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# *financials*



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CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

> Total net sales increased 12.3% to ¥633,622 million (US\$5,760 million).

Sales in the Imaging Systems Group rose 21.2% to ¥296,730 million (US\$2,698 million). This substantial increase is attributable to the excellent performance of digital cameras in mainly the U.S., but also in Europe and Asia. Although we have been facing further price declines and severe competition as competitors aggressively launch new models, our μ [mju:] DIGITAL (Stylus Digital in the U.S. and μ [mju:] Digital in Europe) series, which feature a weatherproof metal body, performed outstandingly well in all major markets. We also received a positive response from professional photographers for the E-1, our new line of digital SLR cameras based on the Four Thirds System standard. Sales of compact cameras, on the other hand, fell due to an irreversible contraction of the market, despite favorable demand for our new μ [mju:]-III 150 (Stylus 150 in the U.S. and μ [mju:]-III 150 in Europe) compact camera, which was released in fiscal 2004.

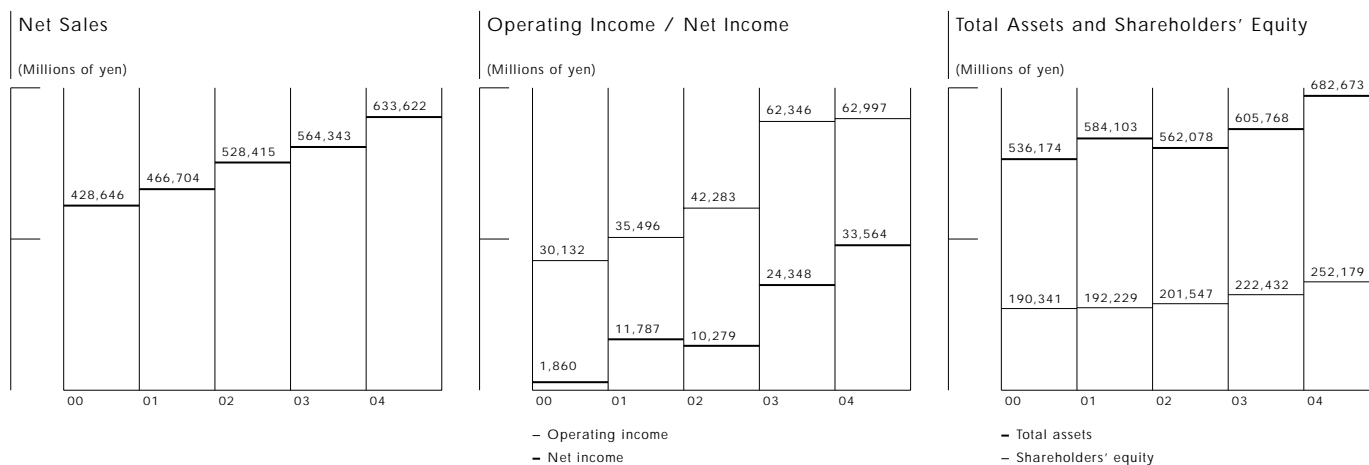
In the Medical Systems Group, sales increased 7.6% to ¥216,915 million (US\$1,972 million). Medical endoscopes enjoyed favorable sales thanks to contributions from the EVIS LUCERA, the world's first HDTV-compatible endoscope system, despite uncertainty concerning reforms in the health care system and budget. Although the U.S. and European markets were saturated with the current standard model, EVIS EXCERA, sales of medical endoscopes were higher than last year. In the minimally invasive products area, the reinforcement of our sales and marketing organization and effective sales promotion activities contributed to remarkable growth, especially in the U.S. and Europe.

In the Life Science Group, sales advanced 7.2% to ¥71,739 million (US\$652 million). Sales of biological microscopes were almost at the same level as last year, reflecting the successful introduction of new laser microscopes and their sales promotions, despite unstable conditions in the domestic market owing to sequential reforms in the public sector. Diagnostic systems enjoyed favorable sales mainly in Europe, where the cost per procedure met customer demands. In addition, firm sales of consumables for diagnostic systems in the U.S. and China contributed to the outstanding performance of this business segment. The analytical service for genomic information still takes up only a small portion in entire sales of the Life Science Group, but this promising area showed steady growth in the fiscal year under review.

Sales of the Industrial Systems Group decreased 4.3% to ¥42,546 million (US\$387 million). Industrial microscopes sales surpassed the previous fiscal year due to a recovery in the semiconductor and electronic component markets in Japan and other parts of Asia. Sales of industrial endoscopes, however, remained level with the previous fiscal year due to unfavorable market conditions caused by the sluggish domestic market, the war in Iraq, and the SARS outbreak.

Net Income

> Operating income edged up slightly to ¥62,997 million (US\$573 million). The ratio of selling, general and administrative expenses to net sales increased from 37.0% to 37.2%. Net income surged 37.9% to ¥33,564 million (US\$305 million), due mainly to a gain of ¥8,584 million (US\$78 million) on the release from an obligation for payments on the substitutional portion of the employees' pension insurance scheme.



## ANALYSIS OF FINANCIAL POSITION

### Total Assets

- > As of March 31, 2004, total assets were ¥682,673 million (US\$6,206 million), an increase of 12.7% from the previous fiscal year-end. Total current assets rose 14.1% to ¥408,049 million (US\$3,710 million), mainly due to an increase in notes and accounts receivable and inventories. Net property, plant and equipment were ¥101,104 million (US\$919 million). Total investments and other assets were ¥173,520 million (US\$1,577 million). Turnover of total assets in fiscal 2004 was 0.93 times, slightly decreased from the previous fiscal year.

### Total Liabilities and Shareholders' Equity

- > Total liabilities increased 12.3% to ¥429,329 million (US\$3,903 million). Total shareholders' equity rose 13.4% to ¥252,179 million (US\$2,293 million). The ratio of shareholders' equity to total assets improved slightly to 36.9%.

### Cash Flows

- > Cash and cash equivalents as of March 31, 2004, increased ¥13,151 million to ¥69,095 million (US\$628 million) compared with the end of the previous fiscal year.

Net cash provided by operating activities decreased ¥48,214 million to ¥30,537 million (US\$278 million) compared with the previous fiscal year, mainly due to an increase in accounts receivable and inventories as well as in outgoing cash from the return of pension assets for the substitutional portion of the government pension scheme and the foundation of a new pension scheme.

Net cash used in investing activities was ¥55,211 million (US\$502 million), owing primarily to the purchases of property, plant and equipment.

