

FINANCIAL SECTION SEGMENT INFORMATION

① Industry Segments

For the year ended March 31, 1998

(Millions of Yen, Thousands of U.S. Dollars)

	Net sales			Operating expenses	Operating income (loss)	Assets	Depreciation and amortization		Capital expenditures
	Outside Customers	Intersegment sales/transfer	Total						
Consumer products	¥ 130,266	¥ —	¥ 130,266	¥ 127,924	¥ 2,341	¥ 113,607	¥ 5,513	¥ 6,664	
	\$ 986,119	\$ —	\$ 986,119	\$ 968,391	\$ 17,728	\$ 860,012	\$ 41,739	\$ 50,452	
Industrial instruments	¥ 241,879	¥ —	¥ 241,879	¥ 216,744	¥ 25,135	¥ 341,462	¥ 12,893	¥ 19,504	
	\$ 1,831,033	\$ —	\$ 1,831,033	\$ 1,640,760	\$ 190,273	\$ 2,584,876	\$ 97,607	\$ 147,646	
Total	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 455,069	¥ 18,407	¥ 26,168	
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,444,888	\$ 139,346	\$ 198,098	
(Eliminations) or Corporate	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 52,257	¥ —	¥ —	
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 395,587	\$ —	\$ —	
Consolidated	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 507,326	¥ 18,407	¥ 26,168	
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,840,475	\$ 139,346	\$ 198,098	
For the year ended March 31, 1997									
Consumer products	¥ 131,282	¥ —	¥ 131,282	¥ 136,803	¥ (5,521)	¥ 120,581	¥ 6,277	¥ 12,034	
Industrial instruments	247,806	—	247,806	195,372	52,433	278,267	9,358	21,722	
Total	379,089	—	379,089	332,176	46,912	398,849	15,635	33,757	
(Eliminations) or Corporate	—	—	—	—	—	61,422	—	—	
Consolidated	¥ 379,089	¥ —	¥ 379,089	¥ 332,176	¥ 46,912	¥ 460,271	¥ 15,635	¥ 33,757	
For the year ended March 31, 1996									
Consumer products	¥ 106,918	¥ —	¥ 106,918	¥ 113,617	¥ (6,698)	¥ 107,860	¥ 5,474	¥ 6,216	
Industrial instruments	225,881	—	225,881	169,903	55,977	263,471	8,241	10,989	
Total	332,799	—	332,799	283,520	49,279	371,332	13,715	17,206	
(Eliminations) or Corporate	—	—	—	—	—	53,751	—	—	
Consolidated	¥ 332,799	¥ —	¥ 332,799	¥ 283,520	¥ 49,279	¥ 425,083	¥ 13,715	¥ 17,206	

② Geographic Segments

For the year ended March 31, 1998

(Millions of Yen, Thousands of U.S. Dollars)

	Net sales			Operating expenses	Operating income (loss)	Assets
	Outside Customers	Intersegment sales	Total			
Japan	¥ 220,553	¥ 96,716	¥ 317,270	¥ 299,492	¥ 17,778	¥ 377,864
	\$ 1,669,596	\$ 732,148	\$ 2,401,744	\$ 2,267,164	\$ 134,580	\$ 2,860,446
North America	¥ 101,313	¥ 280	¥ 101,594	¥ 93,205	¥ 8,388	¥ 65,290
	\$ 766,947	\$ 2,124	\$ 769,071	\$ 705,567	\$ 63,504	\$ 494,253
Europe	¥ 50,235	¥ 87	¥ 50,323	¥ 49,289	¥ 1,033	¥ 34,219
	\$ 380,281	\$ 665	\$ 380,946	\$ 373,122	\$ 7,824	\$ 259,044
Asia	¥ 43	¥ 7,153	¥ 7,196	¥ 4,773	¥ 2,423	¥ 5,941
	\$ 328	\$ 54,151	\$ 54,479	\$ 36,135	\$ 18,344	\$ 44,976
Total	¥ 372,145	¥ 104,238	¥ 476,384	¥ 446,760	¥ 29,623	¥ 483,316
	\$ 2,817,152	\$ 789,088	\$ 3,606,240	\$ 3,381,988	\$ 224,252	\$ 3,658,719
(Eliminations) or Corporate	¥ —	¥ 104,238	¥ (104,238)	¥ (102,091)	¥ (2,146)	¥ 24,010
	\$ —	\$ 789,088	\$ (789,088)	\$ (772,837)	\$ (16,251)	\$ 181,756
Consolidated	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 507,326
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,840,475
For the year ended March 31, 1997						
Japan	¥ 238,430	¥ 83,945	¥ 322,376	¥ 288,181	¥ 34,194	¥ 304,755
Overseas	140,658	8,859	149,517	135,742	13,775	100,941
Total	379,089	92,805	471,894	423,923	47,970	405,696
(Eliminations) or Corporate	—	(92,805)	(92,805)	(91,747)	(1,057)	54,574
Consolidated	¥ 379,089	¥ —	¥ 379,089	¥ 332,176	¥ 46,912	¥ 460,271
For the year ended March 31, 1996						
Japan	¥ 224,572	¥ 63,203	¥ 287,775	¥ 247,016	¥ 40,759	¥ 309,032
Overseas	108,227	5,451	113,678	104,102	9,576	69,458
Total	332,799	68,654	401,454	351,118	50,335	378,490
(Eliminations) or Corporate	—	(68,654)	(68,654)	(67,598)	(1,056)	46,592
Consolidated	¥ 332,799	¥ —	¥ 332,799	¥ 283,520	¥ 49,279	¥ 425,083

