persistence of vision
annual report 2002

Nikon

Profile

Nikon Corporation has been a leader in optical glass manufacturing in Japan since our establishment in 1917, gaining worldwide acclaim for an extensive array of high-quality optical equipment. Continuing to grow, Nikon manufactures a diverse range of industrial instruments, including our key steppers and other semiconductor manufacturing-related equipment, microscopes and measuring instruments to complement our unique lineup of conventional film and digital cameras.

In response to an ever-changing environment and the needs of the modern era, Nikon has introduced a decentralized management system and implemented various structural reforms in an effort to heighten management effectiveness and strengthen corporate structure. In line with these is Vision Nikon 21, showing the way for the first decade of the 21st century with the objectives of further increasing growth and profitability, and raising corporate value.

With focus on the persistence of vision as we strive to create a fresh and exciting Nikon for the 21st century, we will continue to work towards meeting the diversifying needs of consumers and industries on a global scale.

Contents

FORWARD-LOOKING STATEMENTS

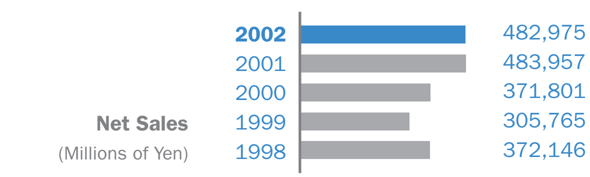
Statements contained in this report regarding the plans, projections and strategies of the Nikon Corporation and its subsidiaries and affiliates that comprise the Nikon Group (hereinafter "Nikon") that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data that are obtainable at the time of announcement in compliance with Nikon's management policies and certain premises that are deemed reasonable by Nikon. Hence, actual results may differ, in some cases significantly, from these forward-looking statements due to changes in various factors, including–but not limited to–economic conditions in principal markets, product and service demand trends, customer capital investment trends, and currency exchange rates fluctuations.

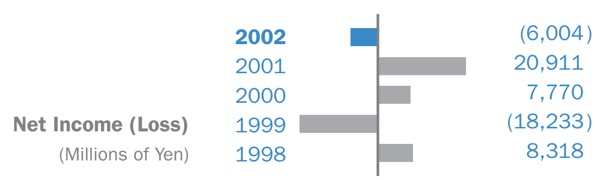
Financial Highlights

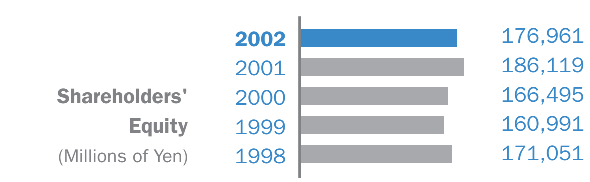
Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Millions of Yen		Millions of U.S. Dollars	%
For the year	**2002**	**2001**	**2002**	**Increase (Decrease)**
Net sales	¥ 482,975	¥ 483,957	$ 3,625	(0.2%)
Operating income	22,239	61,423	167	
Net income (loss)	(6,004)	20,911	(45)	
Per share of common stock (Yen and U.S. dollars):				
Net income (loss)	(16.23)	56.53	(0.12)	
Cash dividends applicable to the year	4.00	8.00	0.03	(50.0%)
At year-end				
Total assets	¥ 561,276	¥ 593,454	$ 4,212	(5.4%)
Shareholders' equity	176,961	186,119	1,328	(4.9%)

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.
2. U.S. dollar figures are translated for reference only at ¥133.25 to U.S. $1.00, the exchange rate at March 31, 2002.







To Our Shareholders

BUSINESS RESULTS OVERVIEW

Operating conditions in the fiscal year ended March 31, 2002 proved extremely harsh throughout the Nikon Group. The effects of the economic downturn intensified across all major markets. In particular, the semiconductor industry suffered the most severe contraction in its history as the IT-related global slump fed through to steep falls in chip manufacturing output. This inevitably had a negative impact on our business.

Looking at geographic regions, the picture was slightly more varied. In the United States, despite the shock of the terrorist attacks and a further deterioration in the economy, strong underlying consumer spending helped mitigate the fall in business investment. Signs emerged during the year that the economy had hit bottom. In contrast, falling exports and a capital investment slump contributed to a steadily deteriorating economic picture in Europe. Overall growth in Asia was also dented. In Japan, a sharp fall in capital investment combined with persistently sluggish consumer spending to tip the economy back into recession.

We responded to the harsh business environment by redoubling our focus on supplying products and services that deliver complete customer satisfaction. We also devoted considerable effort to entrenching the benefits derived from our in-house company system and focus on consolidated management. We further boosted efforts to slash fixed and variable costs across the Nikon Group, focusing on cutting inventory levels and reducing receivables through tighter credit control.

Results varied considerably by business segment. Against the backdrop of steady expansion in the digital camera market, the launch of digital single-lens reflex (SLR) cameras for professionals and other new models helped Imaging Products to achieve favorable growth in sales, gain market share, and post considerably higher earnings. Both Precision Equipment and Instruments were hit hard by the slump in semiconductor markets, however. Although the positive impact of a weak yen provided some relief, consolidated net sales edged down 0.2% to ¥483.0 billion, while operating income tumbled 63.8% to ¥22.2 billion. Partly as a result of the amortization of transitional obligation that arose as a result of a new accounting standard for employees' retirement benefits in the previous year, we posted a net loss for the year of ¥6.0 billion.

PERSISTENCE OF VISION, SPECIFIC ACTIONS

As vividly illustrated by the conditions we experienced this year, the most significant challenge we face within the Nikon Group is recasting and strengthening our business structure and profit base so that, as a manufacturer, we can deliver strong, stable earnings in such a rapidly changing operating environment. To achieve this objective we need to implement a variety of measures across the Nikon Group to take our business in a clear direction. We established a new internal committee to examine from a number of perspectives the reform measures that are required. We made progress during the year on a number of fronts, as discussed briefly below.

Promoting decentralized management

Following our move to an in-house company system in October 1999, we introduced an executive officer system in June 2001 to accelerate business decision-making and execution of operational strategies. The enhanced delegation of operating authority that this has inspired is producing overwhelmingly positive results—as evidenced most eloquently by the way we have been able to seize the initiative and take the lead in the market for digital SLR cameras. We plan to accelerate this decentralization trend by boosting business accountability further. The long-term aim of these moves is to create a system of management that is highly, rapidly and efficiently responsive to fast-changing operating environments. We do not preclude spinning off individual businesses at some point in the future.

Implementation of structural reforms

Structural reforms remain ongoing across the Nikon Group with the twin aims of heightening management effectiveness and boosting earnings. Specifically, we have devoted considerable effort to Groupwide reductions in fixed costs. Besides restricting selling, general and administrative expenses, we have implemented initiatives to expand the scope of an early retirement program and adopted other measures to help reduce numbers of personnel. Our goal is to lower headcount at the consolidated level by around 1,000 by March 2004. We are also adopting a variety of other measures to raise

(Right) Shoichiro Yoshida
Chairman of the Board and Chief Executive Officer
(Left) Teruo Shimamura
President, Member of the Board and Chief Operating Officer

operational cost-effectiveness: introduction of more performance-based remuneration systems and a system that links bonuses to business results; consolidation and disposal of unprofitable businesses; sale of idle assets; and reduction of inventories and receivables. In parallel with this drive to cut fixed costs, we are also implementing a plan to reduce variable costs in each business unit. Together, these various initiatives are helping to streamline the Nikon Group and create a more effective business structure capable of responding to rapid external change.

Strengthening core businesses

The competitiveness of our core stepper business remains a key issue. We are boosting our development capabilities and further refining our production technology to give us the required edge over competitors in bringing new models to market. In our Imaging Products business, our goal is to establish a production system that can enable us to thrive amid intensifying price competition as we try to deepen our penetration of the consumer digital camera market. To this end, we have newly established a manufacturing subsidiary for digital cameras and other imaging products in the city of Wuxi, China (Jiangsu Province). Production is due to commence at the new plant in April 2003. Together with our existing facility in Thailand, this will give us two major offshore production bases.

Technological development to prepare for a future industrial structure

In a plan to realize a creative society based on science and technology, the Japanese government has identified and promoted four key areas—information and communication technologies, life sciences, nanotechnology and materials, and the environmental sciences. Our business encompasses three of these. We plan to invest aggressively in R&D related to these areas, building on the base of expertise that we have acquired over the years in opto-electronics. We anticipate these efforts will help expand our business into new fields.

Already, we are making progress on several product development fronts. In information and communication technologies, we are expanding our imaging products business (especially digital cameras) into related software. Chemical mechanical polishing (CMP) systems as well as measuring and inspection equipment are helping us expand our semiconductor-related business and stabilize earnings. We also plan to expand our business field for optical communications components, and invest in new areas related to micro electro mechanical systems (MEMS). In life sciences, our innovation in microscopes promises to deliver exciting new advances in medical and biochemical fields. Technical development work related to nanotechnology and materials is underway in parallel in both Precision Equipment and Instruments. By leveraging the advantages gained through this endeavor, we will continue to challenge new areas of business.

FOCUS ON RAISING CORPORATE VALUE

People, technology and the power of the Nikon brand promise to play the major roles in restoring our profitability quickly and enhancing our corporate value. We are working to boost the effectiveness of each of these three key elements. First, we are placing increased emphasis on human resource development at a number of levels. In line with the goal stated in the Vision Nikon 21 plan formulated in March 2000 to create a company characterized by trustworthiness and creativity, we are reiterating the importance of these qualities at the individual level and putting in place a range of Groupwide incentives to make Nikon a more dynamic and creative force.

By leveraging the combined specialist skills of our employees with the wealth of technical expertise within the company and the power of the Nikon brand, we believe that we can clear a broad path of new business development for this century that will provide us with the opportunities to reverse our fortunes in the current harsh operating environment. We feel confident that the collective focus of our concerted actions across the Nikon Group will translate into enhanced corporate value. We ask for the continued support of our shareholders as we strive to meet such expectations.

