

## *financials*

---



FINANCIAL REVIEW	26
TEN-YEAR SUMMARY	28
CONSOLIDATED BALANCE SHEETS	30
CONSOLIDATED STATEMENTS OF OPERATIONS	32
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY	33
CONSOLIDATED STATEMENTS OF CASH FLOWS	34
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	35
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	50

CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

> Total net sales climbed 28.4% to ¥813,538 million (US\$7,396 million). However, ¥170,387 million 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 the 11th consecutive fiscal year of growth in net sales.

Sales in the Imaging Systems Business decreased 6.4% to ¥277,685 million (US\$2,524 million). Although the digital camera market continued to expand, and ultra-thin digital cameras became a hit product category in Japan, Olympus lagged behind mainstream market trends and was late to introduce high-resolution, thin-body, large-screen digital cameras. We continued to face further price declines and severe competition as competitors aggressively launched new models. Moreover, higher sales from robust demand in European and Asian markets were unable to compensate for declines in Japan. 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.

In the Medical Systems Business, sales increased 6.3% to ¥230,525 million (US\$2,096 million). Medical endoscopes enjoyed favorable sales thanks to robust demand in Japan for HDTV-compatible models, especially our high-value-added EVIS LUCERA mainstay endoscope system. 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 stronger sales force from the establishment of a sales subsidiary in China. Sales of minimally invasive products grew on the back of favorable demand for the endo-surgery video camera system platform VISERA and the V-System.

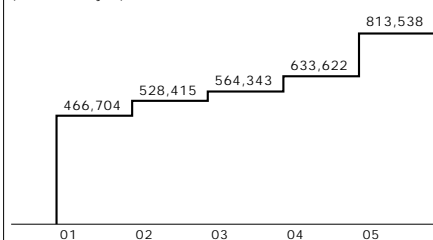
In the Life Science Business, sales rose 10.3% to ¥79,153 million (US\$720 million). Sales of biological microscopes increased firmly compared with last year, reflecting the introduction of the FLUOVIEW FV1000 in the United States overcoming lower sales in Japan due to heightened competition. In the diagnostic systems field, 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.

Sales of the Industrial Systems Business advanced 17.0% to ¥49,788 million (US\$453 million). This increase was attributable to stronger sales of industrial endoscopes and higher sales of industrial microscopes, supported by growth in the digital consumer electronics market, as well as robust capital investment in the semiconductor industry.

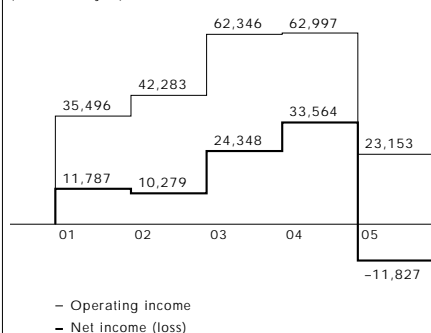
Net Income

> Operating income fell 63.2% to ¥23,153 million (US\$210 million), reflecting a substantial increase in cost of sales. The ratio of selling, general and administrative expenses to net sales decreased from 37.2% to 33.7%. Olympus posted a net loss of ¥11,827 million (US\$108 million), compared with net income of ¥33,564 million in the previous fiscal year, owing to extraordinary losses on restructuring in the Imaging Systems Business and the partial reversal of deferred tax assets.

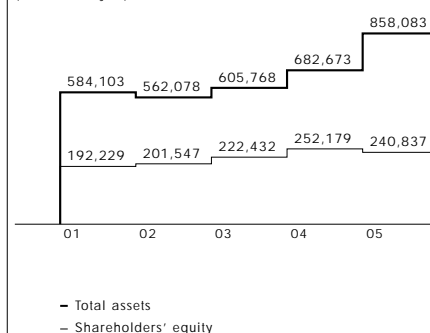
Net Sales  
(Millions of yen)



Operating Income / Net Income (Loss)  
(Millions of yen)



Total Assets and Shareholders' Equity  
(Millions of yen)



## ANALYSIS OF FINANCIAL POSITION

### Total Assets

- > As of March 31, 2005, total assets were ¥858,083 million (US\$7,801 million), an increase of 25.7% from the previous fiscal year-end, on account of the addition of ITX Corporation to the scope of consolidation. Total current assets increased 6.6% to ¥434,839 million (US\$3,953 million), mainly due to an increase in notes and accounts receivable and inventories. Net property, plant and equipment were ¥120,053 million (US\$1,091 million). Total investments and other assets expanded 74.7% to ¥303,191 million (US\$2,756 million), owing to consolidated adjustment accounts of ¥57,737 million (US\$525 million). Turnover of total assets in fiscal 2005 was 0.95 times, compared with 0.93 times in the previous fiscal year.

### Total Liabilities and Shareholders' Equity

- > Total liabilities rose 40.7% to ¥603,959 million (US\$5,491 million), reflecting an increase in short-term borrowings and long-term debt. Total shareholders' equity declined 4.5% to ¥240,837 million (US\$2,189 million). The ratio of shareholders' equity to total assets was 28.1%, down from 36.9% in the previous fiscal year.

### Cash Flows

- > Cash and cash equivalents as of March 31, 2005, increased ¥44,530 million to ¥113,625 million (US\$1,033 million) compared with the end of the previous fiscal year.

Net cash provided by operating activities decreased ¥20,512 million to ¥10,025 million (US\$91 million) compared with the previous fiscal year, mainly due to a decrease in income before provision for income taxes.

Net cash used in investing activities was ¥27,542 million (US\$250 million), owing primarily to purchases of property, plant and equipment, and purchases of investment securities.

Net cash provided by financing activities was ¥60,015 million (US\$546 million), owing to proceeds from long-term debt and proceeds from the issuance of bonds.

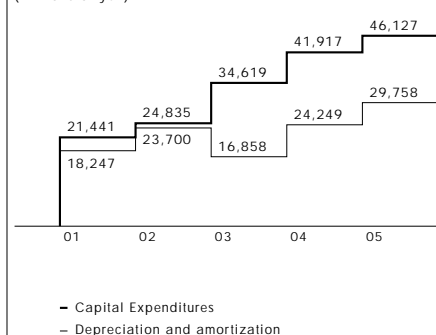
### Research & Development Expenditures

- > 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 ¥47,720 million (US\$434 million), 5.9% of net sales.

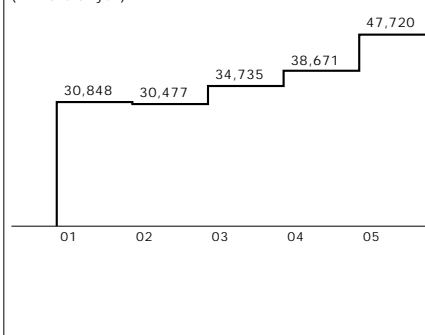
### Capital Expenditures

- > Total capital expenditures rose 10.0% to ¥46,127 million (US\$419 million). The amount of depreciation and amortization was ¥29,758 million (US\$271 million) in the fiscal year under review.