③ Export Sales

For the years ended March 31, 1998, 1997 and 1996

(Millions of Yen, Thousands of U.S. Dollars, %)

	1998					1997	1996
	North America	Europe	Asia	Other areas	Total	Total	Total
Export sales (A)	¥ 99,830 \$755,723	¥ 59,794 \$452,649	¥ 54,453 \$412,215	¥ 7,080 \$53,602	¥ 221,160 \$1,674,189	¥215,752	¥176,829
Net sales (B)					¥ 372,145 \$2,817,152	¥379,089	¥332,799
(A)/(B)	26.8%	16.1%	14.6%	1.9%	59.4%	56.9%	53.1%

Note: U.S. dollar figures are translated for reference only at ¥132.10 to \$1.00, the exchange rate at March 31, 1998.

SIX-YEAR SUMMARY

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31

	Millions of Yen						Thousands of U.S. Dollars
	1998	1997	1996	1995	1994	1993	1998
For the year							
Net sales	¥372,145	¥379,089	¥332,799	¥288,485	¥246,165	¥231,924	\$2,817,152
Cost of sales	224,545	219,791	188,726	187,344	167,084	155,356	1,699,818
SG&A expenses	120,122	112,385	94,793	82,235	78,844	84,094	909,333
Operating income (loss)	27,476	46,912	49,279	18,905	236	(7,526)	208,001
Income (loss) before income taxes*	18,812	36,711	35,238	7,621	(2,610)	(8,656)	142,415
Net income (loss)	8,318	19,936	18,581	1,535	(4,357)	(8,813)	62,971
Amounts per share (yen and U.S. dollars):							
Net income (loss)	¥ 22.48	¥ 53.89	¥ 50.23	¥ 4.15	¥ (11.78)	¥ (23.82)	\$ 0.17
Cash dividends	8.00	8.00	6.50	5.00	5.00	7.00	0.06
Capital expenditures	¥ 26,168	¥ 33,757	¥ 17,206	¥ 8,054	¥ 7,387	¥ 9,082	\$ 198,098
Depreciation and amortization	18,407	15,635	13,715	14,708	13,982	14,652	139,346
R&D expenditures	21,633	19,681	16,951	12,050	10,266	11,762	163,764
At year-end							
Total assets	¥507,326	¥460,271	¥425,083	¥371,390	¥377,306	¥364,717	\$3,840,475
Shareholders' equity	171,051	165,773	148,657	132,505	135,799	142,508	1,294,861

* Excluding minority interest and equity in earnings (losses) of unconsolidated subsidiaries and associated companies.

Notes: 1. Amounts per share are computed based on the weighted average number of shares outstanding during the year.

2. U.S. dollar figures are translated for reference only at ¥132.10 to \$1.00, the exchange rate at March 31, 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Operating Environment

In fiscal 1998, ended March 31, 1998, demand in the United States remained buoyant thanks to strong consumer spending and capital investment, while the economies of Europe staged an overall recovery in advance of the impending European Community currency unification. However, financial and currency crises in certain countries in Asia dampened economic growth in the region. In Japan, the increasing instability of the financial system and the downward trend in public-sector capital investment, along with a drop in consumer spending and housing starts in the wake of a rise in the consumption tax rate toward the end of the fiscal term, succeeded in pushing the economy further into recession.

In consumer products, the positive effects of the yen's depreciation helped boost sales of such products as cameras and ophthalmic equipment in overseas markets. However, the domestic market remained severe as a result of strong price competition. In addition, sales of industrial instruments, including semiconductor manufacturing related equipment, microscopes, and measuring equipment remained hampered by a lackluster market for semiconductors and constraints on investment in capital equipment.

