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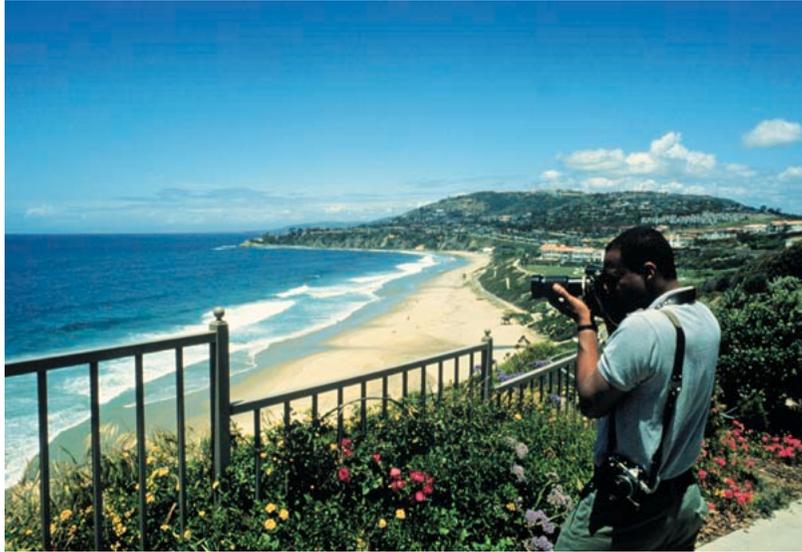
CREATING TECHNOLOGY THAT PEOPLE CAN TRUST
ANNUAL REPORT 2000

Nikon



FOCUSING ON HELPING PEOPLE ENVISION THE WORLD

**ZOOM
PEOPLE**



Since our establishment in 1917, Nikon Corporation has been a leading pioneer in optical glass manufacturing technology in Japan. In addition to our distinctive lineup of single lens reflex (SLR) cameras, Nikon manufactures a wide range of industrial instruments, including steppers and other semiconductor manufacturing-related equipment, microscopes and measuring instruments.

In response to the rapidly changing environment, Nikon established Vision Nikon 21, with an emphasis on “trustworthiness and creativity” as well as concrete objectives to realize this corporate vision, while further strengthening our brand identity.

The ultimate goal is to maximize returns to vested individuals—namely **CUSTOMERS, SHAREHOLDERS, EMPLOYEES** and all other **STAKEHOLDERS**. Integrating the core competencies of the entire Nikon Group, we will strive to meet the diverse needs of people and industries around the world.

FINANCIAL HIGHLIGHTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Millions of Yen		Millions of	%
	2000	1999	U.S.Dollars	
			2000	Increase
For the year				
Net sales	¥ 371,801	¥ 305,765	\$ 3,503	21.6%
Operating income (loss)	18,434	(8,741)	174	
Net income (loss)	7,770	(18,233)	73	
Per share of common stock (Yen and U.S. dollars);				
Net income (loss)	¥ 21.01	¥ (49.29)	\$ 0.20	
Cash dividends applicable to the year	5.00	3.00	0.05	66.7%
At year-end				
Total assets	¥ 502,175	¥ 474,965	\$ 4,731	5.7%
Shareholders' equity	166,495	160,991	1,568	3.4%

Notes: 1.Per share of common stock is computed based on the weighted average number of shares outstanding during the year.

2.U.S. dollar figures are translated for reference only at ¥106.15 to U.S. \$1.00, the exchange rate at March 31, 2000.

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TO OUR SHAREHOLDERS

ZOOM FUTURE



Shoichiro Yoshida, President (left), Shigeo Ono, Chairman (right)

BUSINESS CONDITIONS AND RESULTS

In the fiscal year ended March 31, 2000, the consolidated net sales of the Nikon Group recovered strongly, rising 21.6% to ¥371.8 billion (US\$3,503 million). In consumer products, buoyant sales of digital cameras both in Japan and in overseas markets helped overcome the effects of stalled consumer spending in Japan and the strong appreciation of the yen, as demonstrated by a solid growth in recorded revenues. In industrial instruments, a general recovery in the semiconductor market contributed to a sharp rise in sales of semiconductor-related equipment. In addition, the effects of the various measures enacted across the Nikon Group to increase earnings began to impact the bottom line. As a result, a positive operating income of ¥18,434 million (US\$174 million) was recorded, and net income amounted to ¥7,770 million (US\$73 million).

