NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikon Corporation (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 ¥123.90 to U.S.$1, the rate of exchange at March 31, 2001. 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.

Certain reclassifications have been made in 2000 financial statements to conform to classification used in 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2001 include the accounts of the Company and its 41 significant (33 in 2000) subsidiaries (collectively the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

An investment in 1 associated company (3 unconsolidated subsidiaries and 1 associated company in 2000) is accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries and an associated company accounted for by the equity method at acquisition ("Goodwill") are insignificant and are charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(c) Marketable and Investment Securities

Prior to April 1, 2000, marketable securities and investments in securities were stated principally at cost as determined using the average method. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including marketable and investment securities. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:

i) Trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in the earnings,

ii) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost method and

iii) Available-for-sale-securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Available-for-sale-securities whose fair value is not readily determinable are stated principally at moving-average cost method.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost as 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 as 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 principally computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities incidental to buildings), and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is principally from 30 to 40 years for buildings and structures, from 5 to 10 years for machinery and equipment.

Accounting Change - In 2000, the Company and domestic subsidiaries adopted the straight-line method of depreciation for the buildings (excluding facilities incidental to buildings), which, previously, had been depreciated by the declining-balance method. This change was made to more accurately allocate the cost of the buildings in light of the operations of the Group.

The effect of this change was to decrease depreciation expenses by ¥520 million and to increase income before income taxes by ¥388 million for the year ended March 31, 2000.

(f) Retirement and Pension Plans

The Company and major subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory pension plans.

Prior to April 1, 2000, the amounts contributed to the fund of the Company and major domestic subsidiaries were charged to income when paid. And other domestic subsidiaries have unfunded retirement benefit plans and set up a liability for retirement allowance at 40% of the amount which would be required if all employees voluntarily terminated their employment at the balance sheet date.

Effective April 1, 2000, the Group adopted the new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥26,203 million ($211,482 thousand) less securities contributed to the pension fund of ¥6,711 million ($54,168 thousand), determined as of the beginning of year, are amortized over two years commencing from the current period. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method, increased by ¥14,232 million ($114,867 thousand) and income before income taxes and minority interests decreased by ¥12,882 million ($103,967 thousand).

(g) Research and Development Costs

The companies are active in research and development, and such costs are charged to income as incurred.

(h) 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.

(i) Income Taxes

The Group adopts the accounting method for interperiod allocation of income taxes based on the asset and liability method.

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. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(j) Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements in the following year upon shareholder's approval.

(k) Foreign Currency Transactions

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies, except for those hedged by forward exchange contracts, were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates. Foreign currency balances hedged by forward exchange contracts are translated into Japanese yen at the contracted rates.

Effective April 1, 2000, the Group adopted the revised accounting standard for foreign currency transactions. All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts. The adoption of the revised accounting standard for foreign currency transactions did not have a material effect on the Companies' consolidated financial statements.

(l) 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 except for shareholders' equity, which is translated at the historical exchange rate.

Prior to April 1, 2000, differences arising from such translation were shown as "Foreign currency translation adjustments" as either all asset or liability in the balance sheet. Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholder's equity in accordance with the revised accounting standard for foreign currency transactions.

(m) Derivatives and Hedging Activities

The Group enters into derivative financial instruments ("derivatives"), including contracts of foreign exchange forward, currency option, foreign currency swap and interest rate swap to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading purpose.

Effective April 1, 2000, the Group adopted the new accounting standard for derivative financial instruments and revised accounting standard for foreign currency transactions. All derivatives be recognized principally as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statements unless the instrument qualifies for hedge accounting. For derivatives used for hedging purpose, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts and currency option contracts employed to hedge foreign exchange exposures for export sales and purchases are measured at the fair value and the unrealized gains / losses are recognized in income. Forward contracts applied for forecasted transactions are also measured at the fair value but the unrealized gains / losses on qualifying hedges are deferred until the underlying transactions are completed. The foreign currency swaps for long-term debt denominated in foreign currencies used to hedge the foreign currency fluctuations are measured at the fair value and the unrealized gains / losses are included in the carrying amounts of the debt. The interest rate swaps are remeasured at market value and the differential paid or received under the swap agreements are recognized in income.

