

Q1: Could you highlight the Company's performance in fiscal 2003?

In fiscal 2003, ended March 31, 2003, we achieved record highs in consolidated net sales, operating income and net income. Compared with the previous fiscal year, net sales grew 6.8% to ¥564,343 million (US\$4,703 million), marking the ninth consecutive year of growth. Operating income advanced 47.4% to ¥62,346 million (US\$520 million). Net income climbed 136.9% to ¥24,348 million (US\$203 million).

↑ Digital cameras were the main driver behind the strong performance in fiscal 2003. Backed by its high market share, Olympus saw digital camera sales climb 26.8% to ¥174,843

## Strong Performance

↑ million (US\$1,457 million) amid tough competition in a fast-growing market. In addition, profits grew considerably in the digital camera business, as the Company focused efforts on reducing production costs over the past year. As a result, the Imaging Systems Group returned to profitability.

Performance in the Medical Systems Group also improved steadily, supported by its approximately 80% share of the world market for endoscopes.

In the Industrial Systems Group, however, sales and profits declined significantly, owing to a decrease in orders from semiconductor companies and other customers.

↑ As a consequence, by segment, operating income improved ¥26,366 million to ¥18,202 million (US\$152 million) in the Imaging Systems Group, grew ¥744 million to ¥56,644 million (US\$472 million) in the Medical Systems Group, and declined ¥2,777 million to an operating loss of ¥894 million (US\$7 million) in the Industrial Systems Group.

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# 136.9%



Although our earnings structure is still dependent on medical endoscopes, we are beginning to see digital cameras grow into a strong earnings pillar. In my second term as president, I believe our reforms have gradually taken shape through our Internal Company System and measures based on the concept of “Creative Destruction and Innovation.” The impact of these reforms is clearly seen in the drastic improvement in earnings, and I strongly believe that this is a signal of our continued strength to follow.



Q2: The digital camera market is an intensely competitive market comprised of many manufacturers fighting tooth and nail. How did you rebuild the digital camera business after it reported losses of approximately ¥11.0 billion in fiscal 2002?

Our digital camera business had a problem with its profit structure. We had to lower the production cost. We solved this problem by strengthening our production structure in China and shifting a major portion of our digital camera production to China. Full-scale production of digital cameras began in October 2002 at a new production line at our two plants in Guangdong. In this one move, almost all internal production that had been done in Japan was shifted to China, except for very high-end models. We were able to significantly reduce production costs by having our facilities in Japan concentrate on development and other high value-added functions, and by basing high-quality, low-cost manufacturing plants in China. Through these measures, Olympus strengthened its internal supply structure and its internal production ratio improved to 35% as a result. In the fiscal year under review, the Imaging Systems Group turned an operating profit.

Olympus has also seen substantial benefits from the April 2002 integration of domestic marketing and sales functions from its subsidiary Olympus ProMarketing, Inc. into the Imaging Systems Group. We are now able to directly reflect user and retailer opinions in the development and manufacturing processes, which has led to the creation of several hit products.

In April 2003, Olympus absorbed Olympus ProMarketing, Inc. in a merger. As a result, the Company expects to realize benefits in its Medical Systems Group, Life Science Group and Industrial Systems Group similar to those achieved in the Imaging Systems Group.

Q3: The Medical Systems Group is an exceptionally stable earnings foundation. What is your vision for this product group going forward?

Even though our endoscopes command an 80% share of the world market, we are not satisfied. Only our gastroenterological endoscopes enjoy a dominant market share, and our world shares of the markets for surgical endoscopes and endo-therapy devices (treatment equipment) are about 20% to 30%. The market scale for either of these products rivals that of gastroenterological endoscopes. Leveraging our strengths in gastroenterological endoscopes, we believe we have considerable potential to expand the business.

operating income of imaging systems group  
The Imaging Systems Group rebounded from an operating loss in fiscal 2002 to post operating income of ¥18.2 billion.

¥18.2 billion





To this end, Olympus made a strategic investment of ¥4.0 billion in the gastroenterological endoscope, surgical endoscope and endo-therapy fields. This investment includes funds for increasing personnel. We aim to acquire a top market share in each field over the medium to long term.

Q4: The Industrial Systems Group has fallen on hard times. What do you propose to do to turn this product group around and improve profitability?

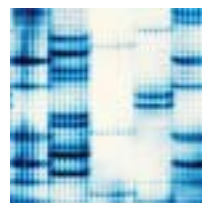
The main products of the Industrial Systems Group are semiconductor and LCD inspection equipment. For this reason, earnings are affected by demand cycles for electronics. Olympus must create a structure that can generate profits by nurturing businesses that will become new earnings pillars in areas other than electronics.

