notes to consolidated financial statements

Nikon Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation (the "Company"), its domestic subsidiaries and affiliates maintain their records and prepare their financial statements in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan. The foreign consolidated subsidiaries maintain and prepare their financial statements in accordance with accounting principles generally accepted in the countries, where such subsidiaries are established.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan (the "Securities 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 financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Under the Securities Law the consolidated statements of cash flows are not required, but are presented herein as additional information. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.55 to U.S.$1, the approximate rate of exchange at March 31, 1999. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Japanese yen amounts presented herewith are rounded down to the nearest millions of yen.

Certain reclassifications have been made in 1998 and 1997 financial statements to conform to classification used in 1999.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of Nikon Corporation and of its 33 (29 in 1998 and 24 in 1997) significant subsidiaries (collectively the " Companies "). The remaining 26 (31 in 1998 and 33 in 1997) unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies have also been eliminated. Investments in 3 unconsolidated subsidiaries are accounted for by the equity method. The differences between the cost and underlying net equity of investments in consolidated subsidiaries and unconsolidated subsidiaries accounted for by the equity method at acquisition ("Goodwill") are amortized on a straight-line basis over five years or, insignificant in amount, such difference is charged to income when incurred.

Investments in 9 (9 in 1998 and 8 in 1997) associated companies (ownership: 20% to 50%) are stated at cost as they are immaterial to the accompanying consolidated financial statements.

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, time deposits and marketable securities presented in current assets.

(c) 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.

(d) Inventories

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

(e) Property, Plant and Equipment

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

(f) Retirement Benefits

The Company and major domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees of the Company and such subsidiaries. Foreign subsidiaries have principally contributory pension plans.

Other domestic subsidiaries have unfunded severance payment plans and established a liability for severance indemnities at 40% of the amount which would be required if all employees voluntarily terminated their employment at each balance sheet date.

(g) Leases

All leases are accounted for as operating leases by the Company and its domestic subsidiaries. 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.

(h) Income Taxes

Effective April 1, 1998, the Company and consolidated subsidiaries adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥8,725 million ($72,380 thousand) is included as an adjustment to retained earnings as of April 1, 1998.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes together with the tax effect of loss carryforwards. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(i) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(j) Foreign Currency Transactions

Balances denominated in foreign currencies, except for those hedged by forward exchange contracts, are translated into Japanese yen at the current exchange rates in effect at each balance sheet date for monetary current assets and liabilities, and at historical rates for non-current assets and liabilities. Foreign currency balances hedged by forward exchange contracts are translated into Japanese yen at the contracted rates. Exchange and translation gains or losses are credited or charged to income as incurred.

(k) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the foreign subsidiaries are translated into Japanese 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.

(l) Per Share Information

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.

Cash dividends per share shown in the consolidated statements of operations are presented on an accrual basis and include interim dividends paid and year ended dividends to be approved after the balance sheet date.

3. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Marketable equity securities	**¥13,662**	¥15,568	**$113,336**
Bank debentures and other	**6,937**	6,283	**57,548**
	¥20,600	¥21,851	**$170,884**

Investments in securities at March 31, 1999 and 1998 were principally equity securities with market quotations as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Equity securities	**¥36,522**	¥32,724	**$302,965**
Trust bonds, debentures and other	**56**	70	**469**
	¥36,579	¥32,794	**$303,434**

The carrying amounts and market values of marketable securities (current) and investments in securities (non-current) at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Current (market value available):			
Carrying amount	**¥14,243**	¥16,285	**$118,151**
Aggregate market value	**21,838**	27,380	**181,158**
Net unrealized gains	**¥ 7,595**	¥11,094	**$ 63,007**
Non-current (market value available):			
Carrying amount	**¥32,229**	¥31,446	**$267,356**
Aggregate market value	**43,434**	43,556	**360,305**
Net unrealized gains	**¥11,204**	¥12,109	**$ 92,949**

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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Finished and semi–finished products	**¥ 62,401**	¥ 66,210	**$ 517,636**
Work in process	**72,354**	75,482	**600,203**
Raw materials and supplies	**15,821**	12,675	**131,241**
	¥150,576	¥154,368	**$1,249,080**

