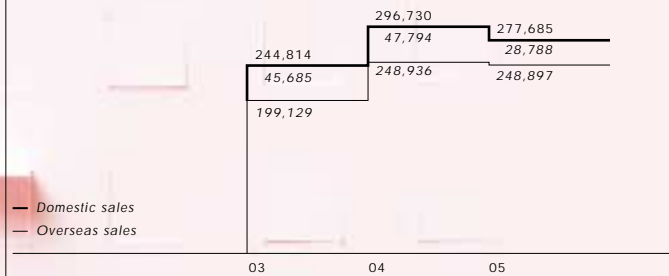


> The Imaging Systems Business handles digital cameras, film cameras, and voice recorders. On October 1, 2004, the Imaging Systems Business was split off into Olympus Imaging Corp., a wholly owned subsidiary of Olympus.

Although the digital camera market continued to expand, thin digital cameras became a hit product category in Japan. Unable to halt a slide in sales of digital cameras, sales in the Imaging Systems Business declined 6.4% from the previous fiscal year to ¥277,685 million (US\$2,524 million). In addition, tougher competition led to lower prices, resulting in an operating loss of ¥23,875 million (US\$217 million) in fiscal 2005, compared with operating income of ¥15,158 million in the previous fiscal year.

Domestic sales dropped 39.8% to ¥28,788 million (US\$262 million), while overseas sales declined only slightly to ¥248,897 million (US\$2,263 million).

Imaging Systems Business Sales  
(Millions of yen)



**i:robe IR-300  
DIGITAL CAMERA**  
As our second digital camera in the i:robe series, the IR-300 features a compact body, compatibility with Dock & Done 2.0, high-resolution images and simple editing and viewing functions.



# imaging

## Digital Cameras

> Sales of digital cameras edged down 2.1% to ¥249,028 million (US\$2,264 million).

Shipments of digital cameras reached 60.3 million units worldwide. Olympus shipped 8.9 million digital cameras, maintaining its 14.7% share of the world market.

In fiscal 2005, Olympus concentrated efforts on launching products under the new concept "New Photo Life Solution," centered on the i:robe (IR-Series in the U.S. and Europe) series of digital cameras that easily connect to storage devices and printers, and the m:robe series of HDD digital audio players that offer a fusion of music and images. In autumn 2004, we unveiled the  $\mu$  [mju:] mini DIGITAL (Stylus Verve in the U.S.) compact digital camera featuring a sleek dew-drop design, and in the winter the E-300 (EVOLT E-300 in the U.S.) digital single-lens reflex (SLR) digital camera in an affordable price range. Both of these new products were hits among consumers. However, Olympus lagged behind mainstream market trends in Japan and was late to introduce high-resolution, thin-body, large-screen digital cameras. Moreover, competition heated up as home appliance companies entered the fray. As a consequence, we were taken off guard by the pace of decline in prices centered on compact cameras. As a result, higher sales from robust demand in European and Asian markets were unable to compensate for declines in Japan, leading to a year-on-year decrease in sales for the Imaging Systems Business.

In the digital SLR camera market, which is expected to grow continuously, Olympus signed an agreement with Matsushita Electric Industrial Co., Ltd. in January 2005 for the joint development of a digital SLR camera based on the Four Thirds System, a set of standards for digital SLR cameras with interchangeable lenses. Through the joint development of relevant elemental technologies and key devices, Olympus and Matsushita Electric Industrial Co., Ltd. will

launch next-generation digital SLR cameras based on new design concepts in the digital SLR camera market, which is expanding at an accelerating pace around the world. At the same time, Olympus will promote the proliferation and commercialization of the Four Thirds System specifications while increasing the number of member companies participating in the standard.