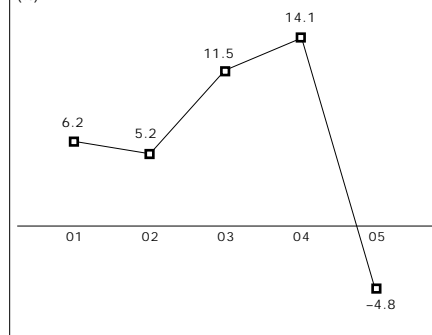
Capital Expenditure  
(Millions of yen)



R&D Expenditure  
(Millions of yen)



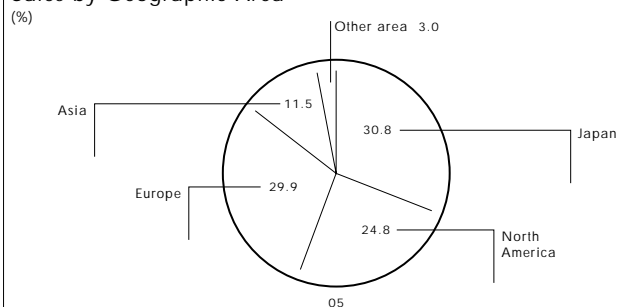
Rate of Return on Equity  
(%)



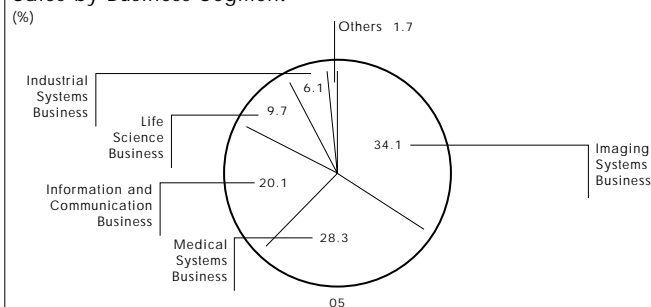
	2005	2004
<b>FOR THE YEAR:</b>		
<b>Net sales:</b>		
Domestic .....	¥250,684	150,334
Overseas .....	¥562,854	483,288
Total .....	¥813,538	633,622
Percentage to previous year .....	128.4%	112.3
Net income (loss) .....	¥(11,827)	33,564
Percentage to net sales .....	(1.5)%	5.3
R&D expenditures .....	¥ 47,720	38,671
Capital expenditures .....	¥ 46,127	41,917
Depreciation and amortization .....	¥ 29,758	24,249
<b>Earnings per share (in yen):</b>		
Basic net income (loss) .....	¥ (44.98)	126.96
<b>Cash dividends per share (in yen):</b>		
Actual .....	¥ 15.00	15.00
<b>AT YEAR-END:</b>		
Total assets .....	¥858,083	682,673
Turnover (times).....	0.95	0.93
Total liabilities .....	¥603,959	429,329
Minority interests.....	¥ 13,287	1,165
Shareholders' equity .....	¥240,837	252,179
Shareholders' equity ratio .....	28.1%	36.9
Working capital .....	¥ 47,618	125,324
Number of shares outstanding (in thousands) .....	264,473	264,473
Number of employees .....	30,339	28,857

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)

2003	2002	2001	2000	1999	1998	1997	1996
141,021	150,761	149,351	144,993	136,012	128,025	114,162	95,185
423,322	377,654	317,353	283,653	277,732	236,957	196,315	160,963
564,343	528,415	466,704	428,646	413,744	364,982	310,477	256,148
106.8	113.2	108.9	103.6	113.4	117.6	121.2	101.6
24,348	10,279	11,787	1,860	8,883	9,309	2,322	2,041
4.3	1.9	2.5	0.4	2.1	2.6	0.7	0.8
34,735	30,477	30,848	31,955	31,060	28,415	28,637	27,821
34,619	24,835	21,441	17,093	18,452	17,220	15,285	13,865
16,858	23,700	18,247	16,288	16,824	15,332	13,455	11,452
91.88	38.87	44.57	7.03	33.59	35.21	8.79	7.72
14.00	13.00	13.00	6.50	13.00	13.00	13.00	13.00
605,768	562,078	584,103	536,174	533,584	521,101	510,123	487,549
0.93	0.94	0.80	0.80	0.78	0.70	0.61	0.53
382,456	358,256	389,968	344,272	342,895	334,411	329,413	305,723
880	2,275	1,906	1,561	402	573	528	463
222,432	201,547	192,229	190,341	190,287	186,117	180,182	181,363
36.7	35.9	32.9	35.5	35.7	35.7	35.3	37.2
79,734	114,779	124,287	171,378	232,226	211,144	193,282	148,372
264,473	264,473	264,473	264,473	264,473	264,473	264,279	264,230
23,975	20,705	19,865	18,999	17,874	17,098	16,426	14,923

# CONSOLIDATED BALANCE SHEETS

Olympus Corporation and Consolidated Subsidiaries  
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits.....	¥ 120,416	¥ 114,839	\$ 1,094,691
Marketable securities.....	1,210	34,997	11,000
Notes and accounts receivable.....	151,947	117,686	1,381,336
Allowance for doubtful accounts.....	(2,697)	(3,363)	(24,518)
Inventories.....	102,790	87,445	934,455
Deferred income taxes.....	17,200	18,682	156,364
Other current assets.....	43,973	37,763	399,754
<b>Total current assets.....</b>	<b>434,839</b>	<b>408,049</b>	<b>3,953,082</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land.....	17,279	14,328	157,082
Buildings and structures.....	104,141	87,592	946,736
Machinery and equipment.....	179,447	159,646	1,631,336
Construction in progress.....	2,269	2,852	20,628
	303,136	264,418	2,755,782
Less—Accumulated depreciation.....	(183,083)	(163,314)	(1,664,391)
<b>Net property, plant and equipment.....</b>	<b>120,053</b>	<b>101,104</b>	<b>1,091,391</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities.....	177,696	119,643	1,615,418
Deferred income taxes.....	9,839	7,788	89,446
Consolidated adjustment accounts.....	57,737	—	524,882
Lease deposits and other.....	57,919	46,089	526,536
<b>Total investments and other assets.....</b>	<b>303,191</b>	<b>173,520</b>	<b>2,756,282</b>
	¥ 858,083	¥ 682,673	\$ 7,800,755