In line with a change in accounting policy, we decided to amortize unfunded pension and severance payment liabilities totaling approximately ¥27 billion* (US\$ 255 million) over a three-year period, starting in the fiscal year ended March 31, 2001.

BOOSTING EARNINGS POTENTIAL AND OPERATIONAL RESPONSE SPEED

Despite our return to profit during the year, we believe there is still considerable room for improvement in profit performance. Since October 1999, we have introduced an in-house company system designed to make all the companies within the Nikon Group individually responsible for sales and profit performance. The new system puts companies on an equal footing with a clear delegation of responsibilities. To support companies in achieving their sales and profit targets, we are also making greater use of information technology to reform our business management practices. The introduction of a new performance evaluation system supports these moves, making the entire process more efficient and results-oriented.

During the year, we implemented several specific organizational measures to improve the performance of the Nikon Group. First, we established our surveying instrument business as an independent company. Second, we merged our ophthalmic lens business in a joint venture with Essilor International S.A. of France.

The full benefits of the implementation of the in-house company system are expected to become evident in fiscal year 2001. From this year, we plan to begin managing the Nikon Group with the various companies forming their own separate business segments.

* Approximate amount as of March 31, 2000

WORKING WITH NEW VISION

In March 2000, we formulated a new vision statement and management plan for the Nikon Group. Vision Nikon 21 contains a revised corporate philosophy, in which the keywords are "trustworthiness and creativity," as well as concrete goals that we must achieve collectively as a company. It is the leading concept of our policies, and sets out the actions that we need to take as individual employees and group firms to realize both the spirit and foundation of our corporate vision.

Our two major business domains are focused within the visual imaging field, chiefly cameras, and high-tech industry related fields, mainly steppers. Vision Nikon 21 sets out the direction we must take in both these domains to foster the creation of new business over the coming decades.

REEVALUATION OF THE VALUE CHAIN

To further strengthen the Nikon brand and enhance profitability, we are currently in the process of reevaluating and reconstructing the entire value chain of our research and product development, manufacturing, sales, logistics and customer service. By adopting a consistent, comprehensive, value-oriented philosophy, we are working to establish a business model within each stage of this process to enhance profitability as well as to make Nikon more resilient to today's harsh and fast-changing business environment.

FOCUSING MANAGEMENT RESOURCES ON GROWTH AREAS

In addition to the various measures outlined above, we are focusing our efforts in the areas that have the greatest potential. In practical terms, this means concentrating our management resources and investing selectively in existing businesses that show the greatest potential. At the same time, we also plan to invest in new business areas to augment sales growth.

In the visual imaging field, we see significant potential in the development of digital cameras as portable IT devices. We intend to make this business a key contributor to Nikon Group revenues. Within high-tech industry related fields, we plan to build on our core competencies and create fresh business opportunities in stepper-related fields.

We also plan to move into the field of optical disk stampers, which constitute a fast-growing market.

BUSINESS OUTLOOK

Foreign exchange market trends continue to pose a potential threat to our sales in overseas markets. Although fragility of a recovery in consumer spending gives little cause for optimism in the consumer products sector in Japan, the markets for digital cameras are expected to expand worldwide. Private-sector capital investment in Japan, on the other hand, appears to be at the beginning of an upturn, and the semiconductor market is projected to stage a sharp recovery. The prospects for our industrial instruments business therefore appear comparatively positive.

Refreshed by a strengthened corporate vision and inspired with fresh motivation, we are working hard to reconstruct our various business and management systems. These efforts will make us more market-responsive as a company, raise profit margins, and further strengthen the power of the Nikon brand. We ask all our shareholders for their continued support and understanding as we forge ahead with these tasks.

JULY 2000


Shigeo Ono
Chairman


Shoichiro Yoshida
President



REVIEW OF OPERATIONS: CONSUMER PRODUCTS

ZOOM FY2000



Nikon D1

BUSINESS RESULTS

In the fiscal year ended March 31, 2000, divisional sales rose 8.0% to ¥150,288 million, producing operating income of ¥8,912 million.

IMAGING PRODUCTS

In single-lens reflex (SLR) cameras, sales of the F100 camera for advanced amateur photographers in Japan and overseas rose on the back of the model's growing popularity. The easy-to-use F60 series (N60 in the United States), which is specifically designed for beginners, also sold well in overseas markets. Sales of interchangeable lenses benefited from the introduction of a range of high-performance models with built-in silent-wave motors. In compact cameras, the division launched new products such as the compact, lightweight Advanced Photo System Nuvis 200/300 models. Towards the end of the year, we introduced the shell-type Nuvis S 2000, which combines excellent performance with sleek, fashionable styling. Nevertheless, due to the negative effects of the strong yen on sales in overseas markets and the intensity of sales competition, sales in these product segments actually fell below the level of the previous year.

