

financials

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CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

> In fiscal 2006 ended March 31, 2006, total net sales rose 20.2% from the previous fiscal year to ¥978,127 million (US\$8,505 million), marking the 12th consecutive fiscal year of growth.

Sales in the Imaging Systems Business were ¥254,541 million (US\$2,213 million), down 8.3% from the previous fiscal year. Despite steady sales of SLR cameras and favorable sales of voice recorders, including the Voice-Trek series in Japan and the VN series in the United States and Europe, overall sales of the segment were affected by ongoing severe market competition in the compact camera field and shrinkage of the film camera market both in Japan and overseas.

In the Medical Systems Business, sales increased 15.5% to ¥266,317 million (US\$2,316 million). The launch of new products such as the multipurpose GIF TYPE N260 videoscope for upper digestive tract use, the EVIS EXERA II high-definition endoscopic system in the United States and Europe, and the HF Surgery System for Transurethral Resection (TUR) principally contributed to this result. The increase in the number of medical facilities that adopted the Value per Procedure (VPP) program, a special program designed to promote the installation of medical devices without initial investment, and Olympus solid sales promotion efforts in Asia and Central and South America also contributed to the sales increase. Furthermore, the sales increase in this sector reflected favorable demand for therapeutic devices to arrest bleeding, sampling therapeutic devices, and the V-System pancreaticobiliary duct endotherapy device.

In the Life Science Business, sales were up 6.5% year on year to ¥107,915 million (US\$938 million). This was attributable to increased sales of biological microscopes and other biological-related products, as well as brisk sales of the FLUOVIEW confocal laser scanning microscope series, a strategic product targeted for U.S. research institutes and for commercialization in Europe.

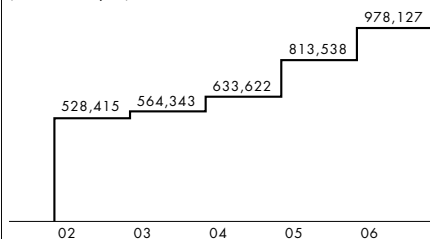
In the Information & Communication Business, sales jumped 74.5% to ¥284,908 million (US\$2,477 million), mainly due to addition of ITX Corporation's consolidation as a subsidiary. In addition, there was strong demand for computer peripherals in the U.S. market and for mobile handsets in the Japanese market.

In the Others Business, sales surged 58.1% to ¥64,446 million (US\$560 million), reflecting the acquisition of R/D Tech Inc. in Canada and ITX Corporation's entry into the field as a consolidated subsidiary in the second half of fiscal 2005. These factors resulted in steady sales expansion of ultrasound defect detection devices and the vigorous launch of a new product in the network-capable industrial videoscope IPLEX II series, along with the growth in sales of high-speed printers.

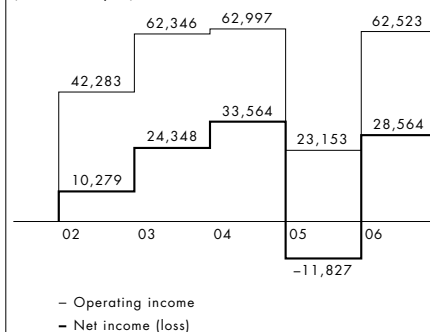
Net Income

> Operating income leaped 170.0% to ¥62,523 million (US\$544 million) from the previous fiscal year, owing to Olympus' effective cost reduction measures. The ratio of selling, general and administrative expenses to net sales improved from 33.7% in the previous fiscal year to 30.2%. As a result, Olympus recorded net income of ¥28,564 million (US\$248 million) in the fiscal year under review, compared to a net loss of ¥11,827 million in the previous fiscal year, reflecting gain on the sale of investment in affiliated companies and the trust beneficiary right, and the offset of provision for losses on business restructuring.

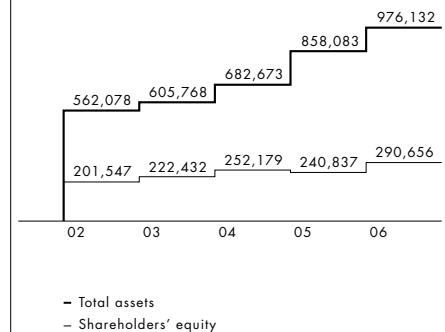
Net Sales
(Millions of yen)



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, 2006, total assets stood at ¥976,132 million (US\$8,488 million), up 13.8% compared with the previous fiscal year-end, due to the addition of ITX Corporation to the scope of consolidation. Total current assets increased 12.6% to ¥489,525 million (US\$4,257 million), reflecting the increase in cash and time deposits, notes and accounts receivable, and deferred income taxes. Total net property, plant and equipment rose 9.0% to ¥130,810 million (US\$1,137 million) due to an increase in machinery and equipment, and construction in progress. Total assets turnover in fiscal 2006 was 1.00 times, compared with 0.95 times in the previous fiscal year.

Total Liabilities and Shareholders' Equity

- > Total liabilities climbed 11.9% year on year to ¥675,819 million (US\$5,877 million), attributed to an increase in short-term borrowings and long-term debt. Total shareholders' equity rose to ¥290,656 million (US\$2,527 million), up 20.7% from the previous fiscal year-end. The ratio of shareholders' equity to total assets improved to 29.8% compared with 28.1% for the previous fiscal year.

Cash Flows

- > Cash and cash equivalents as of March 31, 2006, increased ¥45,682 million to ¥159,307 million (US\$1,385 million) compared with the previous fiscal year-end.

Net cash provided by operating activities rose significantly year on year by ¥39,009 million, to ¥49,034 million (US\$426 million), mainly due to an increase in income before provision for income taxes.

Net cash used in investing activities surged from the previous fiscal year by ¥54,213 million to ¥81,755 million (US\$711 million). Major components were withdrawals from time deposits, sales of property, plant and equipment, payments for acquisition of new subsidiaries and payments for additional stock investment in subsidiaries.

