NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

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 Financial Reporting 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 addition, certain reclassifications have been made in 2002 financial statements to conform to classification used in 2003.

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 ¥120.20 to U.S.$1, the rate of exchange at March 31, 2003. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31,2003 include the accounts of the Company and its 45 significant (46 in 2002) 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 (2 associated companies in 2002) 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 charged to income when incurred, if they are small sum, and the others are being amortized on a straight-line basis over 5 years.

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. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(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) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(g) 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 a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥26,203 million 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.

(h) Research and Development Costs

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

(i) 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.

(j) 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.

(k) 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.

(l) 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 statement of operations to the extent that they are not hedged by forward exchange contracts.

(m) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates except for shareholders' equity, which is translated at the historical exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

(n) 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.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: 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.

(o) Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding warrants. Basic net income per share for the year ended March 31, 2003 is computed in accordance with the new standard, and diluted net income per share is not disclosed because of the Company's net loss position. There is no effect on the calculation of per share information for the year ended March 31, 2002, by applying the new standard.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Non-Current :			
Equity securities	**¥ 37,485**	¥ 45,303	**$ 311,854**
Trust bonds, debentures and other	**49**	49	**408**
Total	**¥ 37,534**	¥ 45,352	**$ 312,262**

The carrying amounts and aggregate fair values of investment securities at March 31, 2003 and 2002 were as follows:

March 31, 2003	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 39,292**	**¥ 2,043**	**¥ 7,967**	**¥ 33,368**
Debt securities	**49**			**49**
Total	**¥ 39,341**	**¥ 2,043**	**¥ 7,967**	**¥ 33,417**

March 31, 2002	Millions of Yen			
	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

March 31, 2003	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 326,886**	**$ 16,996**	**$ 66,279**	**$ 277,603**
Debt securities	**408**			**408**
Total	**$ 327,294**	**$ 16,996**	**$ 66,279**	**$ 278,011**

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Available-for-sale:			
Equity securities	**¥ 4,117**	¥ 4,329	**$ 34,251**
Other securities		2	
Total	**¥ 4,117**	¥ 4,331	**$ 34,251**

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2003 and 2002 were ¥5,890 million ($49,002 thousand) and ¥8,421 million, respectively. Gross realized gains on these sales for the fiscal years ended March 31, 2003 and 2002 were ¥1,548 million ($12,879 thousand) and ¥1,800 million, respectively. Gross realized losses on these sales for the fiscal years ended March 31, 2003 and 2002 were ¥2,041 million ($16,982 thousand) and ¥3,358 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
	Available for Sale	Available for Sale	Available for Sale
Due in one year or less	**¥ 1**	¥ 0	**$ 6**
Due after one year through five years	**3**	4	**28**
Total	**¥ 4**	¥ 4	**$ 34**

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Finished and semi-finished products	**¥ 114,361**	¥ 89,074	**$ 951,421**
Work in process	**96,845**	101,903	**805,700**
Raw materials and supplies	**15,421**	17,434	**128,297**
Total	**¥ 226,627**	¥208,411	**$1,885,418**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Short-term loans, principally from banks:			
2003: 0.3759%-5.5000%			
2002: 0.2500%-6.0000%	**¥ 46,845**	¥ 66,795	**$ 389,723**
Commercial paper:			
2003: 0.0390%-0.0492%			
2002: 0.0900%-0.4621%	**13,000**	45,000	**108,153**
Total	**¥ 59,845**	¥111,795	**$ 497,876**

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Loans, principally from banks and insurance companies:			
2003: 0.72%-6.250% due 2003-2007			
2002: 0.70%-7.430% due 2002-2007	**¥ 10,017**	¥ 13,167	**$ 83,332**
Bonds	**151,000**	85,000	**1,256,240**
Total	**161,017**	98,167	**1,339,572**
Less: Current portion	**(22,208)**	(16,541)	**(184,755)**
Long-term debt, less current portion	**¥ 138,809**	¥ 81,626	**$1,154,817**

The following was a summary of the terms of bonds which the Company may at any time purchase at any price in the open market or otherwise. The bonds purchased or otherwise acquired by the Company may be held or resold or, at the discretion of the Company, may be canceled (together with any unmatured coupons attached thereto or purchased therewith).