July 2002

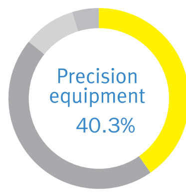
Shoichiro Yoshida

Shoichiro Yoshida
Chairman of the Board and Chief Executive Officer

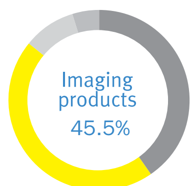
Teruo Shimamura

Teruo Shimamura
President, Member of the Board and Chief Operating Officer

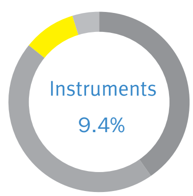
Review of Operations



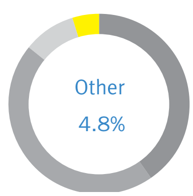
IC and LCD steppers



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

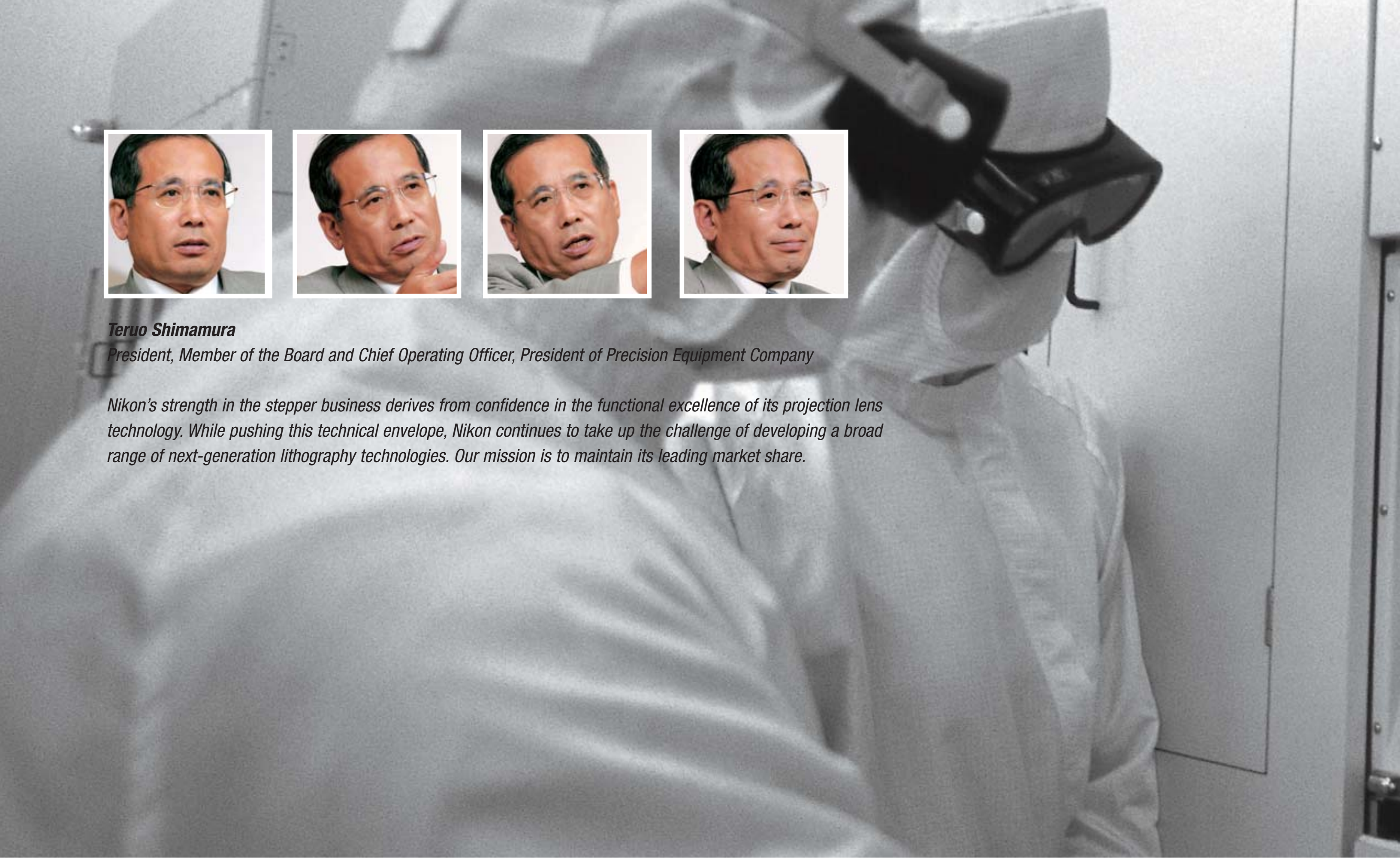


Biological microscopes, industrial microscopes, measuring instruments, inspection equipment



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

Net Sales for Outside Customers by Industry Segment



Teruo Shimamura
President, Member of the Board and Chief Operating Officer, President of Precision Equipment Company

Nikon's strength in the stepper business derives from confidence in the functional excellence of its projection lens technology. While pushing this technical envelope, Nikon continues to take up the challenge of developing a broad range of next-generation lithography technologies. Our mission is to maintain its leading market share.

Precision Equipment

Severe operating conditions prevailed in the fiscal year ended March 31, 2002. The slump in the semiconductor market, which spread from Taiwan to Japan and then to the United States, resulted in a steep decline in sales at Precision Equipment Company as customers postponed equipment deliveries and canceled orders. Sales fell 15.3% year on year to ¥199.0 billion, while operating income plunged 91.8% to ¥3.6 billion.

In IC steppers, Precision Equipment Company undertook several measures to rationalize and strengthen its development and manufacturing operations. These included the merger of the Design Department into the Kumagaya Plant and the commencement of the production of calcium fluoride crystal for steppers at the Sagamihara Plant. Aggressive marketing activities helped to increase sales of the latest excimer steppers, but failed to compensate fully for drastic cuts in capital spending by chip manufacturers. Sales of IC steppers fell steeply as a result. In LCD steppers, Precision Equipment Company focused marketing efforts on the FX-701M stepper for medium-sized LCD panel production and the FX-21S stepper for large LCD panels. As a result, we achieved a high level of sales, almost on a par with the previous year.

The outlook for semiconductor-related business remains uncertain in the year to March 2003. The foremost strategic question that Precision Equipment Company must address is how to construct its business so as to lessen susceptibility to fluctuations in the silicon cycle and is aiming to maintain profits even at the bottom of the cycle. The company is taking a variety of measures to improve its resilience, such as squeezing the fixed cost base, including improvements in personnel flow and reducing variable costs; reducing production lead times; and revising contractual trade practices.

As demonstrated by the development of the NSR-S306C stepper, which boasts the world's highest resolution, Nikon continues to push the envelope of stepper technology based on its technical strengths in projection lenses. At the same time, the company recognizes that it needs to become increasingly proactive toward customers with regard to entire stepper system proposals. In other words, solution capabilities hold the key to sustained sales growth.

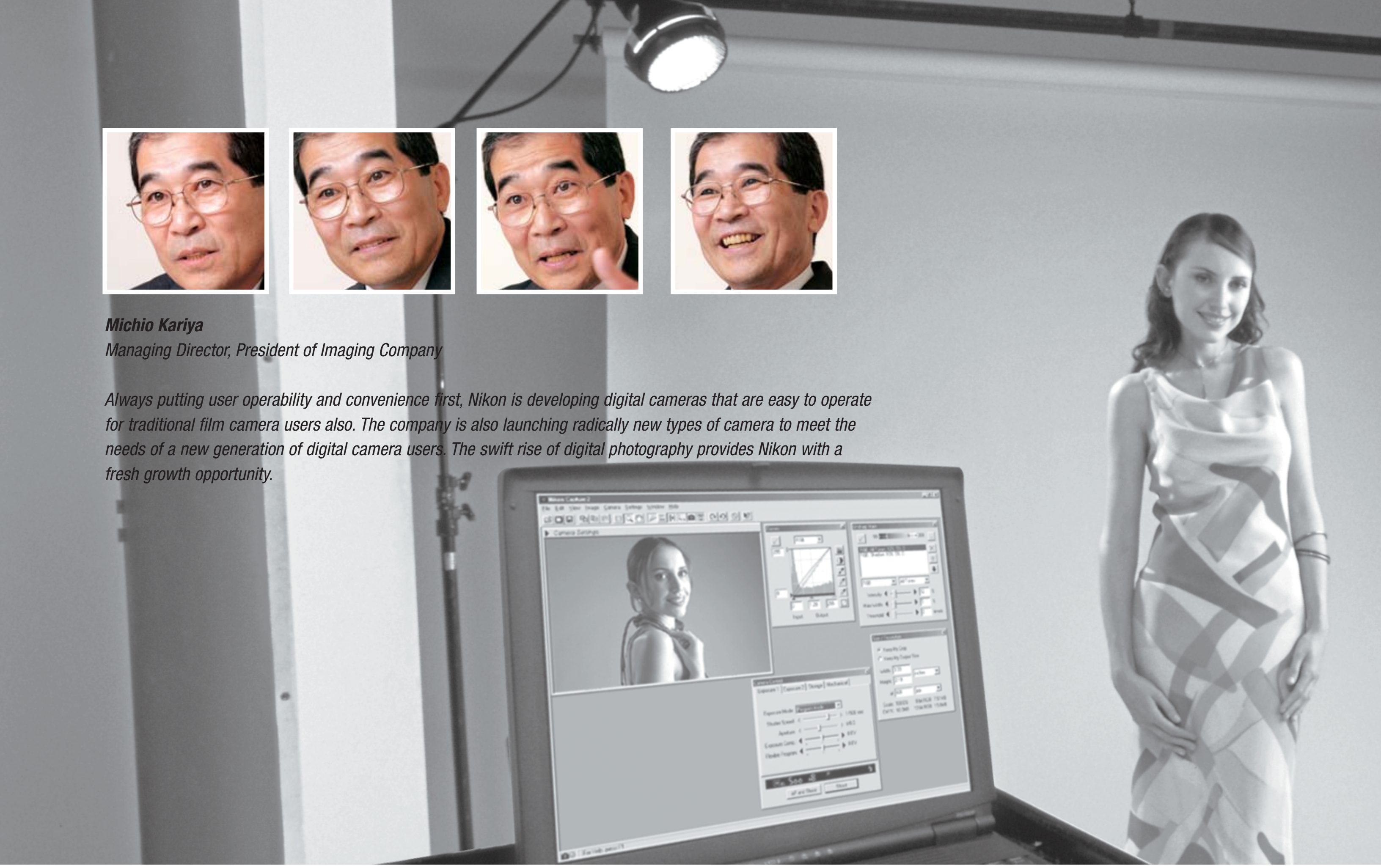
Work continues apace on the development of next-generation steppers. The company recognizes three principal contenders for next-generation lithography— electron beam projection lithography (EPL), F_2 laser lithography, and extreme ultraviolet lithography (EUVL). The company is continuing development work in each of these areas so it can respond to demand from all quarters. Regarding EPL, the company has already secured an order for a model for R&D from Semiconductor Leading Edge Technologies, Ltd. (Selete), a firm engaged in R&D into related devices. Delivery is scheduled for mid-2003. Leading chip manufacturers and other equipment manufacturers, together with Nikon, have established a technical R&D forum for the development of EUVL system. Such moves to develop commercial next-generation lithographic technology will help to ensure Nikon retains its position as the world's leading supplier of steppers.

NSR-S306C
ArF excimer stepper with ultra-high N.A. lens (N.A. of 0.78)

NSR-S205C
KrF excimer stepper applicable to mass production of devices up to 130-nm

FX-701M
LCD stepper for production of medium-sized LCD panels

FX-21S
LCD stepper for production of large LCD panels



Michio Kariya
Managing Director, President of Imaging Company

Always putting user operability and convenience first, Nikon is developing digital cameras that are easy to operate for traditional film camera users also. The company is also launching radically new types of camera to meet the needs of a new generation of digital camera users. The swift rise of digital photography provides Nikon with a fresh growth opportunity.

Imaging Products

Initial projections were that strong growth in demand for digital cameras would prop up growth in the overall camera market. The terrorist attacks in the United States in September 2001 caused the North American market to cool off, however. We were able to avoid negative effects on our business performance by undertaking thorough cost-reduction measures, accelerating marketing efforts and achieving a rapid adjustment in inventory and production levels. Sales increased 23.0% year on year to ¥221.6 billion, while operating income soared 53.6% to ¥16.1 billion.

The company continued to augment the range of digital cameras designed for photographers, from professionals to average consumers alike. Major new product launches included SLR-type digital cameras such as the D1X and D1H models, the COOLPIX 5000 and COOLPIX 885 (with 5.0 and 3.2 effective megapixels, respectively), and the COOLPIX 2500, which incorporates an inner-swivel lens design. Profits from the digital camera segment proved healthy. In particular, the Nikon brand dominates the market for professional SLR-type digital cameras. Building on this position, in June 2002 the company sought to expand its success into the high end of the mass consumer market when it launched the D100, an SLR-type digital camera that targets amateur enthusiasts and is planning to further develop businesses in the increasingly-competitive low-end of the digital camera market. To supply demand in this segment, the company newly established a manufacturing subsidiary for digital cameras and other imaging products in the city of Wuxi, China (Jiangsu Province).* Including the existing plant in Thailand, this provides Nikon with two major offshore production bases to supply major markets. Strong sales of the new SUPER COOLSCAN 8000 ED film scanner, which combines high image resolution with capabilities for different film formats, also contributed to the increase in sales in this segment.