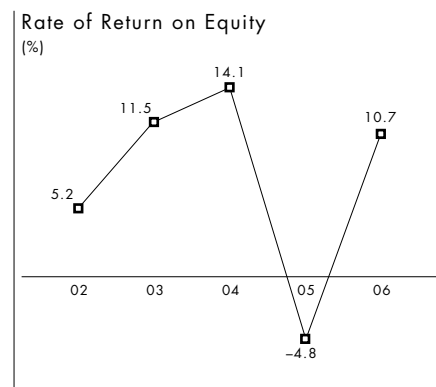
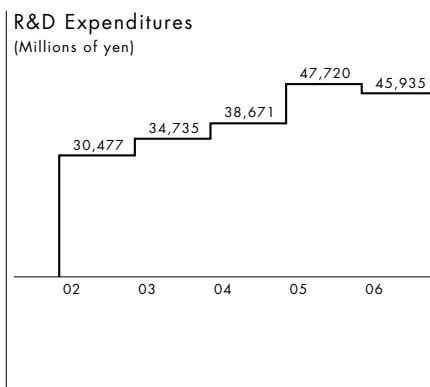
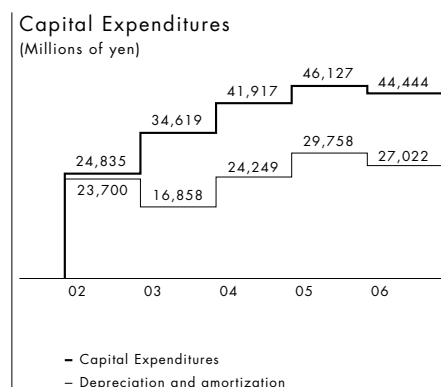
Net cash provided by financing activities increased ¥17,185 million compared with the previous fiscal year to ¥77,200 million (US\$671 million), reflecting an increase in short-term borrowings, proceeds from the issuance of bonds, and issuance of common stock.

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 ¥45,935 million (US\$399 million), 4.7% of net sales.

Capital Expenditures

- > Total capital expenditures decreased 3.6% year on year to ¥44,444 million (US\$386 million). The amount of depreciation and amortization was ¥27,022 million (US\$235 million) in the fiscal year under review.



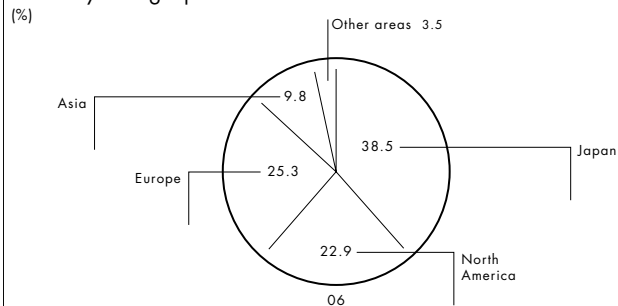
TEN-YEAR SUMMARY

Olympus Corporation and Consolidated Subsidiaries

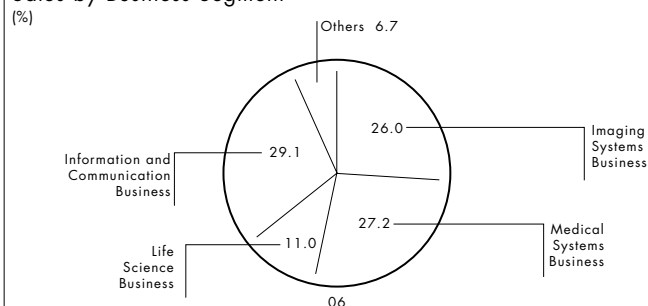
	2006	2005
FOR THE YEAR:		
Net sales:		
Domestic	¥376,946	250,684
Overseas	¥601,181	562,854
Total	¥978,127	813,538
Percentage to previous year	120.2%	128.4
Net income (loss)	¥ 28,564	(11,827)
Percentage to net sales	2.9%	(1.5)
R&D expenditures	¥ 45,935	47,720
Capital expenditures	¥ 44,444	46,127
Depreciation and amortization	¥ 27,022	29,758
Earnings per share (in yen):		
Basic net income (loss)	¥ 105.99	(44.98)
Cash dividends per share (in yen):		
Actual	¥ 22.00	15.00
AT YEAR-END:		
Total assets	¥976,132	858,083
Turnover (times)	1.00	0.95
Total liabilities	¥675,819	603,959
Minority interests	¥ 9,657	13,287
Shareholders' equity	¥290,656	240,837
Shareholders' equity ratio	29.8%	28.1
Working capital	¥ 94,770	47,618
Number of shares outstanding (in thousands)	271,284	264,473
Number of employees	33,022	30,339

Notes: 1. See Note 1 (m) 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)

2004	2003	2002	2001	2000	1999	1998	1997
150,334	141,021	150,761	149,351	144,993	136,012	128,025	114,162
483,288	423,322	377,654	317,353	283,653	277,732	236,957	196,315
633,622	564,343	528,415	466,704	428,646	413,744	364,982	310,477
112.3	106.8	113.2	108.9	103.6	113.4	117.6	121.2
33,564	24,348	10,279	11,787	1,860	8,883	9,309	2,322
5.3	4.3	1.9	2.5	0.4	2.1	2.6	0.7
38,671	34,735	30,477	30,848	31,955	31,060	28,415	28,637
41,917	34,619	24,835	21,441	17,093	18,452	17,220	15,285
24,249	16,858	23,700	18,247	16,288	16,824	15,332	13,455
126.96	91.88	38.87	44.57	7.03	33.59	35.21	8.79
15.00	14.00	13.00	13.00	6.50	13.00	13.00	13.00
682,673	605,768	562,078	584,103	536,174	533,584	521,101	510,123
0.93	0.93	0.94	0.80	0.80	0.78	0.70	0.61
429,329	382,456	358,256	389,968	344,272	342,895	334,411	329,413
1,165	880	2,275	1,906	1,561	402	573	528
252,179	222,432	201,547	192,229	190,341	190,287	186,117	180,182
36.9	36.7	35.9	32.9	35.5	35.7	35.7	35.3
125,324	79,734	114,779	124,287	171,378	232,226	211,144	193,282
264,473	264,473	264,473	264,473	264,473	264,473	264,473	264,279
28,857	23,975	20,705	19,865	18,999	17,874	17,098	16,426