As a result of adopting this new standard, income before income taxes and minority interests increased by ¥478 million ($3,861 thousand).

(n) Revenue recognition

The Securities and Exchange Commission ("SEC") in the United States of America issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements", which clarified delivery criteria. Certain foreign subsidiaries adopted the provisions of SAB 101 from the year ended March 31, 2001. As a result of adopting SAB 101, net sales decreased by ¥22,146 million ($178,741 thousand).

(o) Per Share Information

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 369,924,491 shares for 2001 and 369,918,890 shares for 2000.

Cash dividends per share shown in the consolidated statements of income 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 AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Current:			
Marketable equity securities	**¥**	¥ 2	**$**
Bank debentures and other	**2**	10	**14**
Total	**¥ 2**	¥ 12	**$ 14**
Non-Current:			
Equity securities	**¥ 52,378**	¥ 49,266	**$ 422,744**
Trust bonds, debentures and other	**836**	102	**6,744**
Total	**¥ 53,214**	¥ 49,368	**$ 429,488**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2001 were as follows:

	Millions of Yen			
March 31, 2001	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 39,766	¥ 11,090	¥ 2,961	¥ 47,895
Debt securities	786	1	0	787
Held-to-maturity	0		0	0
Total	¥ 40,552	¥ 11,091	¥ 2,961	¥ 48,682

	Thousands of U.S. Dollars			
March 31, 2001	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 320,949	$ 89,507	$ 23,898	$ 386,558
Debt securities	6,342	9	0	6,351
Held-to-maturity	0		0	0
Total	$ 327,291	$ 89,516	$ 23,898	$ 392,909

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001 were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Equity securities	¥ 4,483	$ 36,186
Other securities	50	406
Total	¥ 4,533	$ 36,592

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥2,203 million ($17,781 thousand). Gross realized losses on these sales, computed on the moving average cost basis, were ¥1,668 million ($13,462 thousand).

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥	¥ 0	$	$ 0
Due after one year through five years	4		36	
Total	¥ 4	¥ 0	$ 36	$ 0

Carrying amounts and aggregate market values of current and non-current marketable equity securities included in marketable securities and investment securities at March 31, 2000 were as follows:

	Millions of Yen		
	Carrying Amount	Aggregate Market Value	Net Unreailzed Gain
Current	¥ 2	¥ 3	¥ 1
Non-current	44,856	58,975	14,119
Total	¥ 44,858	¥ 58,978	¥ 14,120

The difference between the above carrying value and the amounts shown in the accompanying consolidated 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, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Finished and semi–finished products	**¥ 72,893**	¥ 55,072	**$ 588,321**
Work in process	**110,752**	85,213	**893,886**
Raw materials and supplies	**16,153**	13,562	**130,366**
Total	**¥ 199,798**	¥153,847	**$ 1,612,573**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Short-term loans, principally from banks:			
2001: 0.4247%-7.9700%			
2000: 0.4402%-7.3840%	**¥ 50,996**	¥ 71,558	**$ 411,592**
Commercial paper:			
2001: 0.0092%-0.4050%			
2000: 0.0709%-0.1235%	**32,000**	14,000	**258,272**
Total	**¥ 82,996**	¥ 85,558	**$ 669,864**

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Loans, principally from banks and insurance companies:			
2001: 0.70%-9.220% due 2001-2006			
2000: 1.18%-9.185% due 2000-2006	**¥ 17,155**	¥ 21,167	**$ 138,459**
Bonds	**80,000**	90,000	**645,680**
Total	**97,155**	111,167	**784,139**
Less: Current portion	**(25,351)**	(15,439)	**(204,610)**
Long-term debt, less current portion	**¥ 71,804**	¥ 95,728	**$ 579,529**

