

# Financial Section

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# FINANCIAL REVIEW

## CONSOLIDATED RESULTS OF OPERATIONS

### Net Sales

In fiscal 2008, the fiscal year ended March 31, 2008, total net sales rose 6.3% from the previous fiscal year to ¥1,128,875 million (US\$1,751 million), marking the 14th consecutive fiscal year of growth.

Sales in the Imaging Systems Business totaled ¥320,589 million (US\$3,053 million), an increase of 8.9% from the previous fiscal year. This was attributed to steady growth across each of this segment's operating fields. In digital cameras, sales surged thanks to the release of the small, lightweight E-410 and E-510 single-lens reflex cameras, offering Live View and other features attractive to a wide spectrum of users. In compact cameras, the release of the μ[mju:] 1020, with its small, slim, stylish body and 7x optical zoom lens, and robust sales of the CAMEDIA SP series, which realizes 18x optical, high-magnification shots, contributed to the significant upswing in performance. In the voice recorders field, sales grew both domestically and overseas. In Japan, the slender, large-volume memory Voice-Trek V-13 performed extremely well, its "separate design" enabling it to be connected directly to a personal computer. In addition, the Company's entry into the Linear PCM Recorder market was well received thanks to its high sound quality uncompressed digital recording format. Finally, optical component sales also increased, underpinned by steady results in lens barrel units.

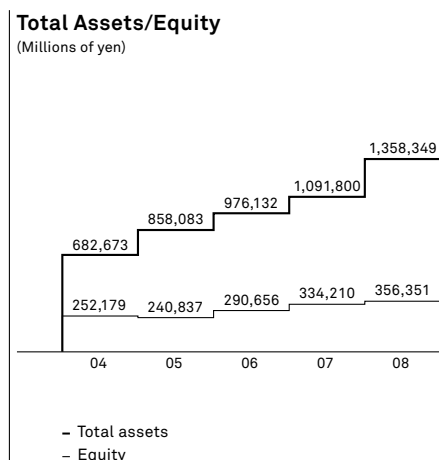
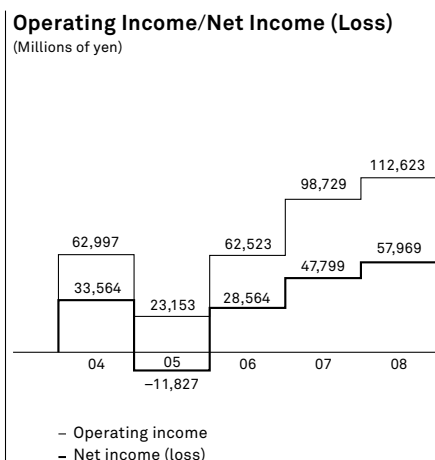
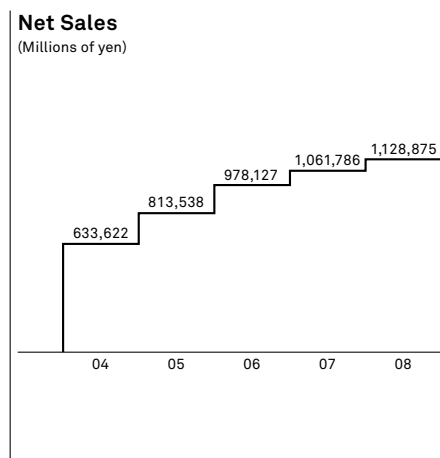
In the Medical Systems Business, sales climbed 13.3% to ¥353,269 million (US\$3,364 million). The EVIS LUCERA SPECTRUM, which enables observations by using specific light spectra that contribute to the early detection of minute lesions, including cancers, and the upper gastrointestinal endoscope, which can be inserted either through the nasal tract or the mouth, performed well in the domestic medical endoscope market. Overseas, the EVIS EXERA II, a high-resolution HDTV endoscope system that also features observation using specific light spectra, sold well in the United States, Europe, Oceania and Latin America. In the Minimally Invasive Product (MIP) and endotherapy product fields, the number of units sold increased for clips and other haemostatic system products, biopsy forceps and other sampling products as well as for guidewires and other pancreaticobiliary therapeutic devices. Overseas, the previously mentioned EVIS EXERA II sold well to surgeons, while the launch of the Company's VISERA Pro multi-compatible endoscopic video imaging system in Asia and continued robust sales—mostly in the United States and Asia—of Olympus' high-definition videoscopes for abdominal and chest cavities contributed to a solid performance.

Sales in the Life Science Business were ¥131,446 million (US\$1,252 million), an increase of 6.3% over the previous fiscal year. In the micro-imaging (microscopes) field, sales expanded thanks to

robust results in biological microscopes in the United States and Europe and an upswing in the number of BX Series research system microscopes sold in the expanding markets of Asia, the Middle East and Latin America. For industrial microscopes, despite intensifying price competition owing to the downward trend in business investment in Japan and overseas, Olympus continued to promote sales expansion in regions such as Asia, which are exhibiting signs of partial recovery. Through these endeavors, net sales in this category were on par with those of the previous fiscal year. In the diagnostic systems field, sales increased on the back of the simultaneous launch in Japan of Olympus' blood analyzer (clinical chemistry analyzer) and new fully automated chemiluminescent enzyme immuno-analyzer as well as growth in the clinical diagnostics and testing business. Increased sales of new blood testers in the United States as well as a favorable performance in China for clinical biochemistry analyzers also contributed to strong results.

The Information & Communication Business recorded sales of ¥254,312 million (US\$2,422 million). This represented a 5.0% decrease over the previous fiscal year. In its efforts to realize the "establishment of a stable consolidated business earnings structure," Olympus increased the direct sales ratio and streamlined costs in mobile handset sales, promoted computerization and expanded its component interests in the automobile aftermarket business. The Company also reshuffled a portfolio valued at around ¥10 billion, assessing business possibilities based on its investment securities ownership policy. Despite these endeavors, segment sales declined due to lower returns, reflecting changes in the sales fee plans of communications service providers involved in mobile handset sales by IT Telecom Inc.

In the Others business, sales amounted to ¥69,259 million (US\$660 million), an increase of 7.6% over the previous fiscal year. In the non-destructive testing equipment field, strong sales in portable flaw detectors and highly functional ultrasonic phased-array instruments as well as the new highly durable, highly functional, high-definition IPLEX FX portable industrial endoscope contributed to a significant improvement in performance. Sales in the domestic information equipment field saw an upswing in the shipment volume of printers and printer components manufactured in collaboration with Riso Kagaku Corporation. In the biomedical materials field, the Company strove to strengthen its business by establishing a new company, Olympus Terumo Biomaterials Corp., as a joint venture with Terumo Corporation in April 2007. As a result, the launch of this new venture as well as collagen-related products, the commencement of full-scale marketing in overseas markets for existing products including bone prostheses, and the acquisition of ITX Corporation contributed significantly to sales growth.



## Net Income

On the earnings front, the Olympus Group reported solid results for the fiscal year under review. Higher revenue from the Imaging Systems Business as well as successful cost reduction efforts achieved through business efficiency enhancements, year-on-year growth in the Medical Systems Business, particularly for its principal products mainly in Europe, and other factors contributed to an increase in operating income of 14.1% year on year, to ¥112,623 million (US\$1,072 million).

In other income and expenses, the Company recorded a net expense of ¥18,011 million (US\$171 million), an improvement of 28.3% over the previous fiscal year. While Olympus incurred a loss on investment in partnership totaling ¥2,893 million (US\$27 million), the Company benefited from a number of factors, including a foreign exchange gain, net of ¥457 million (US\$4 million), gain on sales of property, plant and equipment totaling ¥1,478 million (US\$14 million), gain on changes in equity amounting to ¥1,909 million (US\$18 million) and gain on transfer of business of ¥300 million (US\$2 million).

Accounting for these factors, income before provision for income taxes was ¥94,612 million (US\$901 million), an increase of 28.5% over the previous fiscal year. Provision for income taxes climbed 40.9% year on year to ¥36,760 million (US\$350 million), resulting in net income for the fiscal year under review of ¥57,969 million (US\$552 million), up 21.3%. For the fiscal year under review, basic net income per share came to ¥214.48 (US\$2.04), an increase of ¥37.69 over the previous fiscal year.

## ANALYSIS OF FINANCIAL POSITION

### Total Assets

As of March 31, 2008, total assets stood at ¥1,358,349 million (US\$12,936 million), up 24.4% over the previous fiscal year-end. This was mainly attributable to the inclusion of Gyrus Group PLC in the Group's scope of consolidation, starting from the fiscal year under review.

Total current assets decreased 5.1% year on year to ¥543,305 million (US\$5,174 million) primarily reflecting a drop in cash and time deposits. Net property, plant and equipment rose 7.1% to ¥150,036 million (US\$1,428 million), owing primarily to the year-on-year increase in machinery and equipment as well as construction in progress. As of the fiscal year-end, goodwill jumped 280.8% to ¥299,800 million (US\$2,855 million). Other assets also more than doubled, rising 118.7% year on year to ¥161,700 million (US\$1,540 million). As a result, investments and other assets surged 75.5% over the previous fiscal year-end to ¥665,008 million (US\$6,333 million).

Accounting for these factors, total asset turnover was 0.83 times, down from 0.97 times in the previous fiscal year.

### Total Liabilities and Net Assets

Total liabilities climbed 32.6% year on year to ¥990,473 million (US\$9,433 million), mainly due to increases in short-term borrowings, current maturities of long-term debt, accrued amount payable and deferred tax liability.

Total current liabilities surged 61.5% over March 31, 2007 to ¥662,454 million (US\$6,309 million), owing primarily to the aforementioned jump in short-term borrowings. Total non-current liabilities edged down 2.6%, to ¥328,019 million (US\$3,123 million).

