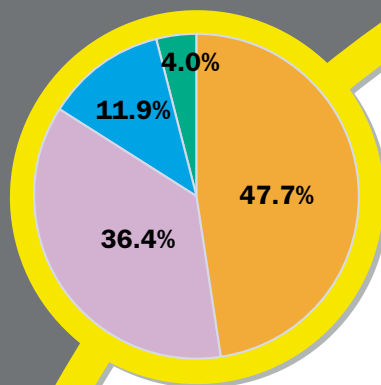


Review of Operations

Beginning with the year ended March 2001, financial results are reported in accordance with the Nikon Group's in-house company system. There are now four business segments within the Nikon Group: Precision Equipment, Imaging Products, Instruments and Other.



Net sales for Outside Customers by Industry Segment

Major Products in Industry Segment

■ Precision equipment

IC and LCD steppers

■ Imaging products

Single-lens reflex (SLR) cameras, compact cameras, interchangeable camera lenses, digital cameras, film scanners

■ Instruments

Biological microscopes, industrial microscopes, measuring instruments, inspection equipment

■ Other

Binocular & telescope products, surveying instruments, ophthalmic frames and sunglasses

Continuous efforts are being made on the development of next-generation lithography technology.

Precision Equipment

In the fiscal year ended March 2001, capital investment by semiconductor manufacturers, both in Japan and abroad, reached a very high level. Towards the end of the year, however, a slowdown in sales of personal computers and mobile phones implied signs of an impending cyclical downturn. Total segment net sales increased by 36.3% to ¥234,808 million, while operating income soared 386.3%, to ¥44,487 million.

IC steppers led the strong sales performance. In particular, excimer steppers were the industry's choice for cutting-edge DRAM and microprocessor production applications, while i-line steppers met the needs of flash memory chip fabrication. The commercialization of a new KrF excimer stepper, the NSR-S205C, allowed manufacturers to mass produce advanced devices featuring line widths of less than 0.15 micrometers.

The Nikon Group also made additional investments in facilities at the Kumagaya Plant, substantially boosting production capacity. With the creation of a local subsidiary in Singapore to facilitate support for sales and customer service throughout Southeast Asia, and the strengthening of a more performance-oriented management structure, the Group was able to realize significant progress over the previous year's results.

LCD steppers also contributed to the strong showing. LCD panel manufacturers invested heavily to keep pace with changing market needs as LCD display applications expanded and substrate sizes continued to increase. Nikon in turn also raised its production capacity to respond to customer demand, while also developing new products with improved performance profiles. Featuring a new projection optical system and a scanning exposure mechanism designed to increase exposure area and improve throughput, the FX-21S LCD stepper provided a stellar performance. Overall, the entire LCD stepper product line posted substantial sales gains.

With semiconductor manufacturers likely to cut back the pace of capital investment, the short-term outlook is not so bright. The Nikon Group is committed to increasing production of the ArF excimer stepper, while development efforts on next-generation stepper technologies continues apace. The accumulated number of units of Nikon stepper systems shipped around the world exceeded 6,500. The Nikon Group is expanding after-sales businesses for these systems. Such businesses are expected to generate steady sales growth over many years to come.



**ArF Excimer Stepper
NSR-S305B**



**KrF Excimer Stepper
NSR-S205C**



**i-line Stepper
NSR-SF100**



**LCD Stepper
FX-21S**

Optical expertise together
with digital technology will
create new phases of imaging
businesses.

Imaging Products

The traditional film camera market, encompassing single-lens reflex (SLR) cameras, compact cameras, and interchangeable camera lenses, contracted over this year, but the digital camera market continued to grow at a ferocious pace. Total segment sales grew by 31.2% to ¥180,112 million. Operating income rose 35.6% to ¥10,503 million.

The high-performance, easy to use Nikon F80 (N80 in the United States) SLR series was a top seller both in Japan and abroad, along with the Nikon U (F65 overseas, except the United States/N65 in the United States) model for the consumer market, which was launched in the domestic market in the latter half of the year. As a result, sales were able to exceed those of the previous year. Nikon interchangeable lenses especially zoom lenses showed improved sales, coupled with a rise in sales of SLR cameras. Compact cameras also posted gains, on the strength of new products like the Light-Touch Zoom 120ED QD. The Nikon S3 Year 2000 Limited Edition performed strongly, exceeding expectations. In digital cameras, the COOLPIX 990 and COOLPIX 880 models sold well in many markets.

