NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2005 financial statements to conform to the classification used in 2006.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to U.S.$1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation 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, 2006 include the accounts of the Company and its 47 (46 in 2005) significant 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 2005) 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 amounts in 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. Non-marketable available-for-sale securities 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 average method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment 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) Long - lived Assets

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥245 million ($ 2,090 thousand).

(g) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(h) 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.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Retirement allowances for officers are recorded to state the liability at the amount that would be required if all officers retired at each balance sheet date.

(i) Retirement Allowances for Directors and Corporate Auditors

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(j) Research and Development Costs

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

(k) 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.

(l) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(m) 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.

(n) 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 income to the extent that they are not hedged by forward exchange contracts.

(o) 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.

(p) 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: (a) 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 income and (b) 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 which qualify for hedge accounting are measured at market value at the balance sheet date, and the unrealized gains or losses are deferred until maturity as other liability or asset. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

(q) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders 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.

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

(r) New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the Accounting Standards Board of Japan (ASBJ) issued, "Accounting Standard for Business Separations," and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Separation." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-Current :			
Equity securities	**¥ 79,862**	¥ 54,771	**$ 679,853**
Trust bonds, debentures and other	**2**	2	**19**
Total	**¥ 79,864**	¥ 54,773	**$ 679,872**

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 38,115**	**¥ 41,228**	**¥ 15**	**¥ 79,328**
Debt securities	**1**		**0**	**1**
Total	**¥ 38,116**	**¥ 41,228**	**¥ 15**	**¥ 79,329**

	Millions of Yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 40,131	¥ 12,477	¥ 232	¥ 52,376
Debt securities	1		0	1
Total	¥ 40,132	¥ 12,477	¥ 232	¥ 52,377

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 324,466**	**$ 350,964**	**$ 127**	**$ 675,303**
Debt securities	**5**		**0**	**5**
Total	**$ 324,471**	**$ 350,964**	**$ 127**	**$ 675,308**

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Available-for-sale:			
Equity securities	**¥ 533**	¥ 2,394	**$ 4,550**
Other securities	**2**	2	**14**
Total	**¥ 535**	¥ 2,396	**$ 4,564**

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2006 and 2005 were ¥5,147 million ($43,812 thousand) and ¥2,356 million, respectively. Gross realized gains on these sales for the fiscal years ended March 31, 2006 and 2005 were ¥1,896 million ($16,139 thousand) and ¥438 million, respectively. There was no realized loss on this sale for the fiscal year ended March 31, 2006, while it was ¥11 million for the fiscal year ended March 31, 2005.

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Finished and semi-finished products	**¥ 100,499**	¥114,725	**$ 855,528**
Work in process	**113,767**	111,042	**968,476**
Raw materials and supplies	**24,580**	19,856	**209,249**
Total	**¥ 238,846**	¥245,623	**$2,033,253**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the period ended March 31, 2006 and, as a result, recognized an impairment loss of ¥245 million ($2,090 thousand) as other expenses for the idle buildings and machines of the plants in Shinagawa Tokyo and Ohtawara Tochigi due to no possibility of using them and the carrying amount of the relevant machinery was written down to the recoverable amount. The recoverable amount of the assets was measured at net selling price. Those assets which have no possibility of using or difficult to sell is measured at memorandum price.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Short-term loans, principally from banks:			
2006: 0.3923%-8.60000%			
2005: 0.3694%-4.0000%	**¥ 12,632**	¥ 38,115	**$ 107,534**
Total	**¥ 12,632**	¥ 38,115	**$ 107,534**

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Loans, principally from banks and insurance companies:			
2006: 0.33188%-5.510% due 2007-2013			
2005: 0.50%-5.510% due 2006-2013	**¥ 20,699**	¥ 11,723	**$ 176,210**
Bonds	**145,500**	145,500	**1,238,614**
Total	**166,199**	157,223	**1,414,824**
Less: Current portion	**(77,556)**	(7,090)	**(660,218)**
Long-term debt, less current portion	**¥ 88,643**	¥150,133	**$ 754,606**

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 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
2.5% Yen Unsecured Bonds	November, 1997	November, 2007	**¥ 10,000**	¥ 10,000	**$ 85,128**
1.0% Yen Unsecured Bonds	April, 2001	April, 2006	**10,000**	10,000	**85,128**
1.3% Yen Unsecured Bonds	December, 2001	December, 2006	**10,000**	10,000	**85,128**
1.7% Yen Unsecured Bonds	December, 2001	December, 2008	**5,000**	5,000	**42,564**
1.15% Yen Unsecured Bonds	February, 2003	February, 2008	**10,000**	10,000	**85,128**
1.4% Yen Unsecured Bonds	February, 2003	February, 2010	**10,000**	10,000	**85,128**
Yen Zero Coupon Convertible Bond	June, 2002	March, 2007	**56,000**	56,000	**476,718**
Yen Zero Coupon Convertible Bond	March, 2004	March, 2011	**34,500**	34,500	**293,692**
Total			**¥ 145,500**	¥145,500	**$1,238,614**