## Film Cameras

> Sales of film cameras totaled ¥15,849 million (US\$144 million), a decline of 45.6% from the previous fiscal year. In May 2004, Olympus released the  $\mu$  [mju:] III 135 ( $\mu$ -III 135 in Europe) camera featuring a 3.6x-zoom lens, slim body, and the "Beautiful Skin Tone" mode that enhances skin tone. Though we maintained our number one share of the world market for compact cameras, sales of film cameras continued their considerable decline from the previous fiscal year, owing to persistently falling prices in a shrinking domestic market and tremendous growth in digital cameras in overseas markets.

## Voice Recorders

> Sales of voice recorders were down 4.1% from the previous fiscal year to ¥12,808 million (US\$116 million). Sales were favorable for the popularly priced Voice-Trek VN series (VN series in the U.S. and Europe), which we released in March 2004. However, an influx of low-priced products from overseas and the emergence of portable audio players with built-in voice recording functions threw our user base off balance, and sales fell as a result. Overseas, sales declined due to lower prices.

### $\mu$ -mini DIGITAL S DIGITAL CAMERA

The  $\mu$ -mini DIGITAL S offers better image resolution and functionality than the  $\mu$ -mini DIGITAL, while retaining its water-resistant design.



### V-20 DIGITAL STEREO RECORDER

The Voice-Trek V-20 IC recorder can be directly connected to a PC via USB and can also store documents and image files.



# systems

- > The Medical Systems Business handles gastrointestinal endoscopes and minimally invasive products such as surgical endoscopes and endo-therapy devices. With approximately 70% of the world market share, Olympus' gastrointestinal endoscopes provide a solid earnings foundation.

On October 1, 2004, the Medical Systems Business was split off into Olympus Medical Systems Corp. as a wholly owned subsidiary of Olympus.

In fiscal 2005, domestic sales declined 1.4% to ¥62,462 million (US\$568 million) from the previous fiscal year, while overseas sales rose 9.4% to ¥168,063 million (US\$1,528 million) as a result of significant growth in Europe and Asia. Overall sales of the Medical Systems Business increased 6.3% to ¥230,525 million (US\$2,096 million). Operating income grew 3.3% to ¥65,306 million (US\$594 million), reflecting a stronger marketing structure and measures to promote sales.

LTF TYPE VP VISERA  
VIDEOSCOPE

The LTF TYPE VP VISERA videoscope is the world's first videoscope for abdominal and chest cavities. With its small diameter of 5.4 mm and advanced angulation functions in the tip, it helps improve the safety and efficiency of surgical operations with endoscopes.



# medical

## Gastrointestinal Endoscopes

- > Sales of medical endoscopes increased 4.0% to ¥147,646 million (US\$1,342 million).

In fiscal 2005, demand was robust in Japan for HDTV-compatible models, especially our high-value-added EVIS LUCERA mainstay endoscope system. Moreover, although our Value-Per-Procedure (VPP) Program received strong interest after its introduction in fiscal 2004, a decline in sales was inevitable due to reforms in the Japanese medical industry and a downward trend in budget spending on capital equipment. Overseas sales grew on the back of contributions from higher sales of the EVIS EXERA endoscope system in Europe and the United States, as well as a strengthened sales force from the establishment of a sales subsidiary in China.

In November 2004, Olympus Medical Systems Corp. developed a capsule endoscope and related peripheral technologies with the aim of expansion and progress in endoscope applications. Key technologies developed by Olympus Medical Systems Corp. are a capsule guidance system and wireless power supply system for capsule endoscopes to be used along all parts of the gastrointestinal tract, including the esophagus, the stomach, and the colon.

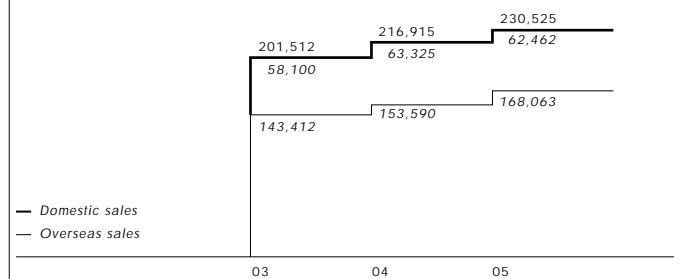
In May 2005, Olympus introduced the new EVIS 180 line of endoscopic videoscopes, which have had lead and hexavalent chromium removed from in-house production processes, as environmentally friendly Olympus Eco-Products that contain no harmful substances.