As of March 31, 2008, net assets stood at ¥367,876 million (US\$3,503 million), an increase of 6.6% over the previous fiscal year-end. The major component was retained earnings, which grew 24.4% year on year to ¥237,817 million (US\$2,264 million).

Accounting for these factors, the equity ratio declined 4.4 percentage points to 26.2%, owing primarily to total asset growth.

### Cash Flows

Cash and cash equivalents as of March 31, 2008 declined ¥54,960 million year on year, to ¥119,842 million (US\$1,141 million).

Net cash provided by operating activities fell ¥19,394 million from ¥108,400 million in the previous fiscal year to ¥89,006 million (US\$847 million). The major cash inflow was income before provision for income taxes, reflecting positive trends across most of the Company's business segments. The major cash outflows comprised increases in prepaid pension cost and inventories as well as a decrease in accounts payable.

Net cash used in investing activities jumped ¥207,822 million to ¥304,303 million (US\$2,898 million). In the fiscal year under review, principal cash inflow, including withdrawal from time deposits, was more than offset by payments for acquisitions of new consolidated subsidiaries.

Net cash provided by financing activities totaled ¥164,401 million (US\$1,565 million), up ¥162,209 million year on year. This was mainly attributable to the increase in short-term borrowings as well as proceeds from long-term debt.

### Research & Development Expenditures

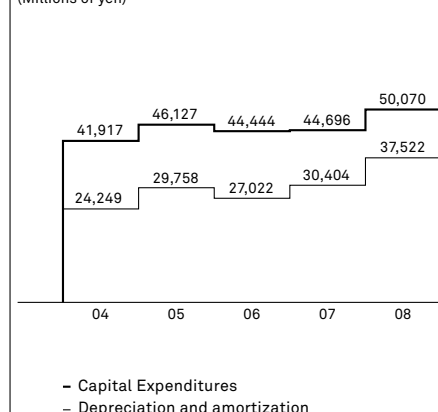
The Olympus Group continuously pursues new technologies through its R&D activities in order to bolster its core competencies in current businesses and create new business areas. In fiscal 2008, R&D expenditures amounted to ¥65,928 million (US\$627 million), an increase of 18.7% compared with the previous fiscal year, and equivalent to 5.8% of total net sales.

### Capital Expenditures

Capital expenditures grew 12.0% over the previous fiscal year, to ¥50,070 million (US\$476 million). Depreciation and amortization also climbed 23.4% year on year, to ¥37,522 million (US\$357 million).

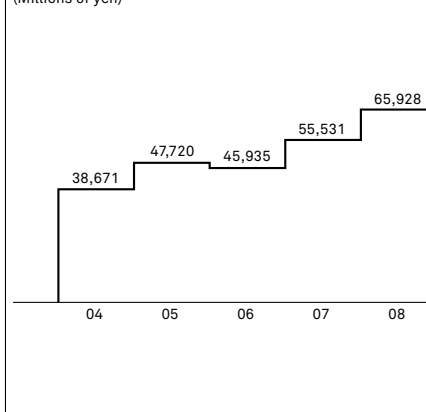
### Capital Expenditures

(Millions of yen)



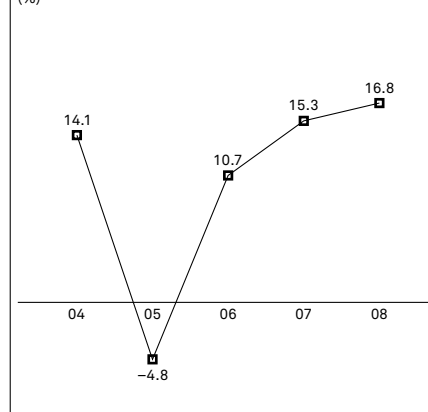
### R&D Expenditures

(Millions of yen)



### Rate of Return on Equity

(%)



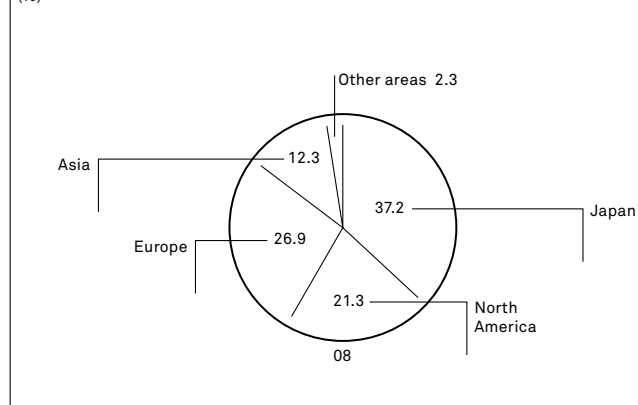
# TEN-YEAR SUMMARY

Olympus Corporation and Consolidated Subsidiaries

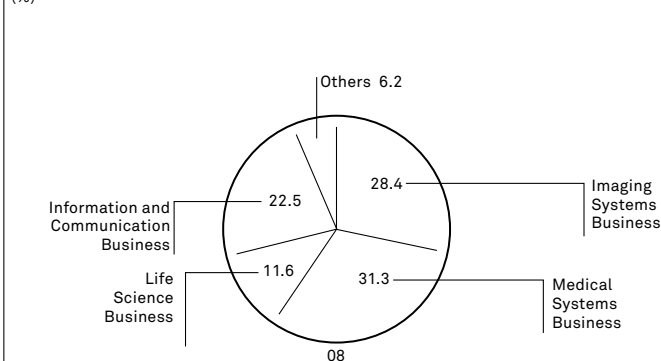
	2008	2007
<b>FOR THE YEAR:</b>		
<b>Net sales:</b>		
Domestic.....	¥ 420,227	414,746
Overseas .....	¥ 708,648	647,040
Total.....	¥1,128,875	1,061,786
Percentage to previous year .....	106.3%	108.6
Net income (loss).....	¥ 57,969	47,799
Percentage to net sales.....	5.1%	4.5
R&D expenditures .....	¥ 65,928	55,531
Capital expenditures.....	¥ 50,070	44,696
Depreciation and amortization.....	¥ 37,522	30,404
<b>Earnings per share (in yen):</b>		
Basic net income (loss).....	¥ 214.48	176.79
Diluted net income .....	¥ 214.44	—
<b>Cash dividends per share (in yen):</b>		
Actual .....	¥ 40.00	35.00
<b>AT YEAR-END:</b>		
Total assets.....	¥1,358,349	1,091,800
Turnover (times).....	0.83	0.97
Total liabilities .....	¥ 990,473	746,929
Minority interests.....	¥ 11,525	10,661
Equity .....	¥ 356,351	334,210
Equity ratio .....	26.2%	30.6
Working capital.....	¥ (119,149)	162,722
Number of shares issued (in thousands) .....	271,284	271,284
Number of employees.....	35,772	32,958

- Notes: 1. See Note 1 (I) 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. 1999–2007: Diluted net income per share is not presented due to the fact that there were no potentially dilutive common shares which have resulted in a dilutive effect.  
 4. 2008: Diluted net income per share is presented due to the fact that there were potentially dilutive common shares which have resulted in a dilutive effect.  
 5. Effective for the year ended March 31, 2003, the Company had adopted the accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Shares," issued by the Accounting Standards Board of Japan on September 25, 2002).  
 6. Effective for the year ended March 31, 2007, the Company adopted the accounting standard for presentation of net assets in the balance sheet. See Note 2(e) of the Notes to the Consolidated Financial Statements for details.  
 7. 2007, 2008: Equity=Total net assets - Minority interests  
 1998–2006: Equity = Total Shareholders' equity

**Sales by Geographic Area**  
(%)



**Sales by Business Segment**  
(%)



Millions of yen (except per share amounts)

2006	2005	2004	2003	2002	2001	2000	1999
376,946	250,684	150,334	141,021	150,761	149,351	144,993	136,012
601,181	562,854	483,288	423,322	377,654	317,353	283,653	277,732
978,127	813,538	633,622	564,343	528,415	466,704	428,646	413,744
120.2	128.4	112.3	106.8	113.2	108.9	103.6	113.4
28,564	(11,827)	33,564	24,348	10,279	11,787	1,860	8,883
2.9	(1.5)	5.3	4.3	1.9	2.5	0.4	2.1
45,935	47,720	38,671	34,735	30,477	30,848	31,955	31,060
44,444	46,127	41,917	34,619	24,835	21,441	17,093	18,452
27,022	29,758	24,249	16,858	23,700	18,247	16,288	16,824
105.99	(44.98)	126.96	91.88	38.87	44.57	7.03	33.59
—	—	—	—	—	—	—	—
22.00	15.00	15.00	14.00	13.00	13.00	6.50	13.00
976,132	858,083	682,673	605,768	562,078	584,103	536,174	533,584
1.00	0.95	0.93	0.93	0.94	0.80	0.80	0.78
675,819	603,959	429,329	382,456	358,256	389,968	344,272	342,895
9,657	13,287	1,165	880	2,275	1,906	1,561	402
290,656	240,837	252,179	222,432	201,547	192,229	190,341	190,287
29.8	28.1	36.9	36.7	35.9	32.9	35.5	35.7
94,770	47,618	125,324	79,734	114,779	124,287	171,378	232,226
271,284	264,473	264,473	264,473	264,473	264,473	264,473	264,473
33,022	30,339	28,857	23,975	20,705	19,865	18,999	17,874