The aggregate annual maturities of long-term debt for the years following March 31, 2006 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	**¥ 77,556**	**$ 660,218**
2008	**21,686**	**184,610**
2009	**7,576**	**64,496**
2010	**10,381**	**88,372**
2011	**44,500**	**378,820**
Thereafter	**4,500**	**38,308**
Total	**¥ 166,199**	**$1,414,824**

The yen zero coupon convertible bonds were issued with stock acquisition rights to subscribe for shares of common stock of the Company. The stock acquisition rights are exercisable through March 16, 2007 at ¥1,857 per share. The stock acquisition rights outstanding at March 31, 2006 entitled the holders to subscribe for 30,156,165 shares which was computed using the above-mentioned exercise price.

The yen zero coupon convertible bonds were issued with stock acquisition rights to subscribe for shares of common stock of the Company. The stock acquisition rights are exercisable through March 14, 2011 at ¥2,058 per share. The stock acquisition rights outstanding at March 31, 2006 entitled the holders to subscribe for 16,763,848 shares which was computed using the above-mentioned exercise price.

At March 31, 2006, the following assets were pledged as collateral for long-term debt.

	Millions of Yen 2006	Thousands of U.S. Dollars 2006
Investment securities	**¥ 8,934**	**$ 76,054**
Total	**¥ 8,934**	**$ 76,054**

Liabilities secured by the above assets were as follows:

	Millions of Yen 2006	Thousands of U.S. Dollars 2006
Long-term debt, including current portion	**¥ 3,744**	**$ 31,872**
Total	**¥ 3,744**	**$ 31,872**

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 subsidiaries have non-contributory funded defined benefit pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory defined benefit 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.

Retirement allowances for officers are recorded to state the liability at the amount that would be required if all officers retired at each balance sheet date.

On April 1, 2006, the Company revised the pension plan and implemented a defined contribution pension plan for a part of future amount.

As a result, the projected benefit obligation is to be decreased by ¥1,505 million ($12,813 thousand) and the amount is being amortized as prior service cost over 10 years from the time of accrual.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 102,767**	¥100,138	**$ 874,832**
Fair value of plan assets	**(100,951)**	(78,359)	**(859,380)**
Unrecognized actuarial loss	**886**	(18,867)	**7,545**
Unrecognized prior service cost	**13,936**	15,666	**118,639**
	16,638	18,578	**141,636**
Prepayment of service cost	**329**	113	**2,800**
Net Liability	**¥ 16,967**	¥ 18,691	**$ 144,436**

The components of net periodic benefit costs for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥ 3,207**	¥ 3,353	**$ 27,301**
Interest cost	**2,747**	2,628	**23,382**
Expected return on plan assets	**(1,941)**	(1,752)	**(16,521)**
Recognized actuarial loss	**2,995**	3,049	**25,493**
Amortization of prior service cost	**(1,718)**	(1,718)	**(14,622)**
Net periodic benefit costs	**¥ 5,290**	¥ 5,560	**$ 45,033**

Assumptions used for the fiscal years ended March 31, 2006 and 2005 were principally set forth as follows:

	2006	2005
Discount rate	**2.5%**	2.5%
Expected rate of return on plans assets	**2.0%**	2.0%
Recognition period of actuarial gain (loss)	**10 years**	10 years
Amortization period of prior service cost	**10 years**	10 years

8. SHAREHOLDERS' EQUITY

Through may 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥73,124 million ($ 624,086 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

At the general shareholders' meeting held on June 27, 2003, June 29, 2004, and June 29, 2005, the Company's shareholders approved a stock option for the Company's directors and administrative directors and appropriation of retained earnings.

The plan provides for granting options to directors and administrative directors to purchase up to 203,000 , 210,000 and 178,000 shares of the Company's common stock in the period from June 28, 2005 to June 27, 2013, from June 30, 2006, to June 29, 2014, and from June 30, 2007 to June 29, 2015 respectively. 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.