CONSOLIDATED BALANCE SHEETSOlympus Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and time deposits (Note 14).....	¥ 165,720	¥ 120,416	\$ 1,441,043
Marketable securities (Note 3)	1,210	1,210	10,522
Notes and accounts receivable (Notes 5 and 14)	167,411	151,947	1,455,748
Allowance for doubtful accounts	(3,352)	(2,697)	(29,148)
Inventories (Notes 6 and 14)	93,198	102,790	810,417
Deferred income taxes (Note 11)	25,196	17,200	219,096
Other current assets	40,142	43,973	349,061
Total current assets	489,525	434,839	4,256,739
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 14).....	17,953	17,279	156,113
Buildings and structures (Note 14)	109,801	104,141	954,791
Machinery and equipment (Note 14).....	184,513	179,447	1,604,461
Construction in progress.....	11,397	2,269	99,105
	323,664	303,136	2,814,470
Less—Accumulated depreciation	(192,854)	(183,083)	(1,676,992)
Net property, plant and equipment	130,810	120,053	1,137,478
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 4 and 14).....	208,459	177,696	1,812,687
Deferred income taxes (Note 11)	9,324	9,839	81,078
Consolidated adjustment accounts	79,625	57,737	692,391
Other assets (Note 14)	58,389	57,919	507,731
Total investments and other assets	355,797	303,191	3,093,887
	¥ 976,132	¥ 858,083	\$ 8,488,104

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 153,038	¥ 131,718	\$ 1,330,765
Current maturities of long-term debt (Note 8)	33,222	43,481	288,887
Notes and accounts payable (Note 9)	85,741	95,403	745,574
Accrued expenses (Note 10)	65,152	57,338	566,539
Income taxes payable	15,045	9,511	130,826
Other current liabilities	42,557	49,770	370,061
Total current liabilities	394,755	387,221	3,432,652
NON-CURRENT LIABILITIES:			
Long-term debt, less current maturities (Notes 8 and 14)	259,833	197,189	2,259,417
Severance and retirement allowance (Note 10)	9,307	9,891	80,930
Other non-current liabilities	11,924	9,658	103,688
Contingent liabilities (Note 13)	—	—	—
Total non-current liabilities	281,064	216,738	2,444,035
MINORITY INTERESTS	9,657	13,287	83,974
SHAREHOLDERS' EQUITY: (Note 12)			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—271,283,608 shares	48,332	40,833	420,278
Capital surplus	73,049	65,550	635,209
Retained earnings	153,864	133,523	1,337,948
Net unrealized holding gains on securities	16,422	6,201	142,800
Foreign currency translation adjustments	873	(3,618)	7,591
Treasury stock, at cost	(1,884)	(1,652)	(16,383)
Total shareholders' equity	290,656	240,837	2,527,443
	¥ 976,132	¥ 858,083	\$ 8,488,104

CONSOLIDATED STATEMENTS OF OPERATIONSOlympus Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net sales	¥ 978,127	¥ 813,538	¥ 633,622	\$ 8,505,452
Cost of sales.....	619,898	516,468	335,053	5,390,417
Gross profit.....	358,229	297,070	298,569	3,115,035
Selling, general and administrative expenses	295,706	273,917	235,572	2,571,357
Operating income	62,523	23,153	62,997	543,678
OTHER INCOME (EXPENSES):				
Interest expense, net	(9,020)	(6,282)	(4,621)	(78,435)
Gain on marketable and investment securities, net	116	1,640	1,749	1,009
Foreign currency exchange gain (loss), net	(4,953)	(2,240)	1,123	(43,070)
Net loss of investment in affiliated companies carried on the equity method	(1,451)	(1,189)	(1,570)	(12,617)
Gain on sales of investment securities in subsidiaries and affiliates	2,199	—	—	19,122
Gain on sale of beneficial interest in trust.....	1,522	—	—	13,235
Gain on sale of property, plant and equipment.....	—	1,247	—	—
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	—	—	8,584	—
Impairment loss on fixed assets (Note 15).....	(1,411)	—	—	(12,270)
Loss on settlement of swap contracts	—	—	(5,447)	—
Provision for losses on business restructuring (Note 10).....	—	(5,490)	—	—
Other, net	(6,129)	(4,865)	(2,614)	(53,296)
Total	(19,127)	(17,179)	(2,796)	(166,322)
Income before provision for income taxes	43,396	5,974	60,201	377,356
PROVISION FOR INCOME TAXES: (Note 11)				
Current.....	24,573	14,633	16,390	213,678
Deferred	(9,741)	3,168	10,247	(84,704)
Total	14,832	17,801	26,637	128,974
Net income (loss)	¥ 28,564	¥ (11,827)	¥ 33,564	\$ 248,382

	Yen	U.S. dollars		
AMOUNTS PER SHARE OF COMMON STOCK:				
Earnings per share—Basic net income (loss).....	¥105.99	¥(44.98)	¥126.96	\$0.922
CASH DIVIDENDS, APPLICABLE TO THE YEAR				
Actual	¥ 22.00	¥ 15.00	¥ 15.00	\$0.191