In the traditional film camera market, Nikon expanded its market share by launching new products into a shrinking market. In particular, the Nikon U (F65 overseas, except the United States/N65 in the United States), as well as new models such as the FM3A, a manual focus model, and the Nikon Us (F55 overseas, except the United States/N55 in the United States), an ultra-compact, lightweight automatic model but with advanced features, contributed to overall sales growth. This was largely the result of past marketing efforts, which have helped to position the Nikon brand as a guarantor of high picture quality and advanced functionality. Besides this high-quality brand image, sales of Nikon cameras also benefited as the company launched new easy-to-use models designed to expand the market by appealing to young users. The company plans to continue this successful brand strategy in the future.

Business development efforts are focused principally on related digital camera services in the high growth digital camera market. The company has already commenced online services for customers, including printing, album production and picture-sharing services. The company plans to expand such initiatives by using the Internet to introduce users to camera-repair outlets and related services. Through investment in local production facilities and heightened sales capabilities, the company is also gearing up to supply demand in the Chinese market, which harbors high growth potential.

*Plan to commence operations in April 2003.

D100
SLR-type digital camera for amateur photography enthusiasts

Nikon Us
Ultra-compact, ultra-light SLR camera with advanced functions

COOLPIX 2500
Digital camera with a unique inner-swivel lens design

SUPER COOLSCAN 8000 ED
Film scanner featuring high image resolution, multiple film formats

Takashi Tamori
Executive Officer, President of Instruments Company

The life sciences field promises accelerated development opportunities as medical and biochemical applications expand. Nikon's advanced technical expertise in biological microscopes is also broadening the company's horizons steadily. At the start of a new century, Instruments Company's focus is trained on the ongoing revolution in the field of microscopy.

Instruments

Although sales of biological microscopes grew relative to the previous year, the slump in semiconductor-related markets had severely negative repercussions for sales of industrial microscopes and semiconductor inspection equipment. Overall, sales fell 21.0% year on year to ¥46.6 billion, while operating income plunged 91.0% to ¥0.5 billion.

Sales of biological microscopes benefited from buoyant demand from the biotechnology research sector in the United States. The company launched two new models during the year—the ECLIPSE TE2000, for research-use inverted microscopy, and the DIGITAL ECLIPSE C1, modular confocal microscope system. The ECLIPSE TE2000 received high marks from customers for its functional expandability in a variety of applications, while the DIGITAL ECLIPSE C1 promises to achieve good sales due to its specialized optics, which permit the observation for high-contrast image of intercellular structure. In industrial microscopes, although we worked to expand sales of models featuring networked digital cameras, the knock-on effects of substantially reduced capital investment in the semiconductor industry had a strongly negative impact on overall segment sales, particularly in Japan and the rest of Asia.

In measuring instruments, lower demand for electronic component resulted in sales falling relative to the previous year, despite the launch of the NEXIV VMR computerized numerical control (CNC) video measuring system.

Sales of semiconductor inspection equipment also fell as intense promotional efforts linked to the launch of new models such as the NRM-3000 overlay measuring system and the OPTISTATION-3100 IC wafer inspection system failed to offset reduced demand following the slump in the broader market. Nikon expects sales of process management and inspection equipment designed to handle 300-mm IC wafers to contribute to rising sales within this fiscal year as semiconductor production revives.

In other areas, Nikon is developing a new projector-related business by leveraging its expertise in the science of optical and alignment technologies to develop an optics engine for reflective-type LCD projectors.

The company aims to further establish its measuring and inspection equipment business as semiconductor-related demand grows, both as a result of a recovery in chip production levels and of moves by customers to switch to new technology. In microscopes, Nikon plans to capitalize on its expertise in digital imaging and networked system products to expand sales in the field of advanced research. In the year ended March 2002, the company established a new sales and marketing subsidiary in Europe, Nikon Instruments Europe B.V. Moves to reorganize the global sales network remain ongoing—for instance, Nikon is looking to build a sales system in the Chinese market. The company continues to focus on a variety of business development initiatives to insulate its operations better from the effects of the economic cycle.

ECLIPSE TE2000
Inverted research microscope featuring flexible expandability for multiple applications

DIGITAL ECLIPSE C1
Modular confocal microscope system providing a high-contrast image of intercellular structure

NRM-3000
Overlay measuring system for process management support of 300-mm IC wafers

OPTISTATION-3100
IC wafer inspection system for 300-mm IC wafers

Field Station GF-300N Series*
Reflectorless surveying system

**Pulse Laser Station NPL-821 in overseas markets*

SPORTER I 8x36DCF
Outdoor leisure use binoculars providing enhanced visibility

PROGUE NEXIA
Ophthalmic frames using the world's first earpiece tips made from shape-memory plastic

Other

Sales in this segment rose 10.5% to ¥48.2 billion, while operating income declined 8.8% to ¥1.6 billion.

Despite lower sales of optical communications-related components as a result of the general downturn in IT markets, sales increased at the Customized Products Division as Nikon commenced full-scale supply of optical systems for satellite sensor applications. The division is focusing its efforts on the optical communications field, where its gain flattening filters have been well received.

In binocular and telescope products, whose operations were spun off into an independent subsidiary in May 2001, sales grew as compact binoculars designed for sporting events and outdoor leisure use performed well in the American market. The sales outlook in overseas markets remains favorable in this segment, and new model introductions are planned for the coming year.

Sales of surveying instruments were negatively impacted by the downturn in related markets, despite increased marketing efforts following the addition of new production capacity. Nikon projects that this market is likely to remain depressed in the short term, but expects sales to recover in the second half of the coming year on the back of new product launches.

In ophthalmic lenses, frames and sunglasses, poor market conditions persisted. Although Nikon posted higher sales of high-value-added ophthalmic lenses, such as progressive addition lenses, extensive retail discounting within the market for ophthalmic frames and sunglasses depressed overall results. Nikon plans to expand sales by concentrating on high-value-added product ranges, both in Japan and in overseas markets. The company is also rationalizing its sales network for ophthalmic frames and sunglasses—for instance, it has discontinued operations at U.S. sales subsidiary Nikon Eyewear Inc. Nikon aims to raise its cost competitiveness in this area through expansion of its overseas procurement program.

As a result of the sudden downturn in the semiconductor market, Nikon failed to launch its chemical mechanical polishing (CMP) system business fully during the year. However, since we have firmly established a strong technical reputation in next-generation chip manufacturing-related processes, we expect to be able to grab market share in the high-end segment of the CMP system market in the future.

Five-Year Summary

Nikon Corporation and Consolidated Subsidiaries

Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2002	2001	2000	1999	1998	**2002**
For the year						
Net sales	**¥482,975**	¥ 483,957	¥371,801	¥ 305,765	¥372,146	**$ 3,624,582**
Cost of sales	**306,793**	301,759	247,473	205,984	224,546	**2,302,387**
SG&A expenses	**153,943**	120,775	105,894	108,522	120,123	**1,155,295**
Operating income (loss)	**22,239**	61,423	18,434	(8,741)	27,477	**166,900**
Income (loss) before income taxes and minority interest	**2,755**	29,827	11,479	(17,447)	18,929	**20,678**
Net income (loss)	**(6,004)**	20,911	7,770	(18,233)	8,318	**(45,056)**
Per share of common stock (Yen and U.S. dollars):						
Net income (loss)	**¥ (16.23)**	¥ 56.53	¥ 21.01	¥ (49.29)	¥ 22.48	**$ (0.12)**
Cash dividends applicable to the year	**4.00**	8.00	5.00	3.00	8.00	**0.03**
Capital expenditures	**¥ 33,546**	¥ 25,996	¥ 13,881	¥ 20,719	¥ 26,168	**$ 251,749**
Depreciation and amortization	**17,917**	16,007	17,251	20,110	18,407	**134,463**
R&D costs	**27,313**	22,794	17,798	18,729	21,633	**204,977**
At year-end						
Total assets	**¥561,276**	¥ 593,454	¥502,175	¥ 474,965	¥507,326	**$ 4,212,202**
Shareholders' equity	**176,961**	186,119	166,495	160,991	171,051	**1,328,036**

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.
2. U.S. dollar figures are translated for reference only at ¥133.25 to U.S. $1.00, the exchange rate at March 31, 2002.

Management's Discussion and Analysis of Operations

OPERATING ENVIRONMENT

In the fiscal year ended March 31, 2002, strong consumer spending helped support the U.S. economy amid fears that the terrorist attacks would prompt a sharper slowdown. Signs emerged by the end of the year that the economy had bottomed and was already recovering. In Europe, however, recessionary trends intensified as both exports and capital investment faltered. Economic growth was also weak overall in Asia.

In Japan, consumer spending remained lackluster, while capital investment tumbled sharply. Harsh business conditions prevailed as the economy tipped back into recession.

An unprecedented slump in the market for semiconductors impacted both the Precision Equipment and Instruments of the Nikon Group business. Exceptionally poor business conditions prevailed as the market underwent widespread structural changes. In contrast, the Imaging Products benefited as the digital camera market continued to expand briskly.

Net Sales by Industry Segment

Years ended March 31, 2002 and 2001

	Millions of Yen, %		Thousands of U.S. Dollars
	2002	2001	**2002**
Precision Equipment	**¥ 198,991**	¥234,808	**$ 1,493,369**
Share of net sales	**41.2%**	48.5%	
Imaging Products	**221,577**	180,112	**1,662,870**
Share of net sales	**45.9**	37.2	
Instruments	**46,641**	59,008	**350,028**
Share of net sales	**9.6**	12.2	
Other	**48,176**	43,610	**361,545**
Share of net sales	**10.0**	9.0	
Total	**¥ 515,385**	¥517,538	**$ 3,867,812**
(Elimination)	**(32,410)**	(33,581)	**(243,230)**
	(6.7)	(6.9)	
Consolidated	**¥ 482,975**	¥483,957	**$ 3,624,582**

OPERATIONAL REVIEW AND ANALYSIS

During the year, the Nikon Group worked to further promote its in-house company system. Together with an enhanced focus on consolidated management of operations within each company, this helped to fortify the Group earnings structure. Efforts focused on providing products and services to deliver customer satisfaction, on reducing costs as far as possible, and on squeezing inventories and trade receivables. However, the sheer scale of the downturn in the semiconductor market–the most severe ever recorded historically–inevitably had a strongly negative impact on the Nikon Group business. Consolidated net sales totaled ¥483.0 billion, a decline of ¥1.0 billion, or 0.2%, relative to the previous year. Nikon recorded a consolidated net loss of ¥6.0 billion.

Breaking down the results by business segment, Precision Equipment posted ¥199.0 billion in net sales, a decrease of 15.3%, and ¥3.6 billion in operating income. Although sales of LCD steppers remained roughly on a par with the previous year, sales of IC steppers fell sharply as semiconductor manufacturers made huge cuts in their capital spending budgets. Imaging Products benefited from continued growth in the digital camera market, posting an increase in net sales of 23.0% to ¥221.6 billion, alongside operating income of ¥16.1 billion. Instruments recorded net sales of ¥46.6 billion, a 21.0% decrease relative to the previous year, principally as a result of poor sales of industrial microscopes. Operating profit for the segment amounted to ¥0.5 billion.

