

A MESSAGE
FROM THE PRESIDENT



think
what's
next

In fiscal 2006, ended March 31, 2006, Olympus recorded an increase in net sales for the 12th consecutive year. In addition, operating income reached a record-high level of ¥62.5 billion.

An overview of fiscal 2006 and the medium- and long-term management plan are presented below.

Overview of Fiscal 2006

> During fiscal 2006, consolidated net sales totaled ¥978.1 billion, up 20.2% from the previous fiscal year. This is attributed to sales increases in the Medical Systems Business and the Life Science Business. Along with growth of sales in those Businesses, ITX Corporation, a consolidated subsidiary that joined the Olympus Group in September 2004, contributed to overall earnings in the course of the year, bringing a significant revenue increase. On the earnings front, Olympus achieved a net income of ¥28.6 billion, an increase of ¥40.4 billion, owing to the growth of operating income in the Imaging Systems Business in fiscal 2006, while it had posted an operating loss in the previous fiscal year. Propelled by the rise in revenues, Olympus decided to increase the annual cash dividend of ¥15 per share to ¥22 per share, up ¥7 from the previous fiscal year.

Following the path to profit recovery, I would like to talk about Olympus' vision for enhanced value creation capability in line with the "FY2006 Corporate Strategic Plan" (the 2006 CSP), which draws up a three-year business development strategy covering fiscal 2007 to fiscal 2009, ending March 31, 2009.

Profit Recovery in the Imaging Systems Business

> The most notable accomplishment in fiscal 2006 was the Imaging Systems Business' return to profitability. This is attributed to Olympus' initiative for business operations with emphasis on profit-making in accordance with business strategies announced last autumn, aiming at the establishment of a sustainable profit base. There are two points to consider: selection and concentration, and cost reduction.

In order to implement selection and concentration, Olympus will concentrate its resources on business areas where it can utilize its core competence in "Opto-Digital Technology." In practice, it will concentrate its resources on the reestablishment of the foundations of its digital compact camera business, strengthening of the digital single-lens reflex (SLR) camera business, where market expansion is expected, and the optical component business, in which Olympus can make use of its strengths.

On the cost-reduction front, we cut overall costs, including production costs and inventories.

As a result of implementing profit-oriented measures, we improved our profit despite the decrease in sales volume. Furthermore, we successfully reduced inventories. Against this backdrop, the Imaging Systems Business restored profitability more efficiently than expected.

Full-Scale Recovery and Further Growth

> The Imaging Systems Business is unmistakably changing, but reforms are only half done. Olympus is going to be put to the test in this coming year as to whether or not it will be able to create sustainable profits and build the foundations for solid growth.

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net sales	¥978,127	¥813,538	¥633,622	\$8,505,452
Net income (loss)	28,564	(11,827)	33,564	248,382
Earnings per share—Basic net income (loss)	105.99	(44.98)	126.96	0.922
Total assets	976,132	858,083	682,673	8,488,104
Shareholders' equity	290,656	240,837	252,179	2,527,443

Notes: 1. Earnings per share is shown in yen and U.S. dollars.

2. The U.S. dollar amounts have been translated from yen, for the convenience of the reader, at the rate of ¥115=US\$1.00

3. The above figures are based on accounting principles generally accepted in Japan.

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



In the 2006 CSP, Olympus aims to establish a business structure that will create sustainable profitability, while concentrating its resources on the digital SLR camera, digital compact camera and optical component businesses and thoroughly implementing selection and concentration.

Transform the Medical Systems Business with a Sense of Urgency

> During fiscal 2006, Olympus saw a steady sales increase in the Medical Systems Business. Endoscopic procedures have increasingly spread in light of their accuracy, efficiency and minimization of burden on patients. With its approximate 70% share in the global market, Olympus receives rising expectations every year to perform an ever-greater role in the development of the gastroenterological endoscope business.

However, the environment in the Medical Systems Business is significantly changing around the world, and there is no rock-solid guarantee that the business we currently enjoy in the Medical Systems Business will continue to experience steady growth. To maintain our position and our prosperity in this area, we must keep a stance of meeting changes with a sense of crisis: we must not rest on our laurels.

The 2006 CSP sets the key growth strategy in the Medical Systems Business as the contribution to patient-friendly, minimally invasive treatment based on advanced endoscopic technology.

Looking ahead over the next three years, we are aiming first at participation in new markets of existing businesses. We are

focusing on the BRICs (Brazil, Russia, India and China), where rapid economic development and the widespread use of endoscopes is clearly anticipated. In particular, we will concentrate our investment activities on China in order to consolidate our market competitiveness, aiming to double the sales to ¥20 billion.

Secondly, we plan to enhance the existing markets for new technology. As a part of this, Olympus' endoscopes have entered a new phase. The use of specific light spectra technologies, such as Narrow Band Imaging (NBI), enhances the visibility of capillaries and mucosal tissues.