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITYOlympus Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
COMMON STOCK:				
Balance at beginning of year	¥ 40,833	¥ 40,833	¥ 40,833	\$ 355,070
Issuance of common stock	7,499	—	—	65,208
Balance at end of year	¥ 48,332	¥ 40,833	¥ 40,833	\$ 420,278
CAPITAL SURPLUS:				
Balance at beginning of year	¥ 65,550	¥ 65,528	¥ 65,528	\$ 570,000
Issuance of common stock	7,499	—	—	65,209
Surplus from sale of treasury stock.....	—	22	—	—
Balance at end of year	¥ 73,049	¥ 65,550	¥ 65,528	\$ 635,209
RETAINED EARNINGS:				
Balance at beginning of year	¥ 133,523	¥ 149,397	¥ 119,867	\$ 1,161,070
Net income (loss)	28,564	(11,827)	33,564	248,383
Decrease of retained earnings at beginning of year due to the adoption of a new accounting standard for retirement benefits by the consolidated subsidiary in the UK	(1,939)	—	—	(16,861)
Cash dividends paid	(4,006)	(3,953)	(3,958)	(34,835)
Bonuses for directors.....	(34)	(94)	(72)	(296)
Net loss on disposal of treasury stock	—	—	(4)	—
Decrease of projected benefit obligation of the consolidated subsidiary in the UK	(2,244)	—	—	(19,513)
Balance at end of year	¥ 153,864	¥ 133,523	¥ 149,397	\$ 1,337,948
NET UNREALIZED HOLDING GAINS ON SECURITIES:				
Balance at beginning of year	¥ 6,201	¥ 5,983	¥ 555	\$ 53,922
Net increase.....	10,221	218	5,428	88,878
Balance at end of year	¥ 16,422	¥ 6,201	¥ 5,983	\$ 142,800
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:				
Balance at beginning of year	¥ (3,618)	¥ (7,569)	¥ (3,324)	\$ (31,461)
Net increase.....	4,491	3,951	(4,245)	39,052
Balance at end of year	¥ 873	¥ (3,618)	¥ (7,569)	\$ 7,591
TREASURY STOCK, AT COST:				
Balance at beginning of year	¥ (1,652)	¥ (1,993)	¥ (1,027)	\$ (14,365)
Net increase (decrease).....	(232)	341	(966)	(2,018)
Balance at end of year	¥ (1,884)	¥ (1,652)	¥ (1,993)	\$ (16,383)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Olympus Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before provision for income taxes	¥ 43,396	¥ 5,974	¥ 60,201	\$ 377,356
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	27,022	29,758	24,249	234,974
Amortization of consolidated adjustment accounts	5,674	—	—	49,339
Increase (decrease) in severance and retirement allowance	(393)	758	(6,144)	(3,417)
Decrease (increase) in prepaid pension cost	1,361	3,889	(8,692)	11,835
Interest income	(977)	(500)	(291)	(8,496)
Interest expense	9,997	6,782	4,912	86,930
Loss (gain) on marketable and investment securities, net	116	(1,640)	(1,749)	1,009
Proceed from sale of beneficial interest in trust	(1,522)	—	—	(13,235)
Gain on sale of investment securities in subsidiaries and affiliates	(2,199)	—	—	(19,122)
Impairment loss on fixed assets	1,411	—	—	12,270
Loss on settlement of swap contracts	—	—	5,447	—
Decrease (increase) in accounts receivable	(9,622)	1,898	(27,967)	(83,670)
Decrease (increase) in inventories	15,643	(1,749)	(13,285)	136,026
Increase (decrease) in accounts payable	(15,340)	(12,775)	21,253	(133,391)
Increase (decrease) in other payable	—	(3,488)	5,630	—
Increase (decrease) in accrued expense	4,092	(3,756)	408	35,583
Other	(1,271)	35	(2,265)	(11,052)
Sub-total	77,388	25,186	61,707	672,939
Interest and dividend received	1,974	1,566	1,129	17,165
Interest payments	(9,242)	(6,512)	(5,040)	(80,365)
Income taxes paid	(21,086)	(10,215)	(27,259)	(183,356)
Net cash provided by operating activities	49,034	10,025	30,537	426,383
CASH FLOWS FROM INVESTING ACTIVITIES:				
Deposits in time deposits	(6,244)	(6,669)	(45,377)	(54,296)
Withdrawals from time deposits	6,588	45,731	45,904	57,287
Purchases of marketable securities	(34,997)	(35,000)	(70,000)	(304,322)
Sales of marketable securities	35,000	69,997	70,000	304,348
Payments for settlement of swap contracts	—	—	(5,447)	—
Purchases of property, plant and equipment	(44,892)	(46,727)	(43,412)	(390,365)
Sales of property, plant and equipment	50	3,025	—	435
Purchases of investment securities	(36,896)	(66,281)	(8,215)	(320,835)
Sales of investment securities	20,947	5,801	4,822	182,148
Proceeds from acquisition of new subsidiaries	—	12,460	—	—
Payments for acquisition of new subsidiaries	(12,029)	(3,308)	(2,233)	(104,600)
Net increase from sales of investment in subsidiaries related to changes in scope of consolidation	1,431	—	—	12,443
Payments for additional stock investment in subsidiaries	(12,297)	(6,695)	—	(106,930)
Sales of the trust beneficiary right	1,686	—	—	14,661
Other	(102)	124	(1,253)	(887)
Net cash used in investing activities	(81,755)	(27,542)	(55,211)	(710,913)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term borrowings	14,925	7,051	28,370	129,783
Proceeds from long-term debt	71,994	56,342	21,455	626,035
Repayments of long-term debt	(60,683)	(20,633)	(1,593)	(527,678)
Proceeds from issuance of bonds	39,833	20,134	29,877	346,374
Redemption of bonds	—	—	(35,000)	—
Proceed from issuance of common stock	14,918	—	—	129,722
Stock issue to minority shareholders	472	1,289	250	4,104
Dividends paid	(4,006)	(3,953)	(3,958)	(34,835)
Dividends paid to minority shareholders	(21)	(3)	(1)	(183)
Other	(232)	(212)	(992)	(2,018)
Net cash provided by financing activities	77,200	60,015	38,408	671,304
Effect of exchange rate changes on cash and cash equivalents	1,166	877	(583)	10,139
Net increase in cash and cash equivalents	45,645	43,375	13,151	396,913
Cash and cash equivalents at beginning of year	113,625	69,095	55,944	988,043
Net increase in cash and cash equivalents associated with newly consolidated subsidiaries	46	1,155	—	400
Net decrease in cash and cash equivalents associated with exclusion from scope of consolidation	(9)	—	—	(78)
Cash and cash equivalents at end of year (Note 16)	¥ 159,307	¥ 113,625	¥ 69,095	\$ 1,385,278

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Olympus Corporation and Consolidated Subsidiaries

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 Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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.

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 ¥115 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.

In the second half of fiscal 2005, 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.

Amortization of consolidated adjustment accounts, formerly included in other of cash flows from operating activities, is shown as an independent item. Amount of amortization of consolidated adjustment accounts included in other of cash flows from operating activities in fiscal 2005 is ¥3,053 million.

Increase (decrease) in other payable, formerly shown as an independent item, is included in other of cash flows from operating activities. Amount of increase (decrease) in other payable included in other of cash flows from operating activities in fiscal 2006 is ¥176 million.

(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, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Buildings and structures	14.2%	12.2%	8.0%
Machinery and equipment	33.0%	33.9%	29.9%

(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, 2006 based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

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, 2006 and 2005.

