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

	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
	Thousands of U.S. Dollars						
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:

	North America	Europe	(Eliminations) or Corporate
	Millions of Yen		
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.