The Nikon D1 digital SLR camera received high marks from the European Imaging and Sound Association (EISA). For the way in which “its high-speed image processing and superior ease of use have redefined the digital camera experience,” EISA named it “Best Digital Professional Product 2000-2001.” The same group also cited the COOLPIX 990 for its superior overall imaging performance, conferring upon it the title of “Best Digital Compact Camera 2000-2001.”

Among other moves, Nikon opened the Nikon Plaza Shinjuku in Tokyo. This will hold photographic exhibitions, introduce the Nikon line-up, and deliver after-sales service to Nikon customers. In Malaysia, a local subsidiary, Nikon (Malaysia) Sdn. Bhd., was established to handle local sales and provide after-sales customer services. The Nikon Group also made investments to expand production capacity and make other improvements at overseas manufacturing bases.

Demand in the traditional film camera market seems likely to continue the current downward trend, while the digital camera market is set to expand further. SLR-type digital cameras with even heightened D1 functions such as the D1x and D1h, and digital cameras such as the COOLPIX 995 and COOLPIX 775 (announced to the US market in April, 2001) illustrate the broad market range of Nikon products, catering to the photography professional as well as the average consumer. As Nikon continues to expand its product range, it plans to place a greater emphasis on the role of the Internet in developing new, deeper, and more productive relationships with its customer base.





**Digital Camera
COOLPIX 995**



**Digital Camera
COOLPIX 775**



**35mm/IX240
Film Scanner
COOLSCAN IV ED**

The modern age requires expertise to accrue more precision in measuring and inspection equipment.

Instruments

The microscope market grew slightly during the year, spurred on by growth in the semiconductor and electronic components markets. Total segment net sales rose 15.9% to ¥59,008 million, while operating income swelled to ¥5,190 million, a 535.0% increase over the previous year.

In the biological microscopes field, the new DXM1200 high-resolution digital camera for microscopes, which delivers an approximately 12-million-pixel-output ultrahigh resolution image, helped the Nikon Group to post sales gains. In industrial microscopes, LSI inspection microscopes and stereoscopic microscopes also sold well. In measuring instruments, sales of measuring microscopes and computerized numerical control (CNC) video measuring systems were buoyed by a robust electronic components market. IC wafer inspection system sold extremely well, both in Japan and overseas markets. Overlay measuring system also began to enjoy broad market support domestically. Total sales figures easily surpassed those of last year as a result.

The Nikon Group worked diligently to restructure its sales and service network in the United States with the establishment of Nikon Instruments Inc., a new local subsidiary. Production systems were also strengthened.

While the impending downturn in capital investment by semiconductor firms is of some concern, the sales success of overlay measuring system and automatic macro inspection system enhances prospects for continued sales growth in the semiconductor measuring and inspection market segments.



**Biological Microscope
ECLIPSE E200**



**IC Inspection
Microscope
ECLIPSE L150**



**CNC Video
Measuring System
NEXIV VMR-3020**



**Automatic Macro
Inspection System
AMI-2000**

Reorganization and restructuring
will put Nikon closer to the
diverse market needs.

Other

Total segment sales rose 39.6% to ¥43,610 million. Operating income grew 98.0% to ¥1,729 million.

Year-on-year sales advances in binocular and telescope products were led by the Sportstar III compact folding binocular series, which garnered a strong response from the American market. Customized Products Division secured an order for an optical system to be used in satellite projects, while the new business division generated increased sales for its line of stampers, which are used as precise master plate in optical disc production.

The production and sales activities of surveying instruments are now contained within a separate subsidiary, which is working to raise sales. While market competition forced unit prices lower during the year, the impact on profits was nullified by reductions in fixed costs and operating expenses.

In the ophthalmic frames and sunglasses business, market conditions proved harsh, reflecting sluggish consumer spending and market price erosion.

The Nikon Group has entered the CMP (chemical mechanical polishing) system market, augmenting expectations of sales growth. Nikon's binocular and telescope products' operations were spun off in May 2001 into a new Japanese subsidiary Nikon Vision Co., Ltd., which has a mandate to generate profitable performance while more quickly and flexibly meeting the needs of its customers.

*Pulse Laser Station NPL-350 in overseas markets



**Sportstar III
8X25DCF**



**Total Station
NST-200N***



**Sunglasses
Earthic**