(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 ¥45,935 million (\$399,435 thousand), ¥47,720 million and ¥38,671 million for the years ended March 31, 2006, 2005 and 2004, 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) 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, 2006, 2005 and 2004, 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.

(n) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT

In accordance with the accounting standards for foreign currency translations, assets and liabilities denominated in foreign functional currencies are translated at exchange rates at the balance sheet date. Shareholders' equity accounts are translated at historical exchange rates. 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. CHANGES IN ACCOUNTING POLICIES

(A) ACCOUNTING STANDARDS FOR THE IMPAIRMENT OF FIXED ASSETS

In the year ended March 31, 2006, the Company has adopted new accounting standards for the impairment of fixed assets in accordance with "Accounting Standards for the Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standards for the Impairment of Fixed Assets," Business Accounting Council, August 9, 2002) and "Implementation Guidance for Accounting Standards for the Impairment of Fixed Assets," (Accounting Standards Board of Japan, Financial Accounting Standard Implementation Guidance No. 6, October 31, 2003). As a result of changes in standards, income before income taxes decreased ¥1,411 million (\$12,270 thousand) compared to the same period a year earlier.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

(B) CHANGE IN ACCOUNTING STANDARD FOR RETIREMENT BENEFITS IN THE UNITED KINGDOM ADOPTED BY THE CONSOLIDATED SUBSIDIARY IN THE UK

In the year ended March 31, 2006, the consolidated subsidiary in the UK has adopted a new accounting standard for retirement benefits in the United Kingdom.

The effect of this change was to decrease retained earnings by ¥4,183 million (\$36,374 thousand) since the unrecognized net transition obligation, amounting to ¥1,939 million (\$16,861 thousand) and the unrecognized actuarial difference, amounting to ¥2,244 million (\$19,513 thousand) were directly changed to retained earnings for the year ended March 31, 2006. The effect on net income of the adoption of this new accounting standard is not material.

(C) ACCOUNTING STANDARDS FOR EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS

By the partial amendment of "Accounting Standards for Employee Retirement and Severance Benefits" issued by Business Accounting Council on June 16, 1998, unrecognized pension assets are allowed to be recognized as assets and profits.

In the year ended March 31, 2006, the Company adopted the partial amendment of "Corporate Accounting Standard No. 3 regarding Employee Retirement and Severance Benefits" issued on March 16, 2005. Unrecognized pension assets are supposed to be recognized in profit or loss as actuarial difference from the year ended March 31, 2007 onward.

3. MARKETABLE AND INVESTMENT SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with fair value as of March 31, 2006 and 2005:

Available-for-sale securities

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

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥41,269	¥ 65,778	¥24,509	¥ 17,660	¥ 26,419	¥ 8,759	\$358,861	\$571,983	\$213,122
Bonds	—	—	—	10	10	0	—	—	—
Others	36,078	37,371	1,293	97,208	98,532	1,324	313,722	324,965	11,243
Total	¥77,347	¥103,149	¥25,802	¥114,878	¥124,961	¥10,083	\$672,583	\$896,948	\$224,365

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

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 2,066	¥ 1,962	¥(104)	¥ 554	¥ 512	¥ (42)	\$ 17,965	\$ 17,061	\$ (904)
Bonds	1,200	1,200	—	1,200	1,200	—	10,435	10,435	—
Others	60,000	59,279	(721)	3,171	2,743	(428)	521,739	515,469	(6,270)
Total	¥63,266	¥62,441	¥(825)	¥4,925	¥4,455	¥(470)	\$550,139	\$542,965	\$(7,174)

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, 2006 and 2005:

Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-listed equity securities	¥11,603	¥15,082	\$100,896
Non-listed foreign bonds	5,428	5,603	47,200
Others	1,964	24,061	17,078
Total	¥18,995	¥44,746	\$165,174

Note: The preferred securities of ¥6,000 million 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 as of March 31, 2005.

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

	Millions of yen			
	2006			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Government bonds.....	¥1,200	¥ 3	¥ —	¥1,203
Corporate bonds	—	299	5,425	5,724
Others	—	1,101	420	1,521
Total	¥1,200	¥1,403	¥5,845	¥8,448

	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

	Thousands of U.S. dollars			
	2006			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Government bonds.....	\$10,435	\$ 26	\$ —	\$10,461
Corporate bonds	—	2,600	47,174	49,774
Others	—	9,574	3,652	13,226
Total	\$10,435	\$12,200	\$50,826	\$73,461

4. 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, 2006. Business incubation securities and business incubation securities in affiliates amount to ¥7,523 million (\$65,417 thousand) and ¥4,899 million (\$42,600 thousand), respectively.

5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unconsolidated subsidiaries and affiliates	¥ 1,627	¥ 2,484	\$ 14,148
Trade	165,784	149,463	1,441,600
Total	¥167,411	¥151,947	\$1,455,748

6. INVENTORIES

Inventories as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥66,177	¥ 78,357	\$575,452
Work in process and raw materials	27,021	24,433	234,965
Total	¥93,198	¥102,790	\$810,417

7. 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 0.02% to 13.40% and from 0.41% to 8.70% as of March 31, 2006 and 2005, respectively. Bank acceptances payable of ¥3,485 million (\$30,304 thousand) were secured by certain trade accounts receivable and inventories as of March 31, 2006.

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.