17,000 shares of the stock option approved by the Company's shareholders on June 27, 2003 were exercised for the year ended March 31, 2006.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as ; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2006 and 2005 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Advertising expenses	**¥ 46,585**	¥ 42,551	**$ 396,565**
Provision of warranty costs	**7,130**	5,305	**60,700**
Employees' salaries	**30,503**	27,963	**259,666**
Employees' retirement benefit plan	**4,024**	3,256	**34,256**
Employees' bonuses and others	**15,012**	11,926	**127,794**
Research and development costs	**37,139**	33,561	**316,159**

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 40.6% for the fiscal years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and loss carry-forwards which result in deferred tax assets and liabilities at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets :			
Write-down of inventories	**¥ 17,647**	¥ 14,345	**$ 150,226**
Warranty reserve	**2,253**	1,863	**19,178**
Liability for employees' retirement benefits	**9,326**	9,830	**79,393**
Depreciation and amortization	**14,296**	14,225	**121,699**
Net operating loss carryforwards	**143**	914	**1,220**
Accrued bonus	**4,076**	3,588	**34,701**
Other	**6,242**	5,921	**53,136**
Total	**¥ 53,983**	¥ 50,686	**$ 459,553**
Deferred tax liabilities :			
Deferred gains on sales of property to be replaced	**6,137**	7,388	**52,240**
Unrealized gain on available-for-sale securities	**16,679**	4,872	**141,984**
Undistributed earnings of foreign subsidiaries	**4,525**	2,693	**38,519**
Other	**583**	600	**4,967**
Total	**¥ 27,924**	¥ 15,553	**$ 237,710**
Net deferred tax assets	**¥ 26,059**	¥ 35,133	**$ 221,843**

A valuation allowance of ¥2,715 million ($23,110 thousand) in 2006 and ¥3,012 million in 2005 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2006 and 2005, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Year ended March 31,	
	2006	2005
Normal statutory tax rate	**40.6%**	40.6%
Tax credit for research and development costs	**(2.6)**	(5.7)
Tax difference of consolidated subsidiaries	**(3.8)**	
Tax exemption for foreign subsidiaries	**(3.2)**	
Consolidated adjustment on unrealizable profits in inventories	**(4.9)**	(11.1)
Dividends from foreign subsidiaries not applicable to foreign tax credits		5.2
Increase in valuation allowance		3.0
Tax effect on retained earnings for foreign subsidiaries	**4.5**	
Other-net	**(1.3)**	(4.2)
Actual effective tax rate	**29.3%**	27.8%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥37,139 million ($316,159 thousand) and ¥33,561 million for the fiscal years ended March 31, 2006 and 2005, 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 ¥2,461 million ($20,951 thousand) and ¥2,596 million for the fiscal years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 2,425**	¥ 1,965	**$ 20,639**
Due after one year	**5,090**	3,915	**43,332**
Total	**¥ 7,515**	¥ 5,880	**$ 63,971**

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, 2006 and 2005 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006			**2006**		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥ 6,173**	**¥ 5,495**	**¥ 11,668**	**$ 52,556**	**$ 46,774**	**$ 99,330**
Accumulated depreciation	**3,416**	**2,520**	**5,936**	**29,083**	**21,451**	**50,534**
Net leased property	**¥ 2,757**	**¥ 2,975**	**¥ 5,732**	**$ 23,473**	**$ 25,323**	**$ 48,796**

	Millions of Yen		
	2005		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 7,312	¥ 5,489	¥ 12,801
Accumulated depreciation	3,568	2,898	6,466
Net leased property	¥ 3,744	¥ 2,591	¥ 6,335

Obligations under finance leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 2,154**	¥ 2,141	**$ 18,339**
Due after one year	**3,578**	4,194	**30,457**
Total	**¥ 5,732**	¥ 6,335	**$ 48,796**

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥2,461 million ($20,951 thousand) and ¥2,596 million for the fiscal years ended March 31, 2006 and 2005, 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, 2006 and 2005, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006			2006		
	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 USD	¥ 42,910	¥ 43,400	¥ (490)	$ 365,286	$ 369,452	$ (4,166)
Selling EUR	13,713	14,001	(288)	116,736	119,191	(2,455)
Buying JPY	102	100	(2)	869	854	(15)
Buying USD	2,578	2,576	(2)	21,942	21,927	(15)
Buying EUR						
Total			(782)			(6,651)
Currency option contracts :						
Selling put EUR	¥ 249	¥	¥	$ 2,120	$	$
Option premiums	11	17	(6)	92	142	(50)
Buying call EUR	249			2,120		
Option premiums	9	14	5	76	116	40
Total			(1)			(10)
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 271	¥ 271	$ 170,256	$ 2,307	$ 2,307
(fixed rate payment, floating rate receipt)	10,000	(242)	(242)	85,128	(2,062)	(2,062)
Total	¥ 30,000	¥ 29	¥ 29	$ 255,384	$ 245	$ 245