In Japan, Imaging Products successfully boosted its sales as a result of ongoing expansion in the digital camera market. Meanwhile Precision Equipment and Instruments deteriorated markedly as the sudden fall-off in demand within the semiconductor market led to major reductions in levels of capital investment by semiconductor manufacturers. As a result, total sales in Japan decreased by 11.7% to ¥374.5 billion, while operating income amounted to ¥5.7 billion.

In contrast, results in overseas markets improved. In North America, steady growth in the digital camera market combined with sales of IC steppers that held up relatively well. Overall, sales rose 42.6% to ¥205.8 billion, producing operating income of ¥6.9 billion. In Europe, although sales of IC steppers declined, this was offset by higher sales of digital cameras as Nikon launched new products into a growing market. In Europe, sales grew by 7.4% to ¥83.4 billion, although operating income dipped to ¥2.3 billion. In Asia, Nikon boosted production capacity at existing manufacturing bases within Imaging Products. The initiation of direct sales operations in Singapore and Malaysia made a significant contribution to sales growth. Overall, regional sales rose 59.7% to ¥39.9 billion, generating operating income of ¥2.9 billion.

Income Analysis

Years ended March 31, 2002 and 2001

	(% of Net Sales) 2002	2001
Net sales	**100.0%**	100.0%
Cost of sales	**(63.5)**	(62.4)
Gross profit	**36.5**	37.6
SG&A expenses	**(31.9)**	(24.9)
Operating income	**4.6**	12.7
Net interest expense and dividend income	**(0.5)**	(0.6)
Net other income (expenses)	**(3.5)**	(5.9)
Income before income taxes and minority interest	**0.6**	6.2
Income taxes	**(1.8)**	(1.9)
Minority interest	**(0.0)**	(0.0)
Net income (loss)	**(1.2)**	4.3

Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis

March 31, 2002 and 2001

	(% of Total Assets) 2002	2001
Total assets	**100.0%**	100.0%
Total current assets	**65.5**	70.1
Inventories	**37.1**	33.7
Property, plant and equipment	**20.2**	16.5
Investments and other assets	**14.3**	13.4
Total current liabilities	**50.0**	54.5
Short-term borrowings	**19.9**	14.0
Long-term debt, less current portion	**14.5**	12.1
Shareholders' equity	**31.5**	31.4

FINANCIAL REVIEW AND ANALYSIS

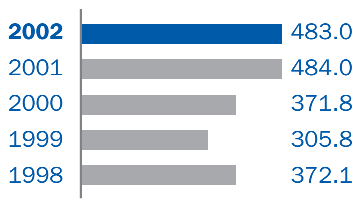
At fiscal year-end, total assets amounted to ¥561.3 billion, down ¥32.2 billion, or 5.4%, relative to the previous fiscal year-end. This decline mainly reflected lower sales, which reduced trade receivables. Current assets decreased by ¥48.2 billion, or 11.6%.

A reduction in trade payables helped to offset a rise in interest-bearing liabilities. Overall, total liabilities decreased by ¥23.0 billion.

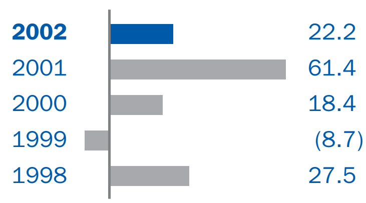
Final cash dividend payments in 2002 totaled ¥3.0 billion. Net loss for the year amount to ¥6.0 billion. After accounting for an increase of ¥0.7 billion in the adjustment of retained earnings for newly consolidated subsidiaries and other factors, the net decrease in total shareholders' equity amounted to ¥9.2 billion.

In terms of cash flows, cash and cash equivalents at year-end amounted to ¥24.6 billion. Net cash used by operating activities totaled ¥9.5 billion mostly caused by the payments of account receivables, income taxes and collection of account receivables. Net cash used in investing activities to fund capital expenditure, mainly related to expansion of production capacity, and other factors amounted to ¥25.9 billion. Net cash provided by financing activities generated a compensating inflow of ¥25.1 billion, principally due to increased issuance of commercial paper and higher short-term borrowings.

Net Sales
(¥ Billion)

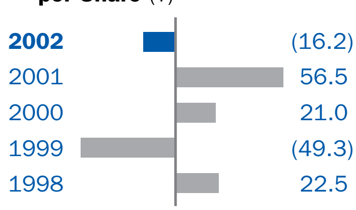


Operating Income (Loss)
(¥ Billion)

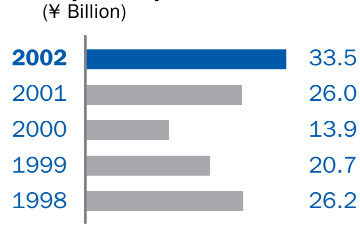


Net Income (Loss)
(¥ Billion)

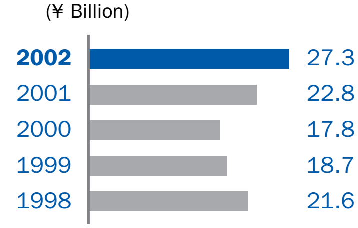
Net Income (Loss) per Share (¥)



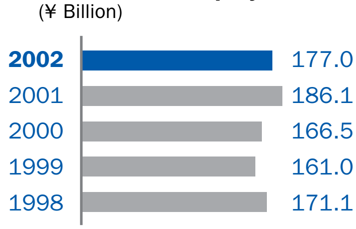
Capital Expenditures
(¥ Billion)



R&D Costs
(¥ Billion)



Shareholders' Equity
(¥ Billion)



Return on Equity (%)

Consolidated Balance Sheets

Nikon Corporation and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
ASSETS			
Current assets			
Cash and cash equivalents	**¥ 24,614**	¥ 33,732	**$ 184,724**
Notes and accounts receivable — trade (Note 6):			
Customers	**102,409**	140,587	**768,547**
Unconsolidated subsidiaries and associated companies	**558**	763	**4,188**
Allowance for doubtful receivables	**(3,047)**	(2,623)	**(22,865)**
Inventories (Note 5)	**208,411**	199,798	**1,564,059**
Deferred tax assets (Note 10)	**17,787**	26,693	**133,484**
Other current assets (Note 4)	**16,921**	16,952	**126,984**
Total current assets	**367,653**	415,902	**2,759,121**
Property, plant and equipment			
Land	**16,812**	15,867	**126,168**
Buildings and structures	**90,441**	84,893	**678,731**
Machinery and equipment	**115,153**	101,271	**864,190**
Furniture and fixtures	**54,454**	51,795	**408,662**
Construction in progress	**13,188**	11,518	**98,974**
Total	**290,048**	265,344	**2,176,725**
Accumulated depreciation	**(176,929)**	(167,108)	**(1,327,798)**
Net property, plant and equipment	**113,119**	98,236	**848,927**
Investments and other assets			
Investment securities (Notes 4 and 6)	**45,352**	53,214	**340,353**
Investments in unconsolidated subsidiaries and associated companies	**5,143**	4,757	**38,595**
Long-term loans:			
Employees and other	**670**	739	**5,027**
Unconsolidated subsidiaries and associated companies	**32**	35	**241**
Allowance for doubtful receivables	**(104)**	(83)	**(779)**
Software	**5,746**	5,598	**43,121**
Security deposit	**3,304**	3,605	**24,796**
Deferred tax assets (Note 10)	**14,911**	5,370	**111,906**
Other	**5,450**	6,081	**40,894**
Total investments and other assets	**80,504**	79,316	**604,154**
Total	**¥ 561,276**	¥ 593,454	**$ 4,212,202**

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Note 6)	**¥ 111,795**	¥ 82,996	**$ 838,987**
Current portion of long-term debt (Note 6)	**16,541**	25,351	**124,133**
Notes and accounts payable — trade:			
Suppliers	**78,305**	113,800	**587,652**
Unconsolidated subsidiaries and associated companies	**560**	1,044	**4,206**
Income taxes payable	**1,299**	22,023	**9,748**
Accrued expenses	**37,684**	38,886	**282,807**
Other current liabilities (Note 10)	**34,306**	39,303	**257,458**
Total current liabilities	**280,490**	323,403	**2,104,991**
Long-term liabilities			
Long-term debt (Note 6)	**81,626**	71,804	**612,577**
Liability for employees' retirement benefits (Note 7)	**17,419**	10,024	**130,728**
Other long-term liabilities (Note 10)	**4,622**	1,928	**34,683**
Total long-term liabilities	**103,667**	83,756	**777,988**
Minority interests	**158**	176	**1,187**
Commitments and Contingent liabilities (Notes 12, 13 and 14)			
Shareholders' equity			
Common stock (Note 8):			
Authorized — 1,000,000,000 shares			
Issued — 369,945,332 shares in 2002 and 369,927,584 shares in 2001	**36,661**	36,661	**275,128**
Additional paid-in capital (Note 8)	**51,924**	51,910	**389,677**
Retained earnings (Note 8)	**88,725**	96,560	**665,857**
Unrealized gain on available-for-sale securities	**1,079**	4,715	**8,098**
Foreign currency translation adjustments	**(1,265)**	(3,726)	**(9,496)**
Total	**177,124**	186,120	**1,329,264**
Treasury stock, at cost :			
139,969 shares in 2002 and 632 shares in 2001	**(163)**	(1)	**(1,228)**
Total shareholders' equity	**176,961**	186,119	**1,328,036**
Total	**¥ 561,276**	¥ 593,454	**$ 4,212,202**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

Nikon Corporation and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Net sales (Note 3)	**¥ 482,975**	¥ 483,957	**$ 3,624,582**
Cost of sales (Note 3)	**306,793**	301,759	**2,302,387**
Gross profit	**176,182**	182,198	**1,322,195**
Selling, general and administrative expenses (Notes 3 and 9)	**153,943**	120,775	**1,155,295**
Operating income	**22,239**	61,423	**166,900**
Other income (expenses)			
Interest and dividend income	**1,149**	1,413	**8,625**
Interest expense	**(3,659)**	(4,331)	**(27,456)**
Write-down of inventories	**(7,112)**	(2,647)	**(53,371)**
Loss on disposals of inventories	**(2,185)**	(10,506)	**(16,399)**
Loss on sales of investment securities	**(3,358)**	(1,668)	**(25,201)**
Loss on disposals of property, plant and equipment	**(1,161)**	(1,124)	**(8,713)**
Gain on sales of property, plant and equipment	**3,180**	4,575	**23,868**
Gain on sales of investment securities	**1,800**		**13,506**
Gain on securities contributed to employees' retirement benefit trusts (Note 2 (f))		1,724	
Charge for transitional obligations for employees' retirement benefits (Note 2 (f))	**(9,755)**	(16,459)	**(73,206)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**549**	39	**4,118**
Other-net	**1,068**	(2,612)	**8,007**
Other income (expenses)-net	**(19,484)**	(31,596)	**(146,222)**
Income before income taxes and minority interest	**2,755**	29,827	**20,678**
Income taxes (Note 10)			
Current	**3,454**	26,978	**25,920**
Deferred	**5,304**	(18,077)	**39,807**
Total income taxes	**8,758**	8,901	**65,727**
Minority interest	**1**	15	**7**
Net income (loss)	**¥ (6,004)**	¥ 20,911	**$ (45,056)**