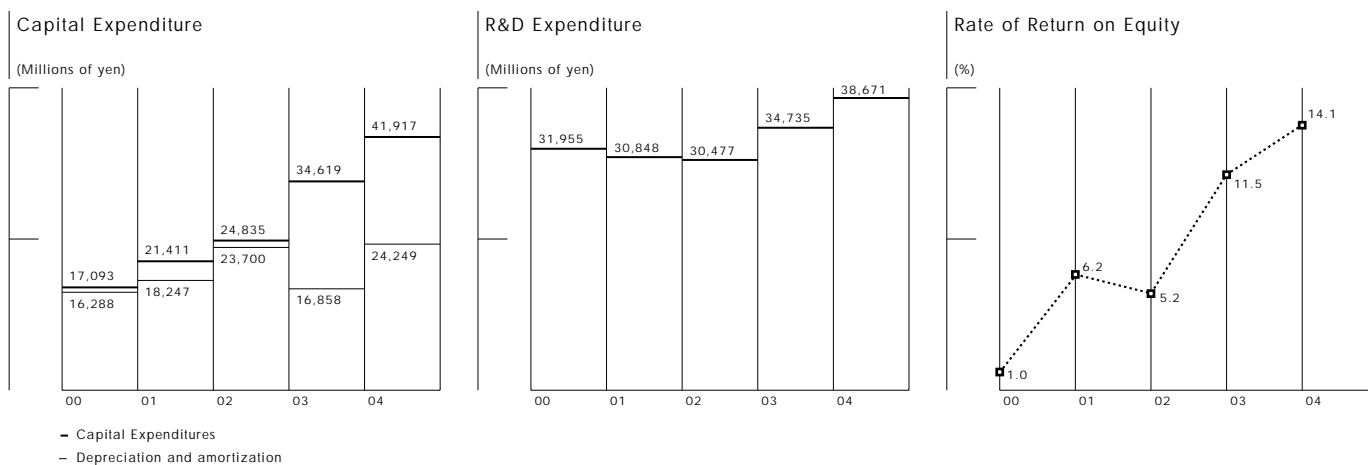
Net cash provided by financial activities was ¥38,408 million (US\$349 million), owing to a decrease in short-term borrowings and proceeds from long-term debt.

### Research & Development Expenditures

- > The Olympus Group has been seeking new technologies through research and development activities to create new business areas and to strengthen the core competencies of current businesses. In the fiscal year under review, R&D expenditures amounted to ¥38,671 million (US\$352 million), 6.1% of net sales.

### Capital Expenditures

- > Total capital expenditures grew 21.1% to ¥41,917 million (US\$381 million). The amount of depreciation and amortization was ¥24,249 million (US\$220 million) in the fiscal year under review.



# TEN-YEAR SUMMARY

Olympus Corporation and Consolidated Subsidiaries

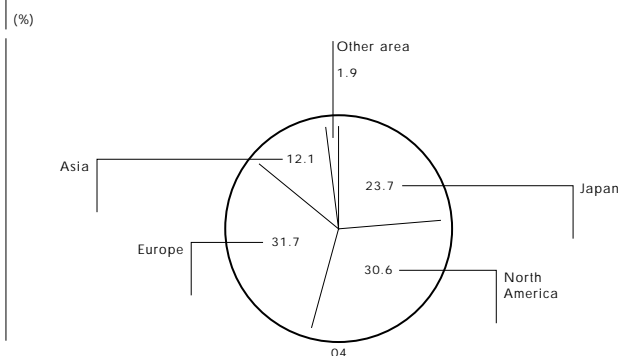
	2004	2003
<b>FOR THE YEAR:</b>		
<b>Net sales:</b>		
Domestic.....	¥150,334	141,021
Overseas.....	¥483,288	423,322
Total.....	¥633,622	564,343
Percentage to previous year.....	112.3%	106.8
Net income.....	¥ 33,564	24,348
Percentage to net sales.....	5.3%	4.3
R&D expenditures.....	¥ 38,671	34,735
Capital expenditures.....	¥ 41,917	34,619
Depreciation and amortization.....	¥ 24,249	16,858
<b>Earnings per share (in yen):</b>		
Basic net income.....	¥ 126.96	91.88
<b>Cash dividends per share (in yen):</b>		
Actual.....	¥ 15.00	14.00
<b>AT YEAR-END:</b>		
Total assets.....	¥682,673	605,768
Turnover (times).....	0.93	0.97
Total liabilities.....	¥429,329	382,456
Minority interests.....	¥ 1,165	880
Shareholders' equity.....	¥252,179	222,432
Shareholders' equity ratio.....	36.9%	36.7
Working capital.....	¥125,324	79,734
Number of shares outstanding (in thousands).....	264,473	264,473
Number of employees.....	28,857	23,975

Notes: 1. See Note 1 (n) of Notes to the Consolidated Financial Statements in respect to the calculation of amounts and dividends per share.

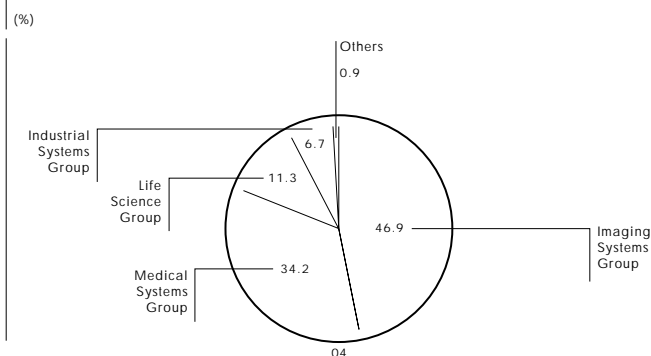
2. These figures are based on accounting principles generally accepted in Japan.

3. Diluted net income per share is not presented due to the fact that there were no potentially dilutive common shares.

Sales by Geographic Area



Sales by Business Segment



Millions of yen (except per share amounts)

	2002	2001	2000	1999	1998	1997	1996	1995
	150,761	149,351	144,993	136,012	128,025	114,162	95,185	86,914
	377,654	317,353	283,653	277,732	236,957	196,315	160,963	165,183
	528,415	466,704	428,646	413,744	364,982	310,477	256,148	252,097
	113.2	108.9	103.6	113.4	117.6	121.2	101.6	105.2
	10,279	11,787	1,860	8,883	9,309	2,322	2,041	3,101
	1.9	2.5	0.4	2.1	2.6	0.7	0.8	1.2
	30,477	30,848	31,955	31,060	28,415	28,637	27,821	27,833
	24,835	21,441	17,093	18,452	17,220	15,285	13,865	11,925
	23,700	18,247	16,288	16,824	15,332	13,455	11,452	13,543
	38.87	44.57	7.03	33.59	35.21	8.79	7.72	11.74
	13.00	13.00	6.50	13.00	13.00	13.00	13.00	13.50
	562,078	584,103	536,174	533,584	521,101	510,123	487,549	442,367
	0.94	0.80	0.80	0.78	0.70	0.61	0.53	0.57
	358,256	389,968	344,272	342,895	334,411	329,413	305,723	259,940
	2,275	1,906	1,561	402	573	528	463	9
	201,547	192,229	190,341	190,287	186,117	180,182	181,363	182,418
	35.9	32.9	35.5	35.7	35.7	35.3	37.2	41.2
	114,779	124,287	171,378	232,226	211,144	193,282	148,372	205,256
	264,473	264,473	264,473	264,473	264,473	264,279	264,230	264,221
	20,705	19,865	18,999	17,874	17,098	16,426	14,923	13,712