Q5: Could you describe the Life Science Group, the fourth arm of the Company that was founded on April 1, 2003 as a result of restructuring in the Medical Systems Group?

The genome medical business shows promise as a core business of the future. Genomic analysis is essential to the creation of tailor-made medical treatments comprised of drugs customized to an individual's physical characteristics. We expect demand in this area to burgeon in the future.

investment in the medical systems group  
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¥4.0 billion



fourth internal company  
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4th

Some noteworthy news is Olympus's development of the world's first DNA computer for gene analysis. Planned for release in April 2004, our DNA computer affords dramatic improvements in shortening analysis times and costs, which have been barriers to commercialization in the past. Our sales target of ¥100.0 billion in 2010 is a formidable hurdle, but we are making steady progress in our preparations.

Q6: Olympus has taken an aggressive stance on reforms through various measures including the Internal Company System. In your opinion, what challenges does Olympus face in the years to come?

Despite having a high-level of technology, one of Olympus's relative weak points is its business acumen. As a result, in the past there were several instances where we were unable to commercialize on a developmental effort despite having a technological lead, ultimately ending in our withdrawal from the field. Given that our methods have not always succeeded in the past, we should deconstruct these methods and replace them with new ones. What we need is "Creative Destruction and Innovation."

First, we must strengthen our brand image. To accomplish this goal, beginning in fiscal 2003, we plan to strategically invest ¥20.0 billion in our brand image over a five-year period. During the fiscal year under review, we invested ¥1.8 billion in our brand image, mainly in advertising for digital cameras and other products. The result of this investment was a leap in awareness through our TV commercials in Tokyo from 34% to 85%, elevating Olympus into a powerful and major brand name. We believe that higher recognition of Olympus digital cameras will lead to a stronger and more powerful brand.

The competitiveness of our products, and our business performance as well, will improve if we can provide value to society through a strong brand name. And, in turn, better business performance will increase our brand power. I believe this also will have a positive effect on the behavior of our employees and corporate governance as well. By creating a cycle of positive reinforcement, I believe branding is the key to maximizing corporate value.

Second, Olympus must create new businesses and expand peripheral operations. ITX Corporation is a potent partner of ours that helps reveal undiscovered business potential. ITX has a knack for quickly unearthing business opportunities not found at Olympus, and is attracting attention as a venture incubator that launches innovative businesses. The part-

## A Clear Vision for the Future

nership between ITX and Olympus has spawned several joint ventures, including the new company AOI Technology Inc., which handles processes from design to manufacturing of dynamically reconfigurable integrated circuits (ICs).

To further strengthen its relationship with ITX, Olympus became its largest shareholder in January 2003 after purchasing 100,200 shares of ITX stock held by Nissho Iwai Corporation, and at the same time underwriting ¥10.0 billion in convertible bonds issued by ITX. Olympus is also dispatching directors and managing staff to ITX. ITX will be positioned as a joint-venture incubator. Olympus aims to strengthen competitiveness in existing operations and to develop new businesses by leveraging its core competence in OPTO-Digital Technology (a fusion of optical, digital imaging, and microprocessing technologies) as well as

its global marketing and brand capabilities, in combination with the strengths of ITX, namely its expertise in networking and other technological fields, ability to create new businesses, and resources to foster businesses.

Q7: Finally, what message do you have for shareholders?

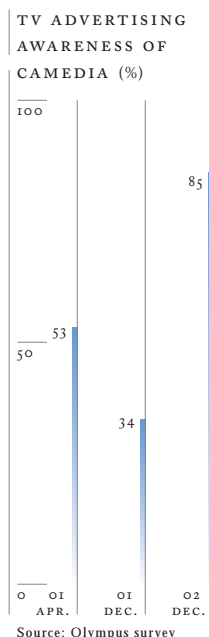
As a part of its efforts to reinforce its brand image, Olympus formulated the global corporate slogan "Your Vision, Our Future" this year. Olympus has created new value that has met the expectations of society through its advanced optical and manufacturing technologies, as demonstrated by the development of the world's first endoscope. Our ability to create a vision and to make

the future a reality is at the heart of Olympus. The new slogan shows our determination to turn visions into reality in conjunction with society. We will continue pushing forward with reforms to become a company in which all stakeholders, including employees, clients and end-users, take pride in the Olympus brand.

July 2003



Tsuyoshi Kikukawa  
President



strategic investment to strengthen brand name  
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