	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 2 (o))**:**			
Net income (loss)	**¥ (16.23)**	¥ 56.53	**$ (0.12)**
Cash dividends applicable to the year	**4.00**	8.00	**0.03**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Nikon Corporation and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT APRIL 1, 2000	369,928	¥ 36,661	¥ 51,910	¥ 77,950			¥ (26)
Net income				20,911			
Cash dividends, ¥6.5 per share				(2,405)			
Bonuses to directors and corporate auditors				(30)			
Adjustment of retained earnings for newly consolidated subsidiaries				134			
Net increase in unrealized gain on available-for-sale securities					4,715		
Net decrease in foreign currency translation adjustments						(3,726)	
Sales of treasury stock, net of purchases							25
BALANCE AT MARCH 31, 2001	**369,928**	**¥ 36,661**	**¥ 51,910**	**¥ 96,560**	**¥ 4,715**	**¥ (3,726)**	**¥ (1)**
Stock issued under exchange offerings	**17**		**14**				
Net loss				**(6,004)**			
Cash dividends, ¥8.0 per share				**(2,959)**			
Bonuses to directors and corporate auditors				**(50)**			
Adjustment of retained earnings for newly consolidated subsidiaries				**692**			
Adjustment of retained earnings for additional application of equity method				**352**			
Increase by merger between non-consolidated subsidiary and consolidated subsidiary				**134**			
Net decrease in unrealized gain on available-for-sale securities					**(3,636)**		
Net increase in foreign currency translation adjustments						**2,461**	
Purchase of treasury stock, net of sales							**(162)**
BALANCE AT MARCH 31, 2002	**369,945**	**¥ 36,661**	**¥ 51,924**	**¥ 88,725**	**¥ 1,079**	**¥ (1,265)**	**¥ (163)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2001	**$275,128**	**$389,566**	**$724,654**	**$ 35,388**	**$(27,964)**	**$ (7)**
Stock issued under exchange offerings		**111**				
Net loss			**(45,056)**			
Cash dividends, U.S.$0.06 per share			**(22,207)**			
Bonuses to directors and corporate auditors			**(375)**			
Adjustment of retained earnings for newly consolidated subsidiaries			**5,196**			
Adjustment of retained earnings for additional application of equity method			**2,640**			
Increase by merger between non-consolidated subsidiary and consolidated subsidiary			**1,005**			
Net decrease in unrealized gain on available-for-sale securities				**(27,290)**		
Net increase in foreign currency translation adjustments					**18,468**	
Purchase of treasury stock, net of sales						**(1,221)**
BALANCE AT MARCH 31, 2002	**$275,128**	**$389,677**	**$665,857**	**$ 8,098**	**$ (9,496)**	**$ (1,228)**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Nikon Corporation and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Operating activities:			
Income before income taxes and minority interest	**¥ 2,755**	¥ 29,827	**$ 20,678**
Adjustments for:			
Income taxes-paid	**(29,711)**	(8,592)	**(222,968)**
Depreciation and amortization	**17,917**	16,007	**134,463**
Provision for employees' retirement benefits	**7,304**	10,024	**54,814**
Loss on sales or disposal of property, plant and equipment	**1,258**	1,251	**9,443**
Gain on sales of property, plant and equipment	**(3,180)**	(4,575)	**(23,868)**
Loss on sales of investment securities	**3,358**	1,668	**25,201**
Gain on sales of investment securities	**(1,800)**		**(13,506)**
Other-net	**235**	6,960	**1,761**
Change in assets and liabilities:			
Decrease (increase) in notes and accounts receivable — trade	**42,719**	(12,633)	**320,591**
Increase in inventories	**(4,246)**	(41,944)	**(31,868)**
Increase (decrease) in notes and accounts payable — trade	**(40,807)**	22,534	**(306,243)**
Other-net	**(5,273)**	14,397	**(39,572)**
Total adjustments	**(12,226)**	5,097	**(91,752)**
Net cash provided by (used in) operating activities	**(9,471)**	34,924	**(71,074)**
Investing activities:			
Capital expenditures	**(28,423)**	(18,184)	**(213,302)**
Proceeds from sales of property, plant and equipment	**3,517**	5,452	**26,397**
Purchases of investment securities	**(8,812)**	(5,090)	**(66,128)**
Proceeds from sales of investment securities	**8,489**	2,203	**63,709**
Net decrease in loans receivable	**653**	3,250	**4,897**
Other-net	**(1,276)**	(3,325)	**(9,583)**
Net cash used in investing activities	**(25,852)**	(15,694)	**(194,010)**
Financing activities:			
Net increase (decrease) in short-term borrowings	**27,814**	(2,943)	**208,738**
Proceeds from long-term debt	**26,156**	1,317	**196,290**
Repayments of long-term debt	**(25,740)**	(16,617)	**(193,170)**
Dividends paid	**(2,951)**	(2,392)	**(22,145)**
Other-net	**(166)**	1	**(1,248)**
Net cash provided by (used in) financing activities	**25,113**	(20,634)	**188,465**
Foreign currency translation adjustments on cash and cash equivalents	**581**	1,495	**4,359**
Net increase (decrease) in cash and cash equivalents	**(9,629)**	91	**(72,260)**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**352**	1,067	**2,640**
Cash and cash equivalents of deconsolidated subsidiaries, end of year	**(0)**		**(1)**
Cash and cash equivalents of merged previously non-consolidated subsidiary	**159**		**1,193**
Cash and cash equivalents, beginning of year	**33,732**	32,574	**253,152**
Cash and cash equivalents, end of year	**¥ 24,614**	¥ 33,732	**$ 184,724**
Non-cash investing and financing activities			
Assets increased by consolidation of subsidiaries previously unconsolidated	**¥ 544**	¥ 16,258	**$ 4,086**
Liabilities increased by consolidation of subsidiaries previously unconsolidated	**127**	231	**955**
Assets acquired and liabilites assumed by merger between non-consolidated subsidiary and consolidated subsidiary			
Land and buildings acquired	**259**		**1,943**
Other assets acquired	**87**		**654**
Long-term debt assumed	**70**		**525**
Other liabilities assumed	**41**		**308**

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nikon Corporation and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001

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 ¥133.25 to U.S.$1, the rate of exchange at March 31, 2002. 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 2001 financial statements to conform to classification used in 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2002 include the accounts of the Company and its 46 significant (41 in 2001) 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.

Investments in 2 associated companies (1 associated company in 2001) are 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 associated companies accounted for by the equity method at acquisition ("Goodwill") are principally 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, certificates of deposit, 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

Marketable and investment securities are 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 the near term are reported at fair value, and the related unrealized gains and losses are included in 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 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.

(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, and from 5 to 10 years for machinery and equipment.

(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.

Effective April 1, 2000, the Company and domestic subsidiaries adopted the new accounting standard for employees' retirement benefits and account 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 determined as of April 1, 2000 less securities contributed to the pension fund of ¥6,711 million is being amortized over two years commencing from the fiscal year ended March 31, 2001.

(g) Research and Development Costs

The Group is 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 provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The Group provides 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

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 transactions are recognized in the statements of operations to the extent that they are not hedged by forward exchange contracts.

(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.

(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 or speculative purposes.

All derivatives are recognized principally as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of operations. 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 fair value and the related unrealized gains or losses are recognized in income. Forward contracts entered into for forecasted transactions are also measured at fair value but the unrealized gains or losses on qualifying hedges are deferred until the underlying transactions are completed. The foreign currency swaps used to hedge the foreign currency fluctuations of long-term debt denominated in foreign currencies are measured at fair value and the unrealized gains or 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.

(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 effective from April 1, 2000. As a result of adopting the provisions of SAB 101, net sales and operating income decreased by ¥22,146 million and ¥4,547 million for the fiscal year ended March 31, 2001, respectively.

(o) Per Share Information

Net income or loss 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 369,833,275 shares and 369,924,491 shares for the fiscal years ended March 31, 2002 and 2001, respectively.

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.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the year ended March 31, 2001, and because of the Company's net loss position for the year ended March 31, 2002.

3. ACCOUNTING CHANGE

Effective April 1, 2001, service revenue and the related cost, which were previously presented in selling, general and administrative expenses as net amounts, are separately presented in net sales and cost of sales.

The effect of this change was to increase net sales, cost of sales, and selling, general and administrative expenses by ¥25,735 million ($193,136 thousand), ¥14,710 million ($110,391 thousand) and ¥11,025 million ($82,745 thousand), respectively, for the fiscal year ended March 31, 2002. This accounting change had no effect on operating income and income before income taxes and minority interests.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Current:			
Bank debentures and other	**¥ 0**	¥ 2	**$ 4**
Non-Current:			
Equity securities	**¥ 45,303**	¥ 52,378	**$ 339,983**
Trust bonds, debentures and other	**49**	836	**370**
Total	**¥ 45,352**	¥ 53,214	**$ 340,353**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2002 and 2001 were as follows:

	Millions of Yen			
March 31, 2002	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 39,114**	**¥ 6,413**	**¥ 4,554**	**¥ 40,973**
Debt securities	**48**	**0**	**0**	**48**
Total	**¥ 39,162**	**¥ 6,413**	**¥ 4,554**	**¥ 41,021**

	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	0	0	786
Total	¥ 40,552	¥ 11,090	¥ 2,961	¥ 48,681

	Thousands of U.S. Dollars			
March 31, 2002	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$293,541**	**$ 48,121**	**$ 34,167**	**$ 307,495**
Debt securities	**358**	**0**	**0**	**358**
Total	**$293,899**	**$ 48,121**	**$ 34,167**	**$ 307,853**

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Available-for-sale:			
Equity securities	**¥ 4,329**	¥ 4,483	**$ 32,489**
Other securities	**2**	50	**15**
Total	**¥ 4,331**	¥ 4,533	**$ 32,504**

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2002 and 2001 were ¥8,421 million ($63,196 thousand) and ¥2,203 million, respectively. Gross realized gains on these sales for the fiscal year ended March 31, 2002 were ¥1,800 million ($13,508 thousand) and gross realized losses on these sales for the fiscal years ended March 31, 2002 and 2001 were ¥3,358 million ($25,201 thousand) and ¥1,668 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2002 and 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
	Available for Sale	Available for Sale	Available for Sale
Due in one year or less	**¥ 0**	¥	**$ 5**
Due after one year through five years	**4**	4	**34**
Total	**¥ 4**	¥ 4	**$ 39**

5. INVENTORIES

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Finished and semi-finished products	**¥ 89,074**	¥ 72,893	**$ 668,473**
Work in process	**101,903**	110,752	**764,746**
Raw materials and supplies	**17,434**	16,153	**130,840**
Total	**¥ 208,411**	¥ 199,798	**$ 1,564,059**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Short-term loans, principally from banks:			
2002: 0.2500%-6.0000%			
2001: 0.4247%-7.9700%	**¥ 66,795**	¥ 50,996	**$ 501,276**
Commercial paper:			
2002: 0.0900%-0.4621%			
2001: 0.0092%-0.4050%	**45,000**	32,000	**337,711**
Total	**¥ 111,795**	¥ 82,996	**$ 838,987**

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Loans, principally from banks and insurance companies:			
2002: 0.700%-7.430% due 2002-2007			
2001: 0.700%-9.220% due 2001-2006	**¥ 13,167**	¥ 17,155	**$ 98,811**
Bonds	**85,000**	80,000	**637,899**
Total	**98,167**	97,155	**736,710**
Less: Current portion	**(16,541)**	(25,351)	**(124,133)**
Long-term debt, less current portion	**¥ 81,626**	¥ 71,804	**$ 612,577**

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).