## CONSOLIDATED BALANCE SHEETS

Olympus Corporation and Consolidated Subsidiaries  
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits.....	¥ 114,839	¥ 102,216	\$ 1,043,991
Marketable securities.....	34,997	34,997	318,155
Notes and accounts receivable.....	117,686	104,190	1,069,873
Allowance for doubtful accounts.....	(3,363)	(3,647)	(30,573)
Inventories.....	87,445	77,166	794,955
Deferred income taxes.....	18,682	21,887	169,836
Other current assets.....	37,763	20,740	343,299
<b>Total current assets.....</b>	<b>408,049</b>	<b>357,549</b>	<b>3,709,536</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land.....	14,328	15,230	130,255
Buildings and structures.....	87,592	87,446	796,291
Machinery and equipment.....	159,646	143,332	1,451,327
Construction in progress.....	2,852	878	25,927
	264,418	246,886	2,403,800
Less—Accumulated depreciation.....	(163,314)	(155,591)	(1,484,673)
<b>Net property, plant and equipment.....</b>	<b>101,104</b>	<b>91,295</b>	<b>919,127</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities.....	119,643	107,895	1,087,664
Deferred income taxes.....	7,788	17,408	70,800
Lease deposits and other.....	46,089	31,621	418,991
<b>Total investments and other assets.....</b>	<b>173,520</b>	<b>156,924</b>	<b>1,577,455</b>
	¥ 682,673	¥ 605,768	\$ 6,206,118

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings.....	¥ 100,607	¥ 72,928	\$ 914,609
Current maturities of long-term debt.....	2,054	38,321	18,673
Notes and accounts payable.....	77,087	60,860	700,791
Accrued expenses.....	57,080	59,439	518,909
Income taxes payable.....	4,457	12,304	40,518
Other current liabilities.....	41,440	33,963	376,727
Total current liabilities.....	282,725	277,815	2,570,227
Long-term debt, less current maturities.....	134,547	84,778	1,223,155
Severance and retirement allowance.....	7,903	14,043	71,845
Other non-current liabilities.....	4,154	5,820	37,764
Contingent liabilities (Note 11).....	—	—	—
Minority interests.....	1,165	880	10,591
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—264,472,608 shares.....	40,833	40,833	371,209
Capital surplus.....	65,528	65,528	595,709
Retained earnings.....	149,397	119,867	1,358,155
Net unrealized holding gains on securities.....	5,983	555	54,391
Foreign currency translation adjustments.....	(7,569)	(3,324)	(68,809)
Treasury stock, at cost.....	(1,993)	(1,027)	(18,119)
Total shareholders' equity.....	252,179	222,432	2,292,536
	¥ 682,673	¥605,768	\$ 6,206,118

# CONSOLIDATED STATEMENTS OF INCOME

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales .....	¥ 633,622	¥ 564,343	¥ 528,415	\$ 5,760,200
Cost of sales.....	335,053	293,532	308,637	3,045,936
Gross profit .....	298,569	270,811	219,778	2,714,264
Selling, general and administrative expenses .....	235,572	208,465	177,495	2,141,564
Operating income .....	62,997	62,346	42,283	572,700
OTHER INCOME (EXPENSES):				
Interest expense, net .....	(4,621)	(6,083)	(8,596)	(42,009)
Gain (loss) on marketable and investment securities, net.....	1,749	(8,112)	(10,430)	15,900
Foreign currency exchange gain (loss), net .....	1,123	(1,235)	(3,859)	10,209
Net gain (loss) of investment in affiliated companies carried on the equity method .....	(1,570)	46	376	(14,273)
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme .....	8,584	—	—	78,036
Loss on settlement of swap contracts .....	(5,447)	—	—	(49,518)
Other, net .....	(2,614)	(3,968)	668	(23,763)
Total .....	(2,796)	(19,352)	(21,841)	(25,418)
Income before provision for income taxes .....	60,201	42,994	20,442	547,282
PROVISION FOR INCOME TAXES:				
Current .....	16,390	24,483	15,238	149,000
Deferred .....	10,247	(5,837)	(5,075)	93,155
Total .....	26,637	18,646	10,163	242,155
Net income .....	¥ 33,564	¥ 24,348	¥ 10,279	\$ 305,127
AMOUNTS PER SHARE OF COMMON STOCK:				
Earnings per share—Basic net income.....	¥126.96	¥91.88	¥38.87	\$1.154
CASH DIVIDENDS, APPLICABLE TO THE YEAR—				
Actual .....	¥15.00	¥14.00	¥13.00	\$0.136

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>COMMON STOCK:</b>				
Balance at beginning of year .....	¥ 40,833	¥ 40,833	¥ 40,833	\$ 371,209
Balance at end of year .....	¥ 40,833	¥ 40,833	¥ 40,833	\$ 371,209
<b>CAPITAL SURPLUS</b>				
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Balance at beginning of year .....	¥ 65,528	¥ 65,528	¥ 65,528	\$ 595,709
Balance at end of year .....	¥ 65,528	¥ 65,528	¥ 65,528	\$ 595,709
<b>RETAINED EARNINGS:</b>				
Balance at beginning of year .....	¥ 119,867	¥ 99,032	¥ 92,297	\$ 1,089,700
Net income .....	33,564	24,348	10,279	305,127
Cash dividends paid .....	(3,958)	(3,437)	(3,438)	(35,982)
Bonuses for directors .....	(72)	(76)	(106)	(655)
Net loss on disposal of treasury stock .....	(4)	—	—	(35)
Balance at end of year .....	¥ 149,397	¥ 119,867	¥ 99,032	\$ 1,358,155
<b>NET UNREALIZED HOLDING GAINS (LOSSES) ON SECURITIES:</b>				
Balance at beginning of year .....	¥ 555	¥ (214)	¥ (204)	\$ 5,045
Net increase (decrease) .....	5,428	769	(10)	49,346
Balance at end of year .....	¥ 5,983	¥ 555	¥ (214)	\$ 54,391
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:</b>				
Balance at beginning of year .....	¥ (3,324)	¥ (3,536)	¥ (6,220)	\$ (30,218)
Net increase (decrease) .....	(4,245)	212	2,684	(38,591)
Balance at end of year .....	¥ (7,569)	¥ (3,324)	¥ (3,536)	\$ (68,809)
<b>TREASURY STOCK, AT COST:</b>				
Balance at beginning of year .....	¥ (1,027)	¥ (96)	¥ (5)	\$ (9,336)
Net increase (decrease) .....	(966)	(931)	(91)	(8,783)
Balance at end of year .....	¥ (1,993)	¥ (1,027)	¥ (96)	\$ (18,119)

