

START OF LIFE SCIENCE GROUP AS CORE BUSINESS OF OLYMPUS

「 | | | | 」
「 | | | | 」
Olympus established the Life Science Group on April 1, 2003, following restructuring in the Medical Systems Group. Olympus aims to nurture the Life Science Group into a core business centered on genome medicine in the life sciences field. The following is an interview with Mr. Isao Takahashi, president of the Life Science Group.

Q1: Through what strategic initiative was the Life Science Group formed?

In accordance with a structural reorganization in April 2003, we separated the life science business from the Medical Systems Group and launched the Life Science Group for two reasons.

The first reason is to renew our efforts in endoscope operations, a business central to Olympus, through restructuring in the Medical Systems Group. Endoscopes are undergoing a fundamental technological change, and fields of medicine that utilize endoscopes are also changing as a result. To stay astride of these changes, Olympus understands the significance of achieving further growth by refortifying the endoscope business, which boasts an overwhelming market share.



sales in clinical
analyzer business
up 11.2%

With annual sales of
nearly ¥35.0 billion,
the clinical analyzer
business is second
only to digital cam-
eras in terms of
growth.

11.2% increase

The second reason is to strike off in a new direction through a combination of existing businesses and the advancement of optical technologies—the foundation of Olympus—by launching the Life Science Group. We aim to develop life science operations from a base of common points shared by genome medicine and parts of our traditional microscope and clinical analyzer businesses. Through this initiative, Olympus plans to establish the life sciences field as its third business pillar after the medical and imaging fields.

Olympus believes that dividing operations into two groups will spur innovation in and the advancement of its core technologies under a new framework.

Q2: Could you describe how the clinical analyzer and microscope businesses relate to genome medicine?

With annual sales of nearly ¥35.0 billion, the clinical analyzer business is second only to digital cameras in terms of growth. This is because Olympus is one of the few companies in the clinical testing industry able to provide both hardware (clinical analyzers) and software (reagents) to its customers. Moreover, this busi-

ness model is based on a system of charging customers only for the actual testing they do, rather than the one-time sale of a packaged product. We offer our customers a contract where pricing is determined on a per-test basis and includes everything they need, from hardware and reagents to support services. The clinical analyzer business is the most progressive business at Olympus that is based on the number of installations. Since Olympus is a manufacturer, the Company provides value in other businesses mainly through hardware functions. In the clinical analyzer business, however, the Company does not sell the product itself, but provides value by earning revenue based on how much the customer uses the product. This difference is what makes the clinical analyzer business unique, and is its secret to future growth.

Olympus's technological background is deeply rooted to the microscope business. In addition, backed by its number one market share, Olympus is the largest manufacturer of microscopes in the world. Microscopes are employed in a variety of applications, and recently have been used prominently for research in the field of life sciences including genome research. Fittingly, customers that use our microscopes are on the cutting edge of scientific technology. This connection to our customers—the researchers—is a precious asset to Olympus that is not immediately apparent.



market share for
microscopes
Olympus is the
largest manufacturer
of microscopes in the
world.

#1

The clinical analyzer and microscope businesses are growing steadily thanks to these tangible and intangible strengths. In their current state, however, they are not businesses that we expect to have a major impact on earnings growth in the future. On the other hand, considering their potential contribution to our presence in the genome medicine market, which is expected to grow significantly in the future, the clinical analyzer and microscope businesses take on an entirely new meaning altogether.

Although future growth is limited in the market for testing with clinical analyzers, such as biological and virus testing, this constraint on growth is released when considering genome-based clinical testing. Genome-based clinical testing offers the substantial benefit of being effective at the prevention as well as treatment of illness. For the sake of controlling medical costs, more attention will be paid to prevention rather than treatment in the future. More advanced preventative medicine will be possible with the use of genome technology. We believe that this will be the turning point for the future of clinical testing.

In the microscope business, it is now possible to examine the interior of a cell, a feat that was impossible with previous technologies, with a laser microscope and perform image and other detailed analysis of the cell. Cutting-edge research in genome medicine is advancing from the analysis of the genome itself to the analysis of proteins, and is progressing even further to the analysis of genomes and active proteins inside living cells. Our biological microscopes are indispensable tools to these advance-

ments in genome research. Accordingly, since our customers are on the cutting edge of genome medicine, our microscopes are on the cutting edge of science as well.

While clinical analyzers and microscopes are long-held businesses, as they grow and advance they will eventually unite with the genome medical business. Olympus is able to build interactive relationships with its customers by strengthening these existing businesses. Customer assets like these are one of Olympus's greatest strengths.