			Millions of Yen		Thousands of U.S. Dollars
	Issued in	To be redeemed in	**2002**	2001	**2002**
4.85% Euro-Yen Unsecured Bonds	September 1994	December 2001	**¥**	¥10,000	**$**
2.95% Yen Unsecured Bonds	February 1996	February 2003	**10,000**	10,000	**75,047**
2.7% Yen Unsecured Bonds	February 1996	February 2002		10,000	
2.45% Yen Unsecured Bonds	March 1997	March 2004	**10,000**	10,000	**75,047**
2.7% Yen Unsecured Bonds	June 1997	June 2003	**10,000**	10,000	**75,047**
2.5% Yen Unsecured Bonds	November 1997	November 2007	**10,000**	10,000	**75,047**
2.575% Yen Unsecured Bonds	April 1998	April 2005	**10,000**	10,000	**75,047**
1.76% Yen Unsecured Bonds	August 1999	August 2004	**10,000**	10,000	**75,047**
1.0% Yen Unsecured Bonds	April 2001	April 2006	**10,000**		**75,047**
1.3% Yen Unsecured Bonds	December 2001	December 2006	**10,000**		**75,047**
1.7% Yen Unsecured Bonds	December 2001	December 2008	**5,000**		**37,523**
Total			**¥85,000**	¥80,000	**$ 637,899**

The aggregate annual maturities of long-term debt for the years following March 31, 2002 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2003	**¥16,541**	**$124,133**
2004	**22,683**	**170,227**
2005	**11,472**	**86,092**
2006	**12,455**	**93,471**
2007	**20,016**	**150,217**
Thereafter	**15,000**	**112,570**
Total	**¥98,167**	**$736,710**

At March 31, 2002, the following assets were pledged as collateral for the long-term debt:

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable–trade	**¥19,581**	**$146,949**
Investment securities	**6,961**	**52,240**
Total	**¥26,542**	**$199,189**

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Long-term debt, including current portion	**¥ 4,967**	**$ 37,277**

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 Group has never been requested to provide any additional collateral.

7. RETIREMENT AND PENSION PLANS

The Company and major domestic subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory pension plans. Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension benefits determined by reference to basic rates of pay at the time of termination, length of service and certain other factors.

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

The liability for employees' retirement benefits at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Projected benefit obligation	**¥115,380**	¥95,988	**$ 865,894**
Fair value of plans assets	**(66,437)**	(63,942)	**(498,592)**
Unrecognized actuarial loss	**(31,589)**	(12,279)	**(237,067)**
Unrecognized transitional obligation		(9,743)	
Net Liability	**17,354**	10,024	**130,235**
Prepayment of service cost	**65**		**493**
Net Liability	**¥ 17,419**	¥10,024	**$ 130,728**

The components of net periodic benefit costs for the fiscal years ended March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Service cost	**¥ 4,039**	¥ 3,861	**$ 30,312**
Interest cost	**3,080**	3,190	**23,118**
Expected return on plans assets	**(2,739)**	(2,477)	**(20,557)**
Amortization of transitional obligation	**9,755**	16,459	**73,206**
Amortization of service cost resulting from actuarial assumptions	**1,133**		**8,500**
Net periodic benefit costs	**¥ 15,268**	¥21,033	**$ 114,579**

Assumptions used for the fiscal years ended March 31, 2002 and 2001 were principally set forth as follows:

	2002	2001
Discount rate	**2.5%**	3.0%
Expected rate of return on plans assets	**4.0%**	4.0%
Recognition period of actuarial gain (loss)	**10 years**	10 years
Amortization period of transitional obligation	**2 years**	2 years

8. SHAREHOLDERS' EQUITY

The Company is subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective as from October 1, 2001. Prior to October 1, 2001, the Code required at least 50 per cent. 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 were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10 per cent. of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25 per cent. of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be determined based on total additional paid-in capital and legal reserves. The amount of total additional paid-in capital and legal reserve which exceeds 25 per cent. of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥5,565 million ($41,766 thousand) and

¥5,412 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

On March 1, 2002, the Company made Tochigi Nikon Corporation a wholly owned subsidiary through exchange offer procedures. The share exchange ratios were 1 common share of Tochigi Nikon Corporation for 0.58 shares of the Company. As a result, 17,748 shares of the Company's common stock were issued and additional-paid in capital was increased by ¥14 million ($111 thousand).

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

The stock option plan provides for granting options to directors and employees to purchase up to 60 thousand shares and 39 thousand shares, respectively, of the Company's common stock in the period from June 29, 2003 to June 28, 2011. The options will be granted at an exercise price of 105 percent of the higher of the average of daily closing prices on the market of the Company's common stock during the month proceeding the month in which the option is issued, and the closing price of the Company's stock on the market on the day the option is issued.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2002, retained earnings as recorded on the Company's books were ¥56,493 million ($423,959 thousand), which was available for future dividends subject to the approval of the shareholders and legal reserve requirements.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2002 and 2001 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Advertising expenses	**¥ 27,182**	¥19,655	**$ 203,995**
After service costs	**2,533**	18,387	**19,012**
Provision of warranty costs	**6,366**	6,034	**47,777**
Service revenue received		(30,812)	
Employees' salaries	**29,988**	27,152	**225,048**
Employees' retirement benefit plan	**3,663**	2,951	**27,490**
Employees' bonuses and others	**14,653**	14,662	**109,965**
Research and development costs	**27,313**	22,794	**204,977**

10. 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 per cent. for the respective years.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities, which were presented in other current assets, investments and other assets, other current liabilities and long-term liabilities at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Deferred tax assets:			
Inventories write down	**¥ 10,913**	¥16,581	**$ 81,895**
Warranty reserve	**2,465**	2,120	**18,498**
Liability for employees' retirement benefits	**9,207**	5,433	**69,097**
Depreciation and amortization	**9,635**	7,927	**72,303**
Net operating loss carryforwards	**2,019**	46	**15,157**
Other	**5,522**	10,120	**41,443**
Total	**¥ 39,761**	¥42,227	**$ 298,393**
Deferred tax liabilities:			
Deferred gains on sales of property to be replaced	**3,402**	2,468	**25,532**
Unrealized gain on available-for-sale securities	**781**	3,414	**5,864**
Undistributed earnings of foreign subsidiaries	**2,569**	2,545	**19,281**
Other	**3,254**	1,974	**24,418**
Total	**¥ 10,006**	¥10,401	**$ 75,095**
Net deferred tax assets	**¥ 29,755**	¥31,826	**$ 223,298**

A valuation allowance of ¥1,489 million ($11,175 thousand) in 2002 and ¥2,764 million in 2001 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2002 and 2001, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Year ended March 31,	
	2002	2001
Normal statutory tax rate	**42%**	42%
Consolidation adjustment on unrealizable profits in inventories	**238.8**	(16.7)
Undistributed earnings of associated companies		8.5
Dividends from foreign subsidiaries not applicable to foreign tax credits	**53.5**	1.5
Tax rate differences in foreign subsidiaries	**(26.1)**	(4.4)
Other-net	**9.7**	(1.1)
Actual effective tax rate	**317.9%**	29.8%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥27,313 million ($204,977 thousand) and ¥22,794 million for the fiscal years ended March 31, 2002 and 2001, respectively.

12. 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 ¥3,533 million ($26,518 thousand) and ¥3,492 million for the fiscal years ended March 31, 2002 and 2001, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within one year	**¥ 1,231**	¥ 1,001	**$ 9,240**
Due after one year	**2,448**	1,645	**18,367**
Total	**¥ 3,679**	¥ 2,646	**$ 27,607**

Pro forma information of leased property carried by finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of and for the fiscal years ended March 31, 2002 and 2001 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2002			**2002**		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥ 8,292**	**¥ 8,834**	**¥17,126**	**$ 62,226**	**$ 66,296**	**$ 128,522**
Accumulated depreciation	**4,697**	**5,238**	**9,935**	**35,246**	**39,311**	**74,557**
Net leased property	**¥ 3,595**	**¥ 3,596**	**¥ 7,191**	**$ 26,980**	**$ 26,985**	**$ 53,965**

	Millions of Yen		
	2001		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 8,490	¥ 9,730	¥18,220
Accumulated depreciation	5,439	5,550	10,989
Net leased property	¥ 3,051	¥ 4,180	¥ 7,231

Obligations under finance leases at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within one year	**¥ 2,711**	¥ 3,023	**$ 20,348**
Due after one year	**4,480**	4,208	**33,617**
Total	**¥ 7,191**	¥ 7,231	**$ 53,965**

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 operations, computed by the straight-line method, was ¥3,533 million ($26,518 thousand) and ¥3,492 million for the fiscal years ended March 31, 2002 and 2001, respectively.

13. DERIVATIVES

The Group enters into derivative contracts, 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 in changes in 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 derivative contracts 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.

Derivative contracts outstanding at March 31, 2002 and 2001 were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2002			**2002**		
	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	**¥ 4,023**	**¥ 3,985**	**¥ 38**	**$ 30,196**	**$ 29,909**	**$ 287**
Selling USD	**4,902**	**4,939**	**(37)**	**36,787**	**37,068**	**(281)**
Selling EUR	**5,819**	**5,875**	**(56)**	**43,666**	**44,089**	**(423)**
Selling GBP						
Buying JPY	**4,953**	**4,425**	**(528)**	**37,169**	**33,210**	**(3,959)**
Buying USD	**331**	**333**	**2**	**2,486**	**2,502**	**16**
Buying EUR	**2,300**	**2,329**	**29**	**17,264**	**17,478**	**214**
Buying DEM						
Buying GBP	**189**	**188**	**(1)**	**1,416**	**1,412**	**(4)**
Total			**¥ (553)**			**$ (4,150)**
Interest Rate Swaps:						
(fixed rate receipt, floating rate payment)	**¥ 30,000**	**¥ 865**	**¥ 865**	**$225,141**	**$ 6,496**	**$ 6,496**
(fixed rate payment, floating rate receipt)	**20,000**	**(833)**	**(833)**	**150,094**	**(6,252)**	**(6,252)**
Total	**¥ 50,000**	**¥ 32**	**¥ 32**	**$375,235**	**$ 244**	**$ 244**

	Millions of Yen		
	2001		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign Exchange Forward Contracts:			
Selling JPY	¥ 2,001	¥ 1,755	¥ 246
Selling USD	1,176	1,226	(50)
Selling EUR	6,247	6,816	(569)
Selling GBP	664	677	(13)
Buying JPY	21,793	18,125	(3,668)
Buying USD	156	162	6
Buying EUR	3,327	3,378	51
Buying DEM	1,926	1,914	(12)
Buying GBP	828	856	28
Total			¥ (3,981)
Interest Rate Swaps:			
(fixed rate receipt, floating rate payment)	¥ 30,000	¥ 1,384	¥ 1,384
(fixed rate payment, floating rate receipt)	20,000	(876)	(876)
Total	¥ 50,000	¥ 508	¥ 508

Derivatives which qualified for hedge accounting and related amounts were included with the associated assets and liabilities, and were excluded from disclosure of market value information in the preceding table.

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	**¥ 592**	**$ 4,441**
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	**9,215**	**69,157**
Total	**¥ 9,807**	**$73,598**

15. SUBSEQUENT EVENT

(a) The Company announced the expansion of the currently enacted employees' early retirement program with respect to the payment of additional benefits to employees who had selected early retirement. The management introduced the program in order to streamline the structure of the Company in light of harsh economic conditions. Candidates for the plan were limited to those employees who are 45 years of age or older, and the period of application was specified from April 15 to May 10, 2002 during which 455 employees of the Company applied. An additional retirement benefit of ¥8,686 million ($65,185 thousand), which will be charged to income for the year ending March 31, 2003, will be paid in addition to normal benefits.

