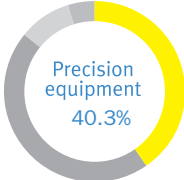
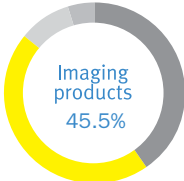


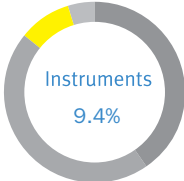
Review of Operations



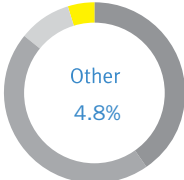
IC and LCD steppers



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 Sagami-hara 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), F₂ 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 U2
Ultra-compact, ultra-light SLR camera with advanced functions



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



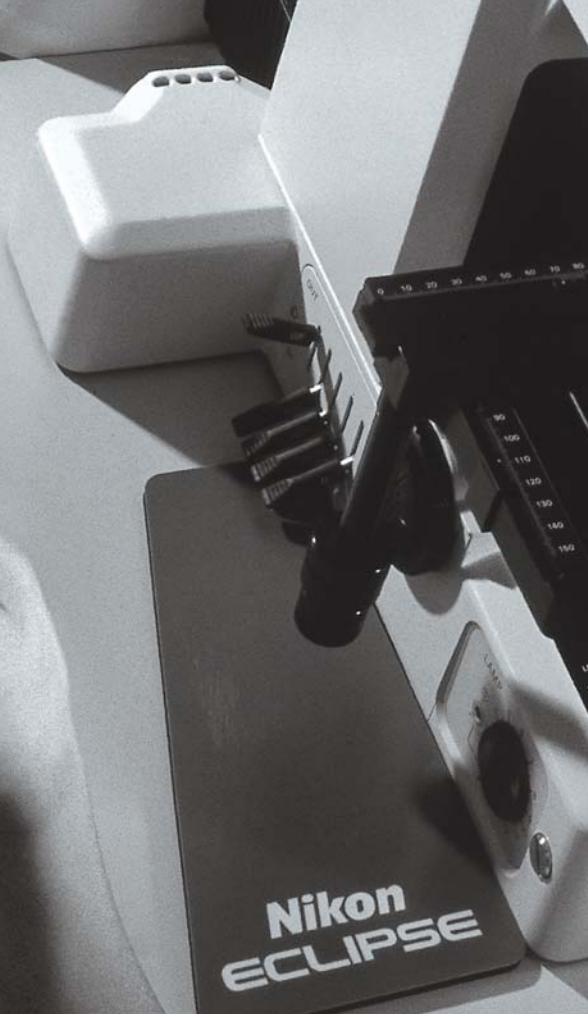
SUPER COOLSCAN 8000 ED
Film scanner featuring high image resolution, multiple film formats



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 inter-cellular 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*



SPORTR 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.