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings.....	¥ 131,717	¥ 100,607	\$ 1,197,427
Current maturities of long-term debt.....	43,482	2,054	395,291
Notes and accounts payable.....	95,403	77,087	867,300
Accrued expenses (Note 9).....	57,338	57,080	521,255
Income taxes payable.....	9,511	4,457	86,464
Other current liabilities.....	49,770	41,440	452,454
Total current liabilities.....	387,221	282,725	3,520,191
<b>NON-CURRENT LIABILITIES:</b>			
Long-term debt, less current maturities.....	197,189	134,547	1,792,627
Severance and retirement allowance.....	9,891	7,903	89,918
Other non-current liabilities.....	9,658	4,154	87,800
Contingent liabilities (Note 12).....	—	—	—
Total non-current liabilities.....	216,738	146,604	1,970,345
MINORITY INTERESTS.....	13,287	1,165	120,791
<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.....	65,550	65,528	595,909
Retained earnings.....	133,523	149,397	1,213,845
Net unrealized holding gains on securities.....	6,201	5,983	56,373
Foreign currency translation adjustments.....	(3,618)	(7,569)	(32,891)
Treasury stock, at cost.....	(1,652)	(1,993)	(15,017)
Total shareholders' equity.....	240,837	252,179	2,189,428
	¥ 858,083	¥ 682,673	\$ 7,800,755

# CONSOLIDATED STATEMENTS OF OPERATIONS

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net sales .....	¥ 813,538	¥ 633,622	¥ 564,343	\$ 7,395,800
Cost of sales.....	516,468	335,053	293,532	4,695,164
Gross profit.....	297,070	298,569	270,811	2,700,636
Selling, general and administrative expenses .....	273,917	235,572	208,465	2,490,154
Operating income .....	23,153	62,997	62,346	210,482
<b>OTHER INCOME (EXPENSES):</b>				
Interest expense, net .....	(6,282)	(4,621)	(6,083)	(57,109)
Gain (loss) on marketable and investment securities, net.....	1,640	1,749	(8,112)	14,909
Foreign currency exchange gain (loss), net .....	(2,240)	1,123	(1,235)	(20,364)
Net gain (loss) of investment in affiliated companies carried on the equity method .....	(1,189)	(1,570)	46	(10,809)
Gain on sale of property, plant and equipment .....	1,247	—	—	11,336
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme .....	—	8,584	—	—
Loss on settlement of swap contracts .....	—	(5,447)	—	—
Provision for losses on business restructuring (Note 9).....	(5,490)	—	—	(49,909)
Other, net .....	(4,865)	(2,614)	(3,968)	(44,227)
Total .....	(17,179)	(2,796)	(19,352)	(156,173)
Income before provision for income taxes .....	5,974	60,201	42,994	54,309
<b>PROVISION FOR INCOME TAXES:</b>				
Current.....	14,633	16,390	24,483	133,027
Deferred .....	3,168	10,247	(5,837)	28,800
Total .....	17,801	26,637	18,646	161,827
Net income (loss) .....	¥ (11,827)	¥ 33,564	¥ 24,348	\$ (107,518)
Yen				
U.S. dollars				
<b>AMOUNTS PER SHARE OF COMMON STOCK:</b>				
Earnings per share—Basic net income (loss) .....	¥(44.98)	¥126.96	¥91.88	\$(0.409)
<b>CASH DIVIDENDS, APPLICABLE TO THE YEAR</b>				
Actual .....	¥ 15.00	¥ 15.00	¥14.00	\$ 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, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
<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>				
Balance at beginning of year .....	¥ 65,528	¥ 65,528	¥ 65,528	\$ 595,709
Surplus from sale of treasury stock.....	22	—	—	200
Balance at end of year .....	¥ 65,550	¥ 65,528	¥ 65,528	\$ 595,909
<b>RETAINED EARNINGS:</b>				
Balance at beginning of year .....	¥ 149,397	¥ 119,867	¥ 99,032	\$ 1,358,155
Net income (loss) .....	(11,827)	33,564	24,348	(107,518)
Cash dividends paid .....	(3,953)	(3,958)	(3,437)	(35,936)
Bonuses for directors.....	(94)	(72)	(76)	(856)
Net loss on disposal of treasury stock .....	—	(4)	—	—
Balance at end of year .....	¥ 133,523	¥ 149,397	¥ 119,867	\$ 1,213,845
<b>NET UNREALIZED HOLDING GAINS (LOSSES) ON SECURITIES:</b>				
Balance at beginning of year .....	¥ 5,983	¥ 555	¥ (214)	\$ 54,391
Net increase.....	218	5,428	769	1,982
Balance at end of year .....	¥ 6,201	¥ 5,983	¥ 555	\$ 56,373
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:</b>				
Balance at beginning of year .....	¥ (7,569)	¥ (3,324)	¥ (3,536)	\$ (68,809)
Net increase (decrease).....	3,951	(4,245)	212	35,918
Balance at end of year .....	¥ (3,618)	¥ (7,569)	¥ (3,324)	\$ (32,891)
<b>TREASURY STOCK, AT COST:</b>				
Balance at beginning of year .....	¥ (1,993)	¥ (1,027)	¥ (96)	\$ (18,117)
Net increase (decrease).....	341	(966)	(931)	3,100
Balance at end of year .....	¥ (1,652)	¥ (1,993)	¥ (1,027)	\$ (15,017)