Operational Review and Analysis

In fiscal 1998, consolidated net sales fell 1.8%, or ¥6.9 billion, to ¥372.1 billion. During the fiscal year, the Nikon Group worked to strengthen and expand its manufacturing, sales, and service functions, endeavored to develop new products and technologies, reorganized both management and overall organizational structures with the aim of increasing the efficiency and speed of operations, and implemented a number of programs to improve productivity across the board. Despite these efforts, net income in fiscal 1998 dropped 58.3%, or ¥11.6 billion, to ¥8.3 billion, amid an increasingly harsh operating environment.

By industry segment, while sales in consumer products operations decreased a slight 0.8%, to ¥130.2 billion, operating income amounted to ¥2.3 billion, a substantial improvement compared with the previous fiscal year. Sales of industrial instruments fell 2.4%, to ¥241.8 billion, with operating income in this division totaling ¥25.1 billion.

By geographic segment, sales in Japan dropped 1.6%, to ¥317.2 billion, and operating income totaled ¥17.7 billion. Overseas sales rose 6.4%, to ¥159.1 billion, and operating income reached ¥11.8 billion.

Net Sales by Industry Segment

For the years ended March 31, 1998, 1997 and 1996

	(Millions of Yen, %)		
	1998	1997	1996
Consumer products	¥130,266	¥131,282	¥106,918
Share of net sales	35.0%	34.6%	32.1%
Industrial instruments	241,879	247,806	225,881
Share of net sales	65.0	65.4	67.9
Total	¥372,145	¥379,089	¥332,799

Non-Consolidated Net Sales by Sector

This breakdown is provided as an approximate indication of the share of non-consolidated net sales by sector.

For the years ended March 31, 1998, 1997 and 1996

	(% of Non-Consolidated Net Sales)		
	1998	1997	1996
Cameras	26.8%	23.6%	21.3%
Ophthalmic products	5.6	5.5	5.7
Semiconductor manufacturing related equipment	53.5	57.6	60.6
Microscopes and measuring instruments	8.0	6.7	6.4
Surveying instruments and others	6.1	6.6	6.0

Regional Breakdown of Non-Consolidated Net Sales

This breakdown is provided for reference only.

For the years ended March 31, 1998, 1997 and 1996

	(% of Non-Consolidated Net Sales)		
	1998	1997	1996
Domestic	43.6%	46.7%	49.2%
Export (total):	56.4	53.3	50.8
North America	22.1	15.5	15.4
Europe	14.4	15.4	11.7
Asia and Oceania	19.8	22.3	23.6
Other areas	0.1	0.1	0.1

Financial Review and Analysis

At fiscal year-end, total assets stood at ¥507.3 billion, up ¥47.0 billion, or 10.2%, from the previous fiscal year-end. Expanded inventories and a rise in sales credits pushed up total current assets 12.8%. In addition, capital investment related to restructuring of the Company's operations caused a 5.2% rise in net property, plant and equipment.

On the liabilities side, Nikon redeemed ¥15.0 billion in bonds during the fiscal year and issued ¥20.0 billion in new bonds, which—coupled with an increase in short-term borrowings—resulted in growth in total liabilities of ¥41.7 billion at the end of fiscal 1998.

Dividends paid in fiscal 1998 amounted to ¥2.9 billion, while net income totaled ¥8.3 billion and shareholders' equity rose ¥5.2 billion as of the end of the fiscal year.

Income Analysis

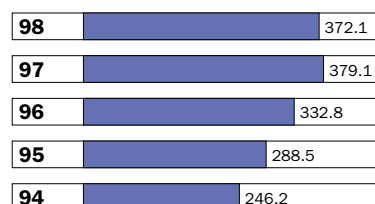
For the years ended March 31, 1998, 1997 and 1996

	(% of Net Sales)		
	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of sales	(60.3)	(58.0)	(56.7)
Gross profit	39.7	42.0	43.3
SG&A expenses	(32.3)	(29.6)	(28.5)
Operating income	7.4	12.4	14.8
Net interest expense and dividend income	(1.3)	(1.4)	(1.7)
Net other income (expenses)	(1.0)	(1.3)	(2.5)
Income before income taxes*	5.1	9.7	10.6
Income taxes	(2.9)	(4.4)	(5.0)
Minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	0.0	0.0	0.0
Net income	2.2	5.3	5.6

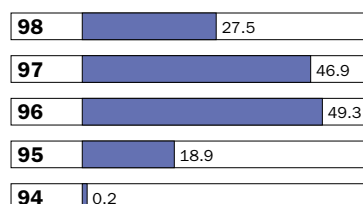
* Excluding minority interest and equity in earnings of unconsolidated subsidiaries and associated companies

Note: All expenses and subtractive amounts are in parentheses.

