

In fiscal 2005, ended March 31, 2005, Olympus recorded a net loss, its first since the introduction of consolidated financial accounting. From the start of the in-house company structure in 2001 until the split-off of the Imaging Systems Business and the Medical Systems Business in 2004, Olympus has followed a smooth growth curve while implementing various reforms. As a result, I believe Olympus has gained market recognition as a winning company. For this reason, I deeply regret having to report to our shareholders and other stakeholders that Olympus posted a net loss in fiscal 2005. In this annual report, we will discuss the digital camera business and the issues relating to its decline in profits, and how we plan to rebuild our earnings foundation.



	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net sales .....	¥813,538	¥633,622	¥564,343	\$7,395,800
Net income (loss).....	(11,827)	33,564	24,348	(107,518)
Earnings per share—Basic net income (loss) .....	(44.98)	126.96	91.88	(0.409)
Total assets .....	858,083	682,673	605,768	7,800,755
Shareholders' equity .....	240,837	252,179	222,432	2,189,428

Notes: 1. Earnings per share is shown in yen and U.S. dollars.  
 2. The U.S. dollar amounts have been translated from yen, for the convenience of the reader, at the rate of ¥110=US\$1.00  
 3. The above figures are based on accounting principles generally accepted in Japan.  
 4. Diluted net income per share is not presented due to the fact that there were no potentially dilutive common shares.

> Overview of Fiscal  
2005

During fiscal 2005, consolidated net sales totaled ¥813.5 billion, an increase of 28.4% compared with the previous fiscal year. However, ¥170.4 billion of these sales are attributable to consolidated sales at ITX Corporation, which became a consolidated subsidiary in the second half of the fiscal year under review. Excluding this factor, consolidated net sales would have increased 1.5%, marking our 11th consecutive fiscal year of growth in net sales. Nevertheless, Olympus recorded a net loss of ¥11.8 billion in fiscal 2005, compared with net income of ¥33.6 billion in the previous fiscal year, owing to extraordinary losses on restructuring in the Imaging Systems Business and the partial reversal of deferred tax assets. Despite these consolidated results, Olympus has decided to maintain annual cash dividends of ¥15 per share, the same as in the previous fiscal year, in consideration of various factors such as the future operating environment.

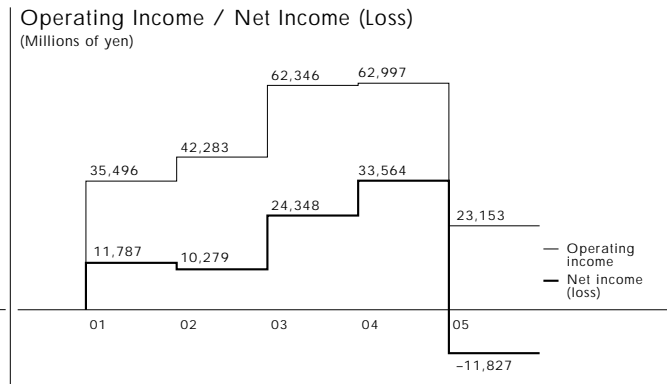
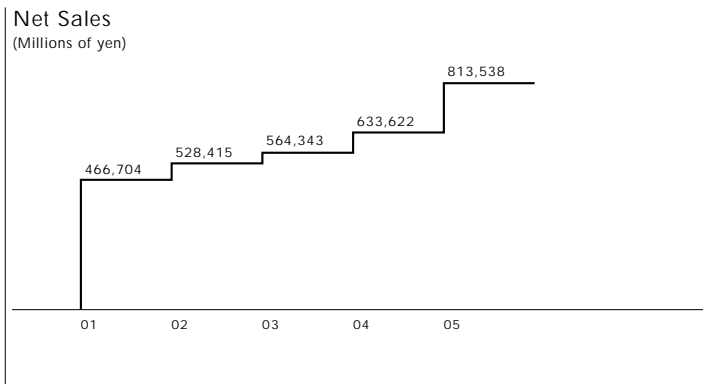
Poor performance in the digital camera business was the lone cause of earnings deterioration in fiscal 2005. In four of our businesses, with the exception of the Imaging Systems Business, we achieved growth in both sales and profits in the Medical Systems Business, Life Science Business, and Industrial Systems Business. Despite concerns to the contrary, the Industrial Systems Business was profitable and contributed to overall earnings. In the Medical

Systems Business, we sustained steady growth in sales despite cut-backs in medical expenditures around the world.