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

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

	Issued in	To be redeemed in	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
4.85% Euro-Yen Unsecured Bonds	September 1994	December 2001	**¥ 10,000**	¥ 10,000	**$ 80,710**
4.4% Yen Unsecured Bonds	January 1995	January 2001		10,000	
2.95% Yen Unsecured Bonds	February 1996	February 2003	**10,000**	10,000	**80,710**
2.7% Yen Unsecured Bonds	February 1996	February 2002	**10,000**	10,000	**80,710**
2.45% Yen Unsecured Bonds	March 1997	March 2004	**10,000**	10,000	**80,710**
2.7% Yen Unsecured Bonds	June 1997	June 2003	**10,000**	10,000	**80,710**
2.5% Yen Unsecured Bonds	November 1997	November 2007	**10,000**	10,000	**80,710**
2.575% Yen Unsecured Bonds	April 1998	April 2005	**10,000**	10,000	**80,710**
1.76% Yen Unsecured Bonds	August 1999	August 2004	**10,000**	10,000	**80,710**
Total			**¥ 80,000**	¥ 90,000	**$ 645,680**

The aggregate annual maturities of long-term debt for the years following March 31, 2001 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 25,351	$ 204,610
2003	16,810	135,668
2004	22,268	179,729
2005	10,455	84,379
2006	12,255	98,910
Thereafter	10,016	80,843
Total	¥ 97,155	$ 784,139

At March 31, 2001, the following assets were pledged as collateral for the short-term borrowings, long-term debt and other liabilities.

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable–trade	¥ 12,219	$ 98,624
Investment securities	8,979	72,470
Total	¥ 21,198	$ 171,094

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Other current liabilities	¥ 94	$ 759
Long-term debt, including current portion	5,674	45,791
Total	¥ 5,768	$ 46,550

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debts payable to the banks. The Company has never been requested to provide any additional collateral.

6. RETIREMENT AND PENSION PLANS

The Company and major subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥95,988	$774,721
Fair value of plan assets	(63,942)	(516,075)
Unrecognized actuarial gain	(12,279)	(99,104)
Unrecognized transitional obligation	(9,743)	(78,638)
Net Liability	¥10,024	$ 80,904

The components of net periodic benefit costs for the year ended March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 3,861	$ 31,161
Interest cost	3,190	25,750
Expected return on plans assets	(2,477)	(19,992)
Amortization of transitional obligation	16,459	132,843
Net periodic benefit costs	¥21,033	$169,762

Assumptions used for the year ended March 31, 2001 were principally set forth as follows:

Discount rate	3.0%
Expected rate of return on plans assets	4.0%
Recognition period of actuarial gain (loss)	10 years
Amortization period of transitional obligation	2 years

7. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (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. 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 was authorized to repurchase, at management's discretion, up to 35 million shares of the 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, 2001, retained earnings as recorded on the Company's books were ¥64,681 million ($522,041 thousand), which was available for future dividends subject to the approval of the shareholders and legal reserve requirements.

8. 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 rate of approximately 42% for the years ended March 31, 2001 and 2000.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deferred tax assets:			
Inventories	**¥ 16,581**	¥ 4,649	**$ 133,826**
Warranty reserve	**2,120**	1,209	**17,116**
Liability for employees' retirement benefits	**5,433**		**43,854**
Depreciation and amortization	**7,927**	6,118	**63,976**
Other	**10,166**	7,178	**82,049**
Total	**¥ 42,227**	¥ 19,154	**$ 340,821**
Deferred tax liabilities :			
Deferred profits on sales of property to be replaced	**2,468**	2,141	**19,923**
Unrealized gain on available-for-sale securities	**3,414**		**27,556**
Undistributed earnings of associated companies	**2,545**		**20,539**
Other	**1,974**	494	**15,932**
Total	**¥ 10,401**	¥ 2,635	**$ 83,950**
Net deferred tax assets	**¥ 31,826**	¥ 16,519	**$ 256,871**

Valuation allowance of ¥2,764 million ($22,311 thousand) in 2001 and ¥3,451 million in 2000 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Year ended March 31,	
	2001	2000
Normal statutory tax rate	**42%**	42%
Nontaxable consolidated adjustment	**(16.7)**	13.9
Undistributed earnings of associated companies	**8.5**	
Other-net	**(4.0)**	(23.6)
Actual effective tax rate	**29.8%**	32.3%

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥22,794 million ($183,972 thousand) and ¥17,798 million for the years ended March 31, 2001 and 2000, respectively.