■ Net Sales (¥Billion)



■ Operating Income (¥Billion)

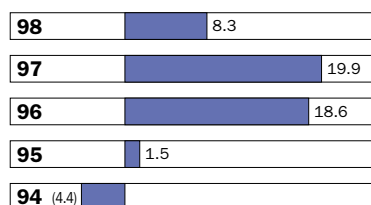


Balance Sheet Analysis

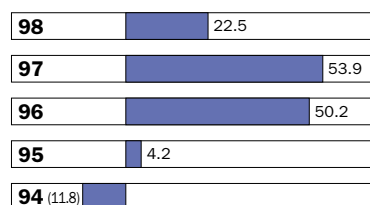
At March 31, 1998, 1997 and 1996

	(% of Total Assets)		
	1998	1997	1996
Total assets	100.0%	100.0%	100.0%
Total current assets	69.0	67.4	68.9
Inventories	30.4	26.1	27.3
Property, plant and equipment	20.5	21.5	19.1
Investments and other assets	10.5	11.1	12.0
Total current liabilities	46.5	44.8	43.2
Short-term borrowings	20.5	15.3	11.5
Long-term debt, less current portion	19.4	18.7	21.4
Shareholders' equity	33.7	36.0	35.0

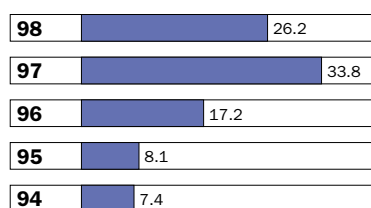
■ Net Income (Loss) (¥ Billion)



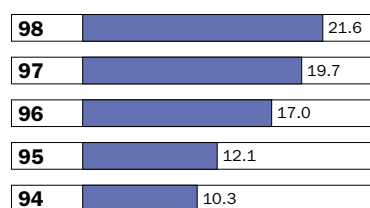
■ Net Income (Loss) per Share (¥)



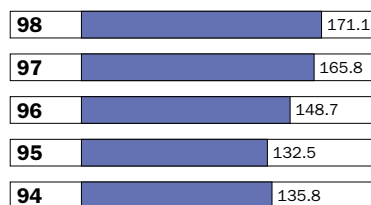
■ Capital Expenditures (¥ Billion)



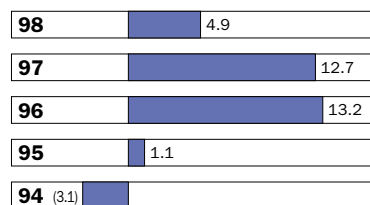
■ R&D Expenditures (¥ Billion)



■ Shareholders' Equity (¥ Billion)



■ Return on Equity (%)



CONSOLIDATED BALANCE SHEETS

Nikon Corporation and Consolidated Subsidiaries
At March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
ASSETS			
Current assets			
Cash and time deposits	¥ 18,290	¥ 22,992	\$ 138,463
Marketable securities (Notes 3 and 5)	21,851	27,569	165,420
Notes and accounts receivable—trade (Note 5):			
Customers	140,521	125,917	1,063,753
Unconsolidated subsidiaries and associated companies	2,534	2,704	19,189
Allowance for doubtful receivables	(3,001)	(1,933)	(22,723)
Inventories (Note 4)	154,368	120,175	1,168,576
Deferred income taxes	3,955	3,391	29,943
Other current assets	11,582	9,515	87,678
Total current assets	<u>350,104</u>	<u>310,332</u>	<u>2,650,299</u>
Property, plant and equipment (Note 5)			
Land	15,236	15,039	115,344
Buildings and structures	83,461	78,912	631,805
Machinery and equipment	150,725	140,909	1,140,993
Construction in progress	6,284	6,879	47,573
Accumulated depreciation	(151,792)	(142,972)	(1,149,070)
Net property, plant and equipment	<u>103,915</u>	<u>98,768</u>	<u>786,645</u>
Investments and other assets			
Investments in securities (Notes 3 and 5)	32,794	32,783	248,256
Investments in unconsolidated subsidiaries and associated companies (Note 3)	3,166	2,726	23,967
Other investments	14,157	11,290	107,176
Long-term loans:			
Employees and other	1,782	1,949	13,497
Unconsolidated subsidiaries and associated companies	233	268	1,766
Allowance for doubtful receivables	(522)	(31)	(3,954)
Other assets	1,693	2,181	12,823
Total investments and other assets	<u>53,306</u>	<u>51,170</u>	<u>403,531</u>
Total	<u>¥507,326</u>	<u>¥460,271</u>	<u>\$3,840,475</u>