> Achieving an Earnings Recovery in the Imaging Systems Business

The pace of change in the digital camera market is accelerating faster than ever. Olympus believes that the largest contributing factor to its weak performance was an inability to develop appealing new products in a timely fashion in line with market trends.

Over this past year, the scale of the digital camera market increased from 48.6 million units to 60.3 million units according to the Camera & Imaging Products Association (CIPA). There was an unmistakable change in the demand structure as more users bought digital cameras to replace their older models than users buying digital cameras for the first time. The fact that Olympus was unable to create compelling products in response to this change had a severe impact on profits in fiscal 2005. Although we maintained a fairly steady share of the market, with 14.8% of the digital camera market in fiscal 2005 compared with 15.2% in fiscal 2004, the average price of our products dropped about 17%, far faster than the decline in average market prices.



Olympus started the digital camera business from scratch nine years ago and built it up into a more than ¥200 billion-a-year business. Despite sales volume keeping pace with market growth, we became complacent by assuming that sales would grow for all of our products and lost the sense of urgency to keep evolving. Now fully aware of the seriousness of the situation, Olympus is making every effort to resolve this problem.

> Rebuilding the Imaging Systems Business

As our first measure to rebuild the digital camera business, we are conducting a top-down review of our current product lineup. However, time is needed for restructuring to take hold, owing to a tight schedule in the ongoing development of digital cameras, which have a short life cycle of only three months. For this reason, Olympus decided to strategically review the timing of new product releases, and focus all of its energies on launching new digital cameras. These new digital cameras will be more attractive and compelling than any other Olympus has produced before, and mark the start of a completely new product lineup.

Our second measure is cost reductions. By September 2005, Olympus plans to reduce the number of employees in the Imaging Systems Business from 14,000 to 10,000, which will reduce annual personnel expenses by approximately ¥3 billion. This will be the

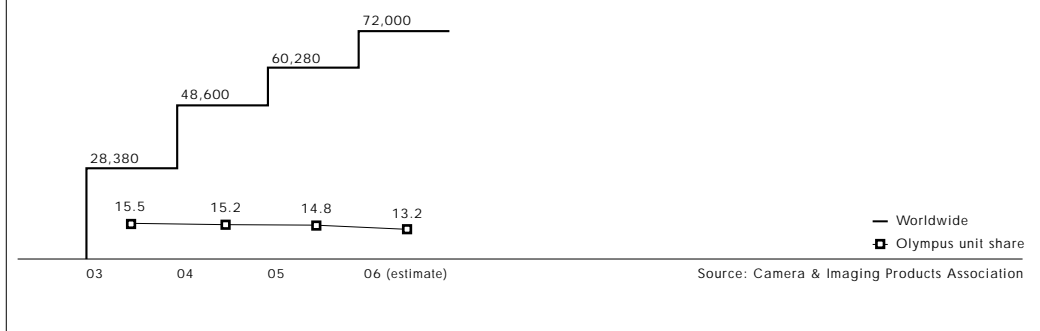
first time Olympus has had to reduce personnel, with exception to those times during the aftermath of the Second World War. Olympus is fully aware of the extremely important obligation of management to assure stable employment. However, if action is not taken now, further reductions in personnel may become necessary in the future. While this was a very difficult decision for Olympus to make, it was unavoidable under the circumstances.

In addition, Olympus aims to reduce costs by ¥10 billion annually by shortening inventory turnover by 0.5 months, reducing the amount of partly finished products and sharing molds. Including the personnel reductions, we plan to lower costs by a total of ¥13 billion. With contributions from the aforementioned new product sales and cost reductions, we believe a return to profitability is possible in the second half of fiscal 2006.

Olympus is formulating a management vision that brings forward medium-term targets for restructuring, including a review of the Imaging Systems Business portfolio. Our basic direction is to emphasize earnings over sales or market share. Lessening the reliance of our earnings structure on endoscopes has been a long-



Worldwide Digital Camera Market  
(Thousands of units)



standing management issue. From this point of view as well, we are making every effort to achieve a recovery in earnings in the Imaging Systems Business.

> Today and Tomorrow  
in the Medical Systems  
Business, the Life  
Science Business, and  
the Industrial Systems  
Business

As the earnings foundation of Olympus, the Medical Systems Business centers on our gastroenterological endoscopes, which hold an approximate 70% share of the world market. Every year, endoscopes are expected to perform greater roles in helping to improve diagnostic accuracy, minimally invasive treatment, and patients' quality of life. The Medical Systems Business attained growth in sales and profits during fiscal 2005 amid pressures to slash medical expenses across the medical industry.

