquired by a global camera manufacturer.

The keyword in this process is "OPTO-Digital Technology." OPTO-Digital Technology, a fusion of optical and digital technologies, is the base on which our core businesses of endoscopes and cameras have been built. At the same time, this base gives rise to strategic new business fields. Olympus is seeking to expand these new fields based on OPTO-Digital Technology, which already made up 35% of sales during fiscal 2002. Our goal is to increase this percentage to about 52% by the end of fiscal 2004 by focusing investment in promising businesses that we expect to be the core business areas of the future, including digital cameras, endoscopes-related products, optical communications and related businesses, and the genome medical business.

Above all, in the genome medical business, where we see a tremendous opportunity, Olympus's ability to utilize its technical assets gives it an advantage. In the field of genomic analysis, in addition to our accumulated optical technology, we have been acquiring technology regarding genomes since the



1980s. We now possess 80% of the technology required for commercialization in this field. From the standpoints of production and marketing, our strength lies in our ability to utilize our network and the production infrastructure of the medical products business.

By making use of this synergy, we aim to create a structure in which each of the three companies contributes to profit in a balanced manner. From a profit structure that is overly dependent on a single business, without the cultivation of profitable new businesses, Olympus cannot set the stage for further growth.

Q: Finally, what message do you have for shareholders?

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The value creation that Olympus envisions is one in which we offer new value in the course of our business activities. This will lead to maximization of returns for shareholders.

What we are aiming for is a “Value Creating Company.” You might think that “value creation” means rising share prices. But the value creation that Olympus envisions is one in which we offer new value in the course of our business activities, and that brings about a lifestyle of health and happiness for all people. It is also a corporation in which all stakeholders, including employees, clients and end users, have pride in the Olympus brand. This will strengthen profitability, growth potential and brand power, and lead finally to maximization of long-term returns for shareholders.

Former President Masatoshi Kishimoto built Olympus’s solid profit foundation during the long period of economic depression in Japan that followed the collapse of the bubble economy. My role is to try and push forward even more aggressively as a leading global corporation, building on this strong foundation. By the numbers, my goal is to raise the current ROE of 5.2% to 20% or more, a standard in line with that of leading global corporations. To make this a reality, Olympus is devoting its efforts to new value creation.

July 2002

Tsuyoshi Kikukawa
President