(b) On June 17, 2002, the Company, upon approval by the Board of Directors, issued Zero Coupon Convertible Bonds due 2007 in the amount of ¥56,000 million ($420,263 thousand).

16. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2002 and 2001, 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, 2002							
Net sales							
Outside customers	**¥ 194,927**	**¥ 219,576**	**¥ 45,410**	**¥ 23,062**	**¥482,975**	**¥**	**¥482,975**
Intersegment sales/transfer	**4,064**	**2,001**	**1,231**	**25,114**	**32,410**	**(32,410)**	
Total	**198,991**	**221,577**	**46,641**	**48,176**	**515,385**	**(32,410)**	**482,975**
Operating expenses	**195,357**	**205,443**	**46,173**	**46,599**	**493,572**	**(32,836)**	**460,736**
Operating income	**¥ 3,634**	**¥ 16,134**	**¥ 468**	**¥ 1,577**	**¥ 21,813**	**¥ 426**	**¥ 22,239**
Assets	**¥ 282,209**	**¥ 108,203**	**¥ 34,801**	**¥ 43,431**	**¥468,644**	**¥ 92,632**	**¥561,276**
Depreciation and amortization	**12,694**	**3,011**	**726**	**1,486**	**17,917**		**17,917**
Capital expenditures	**23,265**	**8,386**	**736**	**1,159**	**33,546**		**33,546**
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

	Thousands of U.S. Dollars						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2002							
Net sales							
Outside customers	**$ 1,462,872**	**$1,647,849**	**$ 340,790**	**$ 173,071**	**$ 3,624,582**	**$**	**$ 3,624,582**
Intersegment sales/transfer	**30,497**	**15,021**	**9,238**	**188,474**	**243,230**	**(243,230)**	
Total	**1,493,369**	**1,662,870**	**350,028**	**361,545**	**3,867,812**	**(243,230)**	**3,624,582**
Operating expenses	**1,466,096**	**1,541,789**	**346,519**	**349,709**	**3,704,113**	**(246,431)**	**3,457,682**
Operating income	**$ 27,273**	**$ 121,081**	**$ 3,509**	**$ 11,836**	**$ 163,699**	**$ 3,201**	**$ 166,900**
Assets	**$ 2,117,895**	**$ 812,032**	**$ 261,169**	**$ 325,934**	**$ 3,517,030**	**$ 695,172**	**$ 4,212,202**
Depreciation and amortization	**95,263**	**22,599**	**5,452**	**11,149**	**134,463**		**134,463**
Capital expenditures	**174,599**	**62,934**	**5,521**	**8,695**	**251,749**		**251,749**

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. Effective April 1, 2000, the Group changed its segment classification in line with the introduction of a decentralized management system, which gave the Group companies empowerment and consistent accountability. Prior to 2001, the Group reported its segment informations as “Consumer Products” and “Industrial Instruments.” The new segments are identified as “Precision Equipment,” “Imaging Products,” “Instruments” and “Other.” This change was made in order to present more information consistent with the management system changes to clarify the management responsibilities of each business unit under the new formation of organization in the Group.

2. The effect of the new adoption of the accounting for employees’ retirement benefits as described in Note 2.f was to increase operating income in the Precision Equipment, Imaging Products and Instruments segments for the fiscal year ended March 31, 2001 by ¥854 million, ¥320 million and ¥195 million, respectively, as compared with the amounts calculated by the prior method in the prior fiscal year.

3. The effect of the new adoption of SAB 101 for revenue recognition as described in Note2.n was to decrease net sales by ¥22,146 million, operating expenses by ¥17,599 million and operating income by ¥4,547 million in the precision equipment segment for the fiscal year ended March 31, 2001, and to decrease assets by ¥5,610 million as of March 31, 2001.

4. The effect of the change in the accounting method of service revenue and related cost was to increase (decrease) net sales in the Precision Equipment, Imaging Products, Instruments, Other segments and Eliminations or Corporate for the fiscal year ended March 31, 2002 by ¥20,420 million ($153,244 thousand),¥3,797 million ($28,493 thousand),¥1,095 million ($8,221 thousand), ¥926 million ($6,950 thousand), ¥(503) million ($(3,773) thousand), respectively, and decrease (increase) of operating expenses by the same amount, as compared with the amounts calculated by the prior method in the prior fiscal year.

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2002							
Net sales							
Outside customers	**¥ 173,601**	**¥ 203,818**	**¥ 83,252**	**¥ 22,304**	**¥ 482,975**	**¥**	**¥ 482,975**
Intersegment sales	**200,860**	**1,994**	**147**	**17,630**	**220,631**	**(220,631)**	
Total	**374,461**	**205,812**	**83,399**	**39,934**	**703,606**	**(220,631)**	**482,975**
Operating expenses	**368,751**	**198,918**	**81,127**	**36,985**	**685,781**	**(225,045)**	**460,736**
Operating income	**¥ 5,710**	**¥ 6,894**	**¥ 2,272**	**¥ 2,949**	**¥ 17,825**	**¥ 4,414**	**¥ 22,239**
Assets	**¥ 404,958**	**¥ 80,167**	**¥ 32,139**	**¥ 16,273**	**¥ 533,537**	**¥ 27,739**	**¥ 561,276**

	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

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2002							
Net sales							
Outside customers	**$ 1,302,823**	**$1,529,590**	**$ 624,784**	**$ 167,385**	**$ 3,624,582**	**$**	**$ 3,624,582**
Intersegment sales	**1,507,393**	**14,966**	**1,099**	**132,310**	**1,655,768**	**(1,655,768)**	
Total	**2,810,216**	**1,544,556**	**625,883**	**299,695**	**5,280,350**	**(1,655,768)**	**3,624,582**
Operating expenses	**2,767,366**	**1,492,819**	**608,836**	**277,559**	**5,146,580**	**(1,688,898)**	**3,457,682**
Operating income	**$ 42,850**	**$ 51,737**	**$ 17,047**	**$ 22,136**	**$ 133,770**	**$ 33,130**	**$ 166,900**
Assets	**$ 3,039,087**	**$ 601,629**	**$ 241,192**	**$ 122,122**	**$ 4,004,030**	**$ 208,172**	**$ 4,212,202**

Notes : 1. The effect of the adoption of the new accounting policy for employees' retirement benefits described in Note 2.f was to increase operating income in the segment of Japan for the fiscal year ended March 31, 2001 by ¥1,382 million as compared with the amounts calculated by the prior method in 2000.

2. The effect of the new adoption of SAB 101 of the revenue recognition as described in Note2.n was to decrease the respective accounts in the segments for the fiscal year ended March 31, 2001 as compared with the amounts calculated by the prior method in the prior fiscal year as follows:

	Millions of Yen		
	North America	Europe	(Eliminations) or Corporate
Net sales	¥ 18,205	¥ 3,941	¥
Operating expenses	16,999	3,434	(2,834)
Operating income	1,206	507	2,834
Assets	3,053	914	1,643

3. The effect of the change in the accounting method of service revenue and related cost was to increase (decrease) net sales in the segment of Japan, North America, Europe, Asia and Eliminations or Corporate for the fiscal year ended March 31, 2002 by ¥16,791 million ($126,009 thousand), ¥8,438 million ($63,324 thousand), ¥3,084 million ($23,146 thousand), ¥5,189 million ($38,942 thousand), ¥(7,767) million ($(58,284) thousand), respectively, and decrease (increase) of operating expenses by the same amount, as compared with the amounts calculated by the prior method in the prior fiscal year.

(c) Export Sales

For the years ended March 31, 2002 and 2001

	Millions of Yen, %				Thousands of U.S. Dollars
	2002	**(A)/(B)**	2001	(A)/(B)	**2002**
Export sales (A)					
North America	**¥202,243**	**41.9%**	¥ 141,829	29.3%	**$1,517,768**
Europe	**81,816**	**16.9**	75,536	15.6	**614,004**
Asia	**65,172**	**13.5**	114,677	23.7	**489,099**
Other Area	**5,240**	**1.1**	4,643	1.0	**39,323**
Total	**¥354,471**	**73.4%**	¥ 336,685	69.6%	**$2,660,194**
Net sales (B)	**¥482,975**		¥ 483,957		**$3,624,582**

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

2. The effect of the adoption of SAB 101 with respect to revenue recognition as described in Note2.n was to decrease net sales to North America by ¥18,205 million and sales to Europe by ¥3,941 million for the fiscal year ended March 31, 2001, as compared with the amounts calculated by the prior method in the prior fiscal year.

3. The effect of the change in the accounting method of service revenue and related cost was to increase net sales of North America, Europe, Asia and Other Area for the fiscal year ended March 31, 2002 by ¥8,310 million ($62,367 thousand), ¥2,874 million ($21,572 thousand), ¥2,962 million ($22,226 thousand), ¥34 million ($257 thousand), respectively, as compared with the amounts calculated by the prior method in the prior fiscal year.

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied 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, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in the accounting for service revenue and related cost made as of April 1, 2001 as discussed in Note 3, and in the segmentation by industries made as of April 1, 2000 as discussed in Note 16.

As discussed in Note 15(a), the Company announced the expansion of the currently enacted employees' early retirement program, and 455 employees of the Company retired on May 31, 2002. An additional retirement benefit of ¥8,686 million ($65,185 thousand) will be charged to income for the year ending March 31, 2003.