# CONSOLIDATED BALANCE SHEETS

Olympus Corporation and Consolidated Subsidiaries  
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Notes 17 and 19).....	¥ 158,281	¥ 216,586	\$ 1,507,438
Securities (Note 4) .....	3	8,347	29
Notes and accounts receivable (Notes 6, 16 and 17).....	193,555	192,855	1,843,381
Allowance for doubtful accounts.....	(3,109)	(3,381)	(29,610)
Inventories (Notes 7 and 17).....	110,824	89,847	1,055,467
Deferred income taxes (Note 13) .....	36,719	32,319	349,705
Other current assets .....	47,032	36,265	447,923
<b>Total current assets.....</b>	<b>543,305</b>	<b>572,838</b>	<b>5,174,333</b>
<b>Property, Plant and Equipment:</b>			
Land (Note 17).....	21,291	18,736	202,771
Buildings and structures (Note 17).....	126,260	128,497	1,202,476
Machinery and equipment (Note 17).....	212,330	200,727	2,022,190
Construction in progress.....	6,398	1,106	60,934
	<b>366,279</b>	<b>349,066</b>	<b>3,488,371</b>
Less-Accumulated depreciation .....	(216,243)	(208,977)	(2,059,457)
<b>Net property, plant and equipment.....</b>	<b>150,036</b>	<b>140,089</b>	<b>1,428,914</b>
<b>Investments and Other Assets:</b>			
Investment securities (Notes 4, 5 and 17).....	193,843	216,636	1,846,124
Deferred income taxes (Note 13) .....	9,665	9,606	92,048
Goodwill.....	299,800	78,718	2,855,238
Other assets (Note 17) .....	161,700	73,913	1,540,000
<b>Total investments and other assets.....</b>	<b>665,008</b>	<b>378,873</b>	<b>6,333,410</b>
	<b>¥1,358,349</b>	<b>¥1,091,800</b>	<b>\$12,936,657</b>

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Short-term borrowings (Notes 8 and 17) .....	¥ 311,962	¥ 139,973	\$ 2,971,067
Current maturities of long-term debt (Notes 9 and 17) .....	62,026	8,638	590,724
Notes and accounts payable (Notes 10 and 16) .....	83,602	100,252	796,210
Other payable (Note 3a) .....	76,185	—	725,571
Accrued expenses .....	92,608	86,284	881,981
Income taxes payable .....	14,121	16,631	134,486
Other current liabilities .....	21,950	58,338	209,047
Total current liabilities .....	662,454	410,116	6,309,086
<b>Non-Current Liabilities:</b>			
Long-term debt, less current maturities (Notes 9 and 17) .....	282,768	313,603	2,693,029
Deferred income taxes (Note 3b) .....	30,488	—	290,362
Severance and retirement allowance (Note 11) .....	10,439	9,612	99,419
Other non-current liabilities .....	4,324	13,598	41,180
Total non-current liabilities .....	328,019	336,813	3,123,990
<b>Contingent Liabilities: (Note 15)</b>			
<b>Net Assets: (Note 14)</b>			
Common stock:			
Authorized-1,000,000,000 shares			
Issued-271,283,608 shares as of March 31, 2008 .....	48,332	48,332	460,305
Capital surplus .....	73,049	73,049	695,705
Retained earnings .....	237,817	191,122	2,264,924
Treasury stock, at cost .....	(2,634)	(2,264)	(25,086)
Total shareholders' equity .....	356,564	310,239	3,395,848
Net unrealized holding gains on available-for-sale securities, net of taxes .....	6,320	16,078	60,190
Net unrealized gains (losses) on hedging derivatives, net of taxes .....	34	(184)	324
Foreign currency translation adjustments .....	(6,567)	8,077	(62,543)
Total valuation and translation adjustments .....	(213)	23,971	(2,029)
Minority interests .....	11,525	10,661	109,762
Total net assets .....	367,876	344,871	3,503,581
	¥1,358,349	¥1,091,800	\$12,936,657



# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2008 and 2007

	(Millions of yen)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on available-for-sale securities, net of taxes	Net unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported .....	¥48,332	¥73,049	¥153,864	¥(1,884)	¥273,361	¥16,422	¥ —	¥ 873	¥ —	¥290,656
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006 .....									9,657	9,657
Net assets at April 1, 2006 .....	¥48,332	¥73,049	¥153,864	¥(1,884)	¥273,361	¥16,422	¥ —	¥ 873	¥ 9,657	¥300,313
Cash dividends paid (Note) .....			(3,921)		(3,921)					(3,921)
Cash dividends paid .....			(2,974)		(2,974)					(2,974)
Bonus to directors and corporate auditors (Note) .....			(137)		(137)					(137)
Net income .....			47,799		47,799					47,799
Adjustment on projected benefit obligation of the consolidated subsidiary in the UK .....			(1,066)		(1,066)					(1,066)
Adjustment on projected benefit obligation of the consolidated subsidiary in the United States .....			(2,443)		(2,443)					(2,443)
Acquisition of treasury stock .....				(380)	(380)					(380)
Net change in items other than shareholders' equity .....						(344)	(184)	7,204	1,004	7,680
Net changes during the year .....	—	—	37,258	(380)	36,878	(344)	(184)	7,204	1,004	44,558
Net assets at March 31, 2007 .....	¥48,332	¥73,049	¥191,122	¥(2,264)	¥310,239	¥16,078	¥(184)	¥ 8,077	¥10,661	¥344,871
Cash dividends paid .....			(11,893)		(11,893)					(11,893)
Increase in retained earnings due to exclusion of subsidiaries from consolidation .....			387		387					387
Net income .....			57,969		57,969					57,969
Adjustment on projected benefit obligation of the consolidated subsidiary in the UK .....			(465)		(465)					(465)
Adjustment on projected benefit obligation of the consolidated subsidiary in the United States .....			697		697					697
Acquisition of treasury stock .....				(370)	(370)					(370)
Net change in items other than shareholders' equity .....						(9,758)	218	(14,644)	864	(23,320)
Net changes during the year .....	—	—	46,695	(370)	46,325	(9,758)	218	(14,644)	864	23,005
Balance at March 31, 2008 .....	¥48,332	¥73,049	¥237,817	¥(2,634)	¥356,564	¥6,320	¥ 34	¥ (6,567)	¥11,525	¥367,876

Note: Approved as appropriations of earnings at 2006 Annual General Shareholders' Meeting.

	(Thousands of U.S. Dollars) (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on available-for-sale securities, net of taxes	Net unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Net assets at March 31, 2007 .....	\$460,305	\$695,705	\$1,820,210	\$(21,562)	\$2,954,658	\$153,123	\$(1,752)	\$ 76,924	\$101,533	\$3,284,486
Cash dividends paid .....			(113,267)		(113,267)					(113,267)
Increase in retained earnings due to exclusion of subsidiaries from consolidation .....			3,686		3,686					3,686
Net income .....			552,086		552,086					552,086
Adjustment on projected benefit obligation of the consolidated subsidiary in the UK .....			(4,429)		(4,429)					(4,429)
Adjustment on projected benefit obligation of the consolidated subsidiary in the United States .....			6,638		6,638					6,638
Acquisition of treasury stock .....				(3,524)	(3,524)					(3,524)
Net change in items other than shareholders' equity .....						(92,933)	2,076	(139,467)	8,229	(222,095)
Net changes during the year .....	—	—	444,714	(3,524)	441,190	(92,933)	2,076	(139,467)	8,229	219,095
Balance at March 31, 2008 .....	\$460,305	\$695,705	\$2,264,924	\$(25,086)	\$3,395,848	\$ 60,190	\$ 324	\$ (62,543)	\$109,762	\$3,503,581

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Olympus Corporation and Consolidated Subsidiaries  
For the year ended March 31, 2006

	Millions of yen
	2006
<b>Common Stock:</b>	
Balance at beginning of year .....	¥ 40,833
Issuance of common stock.....	7,499
Balance at end of year.....	¥ 48,332
<b>Capital Surplus</b>	
Balance at beginning of year .....	¥ 65,550
Issuance of common stock.....	7,499
Balance at end of year.....	¥ 73,049
<b>Retained Earnings:</b>	
Balance at beginning of year .....	¥133,523
Net income (loss).....	28,564
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)
Cash dividends paid .....	(4,006)
Bonuses for directors and corporate auditors.....	(34)
Adjustment on projected benefit obligation of the consolidated subsidiary in the UK.....	(2,244)
Balance at end of year.....	¥153,864
<b>Net Unrealized Holding Gains on Securities:</b>	
Balance at beginning of year .....	¥ 6,201
Net increase .....	10,221
Balance at end of year.....	¥ 16,422
<b>Foreign Currency Translation Adjustments:</b>	
Balance at beginning of year .....	¥ (3,618)
Net increase .....	4,491
Balance at end of year.....	¥ 873
<b>Treasury Stock, at Cost:</b>	
Balance at beginning of year .....	¥ (1,652)
Net change in treasury stock.....	(232)
Balance at end of year.....	¥ (1,884)