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before provision for income taxes .....	¥ 60,201	¥ 42,994	¥ 20,442	\$ 547,282
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	24,249	16,858	23,700	220,445
Increase (decrease) in severance and retirement allowance.....	(6,144)	2,699	3,282	(55,855)
Increase in prepaid pension cost.....	(8,692)	—	—	(79,018)
Interest income.....	(291)	(376)	(666)	(2,645)
Interest expense .....	4,912	6,459	9,262	44,655
Loss (gain) on marketable and investment securities, net.....	(1,749)	8,112	10,430	(15,900)
Loss on settlement of swap contracts .....	5,447	—	—	49,518
Increase in accounts receivable.....	(27,967)	(12,580)	(2,722)	(254,245)
Decrease (increase) in inventories .....	(13,285)	6,319	30,626	(120,773)
Increase (decrease) in accounts payable.....	21,253	6,900	(19,653)	193,209
Increase (decrease) in other payable .....	5,630	7,840	(3,377)	51,182
Increase in accrued expense .....	408	16,692	285	3,709
Other .....	(2,265)	4,650	(628)	(20,591)
Sub-total.....	61,707	106,567	70,981	560,973
Interest and dividend received .....	1,129	1,131	1,618	10,264
Interest payments.....	(5,040)	(6,410)	(9,097)	(45,818)
Income taxes paid .....	(27,259)	(22,537)	(12,895)	(247,810)
Net cash provided by operating activities.....	30,537	78,751	50,607	277,609
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Deposits in time deposits.....	(45,377)	(46,268)	(45,297)	(412,518)
Withdrawals from time deposits .....	45,904	45,635	15,062	417,309
Purchases of marketable securities.....	(70,000)	(70,000)	(69,997)	(636,364)
Sales of marketable securities.....	70,000	70,000	71,264	636,364
Payments for settlement of swap contracts .....	(5,447)	—	—	(49,518)
Purchases of property, plant and equipment .....	(43,412)	(32,949)	(25,162)	(394,655)
Purchases of investment securities.....	(8,215)	(26,707)	(2,061)	(74,682)
Sales of investment securities.....	4,822	1,366	1,095	43,836
Payments for acquisition of new subsidiaries .....	(2,233)	(199)	(862)	(20,300)
Payments for additional stock investment in subsidiaries .....	—	(1,784)	(328)	—
Other .....	(1,253)	571	153	(11,390)
Net cash used in investing activities .....	(55,211)	(60,335)	(56,133)	(501,918)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Increase (decrease) in short-term borrowings .....	28,370	(8,266)	(1,162)	257,909
Proceeds from long-term debt.....	21,455	20,087	30	195,045
Repayments of long-term debt .....	(1,593)	(935)	(102)	(14,482)
Proceeds from issuance of bonds.....	29,877	—	—	271,609
Redemption of bonds.....	(35,000)	(25,000)	(20,000)	(318,182)
Stock issue to minority shareholders.....	250	188	338	2,273
Dividends paid.....	(3,958)	(3,437)	(3,438)	(35,982)
Dividends paid to minority shareholders .....	(1)	(12)	(24)	(9)
Other .....	(992)	(904)	(429)	(9,017)
Net cash provided by (used in) financing activities.....	38,408	(18,279)	(24,787)	349,164
Effect of exchange rate changes on cash and cash equivalents .....	(583)	462	907	(5,300)
Net increase (decrease) change in cash and cash equivalents .....	13,151	599	(29,406)	119,555
Cash and cash equivalents at beginning of year .....	55,944	55,345	84,751	508,581
Cash and cash equivalents at end of year.....	¥ 69,095	¥ 55,944	¥ 55,345	\$ 628,136

See accompanying notes to consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS*

Olympus Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the "Code"), the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the statutory Japanese language consolidated financial statements in order to present them in a form which is more familiar to readers outside Japan.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003). The Company believes that adoption of this new accounting standard will have no material impact on its financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the exchange rate of ¥110 to US\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

*(b) PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES*

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant inter-company balances and transactions have been eliminated in the consolidation.

The Company consolidates all significant investees which were controlled through substantial ownership of majority voting rights or existence of certain conditions.

Investments in certain unconsolidated subsidiaries and affiliated companies in which the Company has significant influence, but less than a controlling interest, are accounted for using the equity method. Investments in companies in which the Company does not have significant influence are accounted for at cost. The differences between acquisition cost and underlying net equity at the time of acquisition are generally being amortized on the straight-line method over five years.

*(c) FOREIGN CURRENCY TRANSACTION*

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates at the balance sheet date in accordance with the accounting standards for Foreign Currency Translations ("Opinion Concerning Establishment of Accounting Standard for Foreign Currency Translations" issued by the Business Accounting Deliberation Council on October 22, 1999), effective from the year ended March 31, 2001.

*(d) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT*

In accordance with the accounting standards for foreign currency translations, assets and liabilities denominated in foreign functional currencies are translated at exchange rates at the balance sheet date. Shareholders' equity accounts are translated at historical exchange rates. Revenue and expenses denominated in foreign functional currencies are translated at average exchange rates for the each fiscal year. Effective for the year ended March 31, 2001, differences resulting from translation are presented as "Foreign currency translation adjustments" in Shareholders' equity of the accompanying consolidated balance sheets.

*(e) CASH AND CASH EQUIVALENTS*

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

*(f) MARKETABLE AND INVESTMENT SECURITIES*

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the Japanese accounting standard on accounting for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

In accordance with the accounting standard, the Company and its consolidated subsidiaries examined the intent of holding securities and classified those securities into four categories.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market value, and those with no fair market values at moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gain on sale of such securities is computed using the moving-average cost.

*(g) INVENTORIES*

Inventories are principally stated at the lower of cost (first-in first-out) or market.

*(h) PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are stated at cost. Depreciation is mainly computed by the declining balance method at rates based on the estimated useful lives of the relevant assets. The effective annual rates of depreciation as of March 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Buildings and structures .....	8.0%	6.5%	9.5%
Machinery and equipment .....	29.9%	28.9%	41.5%

*(i) PENSION AND RETIREMENT ALLOWANCE PLANS*

Employees of the Company, certain domestic consolidated subsidiaries and foreign consolidated subsidiaries are covered by funded pension plans.

Employees of domestic consolidated subsidiaries, and directors of the Company and a couple of domestic consolidated subsidiaries are covered primarily by unfunded retirement allowance plans.

The amounts of pension payments and retirement allowances are generally determined on the basis of length of service and basic salary at the time of termination of service.

It is the Company's policy to fund amounts required to maintain sufficient plan assets to provide for accrued benefits based on a certain percentage of wage and salary costs. The plan assets consist principally of interest-bearing bonds and listed equity securities.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16 1998. Under which allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2003 based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

Net transition obligation amounting to ¥7,782 million (\$70,745 thousand) will be recognized as expense in equal amounts over 5 years commencing with the year ended March 31, 2001.

Allowance for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet together with severance and retirement allowance for directors as of March 31, 2004 and 2003.

*(j) RETURN OF SUBSTITUTIONAL PORTION OF EMPLOYEES' PENSION INSURANCE*

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (so-called substitutional portion of the government's scheme ) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labour and Welfare on December 1, 2003 to be released from its obligation for payments for the substitutional portion of the Employees' Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund were transferred back on February 27, 2004 to the government's scheme. As a result, the Company recorded gains amounting to ¥8,584 million (\$78,036 thousand).

The Company did not apply the transitional provisions as prescribed in paragraph 47-2 of the Japanese Institute of Certified Public Accountants (JICPA) Accounting Committee Report No.13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)."

The effects of the adoption, in case the Company and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the guidelines, are disclosed in "Note 8, SEVERANCE AND RETIREMENT ALLOWANCE."

(k) RESEARCH AND DEVELOPMENT

Expenses relating to research and development activities are charged to income as incurred. Total amounts charged to income were ¥38,671 million (\$351,555 thousand), ¥34,735 million and ¥30,477 million for the years ended March 31, 2004, 2003 and 2002, respectively.

(l) CERTAIN LEASE TRANSACTIONS

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases.

(m) INCOME TAXES

The Company adopts the accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(n) AMOUNTS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for each fiscal year. Diluted EPS is similar to basic EPS except that the weighted-average of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. For the years ended for March 31, 2004, 2003 and 2002, there were no dilutive common shares. Accordingly, the Company's basic and dilutive earnings per share computations are the same for the periods presented.