## Minimally Invasive Products

- > Sales of minimally invasive products rose 10.5% to ¥82,879 million (US\$753 million) compared with the previous fiscal year.

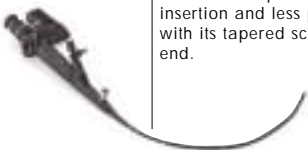
Overseas, sales grew for the endo-surgery video camera system VISERA, and for the electro-surgical unit UES-40 "SurgMaster," a generator for general and endoscopic electro-surgery. In endo-therapy devices, demand was favorable for the V-System, a combination of pancreaticobiliary duct endo-therapy devices and specialized duodenum videoscopes. The V-System was developed to lighten the workload of physicians and medical staff, and simplifies and improves the efficiency of therapeutic endoscopy, which was introduced in 2004. In Japan, sales were firm for the new EZ Clip, a clip for hemostasis, and sales expanded significantly around the world as a result of efforts to strengthen the sales structure.

Medical Systems Business Sales  
(Millions of yen)



### CYF-5A OES CYSTONEPHRO FIBERSCOPE

This flexible cystonephro fiberscope is compatible with electro-surgical procedures and offers improved insertion and less pain with its tapered scope-end.



### BF TYPE UC260F- OL8 ULTRASONIC BRONCHO FIBERVIDEOSCOPE

This videoscope enables safer aspiration biopsies by making possible the extraction of lymph nodes while affirming needle positioning for aspiration with ultrasonic images.



### V-SYSTEM

The V-System helps lighten the workload of physicians and medical staff by simplifying and improving the efficiency of therapeutic endoscopy through an optimal combination of duodenum videoscopes and pancreaticobiliary duct endo-therapy devices.



# systems

> The main businesses of the Life Science Business are products in the biosciences field such as biological microscopes and other optical devices, and clinical chemistry analyzers in the diagnostic systems field. A cornerstone of Olympus after the first microscope was developed and produced in Japan in 1920, microscopes have grown to become an irreplaceable tool for research, clinical testing, and education. Through relentless technological advancement, Olympus boasts a leading share of the world market for biological microscopes. In addition, Olympus is the only hardware manufacturer of both in-vitro diagnostic equipment and reagents. With this advantage, we are able to provide customers with services not found at other companies. Our chemical analyzer systems, created through our deep understanding of health care, are able to flexibly meet medical needs amid a transition from therapeutic to preventative medicine. We aim to develop and promote our genetic analytical systems, founded on our advanced optical technology, as a part of the solution to personalized medicine that is expected to be the next generation of health care.

POWER BX PLUS  
SERIES OF UPRIGHT  
MICROSCOPES

Using Eco-Glass, the Power BX Plus Series of upright microscopes comes equipped with the newly developed UIS2 microscope optical system for a dramatic improvement in the basic performance demanded of microscopes.



life sciences

In fiscal 2005, sales increased 10.3% to ¥79,153 million (US\$720 million). As a result of higher profits on sales in accordance with sales growth, operating income rose 17.0% year on year to ¥4,471 million (US\$41 million).

Domestic sales declined 2.0% to ¥19,115 million (US\$174 million), while overseas sales advanced 14.9% to ¥60,038 million (US\$546 million).

### Bioscience

> Sales in the bioscience field were ¥37,587 million (US\$342 million), an increase of 9.5% from the previous fiscal year.

Domestic sales decreased owing to intensified competition with other companies, despite efforts to expand sales of the confocal laser scanning microscope FLUOVIEW FV1000, which was released in fiscal 2004, and the Power BX series of testing microscopes and Power IX series of inverted microscopes. Overseas sales increased thanks to contributions from higher sales from the introduction of the FLUOVIEW FV1000 in the United States. Overseas sales growth compensated for the decline in Japan, leading to an overall increase in sales in the bioscience field.