10. 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 ¥3,492 million ($ 28,190 thousand) and ¥3,479 million for the years ended March 31, 2001 and 2000, 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, 2001 and 2000 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2001			**2001**		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥ 8,490**	**¥ 9,730**	**¥18,220**	**$68,529**	**$78,530**	**$147,059**
Accumulated depreciation	**5,439**	**5,550**	**10,989**	**43,902**	**44,798**	**88,700**
Net leases property	**¥ 3,051**	**¥ 4,180**	**¥ 7,231**	**$24,627**	**$33,732**	**$ 58,359**

	Millions of Yen		
	2000		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,002	¥ 9,036	¥15,038
Accumulated depreciation	2,815	4,974	7,789
Net leases property	¥ 3,187	¥ 4,062	¥ 7,249

Obligations under finance leases at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥ 3,023**	¥ 2,811	**$24,399**
Due after one year	**4,208**	4,438	**33,961**
Total	**¥ 7,231**	¥ 7,249	**$58,360**

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥3,492 million ($28,190 thousand) and ¥3,479 million for the years ended March 31, 2001 and 2000, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥ 1,001**	¥ 732	**$ 8,079**
Due after one year	**1,645**	1,034	**13,275**
Total	**¥ 2,646**	¥ 1,766	**$21,354**

11. DERIVATIVES

The Group enters into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, currency option contracts, foreign currency swap contracts and interest rate swap contracts to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading purposes. Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivatives contracts outstanding at March 31, 2001 and 2000 were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2001			2001		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign Exchange Forward Contracts:						
Selling JPY	¥ 2,001	¥ 1,755	¥ 246	$ 16,147	$ 14,163	$ 1,984
Selling USD	1,176	1,226	(50)	9,495	9,894	(399)
Selling EUR	6,247	6,816	(569)	50,422	55,013	(4,591)
Selling GBP	664	677	(13)	5,355	5,464	(109)
Buying JPY	21,793	18,125	(3,668)	175,893	146,291	(29,602)
Buying USD	156	162	6	1,261	1,305	44
Buying EUR	3,327	3,378	51	26,854	27,265	411
Buying DEM	1,926	1,914	(12)	15,547	15,450	(97)
Buying GBP	828	856	28	6,685	6,913	228
Total			¥ (3,981)			$ (32,131)
Interest Rate Swaps:						
(fixed rate receipt, floating rate payment)	¥ 30,000	¥ 1,384	¥ 1,384	$ 242,131	$ 11,174	$ 11,174
(fixed rate payment, floating rate receipt)	20,000	(876)	(876)	161,421	(7,073)	(7,073)
Total	¥ 50,000	¥ 508	¥ 508	$ 403,552	$ 4,101	$ 4,101

	Millions of Yen	
	2000	
	Contract or Notional Amount	Net Unrealized Gain (Loss)
Foreign Exchange Forward Contracts:		
Selling USD	¥ 5,252	¥ 70
Selling EUR	6,016	266
Buying JPY	¥ 15,733	¥ 682
Buying EUR	3,691	(165)
Currency Option Contracts:		
Selling Call USD	¥ 1,073	¥
Option premiums	24	9
Buying Put USD	1,035	
Option premiums	24	(4)
Interest Rate Swaps:		
(fixed rate receipt, floating rate payment)	¥ 40,000	¥ 1,490
(fixed rate payment, floating rate receipt)	20,000	(460)
Total	¥ 60,000	¥ 1,030

Derivatives which qualified for hedge accounting for the year ended March 31, 2001 and such amounts which were assigned to the associated assets and liabilities and were recorded on the balance sheet at March 31, 2000, were excluded from disclosure of market value information.

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 688	$ 5,556
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	11,594	93,579
	¥ 12,282	$ 99,135

13. SUBSEQUENT EVENT

(a) Stock option plan

The plan provides for granting options to directors and administrative directors to purchase up to 60 thousand shares and 39 thousand shares of the Company's common stock, respectively, in the period from June 29, 2003 to June 28, 2011. The options will be granted at an exercise price of 5 percent of the fair market value of the Company's common stock at the prior month of the date of option grant. The Company plans to issue acquired treasury stock upon exercise of the stock options.

(b) On April 4, 2001, the Company, upon approval by the Board of Directors, issued 1.000% Yen Unsecured Bonds due 2008 in the amount of ¥10,000 million ($80,710 thousand).