	Millions of Yen		
	2005		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign exchange forward contracts :			
Selling USD	¥ 44,637	¥ 45,638	¥ (1,001)
Selling EUR	14,482	14,715	(233)
Buying JPY	26	26	0
Buying USD	2,928	3,003	75
Buying EUR	2,870	2,861	(9)
Total			(1,168)
Currency option contracts :			
Selling put EUR	¥ 2,250	¥	¥
Option premiums	12	21	(9)
Buying call EUR	2,250		
Option premiums	10	15	5
Total			(4)
Interest rate swaps :			
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 517	¥ 517
(fixed rate payment, floating rate receipt)	10,000	(462)	(462)
Total	¥ 30,000	¥ 55	¥ 55

Derivatives which qualified for hedge accounting and related amounts are 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, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	**2006**
As the endorser of trade notes receivable discounted with banks	**¥ 22**	**$ 190**
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	**5,285**	**44,986**
Total	**¥ 5,307**	**$ 45,176**

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Yen in millions	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted average Shares	EPS	
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	**¥ 28,873**	**369,412**	**¥78.16**	**$ 0.67**
Effect of Dilutive Securities				
Warrants		**147**		
Convertible bonds		**46,920**		
Diluted EPS				
Net income for computation	**¥ 28,873**	**416,479**	**¥69.33**	**$ 0.59**

	Yen in millions	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted average Shares	EPS	
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥ 24,079	369,352	¥65.19	$ 0.61
Effect of Dilutive Securities				
Warrants		22		
Convertible bonds		46,920		
Diluted EPS				
Net income for computation	¥ 24,079	416,294	¥57.84	$ 0.54

16. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.00 ($0.05) per share	**¥ 2,216**	**$ 18,866**
Bonuses to directors and corporate auditors	**72**	**613**

17. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2006 and 2005, 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, 2006							
Net sales							
Outside customers	**¥ 242,318**	**¥ 415,686**	**¥ 53,280**	**¥ 19,660**	**¥ 730,944**	**¥**	**¥ 730,944**
Intersegment sales/transfer	**889**	**921**	**1,595**	**30,172**	**33,577**	**(33,577)**	
Total	**243,207**	**416,607**	**54,875**	**49,832**	**764,521**	**(33,577)**	**730,944**
Operating expenses	**216,832**	**382,238**	**50,790**	**47,903**	**697,763**	**(33,406)**	**664,357**
Operating income	**¥ 26,375**	**¥ 34,369**	**¥ 4,085**	**¥ 1,929**	**¥ 66,758**	**¥ (171)**	**¥ 66,587**
Assets	**¥ 272,700**	**¥ 190,031**	**¥ 34,708**	**¥ 42,444**	**¥ 539,883**	**¥ 151,037**	**¥ 690,920**
Depreciation and amortization	**8,511**	**6,889**	**1,022**	**4,338**	**20,760**		**20,760**
Capital expenditures	**9,895**	**11,905**	**921**	**3,096**	**25,817**		**25,817**

	Millions of Yen						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2005							
Net sales							
Outside customers	¥ 212,471	¥ 354,181	¥ 50,657	¥ 21,159	¥ 638,468	¥	¥ 638,468
Intersegment sales/transfer	1,855	1,308	1,527	23,094	27,784	(27,784)	
Total	214,326	355,489	52,184	44,253	666,252	(27,784)	638,468
Operating expenses	202,939	338,648	49,358	44,900	635,845	(27,922)	607,923
Operating income (loss)	¥ 11,387	¥ 16,841	¥ 2,826	¥ (647)	¥ 30,407	¥ 138	¥ 30,545
Assets	¥ 249,904	¥ 182,772	¥ 36,386	¥ 57,573	¥ 526,635	¥ 106,791	¥ 633,426
Depreciation and amortization	8,897	5,833	969	4,006	19,705		19,705
Capital expenditures	8,679	11,184	751	1,845	22,459		22,459