Cash dividends per common share are the amounts applicable to the respective periods.

(o) ACCOUNTING STANDARD FOR TREASURY STOCK AND REVERSAL OF STATUTORY RESERVES

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002).

The adoption of the new accounting standard had no impact on the financial statements.

(p) EARNINGS PER SHARE

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect of the adoption of the new standard and guidance is disclosed in the note for earnings per share.

## 2. MARKETABLE AND INVESTMENT SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with fair value as of March 31, 2004 and 2003:

Available-for-sale securities

Securities with book value (fair value) exceeding acquisition cost.

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥11,406	¥19,255	¥7,849	¥ 1,396	¥ 3,139	¥1,743	\$103,691	\$175,045	\$71,354
Bonds .....	9	9	0	10	10	0	82	82	0
Others .....	36,078	36,599	521	35,577	35,888	311	327,982	332,718	4,736
Total .....	¥47,493	¥55,863	¥8,370	¥36,983	¥39,037	¥2,054	\$431,755	\$507,845	\$76,090

Securities with book value (fair value) under acquisition cost.

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥ 48	¥ 47	¥ (1)	¥ 7,438	¥ 6,182	¥(1,256)	\$ 436	\$ 427	\$ (9)
Bonds .....	35,000	34,997	(3)	35,000	34,997	(3)	318,182	318,155	(27)
Others .....	4,183	3,647	(536)	—	—	—	38,027	33,154	(4,873)
<b>Total .....</b>	<b>¥39,231</b>	<b>¥38,691</b>	<b>¥(540)</b>	<b>¥42,438</b>	<b>¥41,179</b>	<b>¥(1,259)</b>	<b>\$356,645</b>	<b>\$351,736</b>	<b>\$(4,909)</b>

Note: The Company recognizes impairment loss when the fair market value of marketable and investment securities comes down to less than 50% of the acquisition cost at the end of period. In addition, the loss is also recognized when the fair market value declines more than 30% but less than 50%, unless the recovery of the fair market value is reasonably expected under the market conditions, trends of earnings and other key measures.

The following table summarizes book values of securities not stated at fair value as of March 31, 2004 and 2003:

Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Non-listed equity securities .....	¥ 7,714	¥ 7,578	\$ 70,127
Non-listed foreign bonds .....	3,684	6,681	33,491
Others .....	10,008	10,005	90,982
<b>Total .....</b>	<b>¥21,406</b>	<b>¥24,264</b>	<b>\$194,600</b>

Note: The preferred securities of ¥6,003 million (\$54,573 thousand) issued by specific purpose company, which is based on the scheme for securitization of real estate, carry the risk of fluctuations in redemption price caused by changes in the utilization value of real estate.

Maturities of available-for-sale securities are as follows:

	Millions of yen			
	2004			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	¥ —	¥ 6,003	¥ —	¥ 6,003
Government bonds .....	34,997	12	—	35,009
Corporate bonds .....	189	13,647	3,500	17,336
<b>Total .....</b>	<b>¥35,186</b>	<b>¥19,662</b>	<b>¥3,500</b>	<b>¥58,348</b>

	Millions of yen			
	2003			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	¥ —	¥ 6,003	¥ —	¥ 6,003
Government bonds .....	34,997	10	—	35,007
Corporate bonds .....	—	13,181	3,500	16,681
<b>Total .....</b>	<b>¥34,997</b>	<b>¥19,194</b>	<b>¥3,500</b>	<b>¥57,691</b>

	Thousands of U.S. dollars			
	2004			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	\$ —	\$ 54,573	\$ —	\$ 54,573
Government bonds .....	318,155	109	—	318,264
Corporate bonds .....	1,718	124,063	31,818	157,599
<b>Total .....</b>	<b>\$319,873</b>	<b>\$178,745</b>	<b>\$31,818</b>	<b>\$530,436</b>

### 3. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Unconsolidated subsidiaries and affiliates .....	¥ 2,151	¥ 1,701	\$ 19,555
Trade .....	115,535	102,489	1,050,318
<b>Total</b>	<b>¥117,686</b>	<b>¥104,190</b>	<b>\$1,069,873</b>

### 4. INVENTORIES

Inventories as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods .....	¥56,514	¥53,425	\$513,764
Work in process and raw materials .....	30,931	23,741	281,191
<b>Total</b>	<b>¥87,445</b>	<b>¥77,166</b>	<b>\$794,955</b>

### 5. SHORT-TERM BORROWINGS

Short-term borrowings, which consist principally of bank acceptances payable in foreign currencies, are due in 1 to 180 days. The annual interest rates on these borrowings ranged from 0.57% to 13.00% and from 0.57% to 7.19% as of March 31, 2004 and 2003, respectively. Bank acceptances payable of ¥1,532 million (\$13,927 thousand) were secured by certain trade accounts receivable and inventories as of March 31, 2004.

As is customary in Japan, substantially all bank borrowings, including acceptances payable, are subject to general agreements with each bank which provide, among other things, that the banks may, under certain circumstances, require additional security for such loans and may treat any security furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The Company and its subsidiaries have never been requested to submit such additional security.

## 6. LONG-TERM DEBT

Long-term debt as of March 31, 2004 and 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
(Unsecured long-term debt)			
3.15% yen bonds, due April 2003 .....	¥ —	¥ 15,000	\$ —
2.45% yen bonds, due November 2003 .....	—	10,000	—
2.65% yen bonds, due February 2004 .....	—	10,000	—
3.60% yen bonds, due April 2006 .....	15,000	15,000	136,364
2.975% yen bonds, due November 2006 .....	10,000	10,000	90,909
3.35% yen bonds, due February 2009 .....	5,000	5,000	45,455
0.80% yen bonds, due July 2008 .....	30,000	—	272,727
1.16% loan from a Japanese bank, due December 2008 .....	20,000	—	181,818
2.65% loans from Japanese insurance companies, due February 2004 .....	—	3,000	—
2.105% loan from a Japanese bank, due March 2005 .....	1,500	1,500	13,636
0.59% to 0.61% loans from Japanese banks, due February 2007 .....	750	—	6,818
0.59% loan from a Japanese bank, due September 2004 .....	500	—	4,545
1.45% loan from a Japanese bank, due March 2006 .....	30,000	30,000	272,727
0.72% loan from a Japanese bank, due March 2008 .....	20,000	20,000	181,818
Others from foreign banks .....	595	688	5,409
Others from Japanese banks .....	803	412	7,300
(Secured long-term debt)			
Others from foreign banks .....	1,649	1,689	14,991
Others from Japanese banks .....	804	810	7,311
	¥136,601	¥123,099	\$1,241,828
Less—Current maturities .....	(2,054)	(38,321)	(18,673)
	¥134,547	¥ 84,778	\$1,223,155

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005 .....	¥ 2,054	\$ 18,673
2006 .....	30,052	273,200
2007 .....	26,292	239,018
2008 .....	20,372	185,200
2009 .....	56,583	514,391
Thereafter .....	1,248	11,346
Total .....	¥136,601	\$1,241,828

## 7. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Unconsolidated subsidiaries and affiliates .....	¥ 75	¥ 65	\$ 682
Trade .....	77,012	60,795	700,109
Total .....	¥77,087	¥60,860	\$700,791

## 8. SEVERANCE AND RETIREMENT ALLOWANCE

As explained in "Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," effective April 1, 2000, the Company and its consolidated subsidiaries adopted the accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations. The Company restructured the pension scheme entirely with transferring back the substitutional portion of the Employees' Pension Insurance Scheme and establishing the new Employees' Pension Fund in fiscal 2004.