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Olympus Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
<b>Cash Flows from Operating Activities:</b>				
Income before provision for income taxes .....	¥ 94,612	¥ 73,580	¥ 43,187	\$ 901,067
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization .....	37,522	30,404	27,022	357,352
Amortization of consolidated adjustment accounts (Note 3d) .....	—	—	5,674	—
Amortization of goodwill (Note 3d) .....	8,077	7,868	—	76,924
Increase (decrease) in severance and retirement allowance .....	893	183	(393)	8,505
Decrease (increase) in prepaid pension cost .....	(8,757)	673	1,361	(83,400)
Increase (decrease) in provision for product warranties (Note 3e) .....	1,504	3,481	—	14,324
Interest income .....	(2,728)	(1,311)	(977)	(25,981)
Interest expense .....	13,905	12,567	9,997	132,429
Net loss of investment in affiliated companies carried on the equity method (Note 3g) .....	2,766	—	—	26,343
Net gains due to decrease in equity interest in subsidiaries .....	(1,909)	—	—	(18,181)
Loss (gain) on marketable and investment securities, net .....	163	820	(116)	1,552
Proceed from sale of beneficial interest in trust .....	—	—	(1,522)	—
Gain on sale of investment securities in subsidiaries and affiliates .....	(312)	(163)	(2,199)	(2,971)
Impairment loss on fixed assets .....	1,093	1,619	1,411	10,410
Decrease (increase) in accounts receivable .....	(3,959)	(17,432)	(9,622)	(37,705)
Decrease (increase) in inventories .....	(14,316)	6,821	15,643	(136,343)
Increase (decrease) in accounts payable .....	(9,230)	11,528	(15,340)	(87,905)
Increase (decrease) in other payable (Note 3f) .....	15,932	—	—	151,733
Increase (decrease) in accrued expense .....	(31)	15,871	4,092	(295)
Other .....	4,706	309	(830)	44,818
Sub-total .....	139,931	146,818	77,388	1,332,676
Interest and dividend received .....	4,114	2,341	1,974	39,181
Interest payments .....	(13,864)	(12,460)	(9,242)	(132,038)
Income taxes paid .....	(41,175)	(28,299)	(21,086)	(392,143)
Net cash provided by operating activities .....	89,006	108,400	49,034	847,676
<b>Cash Flows from Investing Activities:</b>				
Deposits in time deposits .....	(38,956)	(41,379)	(6,244)	(371,010)
Withdrawals from time deposits .....	41,775	6,609	6,588	397,857
Purchases of securities .....	—	(8,365)	(34,997)	—
Sales of securities .....	2,357	1,266	35,000	22,448
Purchases of property, plant and equipment .....	(47,953)	(41,269)	(44,892)	(456,695)
Sales of property, plant and equipment .....	2,306	644	50	21,962
Purchases of investment securities .....	(12,132)	(15,405)	(36,896)	(115,543)
Sales of investment securities .....	6,491	4,360	20,947	61,819
Payments for acquisition of new consolidated subsidiaries (Note 20) .....	(232,234)	(2,409)	(12,029)	(2,211,752)
Net increase (decrease) from sales of investment in subsidiaries related to changes in scope of consolidation .....	197	(231)	1,431	1,876
Payments for additional acquisition of consolidated subsidiaries .....	(18,355)	—	(12,297)	(174,810)
Sales of the trust beneficiary right .....	—	—	1,686	—
Proceeds from sales of investment in consolidated subsidiaries .....	608	—	—	5,790
Payments for loans receivable (Note 3h) .....	(9,912)	—	—	(94,400)
Proceeds from loans receivable (Note 3h) .....	1,544	—	—	14,705
Other .....	(39)	(302)	(102)	(371)
Net cash used in investing activities .....	(304,303)	(96,481)	(81,755)	(2,898,124)
<b>Cash Flows from Financing Activities:</b>				
Increase (decrease) in short-term borrowings .....	152,797	(20,025)	14,925	1,455,210
Proceeds from long-term debt .....	37,097	19,242	71,994	353,305
Repayments of long-term debt .....	(15,064)	(10,141)	(60,683)	(143,467)
Proceeds from issuance of bonds .....	100	44,384	39,833	952
Redemption of bonds .....	(94)	(25,092)	—	(895)
Proceed from issuance of common stock .....	—	—	14,918	—
Stock issue to minority shareholders .....	1,917	1,099	472	18,257
Dividends paid .....	(11,893)	(6,895)	(4,006)	(113,267)
Dividends paid to minority shareholders .....	(88)	—	(21)	(838)
Other .....	(371)	(380)	(232)	(3,533)
Net cash provided by financing activities .....	164,401	2,192	77,200	1,565,724
Effect of exchange rate changes on cash and cash equivalents .....	(4,405)	1,298	1,166	(41,952)
Net increase (decrease) in cash and cash equivalents .....	(55,301)	15,409	45,645	(526,676)
Cash and cash equivalents at beginning of year .....	174,802	159,307	113,625	1,664,780
Net increase in cash and cash equivalents associated with newly consolidated subsidiaries .....	578	146	46	5,505
Net decrease in cash and cash equivalents associated with exclusion from scope of consolidation .....	(237)	(60)	(9)	(2,257)
Cash and cash equivalents at end of year (Note 19) .....	¥119,842	¥174,802	¥159,307	\$ 1,141,352

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 Financial Instruments and Exchange Law (formerly, the 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 Financial Instruments and Exchange Law (formerly, the Securities and Exchange Law). In preparing the accompanying consolidated financial statements, certain reclassifications (with certain expanded disclosure and the inclusion of the consolidated statements of shareholders' equity for 2006) 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.

As discussed in Note 2 (f), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statements of shareholder's equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the exchange rate of ¥105 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. For the year ended March 31, 2008, the accounts of 205 (183 in 2007) subsidiaries have been included in the consolidated financial statements. 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. For the year ended March 31, 2008, 15 (22 in 2007) affiliates were accounted for by 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 ("goodwill") are generally being amortized on the straight-line method in the range of mainly 5 to 20 years.

### (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) 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 in fiscal 2006 and net assets in fiscal 2007 and 2008. Realized gain on sale of such securities is computed using the moving-average cost method.

### (e) Derivative and Hedge Accounting

Accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains and losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meets hedging criteria, the Company and consolidated subsidiaries defer recognition of gains and losses resulting from changes in fair value of derivative financial instruments until the related losses and gains on the hedged items are recognized.

### (f) Inventories

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

**(g) 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, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Buildings and structures .....	10.4%	7.9%	8.7%
Machinery and equipment.....	39.5%	32.0%	33.0%

**(h) Allowance for Doubtful Accounts**

The Company and consolidated subsidiaries provide allowance for doubtful accounts in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of collection losses.

**(i) 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, directors and corporate auditors of the Company and several domestic consolidated subsidiaries are covered primarily by unfunded retirement allowance plans.

According to the approval at the Company's Annual Shareholders' Meeting on June 29, 2006, the Company terminated the policy relating to retirement benefits to directors and corporate auditors of the Company.

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, 2008 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 and corporate auditors as of March 31, 2008, 2007 and 2006.

**(j) Research and Development**

Expenses relating to research and development activities are charged to income as incurred. Total amounts charged to income were ¥65,928 million (\$627,886 thousand), ¥55,531 million and ¥45,935 million for the years ended March 31, 2008, 2007 and 2006, 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 income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

In the year ended March 31, 2007, the Company adopted the consolidated taxation system designating Olympus Corporation as the parent company. Some subsidiaries have applied the consolidated taxation system since before.

**(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 year ended for March 31, 2008, there were dilutive potential common shares which have resulted in a dilutive effect. Accordingly, the Company's dilutive net income per share were ¥214.44 (US\$ 2.042). For the years ended for March 31 2007 and 2006, there were no dilutive common shares which have resulted in a dilutive effect. Accordingly, the Company's basic and dilutive earnings per share computations were 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 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 arising from translation are presented as "Foreign currency translation adjustments" in a separate component of net assets as of March 31, 2008 and 2007, and of shareholders' equity as of March 31, 2006.

## 2. CHANGES IN ACCOUNTING POLICIES

### (a) Accounting Standards for the Impairment of Fixed Assets

In the year ended March 31, 2006, the Company had 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 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 Standards for Retirement Benefits in the United Kingdom Adopted by Consolidated Subsidiary in the United Kingdom

In the year ended March 31, 2006, consolidated subsidiary in the UK had adopted a new accounting standard for retirement benefits there. The effect of this change was to decrease retained earnings by ¥4,183 million since the unrecognized net transition obligation, amounting to ¥1,939 million and the unrecognized actuarial difference, amounting to ¥2,244 million were directly charged to retained earnings for the year ended March 31, 2006. The effect on net income of the adoption of this new accounting standard was 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.

### (d) Accounting Standards for Bonuses to Directors and Corporate Auditors

In the year ended March 31, 2007, the Company has adopted new accounting standards for the bonuses to directors and corporate auditors in accordance with "Accounting Standards for the Bonuses to Directors" (Corporate Accounting Standard No. 4 regarding the bonuses to directors and corporate auditors issued on November 29, 2005).

The effect on net income of the adoption of this new accounting standard was not material.

### (e) Accounting Standards for Presentation of Net Assets in the Balance Sheet

In the year ended March 31, 2007, the Company has adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

As of March 31, 2007, the consolidated balance sheets were prepared according to the new accounting standards comprising three sections: assets, liabilities and net assets. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises assets, liabilities, minority interests and shareholders' equity sections. Under the new accounting standards, the following items were presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes net unrealized losses on hedging derivatives, net of taxes. Under the previous presentation rules, net unrealized losses on hedging derivatives, net of taxes, were included in the assets or liabilities sections without considering the related income tax effects. Minority interests were included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections. The adoption of the new accounting standard had no impacts on the consolidated statement of operations for the year ended March 31, 2007. Also, if the new accounting standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥334,394 million would have been presented.

### (f) Accounting Standards for Statement of Changes in Net Assets

In the year ended March 31, 2007, the Company has adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005).

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the new accounting standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

### (g) Accounting Standards for Business Combination and Business Separation

In the year ended March 31, 2007, the Company has adopted "Accounting Standards for Business Combinations" (Business Accounting Council, October 31, 2003) and "Accounting Standards for Business Separation" (Corporate Accounting Standard No. 7 regarding "the business separation" issued on December 27, 2005) and "Implementation Guidance for Accounting Standards for Business Combinations and separation" (Accounting Standards Board of Japan, Financial Accounting Standards Implementation Guidance No. 10, December 9, 2005).

**(h) Change in Accounting Standards for Retirement Benefits in the United States Adopted by Consolidated Subsidiaries in the United States**  
In the year ended March 31, 2007, consolidated subsidiaries in the United States, have adopted a new accounting standard for retirement benefits in the United States.

The effect of this change was to decrease retained earnings by ¥2,443 million since the unrecognized actuarial difference amounting to ¥2,443 million was directly charged to retained earnings for the year ended March 31, 2007. The adoption of this new accounting standard has no impact on net income.