8. LONG-TERM DEBT

Long-term debt as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(Unsecured long-term debt)			
3.60% yen bonds, due April 2006	¥ 15,000	¥ 15,000	\$ 130,435
2.975% yen bonds, due November 2006	10,000	10,000	86,957
3.35% yen bonds, due February 2009	5,000	5,000	43,478
0.80% yen bonds, due July 2008	30,000	30,000	260,870
0.84% yen bonds, due October 2009	20,000	20,000	173,913
0.71% yen bonds, due July 2010	20,000	—	173,913
1.09% yen bonds, due July 2012	20,000	—	173,913
1.16% loan from a Japanese bank, due December 2008	20,000	20,000	173,913
1.52% loan from a Japanese bank, due October 2011	25,000	25,000	217,391
2.00% loan from a Japanese bank, due December 2008	—	15,906	—
1.30% loan from a Japanese bank, due June 2008	—	11,561	—
1.00% loan from a Japanese bank, due September 2009	—	6,490	—
3.60% loan from a Japanese bank, due March 2006	—	4,300	—
2.00% loan from a Japanese bank, due March 2006	—	4,135	—
1.63% loan from a Japanese bank, due September 2009	—	4,020	—
1.50% loan from a Japanese bank, due March 2010	—	3,302	—
1.45% loan from a Japanese bank, due March 2006	—	30,000	—
1.54% loan from a Japanese bank, due September 2011	20,000	20,000	173,913
1.34% loan from a Japanese bank, due March 2011	20,000	—	173,913
0.92% loan from a Japanese bank, due July 2011	10,000	—	86,957
1.90% loan from a Japanese bank, due March 2011	10,000	—	86,957
1.61% loan from a Japanese bank, due September 2012	10,000	—	86,957
2.16% loan from a Japanese bank, due March 2013	10,000	—	86,957
2.67% loan from a Japanese bank, due September 2009	5,000	—	43,478
5.48% loan from a foreign bank, due November 2008	3,524	—	30,643
1.98% loan from a Japanese bank, due September 2012	3,000	—	26,087
1.94% loan from a Japanese bank, due September 2009	3,000	—	26,087
1.79% loan from a Japanese bank, due March 2010	3,000	—	26,087
0.65% loan from a Japanese bank, due March 2008	3,000	—	26,087
5.48% loan from a foreign bank, due November 2007	1,175	—	10,217
Other bonds	524	300	4,557
Others from foreign banks	3,728	1,566	32,417
Others from Japanese banks	18,419	8,780	160,165
(Secured long-term debt)			
Others from foreign banks	2,068	1,135	17,983
Others from Japanese banks	1,617	4,175	14,059
	293,055	240,670	2,548,304
Less-current maturities	(33,222)	(43,481)	(288,887)
	¥259,833	¥197,189	\$2,259,417

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
2007	¥ 33,222	\$ 288,887
2008	8,666	75,357
2009	65,107	566,148
2010	34,600	300,870
2011	52,432	455,930
Thereafter	99,028	861,112
Total	¥293,055	\$2,548,304

9. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unconsolidated subsidiaries and affiliates	¥ 9	¥ 370	\$ 78
Trade	85,732	95,033	754,496
Total	¥85,741	¥95,403	\$745,574

10. SEVERANCE AND RETIREMENT ALLOWANCE

The Company and its consolidated subsidiaries adopted the accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirements benefits included in the liability section of the consolidated balance sheet as of March 31, 2006 and 2005, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ 119,322	¥ 89,400	\$ 1,037,583
Unrecognized prior service costs	2,935	364	25,522
Unrecognized actuarial difference	(5,661)	(13,448)	(49,226)
Fair value of pension assets	(115,764)	(72,223)	(1,006,643)
Prepaid pension expenses	7,695	4,803	66,912
Allowance for employees' severance and retirement benefits	8,527	8,896	74,148
Severance and retirement allowance for directors	¥ 780	¥ 995	\$ 6,782
Total severance and retirement allowance	¥ 9,307	¥ 9,891	\$ 80,930

Note: Special retirement allowance amounting to ¥2,400 million 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 years ended March 31, 2006 and 2005, are employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs—benefits earned during the year.....	¥ 5,686	¥ 4,679	\$ 49,443
Interest cost on projected benefit obligation.....	3,138	1,551	27,287
Expected return on plan assets	(4,681)	(2,703)	(40,704)
Amortization of actuarial difference	6,341	5,828	55,139
Amortization of prior service costs	(950)	(344)	(8,261)
Amortization of net transition obligation	—	1,161	—
Severance and pension benefit expense.....	¥ 9,534	¥10,172	\$ 82,904

Note: Special retirement allowance amounting to ¥2,400 million 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 rates used by the Company are mainly 2.0% in fiscal 2006 and 2.0% in fiscal 2005. The rate of expected return on plan assets used by the Company is mainly 4.0% in fiscal 2006 and 2005. 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.

11. 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, 2006 and 2005, and 41.8% for the year ended March 31, 2004. 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, 2006, 2005 and 2004.

	2006	2005	2004
Japanese statutory tax rate	40.7%	40.7%	41.8%
Effect of foreign tax rate differences.....	(1.0)	(37.1)	(4.3)
Non-deductible expenses	8.3	12.7	2.1
Impact of operating losses generated/(utilized) for certain subsidiaries.....	—	2.1	4.3
Increase of allowance for evaluation	(16.5)	282.7	—
Tax deduction for research and development	(3.9)	(23.9)	—
Amortization of consolidated adjustment accounts	5.3	21.4	—
Other, net.....	1.4	7.9	0.4
Effective tax rate.....	34.3%	306.5%	44.3%

Significant components of deferred income tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred income tax assets:			
Inventories.....	¥ 7,164	¥ 8,305	\$ 62,296
Depreciation of property, plant and equipment	4,129	4,268	35,904
Depreciation of intangible assets.....	10,330	4,162	89,826
Severance and retirement allowances.....	3,460	2,910	30,087
Prepaid expenses	6,010	6,127	52,261
Marketable and investment securities	3,100	4,948	26,957
Deferred assets	301	288	2,617
Unrealized intercompany profits.....	4,047	6,325	35,191
Accrued bonuses	4,960	3,213	43,130
Deficit carried forward	14,582	19,272	126,800
Other	9,207	6,908	80,061
Subtotal	67,290	66,726	585,130
Allowance for evaluation	(23,735)	(30,546)	(260,391)
Total deferred income tax assets	43,555	36,180	378,739
Prepaid pension expenses	(1,401)	(1,956)	(12,183)
Net unrealized holding gains on securities.....	(8,782)	(3,316)	(76,365)
Other	(7,318)	(9,230)	(63,634)
Total deferred income tax liabilities	(17,501)	(14,502)	(152,182)
Net deferred income tax assets	¥ 26,054	¥ 21,678	\$ 226,557

12. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (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.

13. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted of ¥3,485 million (\$30,304 thousand) and endorsed of ¥216 million (\$1,878 thousand) as of March 31, 2006. As of March 31, 2006, the Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥472 million (\$4,104 thousand), and secondly for borrowing from banks to subsidiaries, amounting to ¥1,322 million (\$11,496 thousand).