The liabilities for severance and retirements benefits included in the liability section of the consolidated balance sheet as of March 31, 2004 and 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation .....	¥ 84,280	¥ 96,777	\$ 766,182
Unrecognized prior service costs .....	689	5,157	6,264
Unrecognized actuarial difference .....	(18,010)	(25,781)	(163,727)
Fair value of pension assets .....	(67,844)	(60,133)	(616,764)
Unrecognized net transition obligation .....	(1,161)	(3,113)	(10,555)
Prepaid pension expenses .....	8,692	—	79,018
Allowance for employees' severance and retirement benefits .....	¥ 6,646	¥ 12,907	\$ 60,418
Severance and retirement allowance for directors .....	¥ 1,257	¥ 1,136	\$ 11,427
Total severance and retirement allowance .....	¥ 7,903	¥ 14,043	\$ 71,845

Included in the consolidated statements of income for the year ended March 31, 2004 and 2003, are employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs—benefits earned during the year.....	¥ 3,264	¥ 5,330	\$ 29,673
Interest cost on projected benefit obligation.....	2,078	2,155	18,891
Expected return on plan assets .....	(2,478)	(1,810)	(22,527)
Amortization of actuarial difference .....	6,206	5,087	56,418
Amortization of prior service costs .....	(967)	(891)	(8,791)
Amortization of net transition obligation .....	1,407	1,556	12,791
Severance and pension benefit expense.....	¥ 9,510	¥ 11,427	\$ 86,455

The discount rates used by the Company are 2.0% in fiscal 2004 and 2.5% in fiscal 2003. The rates of expected return on plan assets used by the Company are 4.0% in fiscal 2004 and 3.0% in fiscal 2003. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs and net transition obligation are both recognized as expense (or income) in equal amounts over 5 years, and actuarial gains (or losses) are recognized as income (or expense) in equal amounts over 5 years. Pension assets for the substitutional portion maintained by the Employees' Pension Fund were transferred back on February 27, 2004 to the government's scheme. As a result, the Company recorded gains amounting to ¥8,584 million (\$78,036 thousand).

## 9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 41.8% for the years ended March 31, 2004, 2003 and 2002. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for consolidated financial statement purposes for the years ended March 31, 2004, 2003 and 2002.

	2004	2003	2002
Japanese statutory tax rate .....	41.8%	41.8%	41.8%
Effect of foreign tax rate differences.....	(4.3)	2.7	(1.2)
Non-taxable dividend income .....	—	(0.4)	(1.0)
Non-deductible expenses .....	2.1	0.3	3.3
Adjustments of deferred tax assets and liabilities			
for enacted changes in tax laws and rates .....	—	1.4	—
Impact of operating losses (utilized)/generated for certain subsidiaries .....	4.3	(2.0)	7.9
Other, net.....	0.4	(0.6)	(1.1)
Effective tax rate.....	44.3%	43.2%	49.7%

Significant components of deferred income tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred income tax assets:			
Inventories.....	¥ 5,078	¥ 5,727	\$ 46,164
Depreciation of property, plant and equipment .....	4,099	3,862	37,264
Depreciation of intangible assets .....	2,651	1,883	24,100
Severance and retirement allowances.....	2,255	4,565	20,500
Prepaid expenses .....	4,588	4,834	41,709
Marketable and investment securities .....	4,984	6,190	45,309
Deferred assets .....	268	463	2,436
Unrealized intercompany profits .....	6,111	6,393	55,555
Accrued bonuses .....	3,628	3,572	32,982
Other .....	3,945	5,720	35,863
Total deferred income tax assets .....	¥ 37,607	¥ 43,209	\$ 341,882
Prepaid pension expenses .....	(3,549)	—	(32,264)
Net unrealized holding gains (losses) on securities .....	(2,492)	(311)	(22,655)
Total deferred income tax liabilities.....	(5,096)	(3,603)	(46,327)
Net deferred income tax assets .....	¥ 26,470	¥ 39,295	\$ 240,636

The effective tax rate used for calculation of deferred taxes assets and liabilities was 41.8% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred taxes assets and liabilities, the Company and consolidated domestic subsidiaries used the effective tax rates of before change and after change for current items and non-current items, respectively, for the year ended March 31, 2003.

As the result of the change in the effective tax rates, deferred income tax assets decreased by ¥589 million (\$5,355 thousand) and income taxes-deferred increased by ¥601 million (\$5,464 thousand) compared with what would have been recorded under the previous local tax law.

For calculation of deferred taxes assets and liabilities, the Company and consolidated domestic subsidiaries used the effective tax rates of after change for both current items and non-current items for the year ended March 31, 2004.

## 10. SHAREHOLDERS' EQUITY

Under the Code, the following are provided:

- The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.
- The entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.
- Dividends are approved by the shareholders' meeting held subsequent to the statutory fiscal period to which the dividends are payable to shareholders of record at the end of each such fiscal period.

- Semi-annual dividends are approved by the Board of Directors after the end of each first six-month period to which the dividends are payable to shareholders of record at the end of the interim six-month period.

## 11. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for export bills discounted of ¥1,532 million (\$13,927 thousand) as of March 31, 2004. As of March 31, 2004, the Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥720 million (\$6,545 thousand).

## 12. PLEDGED ASSETS

The following assets were pledged as collateral for short-term borrowings and long-term debt as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land .....	¥ 78	¥ 78	\$ 709
Buildings and structures .....	2,546	2,614	23,146
	¥2,624	¥2,692	\$23,855

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Long-term debt.....	¥2,453	¥2,543	\$22,300

## 13. CASH AND CASH EQUIVALENTS

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits.....	¥ 114,839	¥102,216	\$1,043,991
Less: Time deposits with maturities over three months.....	(45,744)	(46,272)	(415,855)
Cash and cash equivalents .....	¥ 69,095	¥ 55,944	\$ 628,136

## 14. INFORMATION FOR CERTAIN LEASE TRANSACTIONS

### LESSEE:

The Company and its consolidated subsidiaries lease certain machinery and equipment under the non-cancelable finance and operating leases. Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases for the year ended March 31, 2004 and 2003 was as follows:

(Equivalent amount)	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost .....	¥ 8,234	¥ 8,212	\$ 74,855
Accumulated depreciation .....	(4,099)	(3,880)	(37,264)
Estimated net book value.....	¥ 4,135	¥ 4,332	\$ 37,591

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
(Accrued lease payments)			
Lease payments .....	¥2,120	¥2,176	\$19,273
Equivalent of depreciation expense .....	1,959	1,987	17,809
Equivalent of interest expense .....	162	168	1,473

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Future minimum lease payments under the non-cancelable finance and operating leases having remaining terms in excess of one year as of March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004 .....	¥1,868	\$16,982
2005 and thereafter .....	2,779	25,263
Total minimum lease payments .....	¥4,647	\$42,245

*LESSOR:*

Certain machinery and equipment of the Company and its consolidated subsidiaries are leased under the finance leases. For the years ended March 31, 2004 and 2003, the amounts of machinery and equipment were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost .....	¥ 6,666	¥ 7,491	\$ 60,600
Accumulated depreciation.....	(3,578)	(3,987)	(32,527)
Net book value .....	¥ 3,088	¥ 3,504	\$ 28,073

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease income.....	¥1,776	¥1,738	\$16,145
Depreciation expense.....	1,606	1,537	14,600
Estimated interest income.....	140	185	1,273

Estimated interest income is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease receipts.