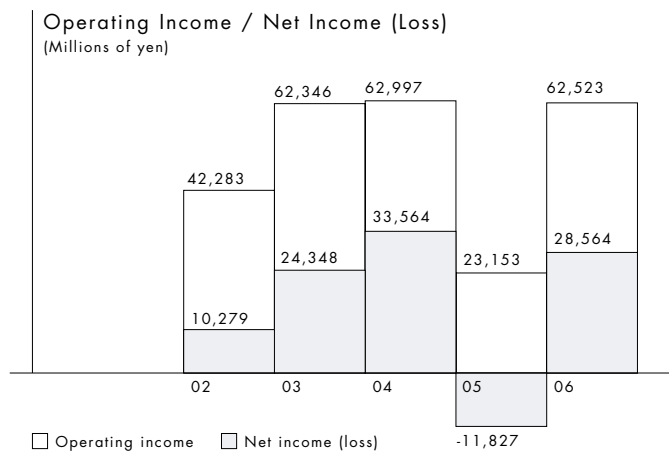
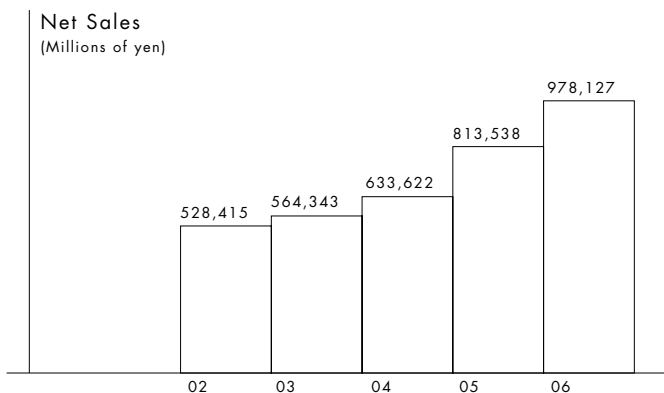
The next step is to develop new markets with new technology, combining flexible endoscopic technology and therapeutic devices to enhance minimally invasive surgery.

In October 2005, Olympus commenced sales in Europe of capsule endoscopes for examination of the small bowel. This tiny capsule represents the fruit of Olympus' micromachine and imaging technology development. At the moment, Olympus is considering the development of capsule endoscopes for all the digestive tracts, including the esophagus, stomach and large intestine, aiming for an era when we can finally take an endoscopic examination as easily as we take a tablet.

Olympus is also looking into possible new business alliances. In August 2005, Olympus announced its entrance into an alliance with Terumo Corporation, a leading company for diagnostics and treatment devices for the circulatory system. Through this alliance, Olympus will combine its advanced capabilities in the digestive system and surgical field with Terumo's strength in the circulatory system field, merging the technologies and know-how of each company in an effort to realize new business vistas for minimally invasive medical care.

Life Science: Challenging the Biotechnology Field

> The Life Science Business increased revenues and earnings during the fiscal year under review. This business rests on two pillars: the micro-imaging business centering on microscope



technologies and the diagnostic testing business led by analyzers and reagents. Expanding these businesses to the biotechnological field, Olympus can see further growth potential.

Olympus traces its origins to the micro-imaging (microscopes) business, where, over the years, there has been an incredible progression. Today, Olympus-developed technology can observe living cells, the minimal unit of life, in three dimensions. On the back of such epoch-making technology, we are striving to participate in the drug discovery and molecular pathology industries within the next three to five years.

In the diagnostic testing business, Olympus engages mainly in the business of hemanalysis systems used in health examinations and thorough medical checkups, but it plans to enter the immunoassay field within one year and the genetics field within three years. Though immunoassay is new territory for Olympus, it can utilize the great know-how it has gained from its expertise in the highly competitive hemanalysis industry. Furthermore, by developing genetic analysis systems, Olympus aims to participate in the personalized medicine business, providing treatment tailored to individual patients and thus to become a key player in this newly developing industry.

Business Strategies in the Information & Communication Business and Other Businesses

> In the Information & Communication Business and Other Businesses, ITX Corporation leads the investment and consultation activities of the IT- and medical-related businesses. Olympus expects ITX Corporation to play a key role in the development of new and creative businesses.

In the area of non-destructive testing, we will in the future propose ideal solutions for maintenance systems, including high-precision measuring technology and remote inspections. In the industrial printers segment, we will supply products to satisfy the needs of an expanding range of business scenarios.

Approach for Long-Term Growth

> With a forward-looking approach to long-term growth, Olympus established the New Business Planning Division in April 2005. This Division engages in new business development, pursuing the creation of Olympus' future core businesses.

In the medical and health field, for example, we are exploring the possibility of entering the diagnostics business for the early detection of carcinoma and the treatment thereof.

Maximize Corporate Value

> In the 2006 CSP, Olympus set the maximization of corporate value as its management target, carried over from the previous Corporate Strategic Plan, and vowed to make every effort to optimize corporate worth through the recovery and enhancement of value creation capabilities. In line with this, Olympus aims for sales of ¥1,200 billion and operating profit of ¥100 billion in the final year of the Plan, namely fiscal 2009, ending March 31, 2009.

We would appreciate the continued support and understanding of all of our shareholders.

June 2006



Tsuyoshi Kikukawa
President

Medical Systems Business Strategy Matrix