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Notes 5 and 6)	¥104,049	¥ 70,402	\$ 787,659
Current portion of long-term debt (Notes 5 and 7)	13,676	23,935	103,534
Notes and accounts payable—trade:			
Suppliers	71,105	56,099	538,268
Unconsolidated subsidiaries and associated companies	871	1,715	6,599
Accrued income taxes	5,290	8,894	40,051
Accrued expenses	25,868	26,044	195,827
Other current liabilities (Note 5)	14,962	18,932	113,263
Total current liabilities	<u>235,825</u>	<u>206,023</u>	<u>1,785,201</u>
Long-term liabilities			
Long-term debt (Notes 5 and 7)	98,495	86,104	745,609
Liability for severance indemnities	1,312	1,367	9,938
Deferred income taxes	246	562	1,862
Other long-term liabilities	316	375	2,397
Total long-term liabilities	<u>100,370</u>	<u>88,409</u>	<u>759,806</u>
Minority interest	<u>80</u>	<u>64</u>	<u>607</u>
Contingent liabilities (Note 12)			
Shareholders' equity			
Common stock (Note 9):			
¥50 par value per share			
Authorized—1,000,000,000 shares			
Issued and outstanding—369,927,584 shares at March 31, 1998 and 1997	36,660	36,660	277,523
Additional paid-in capital (Note 9)	51,909	51,909	392,957
Legal reserve (Notes 10 and 14)	4,814	4,511	36,449
Retained earnings (Notes 11 and 14)	77,669	72,698	587,962
Total shareholders' equity	<u>171,055</u>	<u>165,781</u>	<u>1,294,891</u>
Treasury stock, at cost:			
3,281 shares at March 31, 1998			
4,223 shares at March 31, 1997	4	7	30
	<u>171,051</u>	<u>165,773</u>	<u>1,294,861</u>
Total	<u>¥507,326</u>	<u>¥460,271</u>	<u>\$3,840,475</u>

CONSOLIDATED STATEMENTS OF INCOME

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1998	1997	1996	1998
Net sales	¥372,145	¥379,089	¥332,799	\$2,817,152
Cost of sales	224,545	219,791	188,726	1,699,818
Gross profit	147,599	159,298	144,072	1,117,334
Selling, general and administrative expenses	120,122	112,385	94,793	909,333
Operating income	27,476	46,912	49,279	208,001
Other income (expenses)				
Interest and dividend income	1,089	1,197	1,270	8,251
Interest expense	(5,953)	(6,608)	(7,056)	(45,069)
Other, net	(3,800)	(4,790)	(8,255)	(28,768)
	(8,663)	(10,201)	(14,041)	(65,586)
Income before income taxes, minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	18,812	36,711	35,238	142,415
Income taxes (Note 8)				
Current	11,429	16,719	17,732	86,520
Deferred	(831)	72	(1,019)	(6,297)
	10,597	16,792	16,713	80,223
Income before minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	8,215	19,919	18,524	62,192
Minority interest	13	11	22	102
Equity in earnings of unconsolidated subsidiaries and associated companies	116	29	79	881
Net income	¥ 8,318	¥ 19,936	¥ 18,581	\$ 62,971
		Yen		U.S. Dollars (Note 1)
Amounts per share (Note 2 (I)):				
Net income	¥ 22.48	¥ 53.89	¥ 50.23	\$ 0.17
Cash dividends applicable to the year	8.00	8.00	6.50	0.06

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Number of Shares			
	1998	1997	1996	
Shares of common stock (Note 9)				
Balance at beginning of year	369,927,584	369,927,584	369,927,584	
Balance at end of year	369,927,584	369,927,584	369,927,584	
				Thousands of U.S. Dollars (Note 1)
	Millions of Yen			
	1998	1997	1996	1998
Common stock (Note 9)				
Balance at beginning of year	¥36,660	¥36,660	¥36,660	\$277,523
Balance at end of year	¥36,660	¥36,660	¥36,660	\$277,523
Additional paid-in capital (Note 9)				
Balance at beginning of year	¥51,909	¥51,909	¥51,909	\$392,957
Balance at end of year	¥51,909	¥51,909	¥51,909	\$392,957
Legal reserve (Notes 10 and 14)				
Balance at beginning of year	¥ 4,511	¥ 4,228	¥ 3,930	\$ 34,155
Transfer from retained earnings	302	282	297	2,294
Balance at end of year	¥ 4,814	¥ 4,511	¥ 4,228	\$ 36,449
Retained earnings (Notes 11 and 14)				
Balance at beginning of year	¥72,698	¥55,859	¥40,004	\$550,332
Net income	8,318	19,936	18,581	62,971
Cash dividends	(2,959)	(2,774)	(2,959)	(22,403)
Bonuses to directors and corporate auditors	(40)	(40)	(20)	(302)
Transfer to legal reserve	(302)	(282)	(297)	(2,294)
Adjustment due to increase (decrease) in consolidated subsidiaries	(45)	—	550	(342)
Balance at end of year	¥77,669	¥72,698	¥55,859	\$587,962