(c) On June 28, 2001, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 1,480	$ 11,943
Bonuses to directors and corporate auditors	50	404
	¥ 1,530	$ 12,347

14. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2001 and 2000, was as follows:

(a) Industry Segments

	Millions of Yen						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2001							
Net sales							
Outside customers	**¥ 230,566**	**¥ 176,220**	**¥ 57,792**	**¥ 19,379**	**¥ 483,957**	**¥**	**¥ 483,957**
Intersegment sales/transfer	**4,242**	**3,892**	**1,216**	**24,231**	**33,581**	**(33,581)**	
Total	**234,808**	**180,112**	**59,008**	**43,610**	**517,538**	**(33,581)**	**483,957**
Operating expenses	**190,321**	**169,609**	**53,818**	**41,881**	**455,629**	**(33,095)**	**422,534**
Operating income	**¥ 44,487**	**¥ 10,503**	**¥ 5,190**	**¥ 1,729**	**¥61,909**	**¥ (486)**	**¥ 61,423**
Assets	**¥ 312,964**	**¥ 87,307**	**¥ 41,454**	**¥ 43,604**	**¥ 485,329**	**¥ 108,125**	**¥ 593,454**
Depreciation and amortization	**11,224**	**2,596**	**1,225**	**962**	**16,007**		**16,007**
Capital expenditures	**18,960**	**4,655**	**1,153**	**1,228**	**25,996**		**25,996**
For the year ended March 31, 2000							
Net sales							
Outside customers	¥ 166,219	¥ 135,095	¥ 49,461	¥ 21,026	¥ 371,801	¥	¥ 371,801
Intersegment sales/transfer	6,042	2,152	1,444	10,215	19,853	(19,853)	
Total	172,261	137,247	50,905	31,241	391,654	(19,853)	371,801
Operating expenses	163,113	129,504	50,088	30,367	373,072	(19,705)	353,367
Operating income	¥ 9,148	¥ 7,743	¥ 817	¥ 874	¥ 18,582	¥ (148)	¥ 18,434
Assets	¥ 248,044	¥ 72,934	¥ 48,902	¥ 30,288	¥ 400,168	¥ 102,007	¥ 502,175
Depreciation and amortization	11,865	2,854	1,099	1,433	17,251		17,251
Capital expenditures	8,266	2,104	611	2,900	13,881		13,881

	Thousands of U.S. Dollars						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2001							
Net sales							
Outside customers	**$ 1,860,899**	**$ 1,422,275**	**$ 466,442**	**$ 156,410**	**$3,906,026**	**$**	**$ 3,906,026**
Intersegment sales/transfer	**34,240**	**31,411**	**9,815**	**195,569**	**271,035**	**(271,035)**	
Total	**1,895,139**	**1,453,686**	**476,257**	**351,979**	**4,177,061**	**(271,035)**	**3,906,026**
Operating expenses	**1,536,083**	**1,368,916**	**434,367**	**338,025**	**3,677,391**	**(267,110)**	**3,410,281**
Operating income	**$ 359,056**	**$ 84,770**	**$ 41,890**	**$ 13,954**	**$ 499,670**	**$ (3,925)**	**$ 495,745**
Assets	**$ 2,525,942**	**$ 704,661**	**$ 334,576**	**$ 351,922**	**$3,917,101**	**$ 872,677**	**$ 4,789,778**
Depreciation and amortization	**90,587**	**20,952**	**9,888**	**7,770**	**129,197**		**129,197**
Capital expenditures	**153,029**	**37,572**	**9,304**	**9,910**	**209,815**		**209,815**

Precision Equipment : IC steppers, LCD steppers, etc.
Imaging Products : Cameras, Interchangeable camera lenses, Digital cameras, etc.
Instruments : Microscopes, Measuring instruments, etc.
Other : Binocular and telescope products, Ophthalmic frames, Surveying instruments, etc.

Notes: 1. Change in Business Classification

From fiscal 2001, in line with the empowerment of each company in order to construct a consistent accountability system and a decentralized management system, the Group Business classifications used until fiscal 2000, namely “Consumer Products” and “Industrial Instruments” changed to “Precision Equipment”, “Imaging Products”, “Instruments” and “Other”. Along with this, a review of all companies’ assets was carried out. This change was conducted in order to clarify the position of each business and also the change in management responsibility by way of reorganization of all companies in the Group and review of the standards for profit control.