5. PLEDGED ASSETS

The following assets were pledged as collateral at March 31, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable–trade	¥14,807	$122,835
Property, plant and equipment (net of accumulated depreciation)	510	4,237
Marketable securities and investments in securities	10,508	87,168
	¥25,826	$214,240

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 7,283	$ 60,415
Other current liabilities	282	2,339
Long-term debt, including current portion	7,103	58,930
	¥14,668	$121,684

6. SHORT-TERM BORROWINGS

Short-term borrowings at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Short-term loans, principally from banks:			
1999: 0.49370%-8.00000%			
1998: 1.01563%-6.58125%	**¥ 74,665**	¥ 64,049	**$ 619,376**
Commercial paper:			
1999: 0.4500%-0.9050%			
1998: 0.9060%-1.5600%	**32,000**	40,000	**265,450**
	¥106,665	¥104,049	**$ 884,826**

7. LONG-TERM DEBT

Long-term debt at March 31, 1999 and 1998 was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Loans, principally from banks and insurance companies:			
1999: 1.13%-9.185% due 2000-2006			
1998: 1.32%-9.185% due 1999-2004	**¥ 25,601**	¥ 22,171	**$ 212,369**
Bonds	**90,000**	90,000	**746,577**
	115,601	112,171	**958,946**
Less: Current portion	**(12,509)**	(13,676)	**(103,773)**
Long-term debt, less current portion	**¥103,091**	¥ 98,495	**$ 855,173**

The aggregate annual maturities of long-term debt for the years following March 31, 1999 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 12,509	$ 103,773
2001	17,152	142,287
2002	26,025	215,893
2003	15,608	129,481
2004	22,017	182,643
Thereafter	22,286	184,869
	¥115,601	$ 958,946

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
			1999	1998	1999
6.2% Euro-Yen Unsecured Bonds	July 1992	October 1999	**¥10,000**	¥10,000	**$ 82,953**
4.85% Euro-Yen Unsecured Bonds	September 1994	December 2001	**10,000**	10,000	**82,953**
4.4% Yen Unsecured Bonds	January 1995	January 2001	**10,000**	10,000	**82,953**
4.0% Yen Unsecured Bonds	January 1995	January 1999		10,000	
2.95% Yen Unsecured Bonds	February 1996	February 2003	**10,000**	10,000	**82,953**
2.7% Yen Unsecured Bonds	February 1996	February 2002	**10,000**	10,000	**82,953**
2.45% Yen Unsecured Bonds	March 1997	March 2004	**10,000**	10,000	**82,953**
2.7% Yen Unsecured Bonds	June 1997	June 2003	**10,000**	10,000	**82,953**
2.5% Yen Unsecured Bonds	November 1997	November 2007	**10,000**	10,000	**82,953**
2.575% Yen Unsecured Bonds	April 1998	April 2005	**10,000**		**82,953**
			¥90,000	¥90,000	**$746,577**

8. SHAREHOLDERS' EQUITY

The Code 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.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve amount, which is included in retained earnings, totals ¥4,964 million ($41,185 thousand) and ¥4,814 million as of March 31, 1999 and 1998, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares of common stock to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the Company may resolve to repurchase its treasury stock for retirement and related reduction of retained earnings pursuant to resolution of the Board of Directors, subject to approval by the shareholders.

At the general shareholders' meeting held on June 29, 1999, the Company's shareholders approved that the Company is authorized to repurchase, at management's discretion, up to 3,500 million shares of Company's stock for the purpose of canceling the shares by charging repurchased amounts to retained earnings.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1999, retained earnings as recorded on the Company's books were ¥53,416 million ($443,108 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 48%, 51% and 51% for the years ended March 31, 1999, 1998 and 1997, respectively.

On March 31, 1999, a tax reform law was enacted in Japan, which changed the normal effective statutory tax rate from approximately 48% to 42%, effective for years beginning April 1, 1999.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 1999 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Devaluation of inventories	¥ 5,082	$ 42,159
Depreciation and amortization	5,116	42,444
Tax loss carryforwards	5,759	47,776
Other	2,860	23,733
	¥18,819	$156,112
Deferred tax liabilities :		
Deferred profits on sales of property to be replaced	(2,073)	(17,200)
Other	(952)	(7,899)
	¥ (3,025)	$ (25,099)
Net deferred tax assets	¥15,793	$131,013

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses incurred were ¥18,729 million ($155 thousand), ¥21,633 million and ¥19,681 million for the years ended March 31, 1999, 1998 and 1997, respectively.