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before provision for income taxes .....	¥ 5,974	¥ 60,201	¥ 42,994	\$ 54,309
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	29,758	24,249	16,858	270,527
Increase (decrease) in severance and retirement allowance.....	758	(6,144)	2,699	6,891
Decrease (increase) in prepaid pension cost.....	3,889	(8,692)	—	35,355
Interest income.....	(500)	(291)	(376)	(4,545)
Interest expense .....	6,782	4,912	6,459	61,655
Loss (gain) on marketable and investment securities, net.....	(1,640)	(1,749)	8,112	(14,909)
Loss on settlement of swap contracts .....	—	5,447	—	—
Decrease (increase) in accounts receivable .....	1,898	(27,967)	(12,580)	17,255
Decrease (increase) in inventories .....	(1,749)	(13,285)	6,319	(15,900)
Increase (decrease) in accounts payable.....	(12,775)	21,253	6,900	(116,136)
Increase (decrease) in other payable .....	(3,488)	5,630	7,840	(31,709)
Increase (decrease) in accrued expense.....	(3,756)	408	16,692	(34,145)
Other .....	35	(2,265)	4,650	316
Sub-total .....	25,186	61,707	106,567	228,964
Interest and dividend received .....	1,566	1,129	1,131	14,236
Interest payments.....	(6,512)	(5,040)	(6,410)	(59,200)
Income taxes paid .....	(10,215)	(27,259)	(22,537)	(92,864)
Net cash provided by operating activities.....	10,025	30,537	78,751	91,136
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Deposits in time deposits.....	(6,669)	(45,377)	(46,268)	(60,627)
Withdrawals from time deposits .....	45,731	45,904	45,635	415,736
Purchases of marketable securities .....	(35,000)	(70,000)	(70,000)	(318,182)
Sales of marketable securities .....	69,997	70,000	70,000	636,336
Payments for settlement of swap contracts .....	—	(5,447)	—	—
Purchases of property, plant and equipment .....	(46,727)	(43,412)	(32,949)	(424,791)
Sales of property, plant and equipment .....	3,025	—	—	27,500
Purchases of investment securities .....	(66,281)	(8,215)	(26,707)	(602,555)
Sales of investment securities.....	5,801	4,822	1,366	52,736
Proceeds from acquisition of new subsidiaries .....	12,460	—	—	113,273
Payments for acquisition of new subsidiaries .....	(3,308)	(2,233)	(199)	(30,073)
Payments for additional stock investment in subsidiaries .....	(6,695)	—	(1,784)	(60,864)
Other .....	124	(1,253)	571	1,129
Net cash used in investing activities .....	(27,542)	(55,211)	(60,335)	(250,382)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Increase (decrease) in short-term borrowings .....	7,051	28,370	(8,266)	64,100
Proceeds from long-term debt.....	56,342	21,455	20,087	512,200
Repayments of long-term debt .....	(20,633)	(1,593)	(935)	(187,573)
Proceeds from issuance of bonds.....	20,134	29,877	—	183,036
Redemption of bonds.....	—	(35,000)	(25,000)	—
Stock issue to minority shareholders.....	1,289	250	188	11,718
Dividends paid.....	(3,953)	(3,958)	(3,437)	(35,936)
Dividends paid to minority shareholders .....	(3)	(1)	(12)	(27)
Other .....	(212)	(992)	(904)	(1,927)
Net cash provided by (used in) financing activities.....	60,015	38,408	(18,279)	545,591
Effect of exchange rate changes on cash and cash equivalents .....	877	(583)	462	7,973
Net increase in cash and cash equivalents .....	43,375	13,151	599	394,318
Cash and cash equivalents at beginning of year .....	69,095	55,944	55,345	628,137
Net increase in cash and cash equivalents associated with newly consolidated subsidiaries ...	1,155	—	—	10,500
Cash and cash equivalents at end of year .....	¥ 113,625	¥ 69,095	¥ 55,944	\$ 1,032,955

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 that is more familiar to readers outside Japan.

In the year ended March 31, 2005, 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). Although the new accounting standard is required to be adopted effective April 1, 2005, 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 ("consolidated adjustment accounts") are generally being amortized on the straight-line method in the range of five to 20 years.

Consolidated adjustment accounts, formerly included in lease deposits and other, is shown as an independent item. Amount of consolidated adjustment accounts included in lease deposits and other in fiscal 2004 is ¥3,162 million.

In the second half of this fiscal year, ITX Corporation and its subsidiaries that were previously accounted for by the equity method became new consolidated subsidiaries of the Company due to the additional acquisition of stock.

*(c) 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 not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

*(d) MARKETABLE AND INVESTMENT SECURITIES*

In accordance with the accounting standard for financial instruments, 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.

*(e) INVENTORIES*

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

*(f) 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, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Buildings and structures .....	12.2%	8.0%	6.5%
Machinery and equipment .....	33.9%	29.9%	28.9%

*(g) 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.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2005 based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

Net transition obligation will be recognized as an expense in equal amounts over mainly 5 years commencing with the year ended March 31, 2001.

Allowance for employees' severance and retirement benefits was included in the liability section of the consolidated balance sheets together with severance and retirement allowance for directors as of March 31, 2005 and 2004.

*(h) 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.

*(i) PROVISION FOR LOSSES ON BUSINESS RESTRUCTURING*

To provide for the loss that will appear during the execution of restructuring of the Imaging Systems Business hereafter, the amount of expected loss is appropriated. The main matters are write-off for inventories and special retirement allowance. Write-off for inventories was deducted from inventories on the consolidated balance sheet as of March 31, 2005.

*(j) RESEARCH AND DEVELOPMENT*

Expenses relating to research and development activities are charged to income as incurred. Total amounts charged to income were ¥47,720 million (\$433,818 thousand), ¥38,671 million and ¥34,735 million for the years ended March 31, 2005, 2004 and 2003, respectively.

*(k) CERTAIN LEASE TRANSACTIONS*

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

*(l) INCOME TAXES*

The Company adopts the accounting standard that 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 statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Part of subsidiaries adopted the consolidated taxation system.

*(m) PRO FORMA STANDARD TAXATION*

In line with announcement of Practice Report No. 12 "Practical Treatment Concerning Presentation of Pro Forma Standard Taxation Portion of Enterprise Tax on Corporation in Statements of Income" issued by the Accounting Standards Board of Japan, the enterprise taxes levied in proportion to added value and capital, amounting to ¥809 million (\$7,355 thousand), were recognized as "Selling, general and administrative expenses" effective fiscal 2005 under this report.

*(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, 2005, 2004 and 2003, 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) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS*

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.

Revenues and expenses denominated in foreign functional currencies are translated at average exchange rates for each corresponding fiscal year. Differences resulting from translation are presented as "Foreign currency translation adjustments" in shareholders' equity of the accompanying consolidated balance sheets.

## 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, 2005 and 2004:

Available-for-sale securities

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

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥ 17,660	¥ 26,419	¥ 8,759	¥11,406	¥19,255	¥7,849	\$ 160,545	\$ 240,173	\$79,628
Bonds .....	10	10	0	9	9	0	91	91	0
Others .....	97,208	98,532	1,324	36,078	36,599	521	883,710	895,745	12,035
Total .....	¥114,878	¥124,961	¥10,083	¥47,493	¥55,863	¥8,370	\$1,044,346	\$1,136,009	\$91,663

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

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities .....	¥ 554	¥ 512	¥ (42)	¥ 48	¥ 47	¥ (1)	\$ 5,036	\$ 4,655	\$ (381)
Bonds .....	1,200	1,200	—	35,000	34,997	(3)	10,909	10,909	—
Others .....	3,171	2,743	(428)	4,183	3,647	(536)	28,828	24,936	(3,892)
Total .....	¥4,925	¥4,455	¥(470)	¥39,231	¥38,691	¥(540)	\$44,773	\$40,500	\$(4,273)

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 the 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, 2005 and 2004:

Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Non-listed equity securities .....	¥15,082	¥ 7,714	\$137,109
Non-listed foreign bonds .....	5,603	3,684	50,936
Others .....	24,061	10,008	218,737
Total .....	¥44,746	¥21,406	\$406,782

Note: The preferred securities of ¥6,000 million (\$54,545 thousand) issued by a 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			
	2005			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	¥ —	¥ 3,500	¥ —	¥ 3,500
Government bonds.....	1,200	13	—	1,213
Corporate bonds .....	—	4,048	3,100	7,148
Others .....	—	23,985	66	24,051
Total .....	¥1,200	¥31,546	¥3,166	¥35,912

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>

Thousands of U.S. dollars				
2005				
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	\$ —	\$ 31,818	\$ —	\$ 31,818
Government bonds .....	10,909	118	—	11,027
Corporate bonds .....	—	36,800	28,182	64,982
Others .....	—	218,046	600	218,646
<b>Total .....</b>	<b>\$10,909</b>	<b>\$286,782</b>	<b>\$28,782</b>	<b>\$326,473</b>

### 3. BUSINESS INCUBATION SECURITIES AND BUSINESS INCUBATION SECURITIES IN AFFILIATES

Business incubation securities and business incubation securities in affiliates that are held by subsidiaries of the Company are included in investment securities on the consolidated balance sheet as of March 31, 2005. Business incubation securities and business incubation securities in affiliates amount to ¥7,912 million (\$71,927 thousand) and ¥3,764 million (\$34,218 thousand), respectively.