2. The effect of the change in the accounting for employees’ retirement benefits described in Note (f) was to increase operating income of Precision Equipment, Imaging Products, Instruments and Other for the year ended March 31, 2001, by ¥854 million ($6,893 thousand), ¥320 million ($2,584 thousand), ¥195 million ($1,574 thousand), ¥12 million ($102 thousand), respectively, from such segments in the prior year.

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2001							
Net sales							
Outside customers	**¥ 251,354**	**¥143,225**	**¥ 77,533**	**¥ 11,845**	**¥ 483,957**	**¥**	**¥ 483,957**
Intersegment sales	**172,854**	**1,065**	**111**	**13,162**	**187,192**	**(187,192)**	
Total	**424,208**	**144,290**	**77,644**	**25,007**	**671,149**	**(187,192)**	**483,957**
Operating expenses	**369,469**	**136,282**	**73,230**	**21,115**	**600,096**	**(177,562)**	**422,534**
Operating income	**¥ 54,739**	**¥ 8,008**	**¥ 4,414**	**¥ 3,892**	**¥ 71,053**	**¥ (9,630)**	**¥ 61,423**
Assets	**¥ 425,395**	**¥ 89,515**	**¥ 37,241**	**¥ 12,344**	**¥ 564,495**	**¥ 28,959**	**¥ 593,454**

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2000							
Net sales							
Outside customers	¥ 219,188	¥ 96,699	¥ 48,926	¥ 6,988	¥ 371,801	¥	¥ 371,801
Intersegment sales	114,093	322	104	3,879	118,398	(118,398)	
Total	333,281	97,021	49,030	10,867	490,199	(118,398)	371,801
Operating expenses	323,878	91,002	48,702	9,261	472,843	(119,476)	353,367
Operating income	¥ 9,403	¥ 6,019	¥ 328	¥ 1,606	¥ 17,356	¥ 1,078	¥ 18,434
Assets	¥ 346,127	¥ 50,257	¥ 25,080	¥ 7,322	¥ 428,786	¥ 73,389	¥ 502,175

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2001							
Net sales							
Outside customers	**$ 2,028,686**	**$ 1,155,976**	**$ 625,766**	**$ 95,598**	**$ 3,906,026**	**$**	**$ 3,906,026**
Intersegment sales	**1,395,109**	**8,592**	**899**	**106,231**	**1,510,831**	**(1,510,831)**	
Total	**3,423,795**	**1,164,568**	**626,665**	**201,829**	**5,416,857**	**(1,510,831)**	**3,906,026**
Operating expenses	**2,981,994**	**1,099,936**	**591,041**	**170,416**	**4,843,387**	**(1,433,106)**	**3,410,281**
Operating income	**$ 441,801**	**$ 64,632**	**$ 35,624**	**$ 31,413**	**$ 573,470**	**$ (77,725)**	**$ 495,745**
Assets	**$ 3,433,373**	**$ 722,474**	**$ 300,573**	**$ 99,630**	**$ 4,556,050**	**$ 233,728**	**$ 4,789,778**

Note : 1. The effect of the change in the accounting for employees' retirement benefits described in Note (f) was to increase operating income of Japan for the year ended March 31, 2001, by ¥1,382 million ($11,155 thousand) from such segment in the prior year.

(c) Export Sales

For the years ended March 31, 2001 and 2000

	Millions of Yen, %				Thousands of U.S. Dollars
	2001	**(A)/(B)**	2000	(A)/(B)	**2001**
Export sales (A)					
North America	**¥ 141,829**	**29.3%**	¥ 95,557	25.7%	**$ 1,144,702**
Europe	**75,536**	**15.6**	52,002	14.0	**609,652**
Asia	**114,677**	**23.7**	95,195	25.6	**925,560**
Other Area	**4,643**	**1.0**	4,436	1.2	**37,476**
Total	**¥ 336,685**	**69.6%**	¥ 247,190	66.5%	**$ 2,717,390**
Net sales (B)	**¥ 483,957**		¥ 371,801		**$ 3,906,026**

Note : 1. "Other Area" consists principally of South and Central America and Oceania.