11. LEASE PAYMENTS

Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥4,735 million ($ 39,282 thousand), ¥5,032 million and ¥3,789 million for the years ended March 31, 1999, 1998 and 1997, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, and depreciation expense of finance leases that do not transfer ownership of the leased property to the leasee on an "as if capitalized" basis for the years ended March 31, 1999, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥10,854	¥10,916	¥21,770	$90,040	$90,556	$180,596
Accumulated depreciation	5,375	5,239	10,615	44,593	43,466	88,059
Net leases property	¥ 5,478	¥ 5,676	¥11,155	$45,447	$47,090	$ 92,537

Obligations under finance leases at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Due within one year	**¥ 3,863**	¥ 4,122	**$32,050**
Due after one year	**7,291**	8,041	**60,487**
	¥11,155	¥12,163	**$92,537**

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

Depreciation expense, which are not reflected in the accompanying consolidated statement of operations, computed by the straight-line method was applied ¥4,735 million ($39,282 thousand) for the year ended March 31, 1999.

The minimum rental commitments under noncancellable operating leases at March 31, 1999 were as follows :

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 958	$ 7,951
Due after one year	1,368	11,351
	¥2,326	$19,302

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 1999 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 2,351	$ 19,503
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	12,729	105,595
	¥15,080	$125,098

13. SUBSEQUENT EVENTS

On June 29, 1999, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,109	$ 9,206
Transfer to legal reserve	111	921
	¥1,220	$10,127

14. SEGMENT INFORMATION

(a) Industry Segments

	Millions of Yen				
	Consumer products	Industrial instruments	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999					
Net sales	**¥ 139,204**	**¥ 166,560**	**¥ 305,764**	**¥**	**¥ 305,764**
Operating expenses	**136,683**	**177,822**	**314,505**		**314,505**
Operating income (loss)	**¥ 2,521**	**¥ (11,262)**	**¥ (8,741)**	**¥**	**¥ (8,741)**
Assets	**¥ 112,838**	**¥ 287,679**	**¥ 400,518**	**¥ 74,446**	**¥ 474,964**
Depreciation and amortization	**6,870**	**13,239**	**20,110**		**20,110**
Capital expenditures	**6,087**	**14,631**	**20,718**		**20,718**
For the year ended March 31, 1998					
Net sales	¥ 130,266	¥ 241,879	¥ 372,145	¥	¥ 372,145
Operating expenses	127,924	216,744	344,668		344,668
Operating income	¥ 2,341	¥ 25,135	¥ 27,476	¥	¥ 27,476
Assets	¥ 113,607	¥ 341,462	¥ 455,069	¥ 52,257	¥ 507,326
Depreciation and amortization	5,513	12,893	18,407		18,407
Capital expenditures	6,664	19,504	26,168		26,168
For the year ended March 31, 1997					
Net sales	¥ 131,282	¥ 247,806	¥ 379,089	¥	¥ 379,089
Operating expenses	136,803	195,372	332,176		332,176
Operating income (loss)	¥ (5,521)	¥ 52,433	¥ 46,912	¥	¥ 46,912
Assets	¥ 120,581	¥ 278,267	¥ 398,849	¥ 61,422	¥ 460,271
Depreciation and amortization	6,277	9,358	15,635		15,635
Capital expenditures	12,034	21,722	33,757		33,757

	Thousands of U.S. Dollars				
For the year ended March 31, 1999					
Net sales	**$1,154,743**	**$1,381,672**	**$2,536,415**	**$**	**$2,536,415**
Operating expenses	**1,133,830**	**1,475,095**	**2,608,925**		**2,608,925**
Operating income (loss)	**$ 20,913**	**$ (93,423)**	**$ (72,510)**	**$**	**$ (72,510)**
Assets	**$ 936,030**	**$2,386,395**	**$3,322,425**	**$617,557**	**$3,939,982**
Depreciation and amortization	**56,996**	**109,823**	**166,819**		**166,819**
Capital expenditures	**50,499**	**121,370**	**171,869**		**171,86**