### 4. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unconsolidated subsidiaries and affiliates .....	¥ 2,484	¥ 2,151	\$ 22,582
Trade .....	149,463	115,535	1,358,755
<b>Total .....</b>	<b>¥151,947</b>	<b>¥117,686</b>	<b>\$1,381,336</b>

### 5. INVENTORIES

Inventories as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods .....	¥ 78,357	¥56,514	\$712,336
Work in process and raw materials .....	24,433	30,931	222,118
<b>Total .....</b>	<b>¥102,790</b>	<b>¥87,445</b>	<b>\$934,455</b>

### 6. SHORT-TERM BORROWINGS

Short-term borrowings, which consist principally of bank acceptances payable in foreign currencies, are due in one to 180 days. The annual interest rates on these borrowings ranged from 0.41% to 8.70% and from 0.57% to 13.00% as of March 31, 2005 and 2004, respectively. Bank acceptances payable of ¥1,959 million (\$17,809 thousand) were secured by certain trade accounts receivable and inventories as of March 31, 2005.

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.

## 7. LONG-TERM DEBT

Long-term debt as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(Unsecured long-term debt)			
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	30,000	272,727
0.84% yen bonds, due October 2009 .....	20,000	—	181,818
1.16% loan from a Japanese bank, due December 2008 .....	20,000	20,000	181,818
1.52% loan from a Japanese bank, due October 2011 .....	25,000	—	227,273
2.00% loan from a Japanese bank, due December 2008 .....	15,906	—	144,600
1.30% loan from a Japanese bank, due June 2008 .....	11,561	—	105,100
1.00% loan from a Japanese bank, due September 2009 .....	6,490	—	59,000
3.60% loan from a Japanese bank, due March 2006 .....	4,300	—	39,091
2.00% loan from a Japanese bank, due March 2006 .....	4,135	—	37,591
1.63% loan from a Japanese bank, due September 2009 .....	4,020	—	36,545
1.50% loan from a Japanese bank, due March 2010 .....	3,302	—	30,018
2.105% loan from a Japanese bank, due March 2005 .....	—	1,500	—
0.59% to 0.61% loans from Japanese banks, due February 2007 .....	—	750	—
0.59% loan from a Japanese bank, due September 2004 .....	—	500	—
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	—
1.54% loan from a Japanese bank, due September 2011 .....	20,000	—	181,818
Other bonds .....	300	—	—
Others from foreign banks .....	1,566	595	14,236
Others from Japanese banks .....	8,781	803	79,827
(Secured long-term debt)			
Others from foreign banks .....	1,135	1,649	10,318
Others from Japanese banks .....	4,175	804	40,683
	240,671	136,601	2,187,918
Less-current maturities .....	(43,482)	(2,054)	(395,291)
	¥197,189	¥134,547	\$1,792,627

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
2006 .....	¥ 43,482	\$ 395,291
2007 .....	36,021	327,464
2008 .....	11,195	101,773
2009 .....	71,037	645,791
2010 .....	27,535	250,318
Thereafter .....	51,401	467,281
Total .....	¥240,671	\$2,187,918

## 8. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2004
Unconsolidated subsidiaries and affiliates .....	¥ 370	¥ 75	\$ 3,364
Trade .....	95,033	77,012	863,936
<b>Total .....</b>	<b>¥95,403</b>	<b>¥77,087</b>	<b>\$867,300</b>

## 9. SEVERANCE AND RETIREMENT ALLOWANCE

The Company and its consolidated subsidiaries adopt 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 by 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 sheets as of March 31, 2005 and 2004, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation .....	¥ 89,400	¥ 84,280	\$ 812,727
Unrecognized prior service costs .....	364	689	3,309
Unrecognized actuarial difference .....	(13,448)	(18,010)	(122,255)
Fair value of pension assets .....	(72,223)	(67,844)	(656,573)
Unrecognized net transition obligation .....	—	(1,161)	—
Prepaid pension expenses .....	4,803	8,692	43,665
Allowance for employees' severance and retirement benefits .....	8,896	6,646	80,873
Severance and retirement allowance for directors .....	¥ 995	¥ 1,257	\$ 9,045
<b>Total severance and retirement allowance .....</b>	<b>¥ 9,891</b>	<b>¥ 7,903</b>	<b>\$ 89,918</b>

Note: Special retirement allowance amounting to ¥2,400 million (\$21,818 thousand) that will be paid after fiscal 2006 was recorded in Accrued expenses on the consolidated balance sheet as of March 31, 2005.

Included in the consolidated statements of operations for the year ended March 31, 2005 and 2004, are employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs—benefits earned during the year .....	¥ 4,679	¥ 3,264	\$ 42,536
Interest cost on projected benefit obligation .....	1,551	2,078	14,100
Expected return on plan assets .....	(2,703)	(2,478)	(24,573)
Amortization of actuarial difference .....	5,828	6,206	52,982
Amortization of prior service costs .....	(344)	(967)	(3,127)
Amortization of net transition obligation .....	1,161	1,407	10,555
<b>Severance and pension benefit expense .....</b>	<b>¥10,172</b>	<b>¥ 9,510</b>	<b>\$ 92,473</b>

Note: Special retirement allowance amounting to ¥2,400 million (\$21,818 thousand) that will be paid after fiscal 2006 was recorded in Provision for losses on business restructuring in the consolidated statement of operations for the year ended March 31, 2005.

The discount rate used by the Company is 2.0% in fiscal 2005 and 2004. The rates of expected return on plan assets used by the Company are mainly 4.0% in fiscal 2005 and 4.0% in fiscal 2004. 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 mainly five years, and actuarial gains (or losses) are recognized as income (or expense) in equal amounts over mainly five 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 in fiscal 2004.

## 10. 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 40.7% for the years ended March 31, 2005 and 41.8% for the years ended March 31, 2004 and 2003. 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, 2005, 2004 and 2003.