Future minimum lease receipts under these finance lease arrangements as of March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004 .....	¥1,243	\$11,300
2005 and thereafter .....	1,962	17,836
Total minimum lease receipts .....	¥3,205	\$29,136

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its consolidated subsidiaries use derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Company and its consolidated subsidiaries are foreign exchange forward contracts, currency options, and interest rate swaps. Almost all-derivative transactions are used to hedge interest rates and foreign currency positions in connection with their business. Accordingly, market risk in these derivatives is largely offset by opposite movements in the underlying positions. Management assesses derivative transactions and market risks surrounding these transactions according to the Company's policy regarding derivative transactions. Contracts of derivative financial instruments are executed by finance departments of the Company or foreign subsidiaries in accordance with the internal rules approved by the Company's board of directors or with the approval and under the directions of a responsible director of foreign subsidiaries.

The counter-parties to the derivative financial instruments of the Company and its consolidated subsidiaries are substantial and creditworthy multi-international commercial banks or other financial institutions that are recognized market makers. Neither the risks of counter-party non-performance nor the economic consequences of counter-party non-performance associated with these contracts are considered by the Company to be material.

The following table summarizes the underlying notional transaction amounts, book values and fair values for outstanding derivative financial instruments by risk category and instrument type as of March 31, 2004 and 2003:

(as of March 31, 2004)	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Book value	Fair value	Notional amount	Book value	Fair value
Foreign exchange forward contracts:						
To buy U.S. dollars .....	¥1,249	¥—	¥1,214	¥11,355	\$ —	\$11,036
To sell U.S. dollars .....	37	—	37	336	—	336
To sell British pounds .....	579	—	579	5,264	—	5,264
To sell other currencies .....	2,261	—	2,243	20,555	—	20,391
Foreign exchange option contracts						
Put option of other currencies .....	1,567	29	34	14,245	264	309

(as of March 31, 2003)	Millions of yen		
	Notional amount	Book value	Fair value
Foreign exchange forward contracts:			
To buy U.S. dollars .....	¥ 111	¥—	¥ 131
To sell British pounds .....	3,072	—	2,997
To sell other currencies .....	3,023	—	2,980

The forward contracts on the foreign currency receivable and payable translated into Japanese yen at the forward exchange rates in the accompanying consolidated financial statements are not included in the above amounts.

The fair value of currency option agreements is estimated by obtaining quotes from financial institutions. The fair value of foreign exchange forward contracts is estimated based on market prices for contracts with similar terms.

A swap contract concluded by a subsidiary of the Company was settled in fiscal 2004. As a result of the settlement, the subsidiary recorded losses amounting to ¥5,447 millions (\$49,518 thousand). This contract fixes stable income for the subsidiary and requires additional payments determined by a certain portion of difference between the fair market value and strike price of shares, when the fair market value of shares surpasses the strike price.

## 16. SUBSEQUENT EVENTS

- (a) At the general meeting held on June 29, 2004, the shareholders approved a cash dividend totaling ¥1,976 million (\$17,964 thousand) or ¥7.50 (\$0.07) per share and payment of bonuses to directors totaling ¥65 million (\$591 thousand). In accordance with the Commercial Code of Japan, the declaration of this dividend and the payment of these bonuses have not been reflected in the accompanying consolidated financial statements as of March 31, 2004.
- (b) At the board of directors' meeting held on May 12, 2003, a proposal was approved that the Company can acquire treasury stock (¥10,000,000 thousand, common share 5,000 thousand are the maximum) on the Code No.210 for the 135th Company's annual shareholder's meeting on June 27, 2003.

The proposal was approved and the Company can acquire treasury stock from the end of the 135th Company's annual shareholder's meeting to the end of the 136th. The Company did not acquire any treasury stock in fiscal 2004, because the Company had not met any specific condition to be required to execute it.

## 17. SEGMENTAL INFORMATION

### (a) INFORMATION BY BUSINESS SEGMENT

Segment information for the years ended March 31, 2004 and 2003 are shown in the tables below:

Millions of yen								
2004								
	Imaging Systems Group	Medical Systems Group	Life Science Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:								
Unaffiliated customers.....	¥296,730	¥216,915	¥71,739	¥42,546	¥5,692	¥633,622	¥—	¥633,622
Intersegment .....	32	13	16	47	1	109	(109)	—
Total .....	296,762	216,928	71,755	42,593	5,693	633,731	(109)	633,622
Operating expenses.....	281,604	153,712	67,932	45,417	6,721	555,386	15,239	570,625
Operating income (loss) .....	15,158	63,216	3,823	(2,824)	(1,028)	78,345	(15,348)	62,997
Assets .....	158,278	142,906	57,077	27,788	14,387	400,436	282,237	682,673
Depreciation and amortization .....	8,764	9,075	3,137	844	668	22,488	1,761	24,249
Capital expenditures.....	¥16,624	¥11,717	¥6,130	¥1,245	¥1,161	¥36,877	¥5,040	¥41,917

Millions of yen								
2003								
	Imaging Systems Group	Medical Systems Group	Life Science Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:								
Unaffiliated customers.....	¥244,814	¥201,512	¥66,942	¥44,463	¥6,612	¥564,343	¥—	¥564,343
Intersegment .....	63	13	2	45	1	124	(124)	—
Total .....	244,877	201,525	66,944	44,508	6,613	564,467	(124)	564,343
Operating expenses.....	226,675	146,900	63,651	45,402	9,282	491,910	10,087	501,997
Operating income (loss) .....	18,202	54,625	3,293	(894)	(2,669)	72,557	(10,211)	62,346
Assets .....	126,557	150,807	56,002	29,298	16,196	378,860	226,908	605,768
Depreciation and amortization .....	6,781	5,618	1,964	742	610	15,715	1,143	16,858
Capital expenditures.....	¥13,653	¥11,129	¥3,485	¥2,214	¥1,010	¥31,491	¥3,128	¥34,619

Thousands of U.S. dollars								
2004								
	Imaging Systems Group	Medical Systems Group	Life Science Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:								
Unaffiliated customers.....	\$2,697,545	\$1,971,955	\$652,173	\$386,782	\$51,745	\$5,760,200	\$—	\$5,760,200
Intersegment.....	291	118	145	427	10	991	(991)	—
Total .....	2,697,836	1,972,073	652,318	387,209	51,755	5,761,191	(991)	5,760,200
Operating expenses.....	2,560,036	1,397,382	617,563	412,882	61,100	5,048,964	138,536	5,187,500
Operating income (loss) .....	137,800	574,691	34,755	(25,673)	(9,345)	712,227	(139,527)	572,700
Assets .....	1,438,891	1,299,145	518,882	252,618	130,791	3,640,327	2,565,791	6,206,118
Depreciation and amortization .....	79,673	82,500	28,518	7,673	6,073	204,436	16,009	220,445
Capital expenditures.....	\$151,127	\$106,518	\$55,727	\$11,318	\$10,555	\$335,245	\$45,818	\$381,064