14. PLEDGED ASSETS

The following assets were pledged as collateral for short-term borrowings and long-term debt as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits.....	¥1,655	¥1,844	\$14,391
Accounts receivable	506	—	4,400
Inventories	303	—	2,635
Land	1,755	194	15,261
Buildings and structures	1,781	3,973	15,487
Machinery and equipment	135	43	1,174
Investment securities	—	100	—
Other assets.....	53	30	461
	¥6,188	¥6,184	\$53,809

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Long-term debt.....	¥3,685	¥5,309	\$32,043
Short-term borrowings.....	501	221	4,357
	¥4,186	¥5,530	\$36,400

15. LOSS ON IMPAIRMENT OF FIXED ASSETS

The loss on impairment of fixed assets that the Company and its consolidated subsidiaries recorded for the year ended March 31, 2006 were as follows:

Use	Type of assets	Location	Millions of yen	Thousands of U.S. dollars
Assets used for Information and Communication Business	Consolidated adjustment accounts and other intangible assets	Tokyo	¥1,331	\$11,574
	Buildings and structures	Tokyo and others	32	278
Assets used for other business	Other intangible assets	Tokyo	36	314
Idle properties	Land	Shiga	12	104
Total			¥1,411	\$12,270

The Company and its consolidated subsidiaries classified fixed assets into the groups of the business segments. The idle properties are considered to constitute a group.

For assets for business use were not expected to make a profit constantly because of the degradation of the business environment. As a result, carrying amounts of assets for business use were devaluated to their recoverable amounts. The recoverable amounts were calculated on the basis of utility value, with future cash flows discounted by 6.6%.

Carrying amounts of idle properties were devaluated to their recoverable amounts, owing to substantial decline in the fair market value. The recoverable amounts were estimated by assessed value of fixed assets which were reflected in market price.

16. 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits.....	¥ 165,720	¥ 120,416	\$ 1,441,043
Less: Time deposits with maturities over three months.....	(6,423)	(6,801)	(55,852)
Cash equivalents included in marketable securities	10	10	87
Cash and cash equivalents	¥ 159,307	¥ 113,625	\$ 1,385,278

17. CASH FLOW FROM ACQUISITION OF CONSOLIDATED SUBSIDIARIES

Details of assets and liabilities when NDT Engineering Corporation and other companies were consolidated for the year ended March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable	¥ 2,184	\$ 18,991
Inventories	2,327	20,235
Property, plant and equipment	2,465	21,435
Investments and other assets	4,680	40,696
Notes and accounts payable	(1,224)	(10,643)
Short-term borrowings	(2,564)	(22,296)
Other current liabilities.....	(23)	(201)
Total	¥ 7,845	\$ 68,217

Details of assets and liabilities when ITX corporation and its subsidiaries (ITX) were consolidated, acquisition cost of share, and proceeds from acquisition of ITX for the year ended March 31, 2005 were as follows:

	Millions of yen
Notes and accounts receivable	¥ 31,441
Inventories	10,606
Other current assets	37,850
Consolidated adjustment accounts	33,359
Investment securities	15,511
Investments and other assets	15,615
Notes and accounts payable	(29,451)
Short-term borrowings	(25,346)
Other current liabilities	(11,656)
Long-term debt, less current maturities	(39,154)
Other non-current liabilities	(11,322)
Minority interests	(2,487)
Sub-total	24,966
Consolidated adjustment accounts	14,419
Minority interests	(10,212)
Total equity method until consolidation	(8,905)
Sub-total: acquisition cost of ITX	20,268
Cash and cash equivalents owned by ITX	32,728
Proceeds from acquisition of ITX	12,460

18. 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 years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(Equivalent amount)			
Acquisition cost	¥10,588	¥ 9,578	\$ 92,070
Accumulated depreciation	(4,887)	(4,960)	(42,496)
Estimated net book value	¥ 5,701	¥ 4,618	\$ 49,574
(Lease payments and pro forma information)			
Lease payments	¥2,488	¥2,099	\$21,635
Equivalent of depreciation expense	2,305	1,951	20,043
Equivalent of interest expense	160	142	1,391

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, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
2006	¥2,116	\$18,400
2007 and thereafter	3,622	31,496
Total minimum lease payments	¥5,738	\$49,896

LESSOR:

Certain machinery and equipment of the consolidated subsidiaries are leased under the finance leases. For the years ended March 31, 2006 and 2005, the amounts of machinery and equipment were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition cost	¥ —	¥ 6,251	\$ —
Accumulated depreciation	—	(3,385)	—
Net book value	¥ —	¥ 2,866	\$ —

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease income	¥412	¥1,649	\$3,583
Depreciation expense	380	1,516	3,304
Estimated interest income	28	108	243

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

In the year ended March 31, 2006, the consolidated subsidiaries sold out all leased assets. As a result, certain accounts related to leased object of lessor are not recorded at March 31, 2006.

19. 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, 2006 and 2005:

(as of March 31, 2006)	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	¥ 98	¥ —	¥ 106	\$ 852	\$ —	\$ 922
To buy other currencies	646	—	647	5,617	—	5,626
To sell U.S. dollars	4,142	—	4,108	36,017	—	35,722
To sell British Pounds	8,225	—	8,147	71,522	—	70,843
To sell other currencies	7,652	—	7,498	66,539	—	65,200
Foreign exchange option contracts						
Put option	3,978	86	120	34,591	748	1,043
Stock-price swap contracts	2,810	—	(1,466)	24,435	—	(12,748)

(as of March 31, 2005)	Millions of yen		
	Notional amount	Book value	Fair value
Foreign exchange forward contracts:			
To buy U.S. dollars	¥ 612	¥ —	¥ 574
To buy other currencies	231	—	232
To sell U.S. dollars	40	—	37
To sell British Pounds	1,871	—	1,862
To sell other currencies	2,280	—	2,266
Foreign exchange option contracts			
Put option	1,181	31	37
Stock-price swap contracts	6,490	—	(3,124)

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.