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1998	1997	1996	1998
Cash flows from operating activities				
Net income	¥ 8,318	¥19,936	¥18,581	\$ 62,971
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	18,407	15,635	13,715	139,346
Loss on sales or disposal of property, plant and equipment	546	910	1,228	4,140
Deferred income taxes	(880)	72	(1,080)	(6,665)
Equity in earnings of unconsolidated subsidiaries and associated companies	(116)	(29)	(79)	(881)
Other	2,571	(452)	853	19,468
Total adjustments	20,529	16,137	14,637	155,408
Changes in assets and liabilities:				
Increase in notes and accounts receivable—trade	(14,434)	(3,219)	(32,930)	(109,267)
Increase in inventories	(34,193)	(3,946)	(17,384)	(258,847)
Increase (decrease) in notes and accounts payable—trade and accrued expenses	13,987	(445)	15,810	105,882
Increase (decrease) in accrued income taxes	(3,603)	(6,060)	10,878	(27,279)
Other	(3,521)	475	5,950	(26,659)
Total change in assets and liabilities	(41,766)	(13,197)	(17,675)	(316,170)
Total reconciling items	(21,236)	2,940	(3,038)	(160,762)
Net cash provided by (used in) operating activities	(12,918)	22,877	15,543	(97,791)
Cash flows from investing activities				
Capital expenditures	(26,168)	(33,757)	(14,740)	(198,098)
Decrease (increase) in loans receivable	708	1,848	(1,521)	5,362
Payment for purchase of investments in securities	(1,948)	(3,280)	(10,411)	(14,753)
Other	(2,969)	6,323	16,586	(22,477)
Net cash used in investing activities	(30,378)	(28,866)	(10,087)	(229,966)
Cash flows from financing activities				
Proceeds from long-term debt	26,252	18,346	21,591	198,731
Repayment of long-term debt	(24,790)	(23,089)	(9,180)	(187,667)
Increase (decrease) in short-term borrowings	33,646	21,402	(704)	254,707
Dividends paid	(2,959)	(2,774)	(2,959)	(22,403)
Other	(40)	(40)	(12,708)	(303)
Net cash provided by (used in) financing activities	32,108	13,845	(3,961)	243,065
Net increase (decrease) in cash and cash equivalents	(11,187)	7,856	1,494	(84,692)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	768	—	177	5,821
Cash and cash equivalents at beginning of year	50,561	42,705	41,034	382,754
Cash and cash equivalents at end of year	¥40,142	¥50,561	¥42,705	\$303,883
Supplemental information of cash flows				
Cash paid during the year for:				
Interest expense	¥ 4,693	¥ 6,284	¥ 6,663	\$ 35,530
Income taxes	13,025	23,488	8,557	98,601
Non-cash financing activities				
Assets increased by newly consolidated subsidiaries	¥ 959	¥ —	¥ 154	\$ 7,262
Liabilities increased by newly consolidated subsidiaries	69	—	24	523

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries

① *Basis of Presentation of Consolidated Financial Statements*

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The consolidated statements of cash flows are not required as a part of the basic financial statements in Japan but are presented herein as additional information.

In accordance with the Securities and Exchange Law, the Japanese yen amounts are presented in millions of yen and are rounded down to the nearest million yen. Certain totals may not correspond exactly to the addition of a column due to such rounding down.

U.S. dollar amounts are shown solely for the convenience of readers and are translated at the rate of ¥132.10 to \$1.00, the exchange rate prevailing at March 31, 1998.

② *Significant Accounting Policies*

(a) Consolidation Policies

The consolidated financial statements include the accounts of Nikon Corporation (the Company) and all of its significant majority-owned domestic and foreign subsidiaries.

All significant intercompany accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

The excess of cost of investments in consolidated subsidiaries over the equity in net assets at the time of acquisition is amortized on a straight-line basis over five years.

The fiscal years of all consolidated subsidiaries end on March 31, the fiscal year-end of the Company.

Investments in certain unconsolidated subsidiaries and 20%- to 50%-owned associated companies are accounted for by the equity method. The excess of cost of investments in such unconsolidated subsidiaries and associated companies over the equity in net assets at the time of acquisition is amortized on a straight-line basis over five years.