	Issued in	Maturity	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars 2003
2.95% Yen Unsecured Bonds	February, 1996	February, 2003	**¥**	¥ 10,000	**$**
2.45% Yen Unsecured Bonds	March, 1997	March, 2004	**10,000**	10,000	**83,195**
2.7% Yen Unsecured Bonds	June, 1997	June, 2003	**10,000**	10,000	**83,195**
2.5% Yen Unsecured Bonds	November, 1997	November, 2007	**10,000**	10,000	**83,195**
2.575% Yen Unsecured Bonds	April, 1998	April, 2005	**10,000**	10,000	**83,195**
1.76% Yen Unsecured Bonds	August, 1999	August, 2004	**10,000**	10,000	**83,195**
1.0% Yen Unsecured Bonds	April, 2001	April, 2006	**10,000**	10,000	**83,195**
1.3% Yen Unsecured Bonds	December, 2001	December, 2006	**10,000**	10,000	**83,195**
1.7% Yen Unsecured Bonds	December, 2001	December, 2008	**5,000**	5,000	**41,596**
1.15% Yen Unsecured Bonds	February, 2003	February, 2008	**10,000**		**83,195**
1.4% Yen Unsecured Bonds	February, 2003	February, 2010	**10,000**		**83,195**
Yen Zero Coupon Convertible Bond	June, 2002	March, 2007	**56,000**		**465,889**
Total			**¥ 151,000**	¥ 85,000	**$1,256,240**

The aggregate annual maturities of long-term debt for the years following March 31, 2003 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	**¥ 22,208**	**$ 184,755**
2005	**12,061**	**100,343**
2006	**15,531**	**129,213**
2007	**76,017**	**632,416**
2008	**20,200**	**168,053**
Thereafter	**15,000**	**124,792**
Total	**¥ 161,017**	**$1,339,572**

The yen zero coupon convertible bonds were issued with detachable warrants to subscribe for shares of common stock of the Company. The warrants are exercisable through March 16, 2007 at ¥1,857 per share. The warrants outstanding at March 31, 2003 entitled the holders to subscribe for 30,156,165 shares which was computed using the above-mentioned exercise price.

At March 31, 2003, the following assets were pledged as collateral for long-term debt.

	Millions of Yen 2003	Thousands of U.S. Dollars 2003
Notes and accounts receivable-trade	**¥ 18,243**	**$ 151,770**
Investment securities	**5,404**	**44,957**
Total	**¥ 23,647**	**$ 196,727**

Liabilities secured by the above assets were as follows:

	Millions of Yen 2003	Thousands of U.S. Dollars 2003
Long-term debt, including current portion	**¥ 3,626**	**$ 30,169**

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.

6. 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.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥ 116,719**	¥115,380	**$ 971,038**
Fair value of plan assets	**(53,439)**	(66,437)	**(444,587)**
Unrecognized actuarial loss	**(42,960)**	(31,589)	**(357,402)**
Unrecognized prior service cost	**(721)**		**(6,001)**
	19,599	17,354	**163,048**
Prepayment of service cost	**281**	65	**2,339**
Net Liability	**¥ 19,880**	¥ 17,419	**$ 165,387**

The components of net periodic benefit costs for the fiscal years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 5,094**	¥ 4,039	**$ 42,382**
Interest cost	**3,129**	3,080	**26,033**
Expected return on plan assets	**(1,583)**	(2,739)	**(13,172)**
Amortization of transitional obligation		9,755	
Recognized actuarial loss	**3,545**	1,133	**29,491**
Amortization of prior actuarial cost	**89**		**741**
Net periodic benefit costs	**¥ 10,274**	¥ 15,268	**$ 85,475**

Assumptions used for the fiscal years ended March 31, 2003 and 2002 were principally set forth as follows:

	2003	2002
Discount rate	**2.5%**	2.5%
Expected rate of return on plans assets	**2.0%**	4.0%
Recognition period of actuarial gain (loss)	**10 years**	10 years
Amortization period of prior service cost	**10 years**	
Amortization period of transitional obligation		2 years

7. SHAREHOLDERS' EQUITY

The Company is subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective as from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥42,723 million ($355,432 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

On March 1, 2002, the Company made Tochigi Nikon Corporation a wholly owned subsidiary through exchange offer procedures. The share exchange ratio was 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 capital surplus was increased by ¥14 million.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2003 and 2002 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Advertising expenses	**¥ 33,064**	¥ 27,182	**$ 275,074**
After service costs	**2,752**	2,533	**22,893**
Provision of warranty costs	**4,992**	6,366	**41,535**
Employees' salaries	**28,361**	29,988	**235,948**
Employees' retirement benefit plan	**4,751**	3,663	**39,527**
Employees' bonuses and others	**12,222**	14,653	**101,679**
Research and development costs	**27,506**	27,313	**228,832**

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42%. for the respective years.