In contrast, the market for digital cameras continued to expand rapidly. Nikon followed up the success of the COOLPIX 950, which features a 3.OX zoom lens, with the launch of the COOLPIX 800. This model, which is fitted with a 2.OX zoom lens, further strengthened the Nikon model lineup. The division also launched the D1, an SLR digital camera reminiscent of the flagship F5. Delivering high performance at a considerably lower price than other models, the D1 established itself as a popular choice with commercial and professional photographers. As a result, sales of digital cameras more than quadrupled, and, accordingly, the segment proved profitable.



COOLPIX 950



8x25CF TRAVELITE V



Nikon F80

OPHTHALMIC PRODUCTS

In the ophthalmic lens business, Nikon's joint venture with French firm Essilor, Nikon-Essilor Co., Ltd., commenced operations in January 2000. In binocular and telescope products, the TRAVELITE V series of compact binoculars, which employ aspherical lenses, performed well in overseas markets. In addition, models such as the Naturescope Fabre (Fieldmicroscope in overseas markets) series of portable microscopes were well received. Used to measure distances, the new Laser 800 laser-range finders also began to carve out a fresh market for Nikon. However, most of the increases in revenues as a result of these initiatives were offset by the strength of the yen, with the result that overall sales were on a par with the previous year.

OUTLOOK

The introduction of the F80 (N80 in the United States) and COOLPIX 990 models in April 2000 promise to augment sales and profits. The division will continue to work to expand sales and raise profitability.



BUSINESS RESULTS

In the fiscal year ended March 31, 2000, healthy sales of steppers contributed to a 33.0% rise in divisional sales to ¥221,513 million. This produced operating income of ¥9,522 million.

SEMICONDUCTOR MANUFACTURING-RELATED EQUIPMENT

Surging demand for semiconductors used in mobile telephones and advanced video game consoles helped the semiconductor market stage a sharp recovery in the second half of the year. All the major semiconductor manufacturers quickly raised capital investment levels to increase their production capacity for both the latest and next-generation integrated circuits (ICs). In response, Nikon also boosted production capacity in relation to steppers.

The division worked to expand sales of main stepper models, such as the NSR-S203B and NSR-S204B Step-and-Repeat KrF Excimer Scanning Systems. These are superior to earlier generations in their ability to mass manufacture ICs with ultra-high-precision circuitry—specifically, sub-0.18 μ m minimum-pattern linewidth. In tandem, Nikon promoted the NSR-S302A Step-and-Repeat ArF Excimer Scanning Systems, which are able to produce ICs with finer patterns for R&D applications. The division also began taking orders for the newly developed NSR-SF100 i-line stepper. Used in combination with excimer steppers, this machine can contribute to higher overall manufacturing productivity.

In flat-panel display exposure systems, Nikon adapted our products to handle a broader variety of LCD panels and larger panel sizes. Sales in this segment increased as a result of continued strong capital investment by overseas LCD panel manufacturers.

A rationalization of the product lineup reduced sales of IC inspection systems. However, Nikon also started taking orders for the NRM-1000 model, which combines inspection functions with the ability to monitor and manage lithographic precision with the latest IC devices. This advanced capability results in higher precision and throughput for chip manufacturers.



NSR-S204B



NRM-1000



ECLIPSE E200

MICROSCOPES AND MEASURING INSTRUMENTS

Sales of biological microscopes faltered both in Japan and the United States, despite the launch of new models of the ECLIPSE series, which uses CF160 infinity optics. In industrial microscopes, the recovery in semiconductor-related demand helped boost demand for stereoscopic microscopes, particularly in Asian markets. The year saw the launch of the NEXIV VMH-300N computerized numerical control video measuring instruments, which boasts the highest measuring precision of any machine in its class. However, overall sales of measuring instruments fell below the level of the previous year in view of slumping demand in Western markets.

In October 1999, Nikon spun off surveying instruments operations as an independent company, Nikon Geotecs Co., Ltd. This move was designed to improve management efficiency, raise the market responsiveness of operations, and thereby improve earnings.