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999							
Net sales							
Outside customers	**¥ 183,725**	**¥ 80,366**	**¥ 36,128**	**¥ 5,544**	**¥ 305,764**	**¥**	**¥ 305,764**
Intersegment sales	**90,730**	**281**	**172**	**5,800**	**96,984**	**(96,984)**	
Total	**274,455**	**80,647**	**36,301**	**11,345**	**402,749**	**(96,984)**	**305,764**
Operating expenses	**285,426**	**77,964**	**36,523**	**10,051**	**409,966**	**(95,460)**	**314,505**
Operating income (loss)	**¥ (10,971)**	**¥ 2,682**	**¥ (222)**	**¥ 1,294**	**¥ (7,216)**	**¥ (1,524)**	**¥ (8,741)**
Assets	**¥ 339,739**	**¥ 57,254**	**¥ 27,422**	**¥ 7,946**	**¥ 432,363**	**¥ 42,601**	**¥ 474,964**
For the year ended March 31, 1998							
Net sales							
Outside customers	¥ 220,553	¥ 101,313	¥ 50,235	¥ 43	¥ 372,145	¥	¥ 372,145
Intersegment sales	96,716	280	87	7,153	104,238	(104,238)	
Total	317,270	101,594	50,323	7,196	476,384	(104,238)	372,145
Operating expenses	299,492	93,205	49,289	4,773	446,760	(102,091)	344,668
Operating income	¥ 17,778	¥ 8,388	¥ 1,033	¥ 2,423	¥ 29,623	¥ (2,146)	¥ 27,476
Assets	¥ 377,864	¥ 65,290	¥ 34,219	¥ 5,941	¥ 483,316	¥ 24,010	¥ 507,326

	Japan	Overseas	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1997					
Net sales					
Outside customers	¥ 238,430	¥ 140,658	¥ 379,089	¥	¥ 379,089
Intersegment sales	83,945	8,859	92,805	(92,805)	
Total	322,376	149,517	471,894	(92,805)	379,089
Operating expenses	288,181	135,742	423,923	(91,747)	332,176
Operating income	¥ 34,194	¥ 13,775	¥ 47,970	¥ (1,057)	¥ 46,912
Assets	¥ 304,755	¥ 100,941	¥ 405,696	¥ 54,574	¥ 460,271

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999							
Net sales							
Outside customers	**$ 1,524,058**	**$ 666,664**	**$ 299,699**	**$ 45,994**	**$ 2,536,415**	**$**	**$ 2,536,415**
Intersegment sales	**752,640**	**2,331**	**1,431**	**48,118**	**804,520**	**(804,520)**	
Total	**2,276,698**	**668,995**	**301,130**	**94,112**	**3,340,935**	**(804,520)**	**2,536,415**
Operating expenses	**2,367,706**	**646,742**	**302,978**	**83,376**	**3,400,802**	**(791,877)**	**2,608,925**
Operating income (loss)	**$ (91,008)**	**$ 22,253**	**$ (1,848)**	**$ 10,736**	**$ (59,867)**	**$ (12,643)**	**$ (72,510)**
Assets	**$ 2,818,249**	**$ 474,948**	**$ 227,479**	**$ 65,916**	**$ 3,586,592**	**$ 353,390**	**$ 3,939,982**

(c) Export Sales

For the years ended March 31, 1999, 1998 and 1997

	Millions of Yen, %						Thousands of U.S. Dollars
	1999	**(A)/(B)**	1998	(A)/(B)	1997	(A)/(B)	**1999**
Export sales (A)							
North America	**¥ 78,869**	**25.8 %**	¥99,830	26.8 %			**$ 654,244**
Europe	**46,713**	**15.3**	59,794	16.1			**387,505**
Asia	**53,754**	**17.6**	54,453	14.6			**445,907**
Other Area	**7,032**	**2.3**	7,080	1.9			**58,336**
Total	**¥186,369**	**61.0 %**	¥221,160	59.4 %	¥215,752	56.9%	**$1,545,992**
Net sales (B)	**¥305,764**		¥372,145		¥379,089		**$2,536,415**