On March 31, 2003, a new local tax law was enacted and become effective for fiscal years beginning on or after April 1, 2004. The new local tax law decreased the local tax rate and introduced a new tax levied based on paid-in capital. As a result, the statutory effective tax rate applied on or after April 1, 2004 to the deferred income taxes and liabilities has been decreased from 42.0% to 40.4%.

The reduction of the statutory effective tax rate resulted in a decrease in deferred tax assets (net of deferred tax liabilities) of ¥164 million ($1,363 thousand), and a charge to income taxes-deferred of ¥69 million ($573 thousand) and a decrease in unrealized gain (loss) on available-for sale securities of ¥95 million ($790 thousand) for the year ended March 31, 2003.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities, at March 31, 2003 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Deferred tax assets :			
Write-down of inventories	**¥ 9,823**	¥ 10,913	**$ 81,721**
Warranty reserve	**1,496**	2,465	**12,449**
Liability for employees' retirement benefits	**9,410**	9,207	**78,290**
Depreciation and amortization	**10,589**	9,635	**88,096**
Net operating loss carryforwards	**8,325**	2,019	**69,257**
Other	**11,178**	5,522	**92,995**
Total	**¥ 50,821**	¥ 39,761	**$ 422,808**
Deferred tax liabilities :			
Deferred gains on sales of property to be replaced	**5,742**	3,402	**47,773**
Unrealized gain on available-for-sale securities		781	
Undistributed earnings of foreign subsidiaries	**2,310**	2,569	**19,218**
Other	**2,030**	3,254	**16,886**
Total	**¥ 10,082**	¥ 10,006	**$ 83,877**
Net deferred tax assets	**¥ 40,739**	¥ 29,755	**$ 338,931**

A valuation allowance of ¥2,520 million ($20,969 thousand) in 2003 and ¥1,489 million in 2002 were deducted from the amounts on the above table.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2003 and 2002, and the actual effective tax rates reflected in the consolidated statements of operations were as follows:

	Year ended March 31,	
	2003	2002
Normal statutory tax rate	**42%**	42%
Consolidated adjustment on unrealizable profits in inventories	**11.6**	238.8
Dividends from foreign subsidiaries not applicable to foreign tax credits	**(14.4)**	53.5
Tax rate differences in foreign subsidiaries	**4.4**	(26.1)
Increase (decrease) in valuation allowance	**(12.2)**	17.2
Other-net	**(4.6)**	(7.5)
Actual effective tax rate	**26.8%**	317.9%

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥27,506 million ($228,832 thousand) and ¥27,313 million for the fiscal years ended March 31, 2003 and 2002, respectively.

11. 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 ¥2,929 million ($24,364 thousand) and ¥3,533 million for the fiscal years ended March 31, 2003 and 2002, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 1,230**	¥ 1,231	**$ 10,237**
Due after one year	**2,676**	2,448	**22,261**
Total	**¥ 3,906**	¥ 3,679	**$ 32,498**

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, 2003 and 2002 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2003			**2003**		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥ 7,180**	**¥ 7,035**	**¥ 14,215**	**$ 59,734**	**$ 58,524**	**$ 118,258**
Accumulated depreciation	**3,526**	**3,924**	**7,450**	**29,337**	**32,645**	**61,982**
Net leased property	**¥ 3,654**	**¥ 3,111**	**¥ 6,765**	**$ 30,397**	**$ 25,879**	**$ 56,276**

	Millions of Yen		
	2002		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 8,292	¥ 8,834	¥ 17,126
Accumulated depreciation	4,697	5,238	9,935
Net leased property	¥ 3,595	¥ 3,596	¥ 7,191

Obligations under finance leases at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 2,399**	¥ 2,711	**$ 19,959**
Due after one year	**4,366**	4,480	**36,317**
Total	**¥ 6,765**	¥ 7,191	**$ 56,276**

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 ¥2,929 million ($24,364 thousand) and ¥3,533 million for the fiscal years ended March 31, 2003 and 2002, respectively.