**(i) Depreciation of Fixed Assets**

In accordance with the changes of tax code introduced in the 2007 tax reform (Law Concerning Partial Revision of the Income Tax Law (Law No. 6, March 30, 2007) and the Law Concerning Partial Revision of the Enforcement Regulations of the Corporation Tax Law (Government Ordinance No. 83, March 30, 2007)), from the current fiscal year concerning the depreciation of tangible fixed assets acquired on and after April 1, 2007, the method of computing depreciation expenses have been changed to the new regulation.

The effect which this change has on the consolidated statements of income was not material.

### **3. RECLASSIFICATIONS**

**(Consolidated Balance Sheets)**

**(a) Other Payable**

In the year ended March 31, 2008, "Other Payable", formerly included in Other current liabilities of CURRENT LIABILITIES was shown as an independent item. The amount of "Other Payable" included in Other current liabilities of CURRENT LIABILITIES in fiscal 2007 was ¥39,736 million.

**(b) Deferred income taxes**

In the year ended March 31, 2008, "Deferred income taxes", formerly included in Other non-current liabilities of NON-CURRENT LIABILITIES was shown as an independent item. The amount of "Deferred income taxes" included in Other non-current liabilities of NON-CURRENT LIABILITIES in fiscal 2007 was ¥9,167 million.

**(Consolidated Statements of Income)**

**(c) Loss on investment in partnership**

In the year ended March 31, 2008, "Loss on investment in partnership", formerly included in Other, net of OTHER INCOME (EXPENSES) was shown as an independent item. The amount of "Loss on investment in partnership" included in Other, net of OTHER INCOME (EXPENSES) in fiscal 2007 was ¥463 million.

**(Consolidated Statements of Cash Flows)**

**(d) Amortization of consolidated adjustment accounts and goodwill**

In the year ended March 31, 2007, amortization of consolidated adjustment accounts and goodwill were shown as "Amortization of goodwill" on the cash flow statement. The amount of amortization of goodwill included in depreciation and amortization expenses in fiscal 2006 was ¥213 million.

**(e) Increase (decrease) in provision for product warranties**

In the year ended March 31, 2007, "Increase (decrease) in provision for product warranties", formerly included in Other of cash flows from operating activities, was shown as an independent item. The amount of Increase (decrease) in provision for product warranties included in Other of cash flows from operating activities in fiscal 2006 was ¥1,345 million.

**(f) Increase (decrease) in other payable**

In the year ended March 31, 2008, "Increase (decrease) in other payable", formerly included in other of cash flows from operating activities, was shown as an independent item. The amount of "Increase in other payable" included in other of cash flows from operating activities in fiscal 2007 was ¥8,271 million.

**(g) Net loss of investment in affiliated companies carried on the equity method**

In the year ended March 31, 2008, "Net loss of investment in affiliated companies carried on the equity method", formerly included in Other of cash flows from operating activities, was shown as an independent item. The amount of "Net loss of investment in affiliated companies carried on the equity method" included in other of cash flows from operating activities in fiscal 2007 was ¥2,394 million.

**(h) Payments for loans receivable and Proceeds from loans receivable**

In the year ended March 31, 2008, "Payments for loans receivable" and "Proceeds from loans receivable", formerly included in Other of cash flows from investment activities, were shown as independent items. The amount of "Payments for loans receivable" and "Proceeds from loans receivable" included in other of cash flows from investment activities in fiscal 2007 were ¥768 million and ¥544 million, respectively.

#### 4. SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with fair value as of March 31, 2008 and 2007:

Available-for-sale securities

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

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Acquisition cost	Book Value	Difference	Acquisition cost	Book Value	Difference	Acquisition cost	Book Value	Difference
Equity securities .....	¥ 25,230	¥ 40,802	¥15,572	¥ 39,762	¥ 63,745	¥23,983	\$ 240,286	\$ 388,590	\$148,304
Others .....	96,077	98,339	2,262	96,078	97,987	1,909	915,019	936,562	21,543
<b>Total .....</b>	<b>¥121,307</b>	<b>¥139,141</b>	<b>¥17,834</b>	<b>¥135,840</b>	<b>¥161,732</b>	<b>¥25,892</b>	<b>\$1,155,305</b>	<b>\$1,325,152</b>	<b>\$169,847</b>

Securities with book value (fair value) not exceeding acquisition cost.

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Acquisition cost	Book Value	Difference	Acquisition cost	Book Value	Difference	Acquisition cost	Book Value	Difference
Equity securities .....	¥31,535	¥24,632	¥(6,903)	¥12,456	¥11,410	¥(1,046)	\$300,333	\$234,590	\$(65,743)
Others .....	1,864	1,193	(671)	2,327	2,259	(68)	17,753	11,362	(6,391)
<b>Total .....</b>	<b>¥33,399</b>	<b>¥25,825</b>	<b>¥(7,574)</b>	<b>¥14,783</b>	<b>¥13,669</b>	<b>¥(1,114)</b>	<b>\$318,086</b>	<b>\$245,952</b>	<b>\$(72,134)</b>

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, 2008 and 2007:

Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-listed equity securities .....	¥17,008	¥12,802	\$161,981
Non-listed foreign bonds.....	404	9,928	3,848
Others .....	2,657	5,037	25,306
<b>Total .....</b>	<b>¥20,069</b>	<b>¥27,767</b>	<b>\$191,135</b>

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

	Millions of yen			
	2008			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Government bonds .....	¥ 3	¥ —	¥ —	¥ 3
Corporate bonds.....	—	358	—	358
Others .....	—	1,779	520	2,299
<b>Total .....</b>	<b>¥ 3</b>	<b>¥ 2,137</b>	<b>¥520</b>	<b>¥2,660</b>

	Millions of yen			
	2007			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Government bonds .....	¥ —	¥ 3	¥ —	¥ 3
Corporate bonds.....	5,903	457	4,021	10,381
Others .....	2,444	1,794	364	4,602
<b>Total .....</b>	<b>¥8,347</b>	<b>¥2,254</b>	<b>¥4,385</b>	<b>¥14,986</b>

	Thousands of U.S. dollars			
	2008			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Government bonds .....	\$ 29	\$ —	\$ —	\$ 29
Corporate bonds.....	—	3,410	—	3,410
Others .....	—	16,942	4,952	21,894
<b>Total .....</b>	<b>\$ 29</b>	<b>\$20,352</b>	<b>\$4,952</b>	<b>\$25,333</b>

Investment in unconsolidated subsidiaries and affiliates was as follows:

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Investment securities.....	¥8,811	¥21,815	\$83,914
Other assets.....	—	1,054	—
<b>Total .....</b>	<b>¥8,811</b>	<b>¥22,869</b>	<b>\$83,914</b>

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

Business incubation securities and business incubation securities in affiliates that were held by subsidiaries of the Company were included in investment securities on the consolidated balance sheets as of March 31, 2008 and 2007. Business incubation securities amount to ¥4,762 million (\$45,352 thousand) and ¥9,316 million, respectively. Business incubation securities in affiliates amount to ¥2,012 million (\$19,162 thousand) and ¥3,645 million, respectively.

## 6. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	Unconsolidated subsidiaries and affiliates.....	¥ 1,637	¥ 2,066
Trade .....	191,918	190,789	1,827,791
<b>Total .....</b>	<b>¥193,555</b>	<b>¥192,855</b>	<b>\$1,843,381</b>

## 7. INVENTORIES

Inventories as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	Finished goods .....	¥ 69,823	¥62,108
Work in process and raw materials.....	41,001	27,739	390,486
<b>Total .....</b>	<b>¥110,824</b>	<b>¥89,847</b>	<b>\$1,055,467</b>

## 8. SHORT-TERM BORROWINGS

Short-term borrowings, which consist principally of bank loans. The annual interest rates on these borrowings ranged from 1.00% to 13.40% and from 0.58% to 13.40% as of March 31, 2008 and 2007, respectively.

## 9. LONG-TERM DEBT

Long-term debt as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
(Unsecured long-term debt)			
0.80% yen bonds, due July 2008 .....	¥ 30,000	¥ 30,000	\$ 285,714
0.84% yen bonds, due October 2009 .....	20,000	20,000	190,476
0.71% yen bonds, due July 2010 .....	20,000	20,000	190,476
1.09% yen bonds, due July 2012 .....	20,000	20,000	190,476
1.94% yen bonds, due March 2017 .....	20,000	20,000	190,476
1.69% yen bonds, due March 2014 .....	15,000	15,000	142,857
1.98% yen bonds, due September 2016 .....	10,000	10,000	95,238
1.16% loan from a Japanese bank, due December 2008 .....	20,000	20,000	190,476
1.52% loan from a Japanese bank, due October 2011 .....	25,000	25,000	238,095
1.54% loan from a Japanese bank, due September 2011 .....	20,000	20,000	190,476
0.92% loan from a Japanese bank, due July 2011 .....	10,000	10,000	95,238
1.90% loan from a Japanese bank, due March 2011 .....	10,000	10,000	95,238
1.61% loan from a Japanese bank, due September 2012 .....	10,000	10,000	95,238
2.16% loan from a Japanese bank, due March 2013 .....	10,000	10,000	95,238
1.34% loan from a Japanese bank, due March 2011 .....	20,000	20,000	190,476
1.89% loan from a Japanese bank, due March 2016 .....	20,000	—	190,476
1.51% loan from a Japanese bank, due March 2015 .....	10,000	—	95,238
Other bonds .....	5,598	5,574	53,314
Others from foreign banks .....	4,612	5,360	43,924
Others from Japanese banks .....	42,668	48,980	406,362
(Secured long-term debt)			
Others from foreign banks .....	1,106	1,147	10,533
Others from Japanese banks .....	810	1,180	7,718
	344,794	322,241	3,283,753
Less-current maturities .....	(62,026)	(8,638)	(590,724)
	¥282,768	¥313,603	\$2,693,029