- Notes :1. In April 2003, the Company reorganized "Medical Systems Group" to complete the life science business and established "Life Science Group" as a separate business segment from fiscal 2004.
- :2. In fiscal 2003, the Company changed the category of "Magneto-optical disk drives" from "Industrial Systems Group" to "Imaging Systems Group" by considering the similarity of the market and category of "Medical New Business" from "Medical Systems Group" to "Others" by the reorganization in Research and Development Center. The Company also changed the category of "Analytical services of genomic information" from "Others" to "Life Science Group" because it has progressed from fundamental research to the production stages and considering the similarity of the market.
- :3. Each business category contains following products respectively.
- Imaging Systems Group: Film cameras, Digital cameras, Voice Recorders, Magneto-optical disk drives  
 Medical Systems Group: Medical endoscopes, Minimally invasive products  
 Life Science Group: Diagnostic systems, Biological microscopes, Analytical services for genomic information  
 Industrial Systems Group: Industrial microscopes, Industrial endoscopes, Printers, Barcode data processing equipment, Measuring equipment  
 Others: Medical new business, Software development, etc.

Segment information for the year ended March 31, 2002 is as follows:

	Millions of yen						
	2002						
	Imaging Systems Group	Medical Systems Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers .....	¥214,999	¥254,966	¥49,281	¥ 9,169	¥528,415	¥ —	¥528,415
Intersegment .....	90	13	1	—	104	(104)	—
Total .....	215,089	254,979	49,282	9,169	528,519	(104)	528,415
Operating expenses .....	223,253	199,079	47,399	10,590	480,321	5,811	486,132
Operating income (loss) .....	(8,164)	55,900	1,883	(1,421)	48,198	(5,915)	42,283
Assets .....	122,765	186,717	29,262	15,819	354,563	207,515	562,078
Depreciation and amortization .....	8,233	12,242	1,164	684	22,323	1,377	23,700
Capital expenditures .....	¥ 8,942	¥ 12,109	¥ 1,303	¥ 863	¥ 23,217	¥ 1,618	¥ 24,835

- Notes :1. In fiscal 2002, the Company adopted the Internal Company System. Along with this, the business classifications by three products groups, namely "Imaging Product Group", "Medical Product Group", and "Integrated System and Information Product Group" were changed to "Imaging Systems Group", "Medical Systems Group" and "Industrial Systems Group".
- :2. Each business category contains following products respectively.
- Imaging Systems Group: Film cameras, Digital cameras, Voice Recorders, Magneto-optical disk drives  
 Medical Systems Group: Medical endoscopes, Minimally invasive products, Diagnostic systems, Biological microscopes, Analytical services of genomic information  
 Industrial Systems Group: Industrial microscopes, Industrial endoscopes, Printers, Barcode data processing equipment, Measuring equipment  
 Others: Software development, etc.

(b) INFORMATION BY GEOGRAPHIC LOCATION

	Millions of yen						
	2004						
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers .....	¥192,083	¥189,176	¥201,468	¥50,895	¥633,622	¥ —	¥633,622
Intersegment .....	250,859	1,044	8,947	85,830	346,680	(346,680)	—
Total .....	442,942	190,220	210,415	136,725	980,302	(346,680)	633,622
Operating expenses .....	401,372	174,224	197,862	128,591	902,049	(331,424)	570,625
Operating income (loss) .....	41,570	15,996	12,553	8,134	78,253	(15,256)	62,997
Assets .....	¥189,100	¥ 72,791	¥133,345	¥44,568	¥439,804	¥ 242,869	¥682,673

Millions of yen							
2003							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers .....	¥181,234	¥184,510	¥162,587	¥36,012	¥564,343	¥ —	¥564,343
Intersegment .....	208,713	1,103	7,688	55,743	273,247	(273,247)	—
Total .....	389,947	185,613	170,275	91,755	837,590	(273,247)	564,343
Operating expenses .....	342,311	175,419	159,924	87,128	764,782	(262,785)	501,997
Operating income (loss) .....	47,636	10,194	10,351	4,627	72,808	(10,462)	62,346
Assets .....	¥191,246	¥ 73,922	¥109,874	¥39,068	¥414,110	¥ 191,658	¥605,768

Millions of yen							
2002							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers .....	¥197,074	¥180,659	¥135,388	¥15,294	¥528,415	¥ —	¥528,415
Intersegment .....	187,994	854	6,276	34,273	229,397	(229,397)	—
Total .....	385,068	181,513	141,664	49,567	757,812	(229,397)	528,415
Operating expenses .....	352,579	175,612	137,205	46,879	712,275	(226,143)	486,132
Operating income (loss) .....	32,489	5,901	4,459	2,688	45,537	(3,254)	42,283
Assets .....	¥184,691	¥ 74,024	¥ 80,965	¥26,248	¥365,928	¥ 196,150	¥562,078

Thousands of U.S. dollars							
2004							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers.....	\$1,746,209	\$1,719,782	\$1,831,527	\$ 462,682	\$5,760,200	\$ —	\$5,760,200
Intersegment .....	2,280,536	9,491	81,336	780,273	3,151,636	(3,151,636)	—
Total .....	4,026,745	1,729,273	1,912,863	1,242,955	8,911,836	(3,151,636)	5,760,200
Operating expenses .....	3,648,836	1,583,855	1,798,745	1,169,009	8,200,445	(3,012,945)	5,187,500
Operating income (loss) .....	377,909	145,418	114,118	73,946	711,391	(138,691)	572,700
Assets .....	\$1,719,091	\$ 661,736	\$1,212,227	\$ 405,164	\$3,998,218	\$ 2,207,900	\$6,206,118

Note: Segmentation is determined by geographical adjacency.

America includes the United States, Canada, Mexico and Brazil. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, Australia and other countries.

(c) OVERSEAS SALES INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Export sales (A) .....	¥483,288	¥423,322	¥377,654	\$4,393,527
to North America .....	193,720	197,591	195,863	1,761,091
to Europe.....	200,559	158,587	135,218	1,823,264
to Asia .....	76,596	58,946	36,418	696,327
to Other areas.....	12,413	8,198	10,155	112,845
Net sales (B) .....	633,622	564,343	528,415	5,760,200
A/B (%).....	76.3%	75.0%	71.5%	76.3%

Note: Segmentation is determined by geographical adjacency.

North America includes the United States and Canada. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, Australia and other countries. Other areas include Central and South America, Africa and others.

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF OLYMPUS CORPORATION

We have audited the accompanying consolidated balance sheets of Olympus Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Olympus Corporation and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion we draw attention to the following.

- (1) As discussed in Note 17, effective April 1, 2002, Olympus Corporation changed the category of business in the business segment.
- (2) As discussed in Note 17, effective April 1, 2003, Olympus Corporation established a new group and changed the category of business in the business segment.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 29, 2004