Q3: What initiatives are underway in the genome medical business?

The Company embarked on the genome medical business with the launch of the Genome Medical Business Project at the end of 2000. Olympus is now making all-out efforts in genome medicine with the launch of the Life Science Group. Backed by two and a half years of work in the genome field, we are expanding operations by leveraging similarities with the existing businesses of clinical analyzers and microscopes. We aim to make genome medicine into a solid platform for Group operations.

We plan to maximize our advantages as a hardware manufacturer in the field of genome medicine. Some of our first breakthroughs were in optical technology, a forte of Olympus. Our analyzers were natural primary candidates for genome applications, and our first commercial products for the genome medical

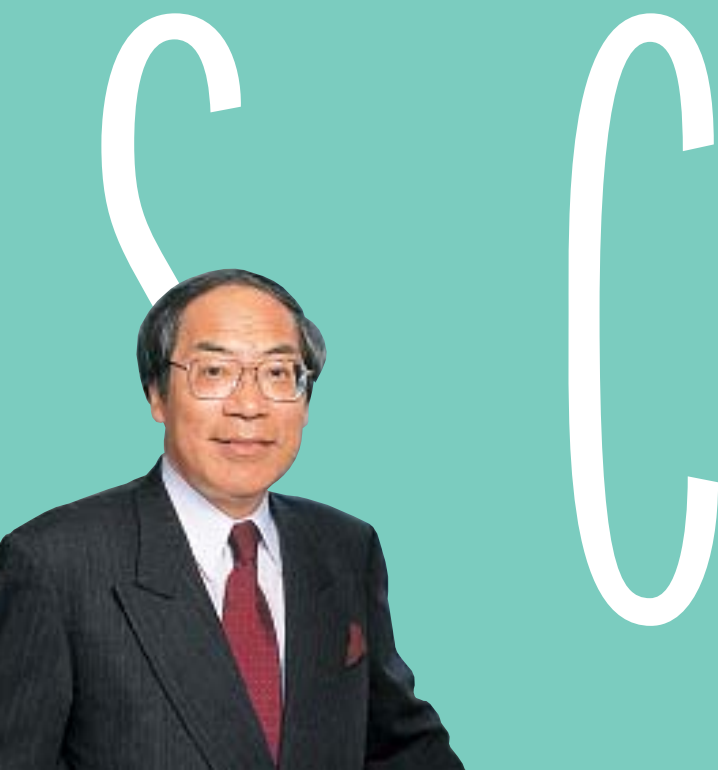


Life science group
comprises three
core businesses

While clinical analyzers and microscopes are long-held businesses, as they grow and advance they will eventually unite with the genome medical business.

2 + 1

E



business were single-molecule fluorescence detection systems and 3D DNA microarray systems. The next step is equipment that supports research and development in genome-based drug discovery as well as the provision of necessary software, services and reagents. The final step is the application in clinical testing equipment. This final stage is where we believe Olympus will really be able to leverage its strengths.

Q4: How do you view the future potential of the genome market?

While the 20th century is called the era of electronics, the 21st century is shaping up to be the era of life sciences, or an era of human rehabilitation. The scope of life sciences-related industries in 2001 was ¥1.3 trillion in Japan alone. These markets for biomedicine, healthcare and foods are expected to grow sharply to about ¥25 trillion by 2010. As the global scale of this market is estimated to be ¥230 trillion, Japan will account for 10% of the world market.

Genome medicine is thought to represent between 40-50% of this market, or approximately ¥10-15 trillion. A major portion of this comes from pharmaceuticals, so the market for analyzers and reagents alone is even more limited. However, we have no doubt that life sciences-related industries will enjoy significant growth over the next 10 years or so. We believe there is enormous potential for growth in our business domain.

Q5: In what direction do you plan to lead the Life Science Group?

We believe that it is important to conduct business with interactive communications with customers and to make ourselves indispensable to our customers. This is the main reason why Olympus absorbed the sales subsidiary Olympus ProMarketing, Inc. We have already accumulated expertise in up-and-running businesses, enabling us to stay a step ahead of our customers. In a field like genome medicine where society has yet to benefit from the unknown, we must do our best to pioneer the field and create the business from the ground up. For this reason, interactive communication with our customers is absolutely essential to promote our mutual progress.

With this in mind, we aim to evolve existing operations further.

July 2003



Isao Takahashi
President of the Life Science Group



market scale of genome medicine
Genome medicine represents 40-50%, or approximately ¥10-15 trillion, of the medical market.

N C

¥10 trillion

E