	2005	2004	2003
Japanese statutory tax rate .....	40.7%	41.8%	41.8%
Effect of foreign tax rate differences .....	(37.1)	(4.3)	2.7
Non-taxable dividend income .....	—	—	(0.4)
Non-deductible expenses .....	12.7	2.1	0.3
Adjustments of deferred tax assets and liabilities			
for enacted changes in tax laws and rates .....	—	—	1.4
Impact of operating losses generated/(utilized) for certain subsidiaries .....	2.1	4.3	(2.0)
Increase of allowance for evaluation .....	282.7	—	—
Tax deduction for research and development .....	(23.9)	—	—
Amortization of consolidated adjustment accounts .....	21.4	—	—
Other, net .....	7.9	0.4	(0.6)
Effective tax rate .....	306.5%	44.3%	43.2%

Significant components of deferred income tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred income tax assets:			
Inventories .....	¥ 8,305	¥ 5,078	\$ 75,500
Depreciation of property, plant and equipment .....	4,268	4,099	38,800
Depreciation of intangible assets .....	4,162	2,651	37,836
Severance and retirement allowances .....	2,910	2,255	26,455
Prepaid expenses .....	6,127	4,588	55,700
Marketable and investment securities .....	4,948	4,984	44,982
Deferred assets .....	288	268	2,618
Unrealized intercompany profits .....	6,325	6,111	57,500
Accrued bonuses .....	3,213	3,628	29,209
Deficit carried forward .....	19,272	—	175,200
Other .....	6,908	3,945	62,800
Subtotal .....	66,726	37,607	606,600
Allowance for evaluation .....	(30,546)	—	(277,691)
Total deferred income tax assets .....	36,180	37,607	328,909
Prepaid pension expenses .....	(1,956)	(3,549)	(17,782)
Net unrealized holding gains on securities .....	(3,316)	(2,492)	(30,145)
Other .....	(9,230)	(5,096)	(83,909)
Total deferred income tax liabilities .....	(14,502)	(11,137)	(131,836)
Net deferred income tax assets .....	¥ 21,678	¥ 26,470	\$ 197,073

## 11. 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 such a 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.

## 12. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted of ¥1,959 million (\$17,809 thousand) and endorsed of ¥268 million (\$2,436 thousand) as of March 31, 2005. As of March 31, 2005, the Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥582 million (\$5,291 thousand), and secondly for borrowing from bank to subsidiaries, amounting to ¥534 million (\$4,855 thousand).

## 13. PLEDGED ASSETS

The following assets were pledged as collateral for short-term borrowings, long-term debt and security deposits as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits.....	¥1,844	—	\$16,764
Land .....	194	¥ 78	1,764
Buildings and structures .....	3,973	2,546	36,118
Machinery and equipment .....	43	—	391
Investment securities .....	100	—	909
Lease deposits and other .....	30	—	272
	¥6,184	¥2,624	\$56,218

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Long-term debt.....	¥5,309	¥2,453	\$48,264
Short-term borrowings.....	221	—	2,009
	¥5,530	¥2,453	\$50,273

## 14. 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits.....	¥120,416	¥114,839	\$1,094,691
Less: Time deposits with maturities over three months.....	(6,801)	(45,744)	(61,827)
Cash equivalents included in marketable securities .....	10	—	91
Cash and cash equivalents .....	¥113,625	¥69,095	\$1,032,955

## 15. CASH FLOW FROM ACQUISITION OF CONSOLIDATED SUBSIDIARIES

Details of assets and liabilities when ITX corporation and its subsidiaries (ITX) were consolidated, acquisition cost of share, and proceeds from acquisition of ITX were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable.....	¥31,441	¥285,827
Inventories.....	10,606	96,418
Other current assets.....	37,850	344,091
Consolidated adjustment accounts.....	33,359	303,264
Investment securities.....	15,511	141,009
Other non-current assets.....	15,615	141,955
Notes and accounts payable.....	(29,451)	(267,736)
Short-term borrowings.....	(25,346)	(230,418)
Other current liabilities.....	(11,656)	(105,964)
Long-term debt, less current maturities.....	(39,154)	(355,945)
Other non-current liabilities.....	(11,322)	(102,927)
Minority interests.....	(2,487)	(22,609)
Sub-total.....	24,966	226,964
Consolidated adjustment accounts.....	14,419	131,082
Minority interests.....	(10,212)	(92,836)
Total equity method until consolidation.....	(8,905)	(80,955)
Sub-total: acquisition cost of ITX.....	20,268	184,255
Cash and cash equivalents owned by ITX.....	32,728	297,527
Proceeds from acquisition of ITX.....	12,460	113,273

## 16. 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, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(Equivalent amount)			
Acquisition cost.....	¥ 9,578	¥ 8,234	\$ 87,073
Accumulated depreciation.....	(4,960)	(4,099)	(45,091)
Estimated net book value.....	¥ 4,618	¥ 4,135	\$ 41,982

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(Accrued lease payments)			
Lease payments.....	¥2,099	¥2,120	\$19,082
Equivalent of depreciation expense.....	1,951	1,959	17,736
Equivalent of interest expense.....	142	162	1,291

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 the 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, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005 .....	¥1,933	\$17,573
2006 and thereafter .....	2,908	26,436
Total minimum lease payments .....	¥4,841	\$44,009

*LESSOR:*

Certain machinery and equipment of the Company and its consolidated subsidiaries are leased under the finance leases. For the years ended March 31, 2005 and 2004, the amounts of machinery and equipment were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost .....	¥ 6,251	¥ 6,666	\$ 56,827
Accumulated depreciation.....	(3,385)	(3,578)	(30,772)
Net book value .....	¥ 2,866	¥ 3,088	\$ 26,055

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease income.....	¥1,649	¥1,776	\$14,991
Depreciation expense.....	1,516	1,606	13,782
Estimated interest income.....	108	140	982

Estimated interest income is computed using the 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, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005 .....	¥1,193	\$10,845
2006 and thereafter .....	1,767	16,064
Total minimum lease payments .....	¥2,960	\$26,909

## 17. 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 subsidiaries.

The counter-parties to the derivative financial instruments of the Company and its consolidated subsidiaries are substantial and creditworthy multi-national 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.

Part of its consolidated subsidiaries also use stock-price swap contracts for speculation purposes within a limited amount. Stock-price swap contracts are exposed to stock-price fluctuation risk.