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
2009 .....	¥ 62,026	\$ 590,724
2010 .....	35,211	335,343
2011 .....	69,792	664,686
2012 .....	57,464	547,276
2013 .....	43,031	409,819
Thereafter .....	77,270	735,905
Total .....	¥344,794	\$3,283,753

## 10. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unconsolidated subsidiaries and affiliates.....	¥ 433	¥ 379	\$ 4,124
Trade .....	83,169	99,873	792,086
Total .....	¥83,602	¥100,252	\$796,210

## 11. SEVERANCE AND RETIREMENT ALLOWANCE

The Company and its consolidated subsidiaries adopted accounting standards 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 retirement allowance included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation .....	¥ 124,004	¥ 123,455	\$ 1,180,990
Unrecognized prior service costs.....	1,874	2,740	17,848
Unrecognized actuarial difference.....	(9,006)	4,397	(85,772)
Fair value of pension assets .....	(121,923)	(128,247)	(1,161,171)
Prepaid pension expenses.....	15,368	7,184	146,362
Allowance for employees' severance and retirement benefits .....	10,317	9,529	98,257
Severance and retirement allowance for directors and corporate auditors.....	122	83	1,162
Total severance and retirement allowance .....	¥ 10,439	¥ 9,612	\$ 99,419

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007, were employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service costs - benefits earned during the year.....	¥ 6,403	¥ 6,435	\$ 60,981
Interest cost on projected benefit obligation.....	3,638	3,462	34,648
Expected return on plan assets .....	(6,101)	(5,515)	(58,105)
Amortization of actuarial difference.....	539	2,686	5,133
Amortization of prior service costs .....	(772)	(1,116)	(7,352)
Severance and pension benefit expenses.....	¥ 3,707	¥ 5,952	\$ 35,305

The discount rates used by the Company were mainly 2.0% in fiscal 2008 and 2007. The rate of expected return on plan assets used by the Company is mainly 4.0% in fiscal 2008 and 2007. 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 were recognized as expense (or income) in equal amounts over mainly five years in fiscal 2008 and 2007, and actuarial gains (or losses) were recognized as income (or expense) in equal amounts over mainly five years in fiscal 2008 and 2007.

## 12. STOCK OPTION PLANS

A summary of information regarding the consolidated subsidiaries stock option plans for the year ended March 31, 2008 was as follows:

	ITX Corporation	Other consolidated subsidiaries
Qualified beneficiaries .....	5 directors 1 corporate auditor 91 employees 6 directors of subsidiaries of ITX Corporation	39 directors 5 corporate auditors 498 employees 3 directors of subsidiaries 29 employees of subsidiaries 6 external coagents
Class and number of shares of common stock for which new subscription rights were offered .....	Common stock 5,795	Common stock 23,832
Date of rights granted .....	From October 6, 2005 to April 28, 2006	From April 25, 2005 to September 28, 2007
Period of exercise of rights .....	From June 24, 2007 to June 23, 2010	From October 1, 2005 to March 31, 2019
Number of options before vested		
March 31, 2007 .....	5,050	11,600
Granted .....	—	4,276
Lapsed .....	—	1,008
Vested .....	5,050	8,647
March 31, 2008 .....	—	6,221
Number of options vested		
March 31, 2007 .....	—	5,007
Vested .....	5,050	8,647
Exercised .....	—	70
Lapsed .....	580	359
March 31, 2008 .....	4,470	13,225
For stock options exercised during the year:		
Exercise price (yen) .....	¥ —	¥50,000
Average price of common stock at the date of exercise (yen) .....	¥ —	¥50,000
For stock options outstanding at the end of the year:		
Exercise price (yen) .....	¥267,413	¥45,760

One of the other consolidated subsidiaries completed a 2-for-1 stock split by way of a free share distribution at the year ended March 31, 2008. The number of options and exercise price in the above information reflect from the stock split.

The fairly evaluated unit value on the stock option of the other consolidated subsidiaries was evaluated by the intrinsic value per unit for the year ended March 31, 2008. The evaluation methods utilized by the consolidated subsidiaries were net equity value method, cash flow method, or other methods which were optimum at the evaluation dates.

The total intrinsic value of the stock options was ¥31 million (\$295 thousand) at the year ended March 31, 2008.

The total intrinsic value of the stock options exercised during the year was ¥- million (\$- thousand) at the date of exercise.

A summary of information regarding the consolidated subsidiaries stock option plans for the year ended March 31, 2007 was as follows:

	ITX Corporation	Other consolidated subsidiaries
Qualified beneficiaries .....	5 directors 1 corporate auditor 91 employees 6 directors of subsidiaries of ITX Corporation	29 directors 4 corporate auditors 372 employees 3 directors of subsidiaries 29 employees of subsidiaries 6 external coagents
Class and number of shares of common stock for which new subscription rights were offered .....	Common stock 5,795	Common stock 19,556
Date of rights granted.....	From October 6, 2005 to April 28, 2006	From April 25, 2005 to November 15, 2006
Period of exercise of rights .....	From June 24, 2007 to June 23, 2010	From May 1, 2007 to June 27, 2017
Exercise price (yen) .....	¥266,859	¥42,565
Number of options before vested		
March 31, 2006.....	5,190	7,369
Granted.....	455	8,841
Lapsed.....	595	1,219
Vested.....	—	4,400
March 31, 2007.....	5,050	10,591
Number of options settled		
March 31, 2006.....	—	607
Vested.....	—	4,400
Exercised .....	—	—
Lapsed.....	—	—
March 31, 2007.....	—	5,007
For stock options outstanding at the end of the year:		
Exercise price (yen).....	¥266,859	¥42,565

The fairly evaluated unit value on the stock option of the other consolidated subsidiaries was evaluated by the intrinsic value per unit for the year ended March 31, 2007. The evaluation methods utilized by the consolidated subsidiaries were net equity value method, cash flow method, or other methods which were optimum at the evaluation dates.

The total intrinsic value of the stock options was ¥19 million at the year ended March 31, 2007.

### 13. 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, 2008, 2007 and 2006. 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, 2008, 2007 and 2006.

	2008	2007	2006
Japanese statutory tax rate.....	40.7%	40.7%	40.7%
Non-deductible expenses .....	1.2	2.1	8.3
Effect of foreign tax rate differences.....	(0.8)	(2.5)	(1.0)
Increase (decrease) of allowance for evaluation.....	(2.2)	(1.0)	(16.5)
Tax deduction for research and development.....	(4.0)	(6.6)	(3.9)
Amortization of consolidated adjustment accounts .....	—	—	5.3
Amortization of goodwill .....	3.7	3.6	—
Other, net.....	0.2	(0.9)	1.4
Effective tax rate.....	38.8%	35.4%	34.3%

Significant components of deferred income tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred income tax assets			
Inventories.....	¥ 9,123	¥ 7,536	\$ 86,886
Prepaid expenses.....	9,478	7,097	90,267
Accrued bonuses .....	5,877	5,401	55,971
Unrealized intercompany profits.....	8,019	7,205	76,371
Depreciation of property, plant and equipment.....	4,955	4,203	47,190
Depreciation of intangible assets.....	11,340	12,631	108,000
Deferred assets .....	436	257	4,152
Severance and retirement allowances .....	3,164	3,126	30,133
Securities .....	3,175	3,643	30,238
Deficit carried forward .....	16,223	11,499	154,505
Other .....	6,025	10,835	57,382
Subtotal.....	77,815	73,433	741,095
Allowance for evaluation.....	(21,155)	(21,475)	(201,476)
Total deferred income tax assets .....	56,660	51,958	539,619
Net unrealized holding gains on available-for-sale securities, net of taxes .....	(3,715)	(8,787)	(35,381)
Prepaid pension expenses .....	(4,409)	(3,390)	(41,990)
Basis differences in assets acquired and liabilities assumed upon acquisition.....	(30,918)	—	(294,457)
Other .....	(3,726)	(7,154)	(35,486)
Total deferred income tax liabilities .....	(42,768)	(19,331)	(407,314)
Net deferred income tax assets.....	¥ 13,892	¥ 32,627	\$ 132,305

#### 14. NET ASSETS

The Japanese Corporate Law (“the Law”) became effective on May 1, 2006, replacing the Japanese Commercial Code (“the Code”). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or could be capitalized by a resolution of the board of directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceed 25% of common stock, they were available for distribution by resolution of the shareholders’ meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

A summary of information regarding the Consolidated Statement of Changes in Net Assets for the year ended March 31, 2008 was as follows:

Total number and class of shares issued and treasury stock

Class of Shares	As of the end of the previous consolidated fiscal year (Number of shares)	Increase in the current fiscal year (Number of shares)	Decrease in the current fiscal year (Number of shares)	As of the end of the current consolidated fiscal year (Number of shares)
<b>Shares issued</b>				
Common stock .....	271,283,608	—	—	271,283,608
Total .....	271,283,608	—	—	271,283,608
<b>Treasury Stock</b>				
Common stock (Note 1) .....	961,805	82,635	—	1,044,440
Total .....	961,805	82,635	—	1,044,440

1. The increase in the number of shares in common stock of treasury stock, 82,635 shares is due to the purchase of stock less than unit share.