12.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, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2003			**2003**		
	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	**¥ 7,376**	**¥ 7,430**	**¥ (54)**	**$ 61,364**	**$ 61,813**	**$ (449)**
Selling USD	**6,780**	**6,819**	**(39)**	**56,403**	**56,728**	**(325)**
Selling EUR	**19,974**	**20,342**	**(368)**	**166,178**	**169,237**	**(3,059)**
Buying JPY	**11,248**	**11,491**	**243**	**93,576**	**95,596**	**2,020**
Buying USD	**549**	**541**	**(8)**	**4,567**	**4,501**	**(66)**
Buying EUR	**1,675**	**1,671**	**(4)**	**13,935**	**13,904**	**(31)**
Total			**(230)**			**(1,910)**
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	**¥ 20,000**	**¥ 861**	**¥ 861**	**$ 166,389**	**$ 7,162**	**$ 7,162**
(fixed rate payment, floating rate receipt)	**10,000**	**(772)**	**(772)**	**83,195**	**(6,420)**	**(6,420)**
Total	**¥ 30,000**	**¥ 89**	**¥ 89**	**$ 249,584**	**$ 742**	**$ 742**

	Millions of Yen		
	2002		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign exchange forward contracts :			
Selling JPY	¥ 4,023	¥ 3,985	¥ 38
Selling USD	4,902	4,939	(37)
Selling EUR	5,819	5,875	(56)
Buying JPY	4,953	4,425	(528)
Buying USD	331	333	2
Buying EUR	2,300	2,329	29
Buying GBP	189	188	(1)
Total			(553)
Interest rate swaps :			
(fixed rate receipt, floating rate payment)	¥ 30,000	¥ 865	¥ 865
(fixed rate payment, floating rate receipt)	20,000	(833)	(833)
Total	¥ 50,000	¥ 32	¥ 32

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.

13. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	**2003**
As the endorser of trade notes receivable discounted with banks	**¥ 983**	**$ 8,180**
As the guarantor for bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	**7,221**	**60,071**
Total	**¥ 8,204**	**$ 68,251**

14. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 27, 2003, the Company's shareholders approved the following stock option plan for the Company's directors and key employees and the purchase of treasury stock.

(a) Stock option plan

The plan provides for granting options to directors and key employees to purchase up to 203 thousand shares of the Company's common stock in the period from June 28, 2005 to June 27, 2013. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the prior month of the date of option grant. The Company plans to issue acquired treasury stock upon exercise of the stock options.

(b) Purchase of treasury stock

The Company was authorized to repurchase up to 10,000 thousand shares of the Company's common stock (aggregate amount of ¥10,000 million) as treasury stock until the next general shareholders' meeting.

15. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2003 and 2002, 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, 2003							
Net sales							
Outside customers	**¥ 131,127**	**¥ 270,327**	**¥ 48,696**	**¥ 18,809**	**¥ 468,959**	**¥**	**¥ 468,959**
Intersegment sales/transfer	**1,975**	**1,629**	**1,176**	**23,066**	**27,846**	**(27,846)**	
Total	**133,102**	**271,956**	**49,872**	**41,875**	**496,805**	**(27,846)**	**468,959**
Operating expenses	**157,697**	**244,211**	**48,030**	**43,135**	**493,073**	**(28,301)**	**464,772**
Operating income (loss)	**¥ (24,595)**	**¥ 27,745**	**¥ 1,842**	**¥ (1,260)**	**¥ 3,732**	**¥ 455**	**¥ 4,187**
Assets	**¥ 268,859**	**¥ 134,167**	**¥ 35,543**	**¥ 38,977**	**¥ 477,546**	**¥ 99,366**	**¥ 576,912**
Depreciation and amortization	**14,662**	**3,447**	**823**	**1,503**	**20,435**		**20,435**
Capital expenditures	**12,298**	**6,404**	**861**	**663**	**20,226**		**20,226**

	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

	Thousands of U.S. Dollars						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2003							
Net sales							
Outside customers	**$1,090,903**	**$2,248,975**	**$ 405,125**	**$ 156,484**	**$3,901,487**	**$**	**$3,901,487**
Intersegment sales/transfer	**16,433**	**13,552**	**9,780**	**191,896**	**231,661**	**(231,661)**	
Total	**1,107,336**	**2,262,527**	**414,905**	**348,380**	**4,133,148**	**(231,661)**	**3,901,487**
Operating expenses	**1,311,956**	**2,031,704**	**399,585**	**358,857**	**4,102,102**	**(235,442)**	**3,866,660**
Operating income (loss)	**$ (204,620)**	**$ 230,823**	**$ 15,320**	**$ (10,477)**	**$ 31,046**	**$ 3,781**	**$ 34,827**
Assets	**$2,236,765**	**$1,116,202**	**$ 295,697**	**$ 324,258**	**$3,972,922**	**$ 826,675**	**$4,799,597**
Depreciation and amortization	**121,980**	**28,680**	**6,848**	**12,502**	**170,010**		**170,010**
Capital expenditures	**102,311**	**53,278**	**7,160**	**5,516**	**168,265**		**168,265**

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

Note: Amortization of Goodwill is included in "Depreciation and amortization" for the year ended March 31, 2003.