	Thousands of U.S. Dollars						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2006							
Net sales							
Outside customers	**$2,062,804**	**$3,538,654**	**$ 453,567**	**$ 167,362**	**$6,222,387**	**$**	**$6,222,387**
Intersegment sales/transfer	**7,572**	**7,835**	**13,574**	**256,852**	**285,833**	**(285,833)**	
Total	**2,070,376**	**3,546,489**	**467,141**	**424,214**	**6,508,220**	**(285,833)**	**6,222,387**
Operating expenses	**1,845,847**	**3,253,916**	**432,362**	**407,793**	**5,939,918**	**(284,374)**	**5,655,544**
Operating income	**$ 224,529**	**$ 292,573**	**$ 34,779**	**$ 16,421**	**$ 568,302**	**$ (1,459)**	**$ 566,843**
Assets	**$2,321,447**	**$1,617,696**	**$ 295,459**	**$ 361,319**	**$4,595,921**	**$1,285,748**	**$5,881,669**
Depreciation and amortization	**72,452**	**58,645**	**8,697**	**36,932**	**176,726**		**176,726**
Capital expenditures	**84,227**	**101,348**	**7,844**	**26,357**	**219,776**		**219,776**

Major products of each Industry;

Precision Equipment : IC steppers, LCD steppers
Imaging Products : Digital cameras, Cameras, Interchangeable camera lenses
Instruments : Microscopes, Measuring instruments, Inspection equipment
Other : Sport optics products, Ophthalmic frames, Surveying instruments

Note: Amortization of Goodwill is included in "Depreciation and amortization" for the years ended March 31, 2006 and 2005.

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2006							
Net sales							
Outside customers	**¥ 274,907**	**¥ 216,849**	**¥ 166,734**	**¥ 72,454**	**¥ 730,944**	**¥**	**¥ 730,944**
Intersegment sales	**328,526**	**2,132**	**154**	**92,650**	**423,462**	**(423,462)**	
Total	**603,433**	**218,981**	**166,888**	**165,104**	**1,154,406**	**(423,462)**	**730,944**
Operating expenses	**558,229**	**210,590**	**162,061**	**156,630**	**1,087,510**	**(423,153)**	**664,357**
Operating income	**¥ 45,204**	**¥ 8,391**	**¥ 4,827**	**¥ 8,474**	**¥ 66,896**	**¥ (309)**	**¥ 66,587**
Assets	**¥ 483,865**	**¥ 72,766**	**¥ 54,634**	**¥ 54,658**	**¥ 665,923**	**¥ 24,997**	**¥ 690,920**

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2005							
Net sales							
Outside customers	¥ 275,992	¥ 165,085	¥ 142,143	¥ 55,248	¥ 638,468	¥	¥ 638,468
Intersegment sales	282,026	2,895	111	78,779	363,811	(363,811)	
Total	558,018	167,980	142,254	134,027	1,002,279	(363,811)	638,468
Operating expenses	540,180	162,372	139,392	128,902	970,846	(362,923)	607,923
Operating income	¥ 17,838	¥ 5,608	¥ 2,862	¥ 5,125	¥ 31,433	¥ (888)	¥ 30,545
Assets	¥ 478,739	¥ 70,328	¥ 57,865	¥ 45,776	¥ 652,708	¥ (19,282)	¥ 633,426

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2006							
Net sales							
Outside customers	**$ 2,340,234**	**$ 1,845,993**	**$ 1,419,369**	**$ 616,791**	**$ 6,222,387**	**$**	**$ 6,222,387**
Intersegment sales	**2,796,677**	**18,152**	**1,315**	**788,704**	**3,604,848**	**(3,604,848)**	
Total	**5,136,911**	**1,864,145**	**1,420,684**	**1,405,495**	**9,827,235**	**(3,604,848)**	**6,222,387**
Operating expenses	**4,752,099**	**1,792,711**	**1,379,597**	**1,333,362**	**9,257,769**	**(3,602,225)**	**5,655,544**
Operating income	**$ 384,812**	**$ 71,434**	**$ 41,087**	**$ 72,133**	**$ 569,466**	**$ (2,623)**	**$ 566,843**
Assets	**$ 4,119,055**	**$ 619,447**	**$ 465,086**	**$ 465,290**	**$ 5,668,878**	**$ 212,791**	**$ 5,881,669**

(c) Export Sales
For the years ended March 31, 2006 and 2005

	Millions of Yen, %				Thousands of U.S. Dollars
	2006	**(A)/(B)**	2005	(A)/(B)	**2006**
Export sales (A)					
North America	**¥ 209,676**	**28.7%**	¥160,840	25.2%	**$1,784,929**
Europe	**166,127**	**22.7**	138,793	21.7	**1,414,211**
Asia	**173,308**	**23.7**	175,193	27.5	**1,475,336**
Other Area	**8,689**	**1.2**	6,929	1.1	**73,968**
Total	**¥ 557,800**	**76.3%**	¥481,755	75.5%	**$4,748,444**
Net sales (B)	**¥ 730,944**		¥638,468		**$6,222,387**

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