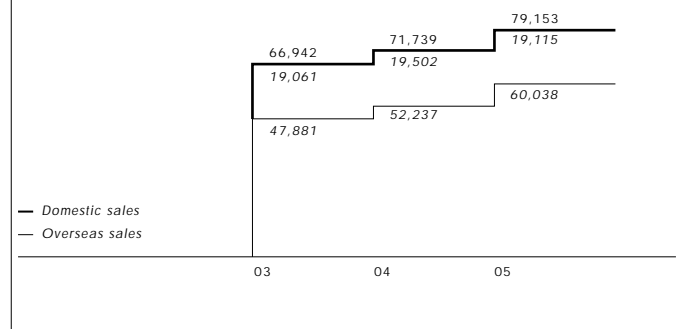
### Diagnostic Systems

> Sales in the diagnostic systems field totaled ¥41,566 million (US\$378 million), an increase of 11.1% from the previous fiscal year. Domestic sales were steady for biochemical examination equipment and blood transfusion-related products. In the United States, sales rose for the AU5400, large-scale biochemistry examination equipment. In Europe, expansion of the installed user base as a result of stronger marketing contributed considerably to overall sales growth.

### Incorporation of Industrial Microscopes

> Olympus began to reorganize its business structure in April 2005 to further improve development and manufacturing efficiency. Due to similarities in the technological aspects between products, we decided to transfer industrial microscopes, which had been a part of the Industrial Systems Business, to the Life Science Business in the fiscal year ending March 31, 2006. We aim to increase the speed of product development through the concentration of management resources, and further expand the microscope business by redoubling efforts in marketing.

Life Science Business Sales  
(Millions of yen)



#### AU2700 AUTOMATED CHEMISTRY ANALYZER

The potential of automated analyzers is opened up by the AU2700's ultramicro, sample dispensing, high-speed data processing capabilities and communications functionality.



#### MF20 INTERMOLECULAR INTERACTION ANALYSIS SYSTEM

Leveraging the single-molecule fluorescent analysis method, the MF20 brings high-speed analysis of high-precision intermolecular interactions to the laboratory for an affordable cost.



#### DP70 MICROSCOPE DIGITAL CAMERA

The DP70 microscope digital camera offers optimized resolutions with a variety of functionality. Its superior GUI simplifies and speeds up operations.



# CE

- > The Industrial Systems Business handles the businesses of industrial microscopes, industrial endoscopes, printers, bar code scanners, and other industrial equipment.

In fiscal 2005, consolidated sales expanded 17.0% year on year to ¥49,788 million (US\$453 million) as a result of stronger sales of industrial endoscopes and higher sales of industrial microscopes, supported by growth in the digital consumer electronics market led by flat-panel TVs, as well as robust capital investment in the semiconductor industry in the first half of 2004. Boosted by contributions from lower costs in the industrial microscopes field, operating income totaled ¥1,269 million (US\$12 million), a turnaround from an operating loss of ¥2,824 million in the previous fiscal year. Domestic sales rose 16.0% to ¥16,328 million (US\$148 million) and overseas sales increased 17.5% to ¥33,460 million (US\$304 million).

#### Industrial Microscopes

- > Sales of industrial microscopes climbed 26.6% to ¥22,162 million (US\$202 million).

Based on an extensive accumulation of related technologies, Olympus leads the testing market for industrial microscopes, which is undergoing changes toward further miniaturization and diversification. Our industrial microscopes are used for testing purposes on

#### IPEX MX INDUSTRIAL VIDEOSCOPE SYSTEM

Featuring improved portability, the IPEX MX industrial video-scope system is a high-performance system in a compact B5 size and at a light 4.6-kg weight.