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, 2005 and 2004:

(as of March 31, 2005)

	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 .....	¥ 612	¥—	¥ 574	\$ 5,564	\$ —	\$ 5,218
To buy other currencies.....	231	—	232	2,100	—	2,109
To sell U.S. dollars.....	40	—	37	364	—	336
To sell British Pounds.....	1,871	—	1,862	17,009	—	16,927
To sell other currencies .....	2,280	—	2,266	20,727	—	20,600
Foreign exchange option contracts						
Put option .....	1,181	31	37	10,736	282	336
Stock-price swap contracts .....	6,490	—	(3,124)	59,000	—	(28,400)

(as of March 31, 2004)

	Millions of yen		
	Notional amount	Book value	Fair value
Foreign exchange forward contracts:			
To buy U.S. dollars .....	¥1,249	¥—	¥1,214
To sell U.S. dollars.....	37	—	37
To sell British Pounds.....	579	—	579
To sell other currencies .....	2,261	—	2,243
Foreign exchange option contracts			
Put option .....	1,567	29	34

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. The fair value of stock-price swap contracts is estimated by obtaining quotes from financial institutions.

## 18. SUBSEQUENT EVENTS

(a) In April 2005, the Company transferred the product categories of industrial microscopes from the "Industrial Systems Business" to the "Life Science Business," and industrial endoscopes, printers, and bar code data processing equipment from the "Industrial Systems Business" to "Others" based on the technical characteristics of the products. The "Industrial Systems Business" was removed and its product categories were integrated into the following five business segments: "Imaging Systems Business," "Medical Systems Business," "Life Science Business," "Information and Communication Business," and "Others."

The following fiscal 2005 segmental information is classified by the new business segment structure that was newly adopted in fiscal 2006:

	Millions of yen							Consolidated Total
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total	Elimination and Corporate	
2005								
Net sales:								
Unaffiliated customers.....	¥277,685	¥230,525	¥101,315	¥163,248	¥40,765	¥813,538	¥ —	¥813,538
Intersegment .....	27	5	12	—	1	45	(45)	—
Total .....	277,712	230,530	101,327	163,248	40,766	813,583	(45)	813,538
Operating expenses.....	301,587	165,224	94,623	164,285	42,600	768,319	22,066	790,385
Operating income (loss) .....	(23,875)	65,306	6,704	(1,037)	(1,834)	45,264	(22,111)	23,153
Assets .....	144,707	177,480	75,808	120,996	58,639	577,630	280,453	858,083
Depreciation and amortization .....	11,184	9,473	4,304	839	1,694	27,494	2,264	29,758
Capital expenditures.....	¥ 15,987	¥ 14,669	¥ 6,195	¥ 1,321	¥ 1,742	¥ 39,914	¥ 6,213	¥ 46,127

Thousands of U.S. dollars

	2005							Elimination and Corporate	Consolidated Total
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total			
Net sales:									
Unaffiliated customers.....	\$2,524,409	\$2,095,682	\$921,045	\$1,484,073	\$370,591	\$7,395,800	\$ —	\$7,395,800	
Intersegment .....	246	45	110	—	8	409	(409)	—	
Total .....	2,524,655	2,095,727	921,155	1,484,073	370,599	7,396,209	(409)	7,395,800	
Operating expenses.....	2,741,700	1,502,036	860,210	1,493,500	387,272	6,984,718	200,600	7,185,318	
Operating income (loss) .....	(217,045)	593,691	60,945	(9,427)	(16,673)	411,491	(201,009)	210,482	
Assets .....	1,315,518	1,613,455	689,164	1,099,964	533,081	5,251,182	2,549,573	7,800,755	
Depreciation and amortization .....	101,673	86,118	39,127	7,627	15,400	249,945	20,582	270,527	
Capital expenditures.....	\$ 145,336	\$ 133,355	\$ 56,318	\$ 12,009	\$ 15,837	\$ 362,855	\$ 56,481	\$ 419,336	

Note: These five business segments include the following products:

Imaging Systems Business:	Film cameras, Digital cameras, Voice Recorders, Magneto-optical disk drives
Medical Systems Business:	Medical endoscopes, Surgical endoscopes, Endo-therapy devices, Ultrasound endoscopes
Life Science Business:	Diagnostic systems, Biological microscopes, Analytical services of genomic information, Industrial microscopes
Information and Communication Business:	Mobile terminals, Mobile solutions, Mobile content services, Network infrastructure systems, System development, Semiconductor devices, Electric equipment
Others:	Medical new business, Software development, Industrial endoscopes, Printers, Bar code data processing equipment, Measuring equipment, etc.

(b) On May 31, 2005, the Company acquired 100% of the shares outstanding of R/D Tech Inc. (Québec, Canada) through its wholly owned subsidiary, Olympus NDT Canada Inc. (Québec, Canada) for a total of approximately 117 million Canadian dollars (approximately ¥10,100 million, US\$91,818 thousand). Following the acquisition, the Company took in technology in the areas of ultrasound defect detection and eddy current defect detection. By integrating the advanced technologies of Olympus and R/D Tech Inc., it will be possible to create new value in the non-destructive testing (NDT) field. Olympus NDT Canada Inc. merged with R/D Tech Inc. on May 31, 2005.

The overview of R/D Tech Inc., Olympus NDT Canada Inc. and company after the merger are as below.

1. R/D Tech Inc.

- (1) Trading name: R/D Tech Inc.
- (2) Representative: Alain Allard
- (3) Address: 505, boul. du Parc-Technologique, Québec G1P 4S9, Canada
- (4) Principal activities: Development, manufacturing and sale of non-destructive testing equipment
- (5) Common stock: CN\$2,362,152
- (6) Numbers of shares outstanding: 8,393,631

2. Olympus NDT Canada Inc.

- (1) Trading name: Olympus NDT Canada Inc.
- (2) Representative: Yasuo Yoda
- (3) Address: 1000, de La Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5, Canada
- (4) Relationship to the Company: 100% subsidiary of the Company

3. Company after the merger

- (1) Trading name: Olympus NDT Canada Inc.
- (2) Representative: Toshihiko Okubo
- (3) Address: 1000, de La Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5, Canada
- (4) Principal activities: Development, manufacturing and sale of non-destructive testing equipment
- (5) Common stock: CN\$20,000,001
- (6) Numbers of shares outstanding: 101
- (7) Relationship to the Company: 100% subsidiary of the Company

(c) At the general meeting held on June 29, 2005, the shareholders approved a cash dividend totaling ¥1,978 million (\$17,982 thousand) or ¥7.50 (\$0.07) per share. In accordance with the Code, the declaration of this dividend has not been reflected in the accompanying consolidated financial statements as of March 31, 2005.