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2003							
Net sales							
Outside customers	**¥ 179,722**	**¥ 158,676**	**¥ 100,611**	**¥ 29,950**	**¥ 468,959**	**¥**	**¥ 468,959**
Intersegment sales	**218,900**	**1,741**	**238**	**15,287**	**236,166**	**(236,166)**	
Total	**398,622**	**160,417**	**100,849**	**45,237**	**705,125**	**(236,166)**	**468,959**
Operating expenses	**405,863**	**154,713**	**101,270**	**42,676**	**704,522**	**(239,750)**	**464,772**
Operating income (loss)	**¥ (7,241)**	**¥ 5,704**	**¥ (421)**	**¥ 2,561**	**¥ 603**	**¥ 3,584**	**¥ 4,187**
Assets	**¥ 419,210**	**¥ 78,453**	**¥ 44,450**	**¥ 18,306**	**¥ 560,419**	**¥ 16,493**	**¥ 576,912**

	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

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2003							
Net sales							
Outside customers	**$1,495,189**	**$1,320,099**	**$ 837,032**	**$ 249,167**	**$3,901,487**	**$**	**$3,901,487**
Intersegment sales	**1,821,132**	**14,483**	**1,980**	**127,182**	**1,964,777**	**(1,964,777)**	
Total	**3,316,321**	**1,334,582**	**839,012**	**376,349**	**5,866,264**	**(1,964,777)**	**3,901,487**
Operating expenses	**3,376,558**	**1,287,133**	**842,513**	**355,045**	**5,861,249**	**(1,994,589)**	**3,866,660**
Operating income (loss)	**$ (60,237)**	**$ 47,449**	**$ (3,501)**	**$ 21,304**	**$ 5,015**	**$ 29,812**	**$ 34,827**
Assets	**$3,487,606**	**$ 652,687**	**$ 369,804**	**$ 152,287**	**$4,662,384**	**$ 137,213**	**$4,799,597**

(c) Export Sales

For the years ended March 31, 2003 and 2002

	Millions of Yen, %				Thousands of U.S. Dollars
	2003	**(A)/(B)**	2002	(A)/(B)	**2003**
Export sales (A)					
North America	**¥ 157,163**	**33.5%**	¥202,243	41.9%	**$1,307,516**
Europe	**100,577**	**21.4**	81,816	16.9	**836,748**
Asia	**76,864**	**16.4**	65,172	13.5	**639,471**
Other Area	**12,850**	**2.8**	5,240	1.1	**106,903**
Total	**¥ 347,454**	**74.1%**	¥354,471	73.4%	**$2,890,638**
Net sales (B)	**¥ 468,959**		¥482,975		**$3,901,487**

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

16. TRADE MATTERS

On December 21, 2001, the Company and its wholly-owned subsidiaries, Nikon Precision Inc. and Nikon Research Corporation of America, filed a complaint with the U.S. International Trade Commission (the "ITC") against ASM Lithography Holding N.V. and ASM Lithography B.V. in The Netherlands and ASM Lithography, Inc., a sales subsidiary of ASM Lithography Holding N.V. in the U.S., for an exclusion order from the ITC to prevent any further importation of the stepper and scanner machines infringing the Company's patents in the U.S. pursuant to section 337 of the Tariff Act of 1930. The ITC issued its Initial Determination that the Company's request for the exclusion order was denied on January 29, 2003 and adopted the findings of the Initial Determination as its Final Determination on March 17, 2003. The Company, Nikon Precision Inc. and Nikon Research Corporation of America filed a Notice of Appeal to the Court of Appeals for the Federal Circuit of the ITC decision on May 12, 2003.

Additionally, the Company and Nikon Precision Inc. filed a complaint in the Federal District Court for the Northern District of California against ASM Lithography B.V. and ASM Lithography, Inc. on December 21, 2001 and against ASML Netherlands B.V. and ASM Lithography, Inc. on October 18, 2002, for an injunction of patent infringement and monetary damages.

As part of response to our ITC complaint, ASML Netherlands B.V. and ASM Lithography, Inc. counterclaimed on April 5, 2002 that Nikon Corporation infringes their patents and such counterclaim was transferred to the Federal District Court for the Northern District of California.

Furthermore, the Company and certain subsidiaries are in litigation with ASML Netherlands B.V. and its affiliated companies over patent infringement cases in Japan and Korea.