# industrial

production lines for digital consumer electronics, which are becoming more sophisticated, and contribute to improvements in product usability and productivity. In fiscal 2005, sales of microscopes for testing semiconductors and flat-panel displays were strong in Japan and overseas. Sharp growth in sales in industrial microscopes for LCDs in Asian regions and IT-related products such as digital consumer electronics contributed to higher overall sales.

### Industrial Endoscopes

> In fiscal 2005, sales of industrial endoscopes totaled ¥10,567 million (US\$96 million), an increase of 13.8% from the previous fiscal year.

Industrial endoscopes are used for a wide spectrum of applications, ranging from the maintenance of electrical systems, gas pipelines and water pipelines; maintenance of plants and aircraft; inspection of Formula One racing cars; and surveys of disaster sites and historical monuments. In fiscal 2005, sales of industrial endoscopes increased considerably on firm demand from the domestic automobile industry, which continued aggressive capital investment, the civil aircraft industries in Europe and the United

States, and the automobile industry in Asia. Furthermore, winner of the Good Design Award for its excellent portability, the IPLEX MX industrial videoscope system has been well received in various industries throughout the world, leading to a steady increase in sales volume and contributing to overall sales growth.

### Information Equipment

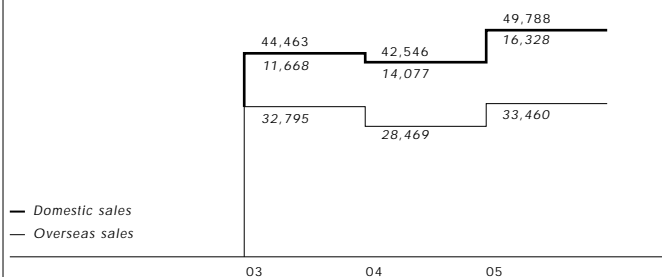
> Sales of information equipment, which includes high-speed color inkjet printers and bar code scanners, rose 8.3% to ¥17,059 million (US\$155 million). Sales of high-speed printers, managed through a joint venture with Riso Kagaku Corporation, have shown balanced growth since the full-scale launch of overseas models in October 2004.

### Restructuring in Industrial Systems Business

> In March 2005, Olympus signed an agreement with R/D Tech Inc. in Canada to acquire all of the company's shares. Through this acquisition, Olympus will gain access to the company's ultrasound defect detection and eddy current defect detection technologies. We aim to create new value in the non-destructive testing field by adding these new technologies to our portfolio, in addition to the industrial endoscopes for visual inspections.

Previously under the in-house company structure, the Industrial Systems Business is now positioned as a business for future development. In line with these changes, in April 2005, Olympus created the IMS Business Division for industrial endoscopes and the PS Business Division for printers and other information equipment as new independent businesses.

Industrial Systems Business Sales  
(Millions of yen)



#### ORPHIS HC5000

The ORPHIS HC5000 printer features high speeds, excellent economics, and no waiting times for multiple-page printing, making it easier to create visually impressive color documents.



#### MX61L FPD INSPECTION MICROSCOPE COMPATIBLE WITH 300 MM WAFERS

Compatible with 300 mm wafers, the MX61L FPD inspection microscope provides further improvements in inspection efficiency with better basic optics performance and compatibility with many observation methods.



# systems

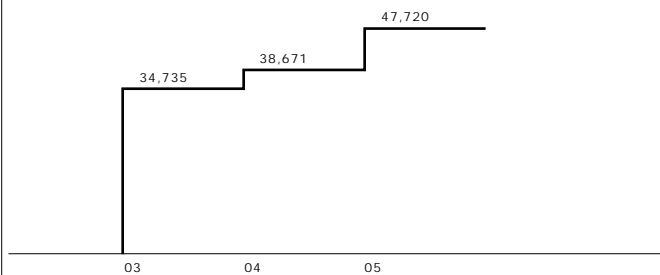
## Information & Communication Business

> The Information & Communication Business was established in the second half of fiscal 2005 after ITX Corporation became a consolidated subsidiary in September 2004. Consolidated sales in this business totaled ¥163,248 million (US\$1,484 million), and operating losses were ¥1,037 million (US\$9 million) in fiscal