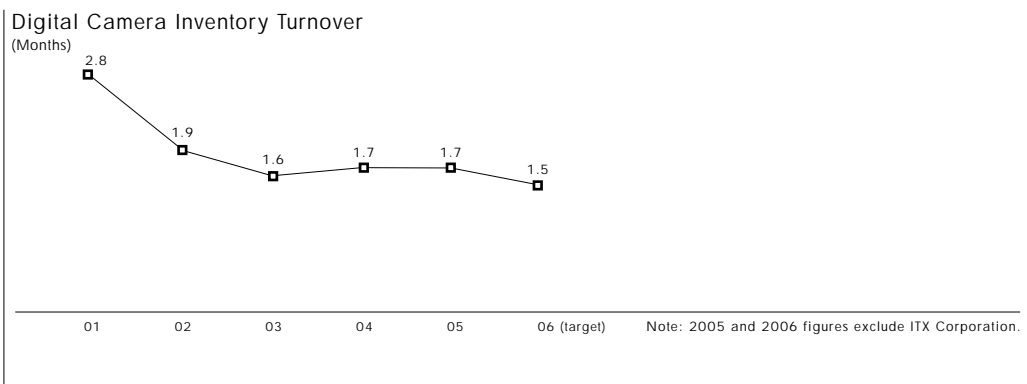
From its overwhelming competitive advantage in gastroenterological endoscopes, Olympus believes there is significant room for business expansion in fields related to endoscopes, such as surgical products and endo-therapy devices. As a comprehensive supplier of endoscopes, Olympus is taking an aggressive stance toward increasing its market share in fields other than gastroenterological endoscopes.

We believe that key measures to increasing our market share are expanding sales personnel, reinforcing the marketing structure,

and forming alliances with other companies. After a split-off in October 2004, decision-making speed has increased markedly. Based on this new framework, Olympus aims to obtain a higher share of the global market by boosting its comprehensive solution capabilities from sales to support.

The Life Science Business achieved double-digit growth in sales and profits in fiscal 2005. The Life Science Business rests on two pillars—the bioscience business, which centers on microscopes, and the diagnostic testing business. Olympus is accelerating business development and expansion in these two areas by applying achievements in molecular biology, which has made remarkable progress in recent years, toward the realization of personalized medicine that is expected to become next-generation health care.

Contrary to expectations, the Industrial Systems Business was profitable in fiscal 2005. Through restructuring in April 2005, the Industrial Systems Business was split up and transferred to the Life Science Business and other operations. Olympus will continue to aggressively invest in promising fields such as the printer business,



which is advancing through a business tie-up with Riso Kagaku Corporation.

### > Business Strategy with ITX Corporation

In September 2004, Olympus made ITX Corporation a subsidiary through capital participation from the start of its operations. ITX Corporation is a venture capital incubator that launches innovative enterprises. As a strategic partner, Olympus is working with ITX Corporation to foster new businesses and strengthen the competitiveness of existing ones. Our partnership has already shown considerable progress, such as in looking for new models for the Medical Systems Business. By reinforcing our partnership, Olympus expects to find meaningful synergies between Olympus' brand recognition and technological capabilities and ITX Corporation's unique business creation and development capabilities.

### > Olympus and CSR

In September 2004, Olympus formulated the Olympus Group Corporate Conduct Charter as a behavior guideline to ensure corporate social responsibility (CSR). In parallel, Olympus participated in the United Nations' Global Compact, working to advance 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption. Our participation in the Global Compact brought the membership to 22 companies in Japan.



"The Olympus Group Corporate Conduct Charter represents our commitment to ensure CSR and accelerates our efforts to contribute to society."

Olympus's operations, which began with microscopes in 1920 and the world's first commercial gastrocamera in 1950, have a deep-seated philosophy of playing a useful role in society, and this thinking is also in alignment with the tenets of CSR. The Olympus Group Corporate Conduct Charter represents our commitment to ensure CSR and accelerates our efforts to contribute to society. Participation in the Global Compact was a natural extension of our corporate philosophy.

In April 2004, Olympus established the CSR and Brand Strategy Department to comprehensively oversee cross-sectional efforts to promote CSR and strengthen brand recognition.

Although our performance in fiscal 2005 is a cause for concern to our stakeholders, including shareholders, customers, suppliers, and employees, we are driving forward restructuring with the single-minded purpose of meeting your expectations for the future.

June 2005

Tsuyoshi Kikukawa  
President