(b) Translation of Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rates. The differences resulting from such translations are reflected in the accompanying consolidated balance sheets as Investments and other assets, "Other assets."

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits and marketable securities presented in current assets.

(d) Marketable Securities and Investments in Securities

Marketable securities and investments in securities are stated principally at cost, cost being determined using the moving-average method.

(e) Inventories

Inventories of the Company and domestic consolidated subsidiaries are stated at cost, cost being determined principally using the average method. Cost for work in process is determined primarily by the specific identification method. Inventories of foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined principally using the first-in, first-out method.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and domestic consolidated subsidiaries is computed using the declining-balance method at rates based on the estimated useful lives of the assets.

Depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed using the straight-line method at rates based on the estimated useful lives of the assets.

Major renewals and improvements are capitalized. Normal repair and maintenance expenses are charged to income as incurred.

(g) Liability for Severance Indemnities and Pension Plans

The Company, foreign consolidated subsidiaries and certain domestic consolidated subsidiaries have funded pension plans which cover substantially all of their employees. Pension costs are charged to income as accrued.

Other domestic consolidated subsidiaries have unfunded severance payment plans which provide lump-sum severance indemnities to substantially all of their employees terminating their employment. The amounts of the indemnities are based generally on years of service and the rate of pay at the time of termination. These subsidiaries record provisions for such indemnities in accordance with applicable tax regulations.

(h) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(i) Income Taxes

The Company does not provide for deferred income taxes resulting from temporary differences between income calculated for taxation and accounting purposes, except that deferred taxes are recognized with respect to the elimination of unrealized intercompany profits or losses and certain other adjustments relating to consolidation of subsidiaries' accounts.

(j) Research and Development Costs

Expenditures for research and development activities are charged to income as incurred.

(k) Stock Splits

The Commercial Code of Japan permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a "stock split" to shareholders to the extent that the aggregate par value of the shares to be distributed does not exceed the excess of the common stock account over the par value of shares issued and outstanding and to the extent that net assets per share exceed ¥50 after a stock split.

(l) Amounts per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not disclosed because it is anti-dilutive.

Dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved, but applicable to the year then ended.

③ *Marketable Securities and Investments in Securities*

Marketable securities at March 31, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Marketable equity securities	¥15,568	¥16,008	\$117,857
Bank debentures and other	6,283	11,560	47,563
	¥21,851	¥27,569	\$165,420

Investments in securities at March 31, 1998 and 1997 were principally equity securities with market quotations as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Equity securities	¥32,724	¥32,672	\$247,726
Trust bonds, debentures and other	70	111	530
	¥32,794	¥32,783	\$248,256

Investments in unconsolidated subsidiaries and associated companies at March 31, 1998 and 1997 were all equity securities as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Unconsolidated subsidiaries	¥2,816	¥2,545	\$21,323
Associated companies	349	181	2,644
	¥3,166	¥2,726	\$23,967

The carrying amounts and market values of marketable securities (current) and investments in securities (non-current) at March 31, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current (market value available):			
Carrying amount	¥16,285	¥24,568	\$123,283
Market value	27,380	40,238	207,270
Net unrealized gains	¥11,094	¥15,669	\$ 83,987
Non-current (market value available):			
Carrying amount	¥31,446	¥31,094	\$238,052
Market value	43,556	47,641	329,720
Net unrealized gains	¥12,109	¥16,546	\$ 91,668

The difference between the above carrying amounts and the amounts shown in the accompanying balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

4 Inventories

Inventories at March 31, 1998 and 1997 were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Finished and semifinished products	¥ 66,210	¥ 47,349	\$ 501,217
Raw materials and supplies	12,675	12,324	95,956
Work in process	75,482	60,501	571,403
	¥154,368	¥120,175	\$1,168,576

5 Pledged Assets

The following assets were pledged as collateral at March 31, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable—trade	¥14,676	\$111,100
Property, plant and equipment (net of accumulated depreciation)	517	3,916
Marketable securities and investments in securities	6,618	50,106
	¥21,812	\$165,122

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 9,297	\$ 70,378
Other current liabilities	376	2,846
Long-term debt, including current portion	4,950	37,476
	¥14,623	\$110,700

6 Short-Term Borrowings

Short-term borrowings at March 31, 1998 and 1997 were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Short-term loans, principally from banks:			
1998, 1.01563%–6.58125%	¥ 64,049	¥65,402	\$484,858
1997, 0.8075%–6.3125%			
Commercial paper:			
1998, 0.9060%–1.5600%	40,000	5,000	302,801
1997, 0.5449%–0.5810%			
	¥104,049	¥70,402	\$787,659