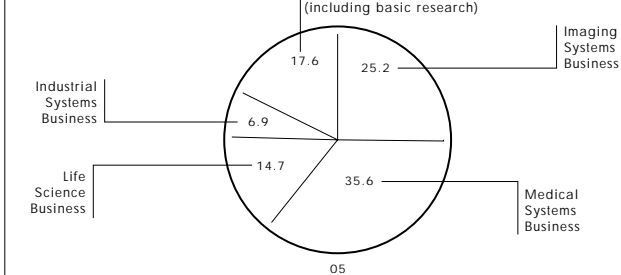
2005. Overall sales benefited from growth in sales of computer peripherals in ITX Corporation's networking technologies business and mobile handsets in the mobile business. The Information & Communication Business was unable to record operating income due to amortization of the consolidated adjustment account.

## RESEARCH AND DEVELOPMENT

R&D Expenditure  
(Millions of yen)



R&D Expenditure by Segment  
(%)



> Based on its core competence in "Opto-Digital Technology," Olympus engages in research and development in the optical, digital imaging, and microprocessing fields to provide new value to society. In fiscal 2005, research and development expenses totaled ¥47,720 million (US\$434 million), an increase of 23.4% from the previous fiscal year. Research and development expenditures were 5.9% of net sales.

The Corporate Research and Development Center commercialized OSferion as an artificial bone replacement material in 1999 and fostered it into a new business in the health care field. In other business ventures in the medical field, the Corporate Research and Development Center has advanced research and development toward the commercialization of bone tissue engineering that combines bone cells with ultra-pure  $\beta$ -TCP ( $\beta$ -tricalcium phosphate), a material in OSferion. In September 2004, Olympus established Olympus Biomaterial Corp. as a wholly owned subsidiary specializing in the biomedical materials and regenerative medicine businesses. Through this new company, Olympus aims to expand the business further by improving business speed, creating an integrated business structure, and strengthening synergies.

### Olympus Technology Fair 85

> In December 2004, Olympus held the Olympus Technology Fair 85 to commemorate the 85th anniversary of its founding. Based on "Your Vision, Our Future," our corporate slogan and the theme of the fair, Olympus showcased the achievements of its research and development efforts and advanced technologies in each business based on "Opto-Digital Technology," a combination of sophisticated optical technologies and the latest in digital technologies.

In addition, Olympus has initiated the development of optical endoscopic early diagnosis technologies that use nanotechnology in the early detection and diagnosis of cancer. Specifically, we are developing ultra-compact optical spectroscopy devices able to detect the intensity of fluorescent light in various wavelengths, and by integrating these devices into the tip of endoscopes, we aim to develop spectroscopy video in endoscopic systems able to display detection images.

### Research Results

> Research results during this fiscal year included the following developments. In the imaging field, we created a large-diameter interchangeable fixed F-number zoom lens for digital SLR cameras. In the medical field, we developed a capsule endoscope. In the life science field, we developed the automated blood transfusion analyzer PK7300, which is able to analyze as many as 300 specimens of blood for transfusions per hour for first-stage screening of blood-type analysis, HIV, syphilis, and other infectious disease viruses. In the industrial field, we developed printer image evaluation technologies, mechatronic technologies that excel in precision and stability, and image correction technologies to create high-quality and high-speed inkjet printers.

The Future Creation Laboratory (FCRL) engages in research with five- to 10-year time horizons to create corporate value. In fiscal 2005, FCRL started the Camera Sensor Network System joint research project with Purdue University in the United States. The joint project aims to support a new intelligent lifestyle through the Camera Sensor Network System design that provides information tailored specifically to an individual's lifestyle.

In July 2004, Olympus established the Waseda-Olympus Bioscience Research Institute in Singapore, jointly with Waseda University, to focus on the investigation of higher brain functions.