Dividends

Dividend paid

Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Dividend per share (Yen)	Record Date	Effective date
General Shareholders' Meeting (June 28, 2007) .....	Common Stock	¥6,488	¥24.00	March 31, 2007	June 29, 2007
		(Thousands of U.S. dollars)	(U.S. dollars)		
		\$61,790	\$0.23		

Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Dividend per share (Yen)	Record Date	Effective date
Board of Directors (November 6, 2007) .....	Common Stock	¥5,405	¥20.00	September 30, 2007	December 7, 2007
		(Thousands of U.S. dollars)	(U.S. dollars)		
		\$51,476	\$0.19		

Dividends resolved during the current period that will be effective after the period-end

Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Funds of distribution	Dividend per share (Yen)	Record Date	Effective date
General Shareholders' Meeting (June 27, 2008) .....	Common Stock	¥5,405	Retained earnings	¥20.00	March 31, 2008	June 30, 2008
		(Thousands of U.S. dollars)		(U.S. dollars)		
		\$51,476		\$0.19		

A summary of information regarding the Consolidated Statement of Changes in Net assets for the year ended March 31, 2007 was as follows:

Total number and class of shares issued and treasury stock

Class of Shares	As of the end of the previous consolidated fiscal year (Number of shares)	Increase in the current fiscal year (Number of shares)	Decrease in the current fiscal year (Number of shares)	As of the end of the current consolidated fiscal year (Number of shares)
<b>Shares issued</b>				
Common stock .....	271,283,608	—	—	271,283,608
Total .....	271,283,608	—	—	271,283,608
<b>Treasury Stock</b>				
Common stock (Note 1) .....	856,534	105,271	—	961,805
Total .....	856,534	105,271	—	961,805

1. The increase in the number of shares in common stock of treasury stock, 105,271 shares is due to the purchase of stock less than unit share.

## Dividends

### Dividend paid

Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Dividend per share (Yen)	Record Date	Effective date
General Shareholders' Meeting (June 29, 2006) .....	Common Stock	¥3,921	¥14.50	March 31, 2006	June 30, 2006
Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Dividend per share (Yen)	Record Date	Effective date
Board of Directors (November 7, 2006) .....	Common Stock	¥2,974	¥11.00	September 30, 2006	December 8, 2006

Dividends resolved during the current period that will be effective after the period-end

Resolution	Class of shares	Amount of dividend paid (Millions of yen)	Funds of distribution	Dividend per share (Yen)	Record Date	Effective date
General Shareholders' Meeting (June 28, 2007) .....	Common Stock	¥6,488	Retained earnings	¥24.00	March 31, 2007	June 29, 2007

## 15. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for notes and bills discounted of ¥1,417 million (\$13,495 thousand) and ¥3,179 million as of March 31, 2008 and 2007, respectively endorsed of ¥153 million (\$1,457 thousand) and ¥179 million as of March 31, 2008 and 2007. The Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥331 million (\$3,152 thousand) and ¥391 million, and secondly for borrowing from banks to subsidiaries, amounting to ¥2,240 million (\$21,333 thousand) and ¥1,928 million as of March 31, 2008 and 2007.

## 16. TRADE NOTES MATURING ON BANK HOLIDAYS AT THE END OF YEAR

As financial institutions in Japan were closed on March 31, 2007, trade notes maturing on March 31, 2007 were accounted for as if they were settled at that date.

The amount of trade notes maturing as at March 31, 2007 was as follows:

	Millions of yen
Trade notes receivable .....	¥ 580
Trade notes payable .....	1,434

## 17. PLEDGED ASSETS

The following assets were pledged as collateral for short-term borrowings and long-term debt as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits .....	¥ 513	¥ 596	\$ 4,886
Accounts receivable .....	490	509	4,667
Inventories .....	294	306	2,800
Buildings and structures .....	1,660	2,047	15,810
Machinery and equipment .....	276	286	2,629
Land .....	1,861	1,881	17,724
Investment securities .....	81	88	770
Other assets .....	—	30	—
	¥5,175	¥ 5,743	\$49,286

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Long-term debt .....	¥ 663	¥2,327	\$ 6,314
Current maturities of long-term debt .....	1,253	—	11,933
Short-term borrowings .....	139	770	1,324
	¥2,055	¥3,097	\$19,571

## 18. LOSS ON IMPAIRMENT OF FIXED ASSETS

The loss on impairment of fixed assets that the Company and its consolidated subsidiaries recorded for the years ended March 31, 2008, 2007 and 2006 were as follows:

(For the year ended March 31, 2008)

Use	Type of assets	Location	Millions of yen	Thousands of U.S. dollars
Assets used for Life Science Business	Goodwill	Munich, Germany	¥1,058	\$10,076
Idle properties	Building	Tokyo and others	35	334
<b>Total</b>			<b>¥1,093</b>	<b>\$10,410</b>

(For the year ended March 31, 2007)

Use	Type of assets	Location	Millions of yen
Assets used for Life Science Business	Goodwill	Munster, Germany	¥ 247
Assets used for Information and Communication Business	Goodwill	Tokyo, Fukuoka and others	435
	Building		188
Assets used for others business	Goodwill	Nagano and others	269
	Machinery and Equipment		24
Idle properties	Land	Nagano	255
	Building		201
<b>Total</b>			<b>¥1,619</b>

(For the year ended March 31, 2006)

Use	Type of assets	Location	Millions of yen
Assets used for Information and Communication Business	Consolidated adjustment accounts and other intangible assets	Tokyo	¥1,331
	Buildings and structures	Tokyo and others	32
Assets used for other business	Other intangible assets	Tokyo	36
Idle properties	Land	Shiga	12
<b>Total</b>			<b>¥1,411</b>

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 15% in fiscal 2008, mainly 6.5% or 5.9% in fiscal 2007 and 6.6% in fiscal 2006.

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 net realizable value of fixed assets which were calculated based on net selling price in fiscal 2008 and 2007, and by assessed value of fixed assets which were reflected in market price in fiscal 2006.

## 19. 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, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Cash and time deposits .....	¥158,281	¥216,586	¥165,720	\$1,507,438
Less: Time deposits with maturities over three months .....	(38,439)	(41,794)	(6,423)	(366,086)
Cash equivalents included in marketable securities .....	—	10	10	—
<b>Cash and cash equivalents .....</b>	<b>¥119,842</b>	<b>¥174,802</b>	<b>¥159,307</b>	<b>\$1,141,352</b>

## 20. CASH FLOW FROM ACQUISITION OF CONSOLIDATED SUBSIDIARIES

Details of assets and liabilities when Gyrus Group PLC and other subsidiaries were consolidated, acquisition costs of shares, and payments for acquisition of Gyrus Group PLC for the year ended March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable.....	¥ 7,611	\$ 72,486
Inventories .....	10,033	95,552
Other current assets .....	11,535	109,857
Property, plant and equipment.....	7,508	71,505
Goodwill .....	208,450	1,985,238
Other assets.....	87,591	834,199
Investments and other assets .....	2,927	27,876
Notes and accounts payable .....	(1,635)	(15,571)
Short-term borrowings.....	(28,401)	(270,486)
Other current liabilities .....	(12,352)	(117,638)
Long-term debt .....	(2,293)	(21,838)
Other non-current liabilities .....	(24,737)	(235,590)
Minority interests.....	(124)	(1,181)
Total equity method until consolidation .....	(6,378)	(60,743)
Sub-total: acquisition cost of Gyrus Group PLC and other subsidiaries .....	259,735	2,473,666
Amount owed of purchase price .....	20,468	194,933
Cash and cash equivalents owned by Gyrus Group PLC and other subsidiaries.....	7,033	66,981
Payments for acquisition of Gyrus Group PLC and other subsidiaries .....	¥232,234	\$2,211,752

Since purchase price allocation was based on preliminary estimates of fair value for the year ended March 31, 2008, asset and liability balances were subject to subsequent revisions.

In addition, since there were possibilities to change the purchase price of the companies based on the purchase agreement, goodwill was also subject to subsequent revision.

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
Notes and accounts receivable.....	¥ 2,184
Inventories .....	2,327
Property, plant and equipment.....	2,465
Investments and other assets .....	4,680
Notes and accounts payable .....	(1,224)
Short-term borrowings.....	(2,564)
Other current liabilities .....	(23)
Total.....	¥ 7,845

## 21. 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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
(Equivalent amount)			
Acquisition cost .....	¥10,744	¥10,592	\$102,324
Accumulated depreciation .....	(4,680)	(5,391)	(44,572)
Estimated net book value.....	¥ 6,064	¥ 5,201	\$ 57,752

(Lease payments and pro forma information)	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments .....	¥2,612	¥2,540	\$24,876
Equivalent of depreciation expense.....	2,434	2,377	23,181
Equivalent of interest expense .....	194	159	1,848

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, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
2008 .....	¥2,269	\$21,610
2009 and thereafter.....	3,950	37,619
Total minimum lease payments.....	¥6,219	\$59,229

## 22. 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, currency swaps 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 counterparties 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 counterparty non-performance nor the economic consequences of counterparty 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, 2008 and 2007:

(As of March 31, 2008)	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 .....	¥ 271	¥ —	¥ 273	\$ 2,581	\$ —	\$ 2,600
To buy other currencies .....	2,265	—	2,316	21,571	—	22,057
To sell U.S. dollars .....	27,503	—	27,503	261,933	—	261,933
To sell British pounds .....	3,524	—	3,205	33,562	—	30,524
To sell other currencies .....	1,461	—	1,452	13,914	—	13,829
Foreign exchange option contracts						
Put option .....	6,274	131	475	59,752	1,248	4,524
Interest rate swap contracts .....	250	—	(12)	2,381	—	(114)

(As of March 31, 2007)	Millions of yen		
	Notional amount	Book value	Fair value
Foreign exchange forward contracts			
To buy U.S. dollars .....	¥ 206	¥ —	¥ 206
To buy other currencies.....	1,835	—	1,823
To sell U.S. dollars .....	5,456	—	5,369
To sell British pounds.....	4,235	—	4,175
To sell other currencies.....	4,507	—	4,460
Foreign exchange option contracts			
Put option .....	3,970	72	98
Interest rate swap contracts .....	250	—	(23)

Foreign exchange forward contracts, interest rate swap contracts, currency swap contracts and foreign exchange option contracts for which the hedge accounting is applied, are excluded from 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 interest rate swap contracts and stock-price swap contracts are estimated by obtaining quotes from financial institutions.