20. SEGMENT INFORMATION

(a) INFORMATION BY BUSINESS SEGMENT

Segment information for the years ended March 31, 2006, 2005 and 2004 are shown in the tables below:

	Millions of yen							
	2006						Elimination and Corporate	Consolidated Total
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total		
Net sales:								
Unaffiliated customers	¥254,541	¥266,317	¥107,915	¥284,908	¥64,446	¥978,127	¥ —	¥978,127
Intersegment	215	14	5	—	561	795	(795)	—
Total	254,756	266,331	107,920	284,908	65,007	978,922	(795)	978,127
Operating expenses	249,964	189,689	100,361	287,549	63,564	891,127	24,477	915,604
Operating income (loss)	4,792	76,642	7,559	(2,641)	1,443	87,795	(25,272)	62,523
Assets	129,895	193,280	79,571	131,348	85,930	620,024	356,108	976,132
Depreciation and amortization	10,199	5,606	4,273	1,844	3,140	25,062	1,960	27,022
Capital expenditures	¥ 9,642	¥ 14,824	¥ 8,270	¥ 2,720	¥ 5,144	¥ 40,600	¥ 3,844	¥ 44,444

Millions of yen									
2005									
	Imaging Systems Business	Medical Systems Business	Life Science Business	Industrial Systems Business	Information and Communication Business	Others	Total	Elimination and Corporate	Consolidated Total
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	

Thousands of U.S. dollars									
2006									
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total	Elimination and Corporate	Consolidated Total	
Net sales:									
Unaffiliated customers.....	\$2,213,400	\$2,315,800	\$938,391	\$2,477,461	\$560,400	\$8,505,452	\$ —	\$8,505,452	
Intersegment	1,870	122	44	—	4,877	6,913	(6,913)	—	
Total	2,215,270	2,315,922	938,435	2,477,461	565,277	8,512,365	(6,913)	8,505,452	
Operating expenses.....	2,173,600	1,649,470	872,705	2,500,426	552,729	7,748,930	212,844	7,961,774	
Operating income (loss)	41,670	666,452	65,730	(22,965)	12,548	763,435	(219,757)	543,678	
Assets	1,129,522	1,680,696	691,922	1,142,157	747,216	5,391,513	3,096,591	8,488,104	
Depreciation and amortization	88,687	48,748	37,157	16,035	27,303	217,930	17,044	234,974	
Capital expenditures.....	\$ 83,843	\$ 128,904	\$ 71,913	\$ 23,652	\$ 44,731	\$ 353,043	\$ 33,427	\$ 386,470	

- Notes: 1. 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.
2. 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."

3. In fiscal 2006, these five business segments include the following products:

Imaging Systems Business:	Film cameras, Digital cameras, Voice Recorders
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:	Industrial endoscopes, Non-destructive testing equipment, Printers, Bar code data processing equipment, Software development, etc.

4. In fiscal 2005 and 2004, these six business segments included the following products:

In September 2004, 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:	Software development, etc.

Segmental information for the year ended March 31, 2005 is classified by the new business segment structure that was newly adopted in fiscal 2006 as follows:

	Millions of yen							
	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.....	¥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

(b) INFORMATION BY GEOGRAPHIC LOCATION

	Millions of yen						
	2006					Elimination and Corporate	Consolidated Total
	Japan	America	Europe	Asia	Total		
Net sales:							
Unaffiliated customers	¥474,387	¥209,473	¥229,000	¥ 65,267	¥ 978,127	¥ —	¥978,127
Intersegment	263,849	6,793	8,710	77,861	357,213	(357,213)	—
Total	738,236	216,266	237,710	143,128	1,335,340	(357,213)	978,127
Operating expenses	677,714	200,438	225,604	143,099	1,246,855	(331,251)	915,604
Operating income (loss)	60,522	15,828	12,106	29	88,485	(25,962)	62,523
Assets	¥296,479	¥105,389	¥150,138	¥100,358	¥ 652,364	¥ 323,768	¥976,132

Millions of yen							
2005							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated 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							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers	¥192,083	¥189,176	¥201,468	¥ 50,895	¥633,622	¥ —	¥633,622
Intersegment	250,859	1,044	8,947	85,830	346,680	(346,680)	—
Total	442,942	190,220	210,415	136,725	980,302	(346,680)	633,622
Operating expenses	401,372	174,224	197,862	128,591	902,049	(331,424)	570,625
Operating income (loss)	41,570	15,996	12,553	8,134	78,253	(15,256)	62,997
Assets	¥189,100	¥ 72,791	¥133,345	¥ 44,568	¥439,804	¥242,869	¥682,673

Thousands of U.S. dollars							
2006							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
Net sales:							
Unaffiliated customers.....	\$4,125,104	\$1,821,504	\$1,991,304	\$ 567,540	\$8,505,452	\$ —	\$8,505,452
Intersegment	2,294,339	59,070	75,739	677,052	3,106,200	(3,106,200)	—
Total	6,419,443	1,880,574	2,067,043	1,244,592	11,611,652	(3,106,200)	8,505,452
Operating expenses	5,893,165	1,742,939	1,961,773	1,244,340	10,842,217	(2,880,443)	7,961,774
Operating income (loss)	526,278	137,635	105,270	252	769,435	(225,757)	543,678
Assets	\$2,578,078	\$ 916,426	\$1,305,548	\$ 872,678	\$5,672,730	\$ 2,815,374	\$8,488,104

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, South Korea, Australia and other countries.

(c) OVERSEAS SALES INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Export sales (A)	¥601,181	¥562,854	¥483,288	\$5,227,661
to North America	224,283	201,474	193,720	1,950,287
to Europe.....	247,857	243,263	200,559	2,155,278
to Asia	96,081	93,817	76,596	835,487
to Other areas.....	32,960	24,300	12,413	286,609
Net sales (B)	¥978,127	¥813,538	¥633,622	\$8,505,452
A/B (%)	61.5%	69.2%	76.3%	61.5%

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, South Korea, 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, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion we draw attention to the following.

- (1) As discussed in Note 2, effective April 1, 2005, Olympus Corporation adopted new accounting standards for the impairment of fixed assets and a new accounting standard for retirement benefits for subsidiary in the United Kingdom.
- (2) As discussed in Note 20, effective April 1, 2005, Olympus Corporation changed the categories of business in the business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006