7 Long-Term Debt

Long-term debt at March 31, 1998 and 1997 was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Loans, principally from banks and insurance companies:			
1998, 1.32%–9.185% due 1998–2004			
1997, 1.31%–9.185% due 1997–2004	¥ 22,171	¥ 25,039	\$167,843
Bonds	90,000	85,000	681,300
	112,171	110,039	849,143
Less: Current portion	(13,676)	(23,935)	(103,534)
Long-term debt, less current portion	¥ 98,495	¥ 86,104	\$745,609

The aggregate annual maturities of long-term debt for the years following March 31, 1998 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 13,676	\$103,534
2000	11,838	89,618
2001	16,213	122,734
2002	23,532	178,138
2003	15,007	113,604
Thereafter	31,904	241,515
	¥112,171	\$849,143

The following is a summary of the terms of bonds which the Company and/or any subsidiary may at any time purchase at any price in the open market or otherwise.

The bonds purchased or otherwise acquired by the Company and/or any subsidiary may be held or resold or, at the discretion of the Company and/or such subsidiary, may be canceled (together with any unmatured coupons attached thereto or purchased therewith).

	Issued in	To be redeemed in	Millions of Yen		Thousands of U.S. Dollars
			1998	1997	1998
6.05% Euro-yen unsecured bonds	July 1992	October 1997	¥ —	¥10,000	\$ —
6.2% Euro-yen unsecured bonds	July 1992	October 1999	10,000	10,000	75,700
6.1% Euro-yen unsecured bonds	August 1992	November 1997	—	5,000	—
4.85% Euro-yen unsecured bonds	September 1994	December 2001	10,000	10,000	75,700
4.4% yen unsecured bonds	January 1995	January 2001	10,000	10,000	75,700
4.0% yen unsecured bonds	January 1995	January 1999	10,000	10,000	75,700
2.95% yen unsecured bonds	February 1996	February 2003	10,000	10,000	75,700
2.7% yen unsecured bonds	February 1996	February 2002	10,000	10,000	75,700
2.45% yen unsecured bonds	March 1997	March 2004	10,000	10,000	75,700
2.7% yen unsecured bonds	June 1997	June 2003	10,000	—	75,700
2.5% yen unsecured bonds	November 1997	November 2007	10,000	—	75,700
			¥90,000	¥85,000	\$681,300

8 Income Taxes

The Company is subject to a number of taxes based on income, such as corporate income tax, inhabitants tax and enterprise tax, which in the aggregate resulted in a normal statutory tax rate of approximately 51% for 1998 and 1997. The effective tax rates reflected in the accompanying consolidated statements of income differed from the normal statutory tax rate due principally to temporary differences and expenses permanently not deductible for income tax purposes.

9 Common Stock and Additional Paid-In Capital

The Commercial Code of Japan requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

⑩ Legal Reserve

The Commercial Code of Japan provides that an amount equal to at least 10% of cash payments made as appropriations of retained earnings, including cash dividends and bonuses to directors and corporate auditors applicable to each fiscal year, be appropriated as a legal reserve until such reserve equals 25% of stated capital.

This reserve is not available for dividends, but it may be used to reduce a deficit by a resolution of the shareholders, or it may be transferred to common stock by a resolution of the Board of Directors.

⑪ Retained Earnings

Under the Commercial Code of Japan, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1998, retained earnings as recorded on the Company's books were ¥56,586 million (\$428,359 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

⑫ Contingent Liabilities

Contingent liabilities at March 31, 1998 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 1,751	\$ 13,258
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	13,668	103,470
	<u>¥15,419</u>	<u>\$116,728</u>

⑬ Lease Payments

Total lease payments during the years ended March 31, 1998 and 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>	<u>1998</u>
	¥5,032	¥3,789	\$38,095

Obligations under finance leases at March 31, 1998 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 4,122	\$31,204
Due after one year	8,041	60,873
	<u>¥12,163</u>	<u>\$92,077</u>

The amount of obligations under finance leases includes the imputed interest expense portion.

⑭ Subsequent Events

(a) On April 1, 1998, the Company, upon approval by the Board of Directors, issued 2.575% yen unsecured bonds due 2005 in the amount of ¥10,000 million (\$75,700 thousand).

(b) On June 26, 1998, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,479	\$11,201
Transfer to legal reserve	150	1,136
Bonuses to directors and corporate auditors	20	151
	<u>¥1,649</u>	<u>\$12,488</u>

REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte Touche
Tohmatsu**



To the Board of Directors of
NIKON CORPORATION:

We have examined the consolidated balance sheets of NIKON CORPORATION and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of NIKON CORPORATION and consolidated subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 1998

**Deloitte Touche
Tohmatsu
International**