## 23. SEGMENTAL INFORMATION

### (a) Information by business segment

Segment information for the years ended March 31, 2008, 2007 and 2006 are shown in the tables below:

Millions of yen								
2008								
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:								
Unaffiliated customers .....	¥320,589	¥353,269	¥131,446	¥254,312	¥ 69,259	¥1,128,875	¥ —	¥1,128,875
Intersegment .....	347	85	219	—	574	1,225	(1,225)	—
Total .....	320,936	353,354	131,665	254,312	69,833	1,130,100	(1,225)	1,128,875
Operating expenses .....	287,850	254,934	124,675	251,311	68,916	987,686	28,566	1,016,252
Operating income .....	33,086	98,420	6,990	3,001	917	142,414	(29,791)	112,623
Assets .....	147,293	537,921	94,916	128,949	151,641	1,060,720	297,629	1,358,349
Depreciation and amortization ..	8,748	10,778	5,943	2,470	4,359	32,298	5,224	37,522
Capital expenditures .....	¥ 10,638	¥ 16,536	¥ 7,792	¥ 3,191	¥ 4,476	¥ 42,633	¥ 7,437	¥ 50,070

Millions of yen								
2007								
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total	Elimination and Corporate	Consolidated Total
Net sales:								
Unaffiliated customers .....	¥294,303	¥311,709	¥123,706	¥267,691	¥64,377	¥1,061,786	¥ —	¥1,061,786
Intersegment .....	455	76	37	—	596	1,164	(1,164)	—
Total .....	294,758	311,785	123,743	267,691	64,973	1,062,950	(1,164)	1,061,786
Operating expenses .....	267,550	223,932	115,664	264,975	64,101	936,222	26,835	963,057
Operating income .....	27,208	87,853	8,079	2,716	872	126,728	(27,999)	98,729
Assets .....	157,693	227,884	94,632	131,069	90,004	701,282	390,518	1,091,800
Depreciation and amortization ..	9,376	6,920	4,828	2,669	2,979	26,772	3,632	30,404
Capital expenditures .....	¥ 7,766	¥ 15,968	¥ 8,020	¥ 3,134	¥ 4,148	¥ 39,036	¥ 5,660	¥ 44,696

Millions of yen								
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 .....	¥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

Thousands of U.S. dollars

	2008							Elimination and Corporate	Consolidated Total
	Imaging Systems Business	Medical Systems Business	Life Science Business	Information and Communication Business	Others	Total			
<b>Net sales:</b>									
Unaffiliated customers .....	\$3,053,229	\$3,364,467	\$1,251,867	\$2,422,019	\$ 659,608	\$10,751,190	\$ —	\$10,751,190	
Intersegment .....	3,304	809	2,085	—	5,469	11,667	(11,667)	—	
<b>Total.....</b>	<b>3,056,533</b>	<b>3,365,276</b>	<b>1,253,952</b>	<b>2,422,019</b>	<b>665,077</b>	<b>10,762,857</b>	<b>(11,667)</b>	<b>10,751,190</b>	
Operating expenses.....	2,741,428	2,427,943	1,187,381	2,393,438	656,343	9,406,533	272,057	9,678,590	
Operating income .....	315,105	937,333	66,571	28,581	8,734	1,356,324	(283,724)	1,072,600	
Assets .....	1,402,790	5,123,057	903,962	1,228,086	1,444,200	10,102,095	2,834,562	12,936,657	
Depreciation and amortization .	83,314	102,648	56,600	23,524	41,514	307,600	49,752	357,352	
Capital expenditures .....	\$ 101,314	\$ 157,486	\$ 74,210	\$ 30,390	\$ 42,629	\$ 406,029	\$ 70,828	\$ 476,857	

Note: 1. 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."

2. In fiscal 2008, these five business segments included the following products :

Imaging Systems Business: 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, Development and sales of business package software, Semiconductor devices, Electric equipment  
 Others: Industrial endoscopes, Non-destructive testing equipment, Printers, Bar code data processing equipment, Software development, etc.

3. In fiscal 2007, these five business segments included the following products :

Imaging Systems Business: Digital cameras, Film 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, Development and sales of business package software, Semiconductor devices, Electric equipment  
 Others: Industrial endoscopes, Non-destructive testing equipment, Printers, Bar code data processing equipment, Software development, etc.

4. In fiscal 2006, these five business segments included the following products :

Imaging Systems Business: Digital cameras, Film 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.

(b) Information by geographic location

	Millions of yen							
	2008						Elimination and Corporate	Consolidated Total
	Japan	America	Europe	Asia	Total			
<b>Net sales:</b>								
Unaffiliated customers .....	¥484,146	¥259,137	¥299,667	¥ 85,925	¥1,128,875	¥ —	¥1,128,875	
Intersegment .....	341,219	10,675	13,318	110,410	475,622	(475,622)	—	
<b>Total.....</b>	<b>825,365</b>	<b>269,812</b>	<b>312,985</b>	<b>196,335</b>	<b>1,604,497</b>	<b>(475,622)</b>	<b>1,128,875</b>	
Operating expenses.....	734,203	250,022	290,863	185,801	1,460,889	(444,637)	1,016,252	
Operating income .....	91,162	19,790	22,122	10,534	143,608	(30,985)	112,623	
Assets .....	¥615,009	¥364,099	¥228,072	¥121,033	¥1,328,213	¥ 30,136	¥1,358,349	

	Millions of yen							
	2007						Elimination and Corporate	Consolidated Total
	Japan	America	Europe	Asia	Total			
<b>Net sales:</b>								
Unaffiliated customers .....	¥474,372	¥242,760	¥270,824	¥ 73,830	¥1,061,786	¥ —	¥1,061,786	
Intersegment .....	301,331	7,606	11,238	100,867	421,042	(421,042)	—	
<b>Total.....</b>	<b>775,703</b>	<b>250,366</b>	<b>282,062</b>	<b>174,697</b>	<b>1,482,828</b>	<b>(421,042)</b>	<b>1,061,786</b>	
Operating expenses.....	692,809	228,982	263,249	165,500	1,350,540	(387,483)	963,057	
Operating income .....	82,894	21,384	18,813	9,197	132,288	(33,559)	98,729	
Assets .....	¥325,012	¥122,676	¥186,165	¥116,206	¥ 750,059	¥ 341,741	¥1,091,800	

Millions of yen							
2006							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
<b>Net sales:</b>							
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)	—
<b>Total .....</b>	<b>738,236</b>	<b>216,266</b>	<b>237,710</b>	<b>143,128</b>	<b>1,335,340</b>	<b>(357,213)</b>	<b>978,127</b>
Operating expenses .....	677,714	200,438	225,604	143,099	1,246,855	(331,251)	915,604
Operating income .....	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

Thousands of U.S. dollars							
2008							
	Japan	America	Europe	Asia	Total	Elimination and Corporate	Consolidated Total
<b>Net sales:</b>							
Unaffiliated customers .....	\$4,610,914	\$2,467,971	\$2,853,971	\$ 818,334	\$10,751,190	\$ —	\$10,751,190
Intersegment .....	3,249,705	101,667	126,838	1,051,523	4,529,733	(4,529,733)	—
<b>Total .....</b>	<b>7,860,619</b>	<b>2,569,638</b>	<b>2,980,809</b>	<b>1,869,857</b>	<b>15,280,923</b>	<b>(4,529,733)</b>	<b>10,751,190</b>
Operating expenses .....	6,992,409	2,381,162	2,770,123	1,769,534	13,913,228	(4,234,638)	9,678,590
Operating income .....	868,210	188,476	210,686	100,323	1,367,695	(295,095)	1,072,600
Assets .....	\$5,857,229	\$3,467,610	\$2,172,114	\$1,152,695	\$12,649,648	\$ 287,009	\$12,936,657

Notes: 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
	2008	2007	2006	2008
Export sales (A) .....	¥ 708,648	¥ 647,040	¥601,181	\$ 6,749,029
to North America .....	240,254	229,235	224,283	2,288,133
to Europe .....	303,110	278,514	247,857	2,886,762
to Asia .....	138,873	114,404	96,081	1,322,600
to Other areas .....	26,411	24,887	32,960	251,534
Net sales (B) .....	¥1,128,875	¥1,061,786	¥978,127	\$10,751,190
A/B (%) .....	62.8%	60.9%	61.5%	62.8%

Notes: 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.

## 24. RELATED PARTIES

Significant transactions with related parties in the years ended March 31, 2008 and 2007 were as follows.

#### G.C. New Vision Ventures, L.P. (an unconsolidated subsidiary)

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Refund of Investment .....	¥13,911	¥ —	\$132,486

## 25. SUBSEQUENT EVENTS

The directors' meeting held on May 8, 2008 approved the acquisition of treasury stock in accordance with Article 156 applied by reading of terms pursuant to the provisions of Article 165(3) of the Japanese Corporate Law. The details were as follows:

Class of shares: Common stock

Number of shares: Limited to 3,500,000 shares

Cost of share acquisitions: Limited to ¥10,000 million (\$95,238 thousand)

Period of acquisitions: From May 9, 2008 to June 20, 2008

Method of purchase: From market

The company repurchased 2,958,000 shares of treasury stock at an acquisition cost of ¥9,998 million (\$95,219 thousand) at Tokyo Stock Exchange from May 9, 2008 to June 20, 2008.

# INDEPENDENT AUDITORS' REPORT

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, 2008 and 2007, the related consolidated statements of income for each of the three years in the period ended March 31, 2008, the consolidated statements of changes in net assets for the year ended March 31, 2008 and 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2008, 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 consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, 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 23, effective April 1, 2005, Olympus Corporation changed the categories of business in the business segments.
- (3) As discussed in Note 2, effective April 1, 2006, Olympus Corporation adopted new accounting standards for retirement benefits for subsidiaries in the United States.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008