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 27, 2002

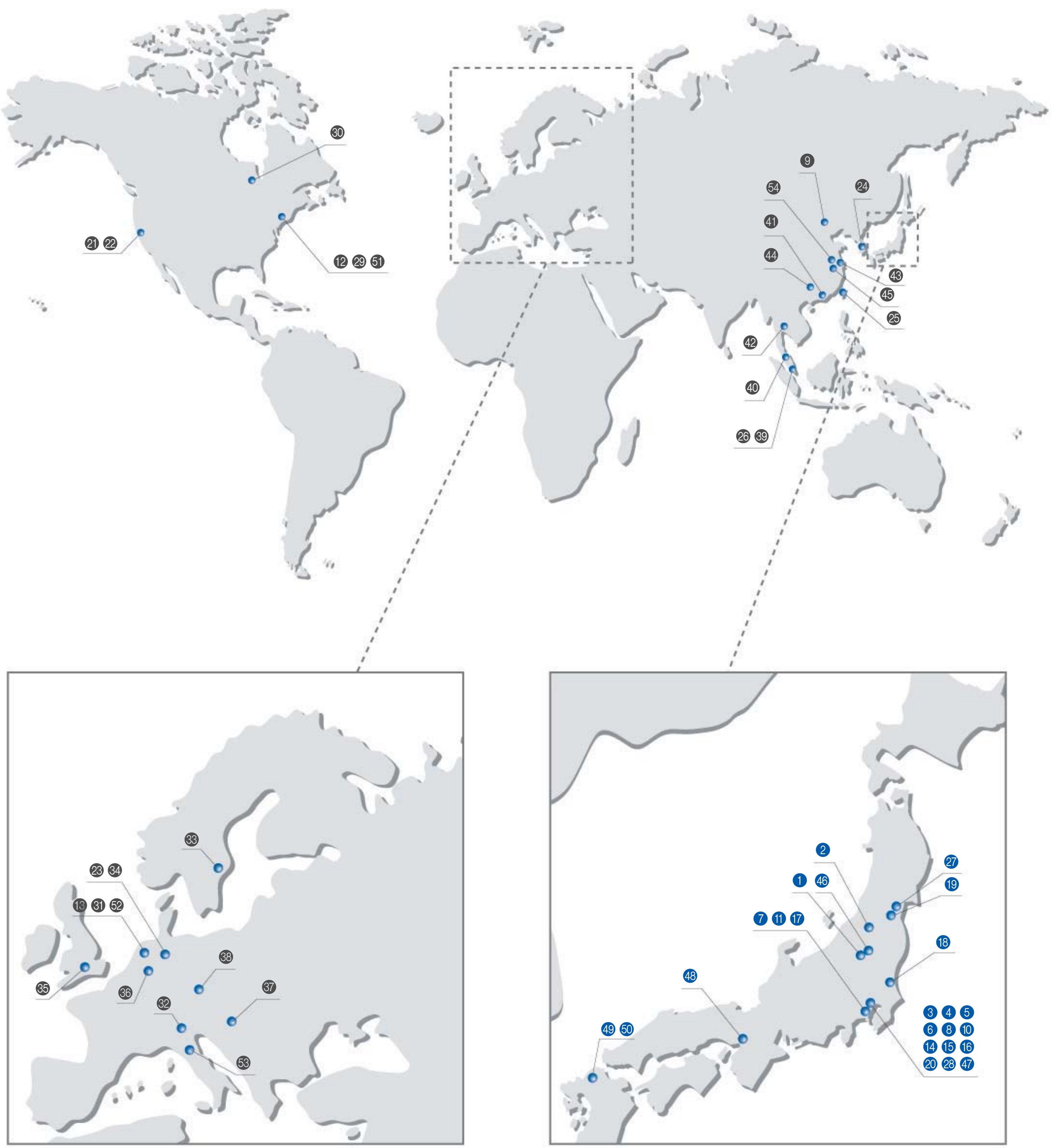
Organization of Nikon Group

- **General Meeting of Shareholders**
  - **Board of Directors**
    - **Corporate Auditors/ Board of Corporate Auditors**
  - **Chairman of the Board & CEO**
    - **Executive Committee**
    - **Management Strategy Committee**
      - **Office of Management Strategy**
        - ❶ Tochigi Nikon Corporation ❷ Setagaya Industry Co., Ltd. ❸ Nikon Geotecs Co., Ltd. ❹ Nikon Optical Shop Co., Ltd.* ❺ Nikon Eyewear Co., Ltd. ❻ Nikon Vision Co., Ltd. ❼ Nikon Engineering Co., Ltd. ❽ Nikon Technologies, Inc. ❾ Beijing Nikon Ophthalmic Products Co., Ltd.*
        - ❿ Nikon-Essilor Co., Ltd.*
      - **Office of Corporate Technology Management**
    - **Corporate Strategy Center**
      - ⓫ Nikon Systems Inc. ⓬ Nikon Americas Inc. ⓭ Nikon Holdings Europe B.V.
    - **Business Administration Center**
      - ⓮ Nikon Sales-Promotion Co., Ltd. ⓯ Nikon Logistics Corporation ⓰ Nikon Life Co., Ltd. ⓱ Nikon Tsubasa Inc.*
    - **Core Technology Center**
    - **Precision Equipment Company**
      - ⓲ Mito Nikon Corporation ⓳ Zao Nikon Co., Ltd. ⓴ Nikon Tec Corporation ㉑ Nikon Precision Inc. ㉒ Nikon Research Corporation of America ㉓ Nikon Precision Europe GmbH ㉔ Nikon Precision Korea Ltd. ㉕ Nikon Precision Taiwan Ltd. ㉖ Nikon Precision Singapore Pte Ltd
    - **Imaging Company**
      - ㉗ Sendai Nikon Corporation ㉘ Nikon Photo Products Inc. ㉙ Nikon Inc. ㉚ Nikon Canada Inc. ㉛ Nikon Europe B.V. ㉜ Nikon AG ㉝ Nikon Svenska AB ㉞ Nikon GmbH ㉟ Nikon U.K. Ltd. ㊱ Nikon France S.A. ㊲ Nikon Kft.* ㊳ Nikon s.r.o.* ㊴ Nikon Singapore Pte Ltd ㊵ Nikon (Malaysia) Sdn. Bhd. ㊶ Nikon Hong Kong Ltd. ㊷ Nikon (Thailand) Co., Ltd. ㊸ Nikon Imaging (China) Co., Ltd.*/** ㊹ Guang Dong Nikon Camera Co., Ltd.* ㊺ Hang Zhou Nikon Camera Co., Ltd.*
    - **Instruments Company**
      - ㊻ Kurobane Nikon Co., Ltd. ㊼ Nikon Instech Co., Ltd. ㊽ Kogaku Co., Ltd. ㊾ Okuma Shokai Co., Ltd.* ㊿ Nikon Digital Technologies Co., Ltd.* (51) Nikon Instruments Inc. (52) Nikon Instruments Europe B.V. (53) Nikon Instruments S.p.A. (54) Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.*
    - **Customized Products Division**

* represents unconsolidated companies as of March 31, 2002.
**plans to commence operations in April 2003.
Blue represents companies in Japan, while grey represents foreign Group companies.

As of July 1, 2002

Nikon's Global Presence



Directors, Auditors and Officers

Board of Directors

Chairman of the Board & Chief Executive Officer*	**Shoichiro Yoshida**	In charge of items related to Group's management policies
Vice Chairman of the Board & Chief Financial Officer*	**Kenji Enya**	Assistant of Chairman, comprehensive control of financial, overseas, IR and group-wide strategies
President, Member of the Board & Chief Operating Officer*	**Teruo Shimamura**	In charge of Company's operations, President of Precision Equipment Company
Executive Vice President, Member of the Board*	**Yasujiro Hara**	Assistant of President, President of Business Administration Center
Managing Director, Member of the Board & Senior Executive Officer	**Michio Kariya**	President of Imaging Company
Managing Director, Member of the Board & Senior Executive Officer	**Shinya Sasayama**	Assistant of Chairman, President of Office of Corporate Technology Management
Managing Director, Member of the Board & Senior Executive Officer	**Yosuke Takahashi**	President of Core Technology Center
Managing Director, Member of the Board & Senior Executive Officer	**Masami Kurosawa**	President of Corporate Strategy Center
Director, Member of the Board	**Terumichi Tsuchida**	Senior Corporate Advisor, Meiji Life Insurance Company
Director, Member of the Board	**Shunji Kono**	Counselor, The Tokio Marine and Fire Insurance Co., Ltd.
Director, Member of the Board & Executive Officer	**Kazumasa Tokoi**	Vice President of Business Administration Center

Corporate Auditors

Standing Corporate Auditor	**Yuji Obana**	
Standing Corporate Auditor	**Yoshiro Imagawa**	
Corporate Auditor	**Takuji Shidachi**	Senior Advisor, The Mitsubishi Trust and Banking Corporation
Corporate Auditor	**Mitsutake Okano**	Corporate Advisor, Mitsubishi Corporation

Executive Officers

Executive Officer	**Yoichi Nishida**	President, Nikon-Essilor Co., Ltd.
Executive Officer	**Takashi Tamori**	President of Instruments Company
Executive Officer	**Motosuke Otsuka**	Vice President of Corporate Strategy Center & Vice President of Core Technology Center
Executive Officer	**Hisayuki Shimizu**	Assistant of President of Precision Equipment Company
Executive Officer	**Yuichi Umeda**	General Manager of IC Equipment Division, Precision Equipment Company
Executive Officer	**Norio Miyauchi**	Divisional President of Office of Management Strategy
Executive Officer	**Mamoru Kajiwara**	Vice President of Business Administration Center
Executive Officer	**Hidetoshi Mori**	General Manager of LCD Equipment Division, Precision Equipment Company
Executive Officer	**Takao Watanabe**	Vice President of Core Technology Center
Executive Officer	**Kyoichi Suwa**	General Manager of Sales & Marketing Headquarters, Precision Equipment Company
Executive Officer	**Yoshimichi Kawai**	General Manager of Customized Products Division
Executive Officer	**Makoto Kimura**	General Manager of Marketing Management Department, Imaging Company
Executive Officer	**Naoki Tomino**	General Manager of Development Management Department, Imaging Company

*indicates representative director of the board

Investor Information

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Chiyoda-ku, Tokyo 100-8331, Japan
Tel : +81-3-3214-5311
Fax : +81-3-3216-1454

Date of Establishment
July 25, 1917

Number of Employees
14,328

Common Stock
Authorized: 1,000,000,000 shares
Issued: 369,945,332 shares
¥36,661 million

Number of Shareholders
30,227

Major Shareholders

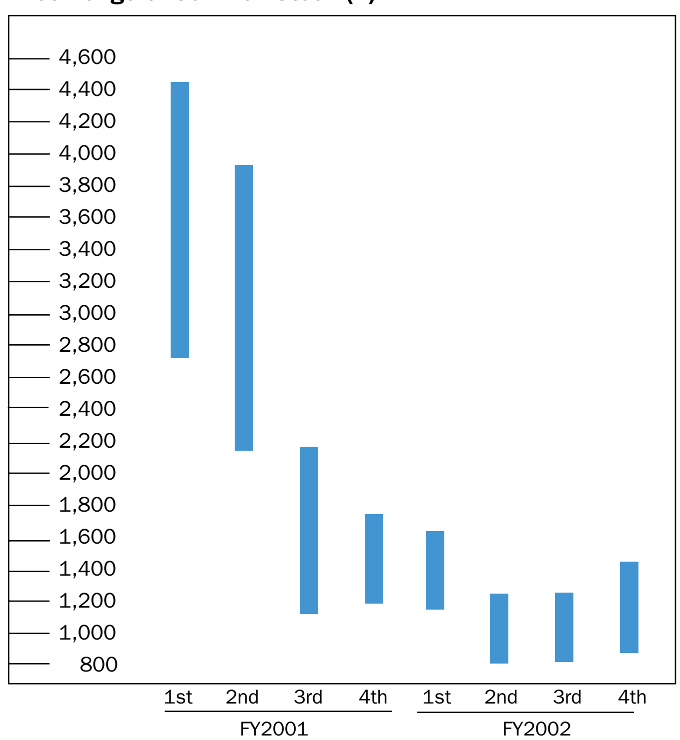
	Number of shares held (thousands)	Percentage of total shares issued
Meiji Life Insurance Company	22,050	6.0 %
The Mitsubishi Trust and Banking Corporation	18,271	4.9
The Bank of Tokyo-Mitsubishi, Ltd.	15,232	4.1
The Mitsubishi Trust and Banking Corporation (Trust Account)	10,571	2.9
The Tokio Marine and Fire Insurance Co., Ltd.	10,567	2.9
Japan Trustee Services Bank, Ltd. (Trust Account)	10,409	2.8
UFJ Trust Bank Limited (Trust Account A)	10,039	2.7
Nippon Life Insurance Company	8,994	2.4
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	8,947	2.4
The Asahi Bank, Ltd.	7,853	2.1

Stock Exchange Listings
Tokyo, Osaka,
Fukuoka, Sapporo

Transfer Agent and Registrar
The Mitsubishi Trust and Banking Corporation
11-1, Nagatacho 2-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

(As of March 31, 2002)

Price Range of Common Stock (¥)



For further information or additional copies of this annual report,
please contact the Corporate Communications Department.

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