## 19. SEGMENTAL INFORMATION

### (a) INFORMATION BY BUSINESS SEGMENT

Segment information for the years ended March 31, 2005, 2004 and 2003 are shown in the tables below:

	Millions of yen								Consolidated Total
	2005								
	Imaging Systems Business	Medical Systems Business	Life Science Business	Industrial Systems Business	Information and Communication Business	Others	Total	Elimination and Corporate	
Net sales:									
Unaffiliated customers.....	¥277,685	¥230,525	¥79,153	¥49,788	¥163,248	¥13,139	¥813,538	¥ —	¥813,538
Intersegment .....	27	5	1	11	—	1	45	(45)	—
Total .....	277,712	230,530	79,154	49,799	163,248	13,140	813,583	(45)	813,538
Operating expenses.....	301,587	165,224	74,683	48,530	164,285	14,010	768,319	22,066	790,385
Operating income (loss) .....	(23,875)	65,306	4,471	1,269	(1,037)	(870)	45,264	(22,111)	23,153
Assets .....	144,707	177,480	64,639	29,051	120,996	40,757	577,630	280,453	858,083
Depreciation and amortization ....	11,184	9,473	4,034	890	839	1,074	27,494	2,264	29,758
Capital expenditures.....	¥ 15,987	¥ 14,669	¥ 5,862	¥ 1,103	¥ 1,321	¥ 972	¥ 39,914	¥ 6,213	¥ 46,127
	Millions of yen								
	2004								
	Imaging Systems Business	Medical Systems Business	Life Science Business	Industrial Systems Business	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 Business	Medical Systems Business	Life Science Business	Industrial Systems Business	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

	2005							Elimination and Corporate	Consolidated Total
	Imaging Systems Business	Medical Systems Business	Life Science Business	Industrial Systems Business	Information and Communication Business	Others	Total		
Net sales:									
Unaffiliated customers.....	\$2,524,409	\$2,095,682	\$719,573	\$452,618	\$1,484,073	\$119,445	\$7,395,800	\$ —	\$7,395,800
Intersegment .....	246	45	9	100	—	9	409	(409)	—
Total .....	2,524,655	2,095,727	719,582	452,718	1,484,073	119,454	7,396,209	(409)	7,395,800
Operating expenses.....	2,741,700	1,502,036	678,937	441,182	1,493,500	127,363	6,984,718	200,600	7,185,318
Operating income (loss) .....	(217,045)	593,691	40,645	11,536	(9,427)	(7,909)	411,491	(201,009)	210,482
Assets .....	1,315,518	1,613,455	587,627	264,100	1,099,964	370,518	5,251,182	2,549,573	7,800,755
Depreciation and amortization ....	101,673	86,118	36,673	8,091	7,627	9,763	249,945	20,582	270,527
Capital expenditures.....	\$ 145,336	\$ 133,355	\$ 53,291	\$ 10,027	\$ 12,009	\$ 8,837	\$ 362,855	\$ 56,481	\$ 419,336

Notes: 1. In April 2003, the Company reorganized the "Medical Systems Business" to complete the life science business and established the "Life Science Business" as a separate business segment from fiscal 2004.

2. In October 2004, the Company separated its "Imaging Systems Business" and "Medical Systems Business," and reorganized its business segment structure, changing segment names from "Group" to "Business." The "Imaging Systems Business" was taken over by Olympus Imaging Corp., and the "Medical Systems Business" was taken over by Olympus Medical Systems Corp. As to expenses for the corporate center that had been regarded unallocatable, and elemental research and development expenses that had been allocated to each segment, traded amounts of these expenses are recognized as operating expenses in each segment since the amounts of consideration payable are decided in proportion to rendering of service based on a business trust agreement and a license agreement.

3. These six business segments include the following products:

We founded the Information and Communication Business when ITX Corporation was consolidated.

Imaging Systems Business: Film cameras, Digital cameras, Voice Recorders, Magneto-optical disk drives

Medical Systems Business: Medical endoscopes, Surgical endoscopes, Endo-therapy devices, Ultrasound endoscopes

Life Science Business: Diagnostic systems, Biological microscopes, Analytical services of genomic information

Industrial Systems Business: Industrial microscopes, Industrial endoscopes, Printers, Bar code data processing equipment, Measuring equipment

Information and Communication Business: Mobile terminals, Mobile solutions, Mobile content services, Network infrastructure systems, System development, Semiconductor devices, Electric equipment

Others: Medical new business, Software development, etc.

(b) INFORMATION BY GEOGRAPHIC LOCATION

Millions of yen

	2005					Elimination and Corporate	Consolidated Total
	Japan	America	Europe	Asia	Total		
Net sales:							
Unaffiliated customers .....	¥341,637	¥178,417	¥229,274	¥ 64,210	¥ 813,538	¥ —	¥813,538
Intersegment .....	273,957	1,356	10,256	99,566	385,135	(385,135)	—
Total .....	615,594	179,773	239,530	163,776	1,198,673	(385,135)	813,538
Operating expenses .....	594,111	171,142	231,746	158,780	1,155,779	(365,394)	790,385
Operating income (loss) .....	21,483	8,631	7,784	4,996	42,894	(19,741)	23,153
Assets .....	¥294,101	¥ 76,319	¥152,757	¥ 94,643	¥ 617,820	¥ 240,263	¥858,083

Millions of yen

	2004					Elimination and Corporate	Consolidated Total
	Japan	America	Europe	Asia	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

Thousands of U.S. dollars							
2005							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers.....	\$3,105,791	\$1,621,973	\$2,084,309	\$ 583,727	\$7,395,800	\$ —	\$7,395,800
Intersegment .....	2,490,518	12,327	93,236	905,146	3,501,227	(3,501,227)	—
Total .....	5,596,309	1,634,300	2,177,545	1,488,873	10,897,027	(3,501,227)	7,395,800
Operating expenses .....	5,401,009	1,555,836	2,106,781	1,443,456	10,507,082	(3,321,764)	7,185,318
Operating income (loss) .....	195,300	78,464	70,764	45,417	389,945	(179,463)	210,482
Assets .....	\$2,673,645	\$ 693,809	\$1,388,700	\$ 860,391	\$5,616,545	\$2,184,210	\$7,800,755

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
	2005	2004	2003	2005
Export sales (A) .....	¥562,854	¥483,288	¥423,322	\$5,116,855
to North America .....	201,474	193,720	197,591	1,831,582
to Europe.....	243,263	200,559	158,587	2,211,482
to Asia .....	93,817	76,596	58,946	852,882
to Other areas.....	24,300	12,413	8,198	220,909
Net sales (B) .....	¥813,538	¥633,622	¥564,343	\$7,395,800
A/B (%).....	69.2%	76.3%	75.0%	69.2%

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 SHAREHOLDERS AND BOARD OF DIRECTORS OF OLYMPUS CORPORATION

We have audited the accompanying consolidated balance sheets of Olympus Corporation and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion we draw attention to the following.

- (1) As discussed in Note 19, effective April 1, 2003, Olympus Corporation established a new business segment and changed the categorization of business segments.
- (2) As discussed in Note 18, effective April 1, 2005, Olympus Corporation changed the categories of business in the business segments.
- (3) As discussed in Note 18, on May 31, 2005, Olympus Corporation acquired 100% of the shares outstanding of the acquired company through its wholly owned subsidiary.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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, 2005