OUTLOOK

The Nikon Group is responding to rising stepper demand by boosting production capacity—for example, cleanroom facilities have been expanded at both the Kumagaya Plant and at Tochigi Nikon Corporation. In addition, to support higher sales and service the projected increased in demand for steppers in the fast-growing Southeast Asian market, Nikon established a local sales and customer service support company, Nikon Precision Singapore Pte Ltd in May 2000.

BOARD OF DIRECTORS

CHAIRMAN

Shigeo Ono

PRESIDENT

Shoichiro Yoshida

EXECUTIVE VICE PRESIDENTS

Tadao Tsuruta

Technology in General

Kenji Enya

Finance, Administration and Marketing in General

MANAGING DIRECTORS

Yuji Obana

Chief Officer of Business Administration Center

Toyohisa Kuramoto

Chief Officer of Business Development Center

Yasujiro Hara

Chief Officer of Corporate Strategy Center

Teruo Shimamura

President of Precision Equipment Company

Hideo Ikeda

Chief Officer of Core Technology Center

DIRECTORS

Akinori Kiribuchi

General Manager of Sales & Marketing Headquarters of Precision Equipment Company

Michio Kariya

President of Imaging Company

Shinya Sasayama

General Manager of IC Equipment Division of Precision Equipment Company

Yosuke Takahashi

Assistant Chief Officer of Core Technology Center and Assistant Chief Officer of Business Development Center

Kazumasa Tokoi

Assistant Chief Officer of Corporate Strategy Center

Masami Kurosawa

Assistant Chief Officer of Corporate Strategy Center

Yoichi Nishida

President of Nikon-Essilor Co., Ltd.

Takashi Tamori

President of Instruments Company

Motosuke Otsuka

Assistant Chief Officer of Business Administration Center

ADVISORY DIRECTORS

Haruo Takeda

Counsellor,

The Tokio Marine and Fire Insurance Co., Ltd.

Terumichi Tsuchida

Senior Corporate Advisor,

Meiji Life Insurance Company

STANDING CORPORATE AUDITORS

Yoshiro Imagawa

Tomochika Nakano

CORPORATE AUDITORS

Takuji Shidachi

Mitsutake Okano

FIVE-YEAR SUMMARY

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
For the year						
Net sales	¥ 371,801	¥ 305,765	¥ 372,146	¥ 379,089	¥332,799	\$ 3,502,599
Cost of sales	247,473	205,984	224,546	219,791	188,727	2,331,350
SG&A expenses	105,894	108,522	120,123	112,385	94,793	997,587
Operating income (loss)	18,434	(8,741)	27,477	46,913	49,279	173,662
Income (loss) before income taxes and minority interest	11,479	(17,447)	18,929	36,740	35,317	108,136
Net income (loss)	7,770	(18,233)	8,318	19,936	18,581	73,201
Per share of common stock (Yen and U.S. dollars):						
Net income (loss)	¥ 21.01	¥ (49.29)	¥ 22.48	¥ 53.89	¥ 50.23	\$ 0.20
Cash dividends applicable to the year	5.00	3.00	8.00	8.00	6.50	0.05
Capital expenditures	¥ 13,881	¥ 20,719	¥ 26,168	¥ 33,757	¥ 17,206	\$ 130,769
Depreciation and amortization	17,251	20,110	18,407	15,635	13,715	162,515
R&D costs	17,798	18,729	21,633	19,681	16,951	167,667
At year-end						
Total assets	¥ 502,175	¥ 474,965	¥ 507,326	¥ 460,271	¥425,083	\$ 4,730,801
Shareholders' equity	166,495	160,991	171,051	165,773	148,657	1,568,485

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.

2. U.S. dollar figures are translated for reference only at ¥106.15 to U.S. \$1.00, the exchange rate at March 31, 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

OPERATING ENVIRONMENT

In fiscal 2000, the financial year ended March 31, 2000, economic conditions remained somewhat mixed. The U.S. economy continued to grow strongly, boosted by buoyant consumer spending and supported by high levels of capital investment. In Europe, exports recovered on the back of the weakness of the euro, and conditions were generally favorable. In Asia, rising exports helped to support higher levels of manufacturing activity, and many economies in the region staged a firm recovery.

In Japan, however, overall business conditions remained harsh. The effects of stalled consumer spending resulting from income stagnation and persistent worries on the part of workers over job security continued to be compounded by lackluster private-sector capital investment. Even so, signs of a recovery in the latter emerged during the second half of the year, and there were indications of gradual improvement in the economy.

The Nikon Group's business was not unduly affected by the adverse conditions in Japan. While sales of consumer products in Japan suffered amid the ongoing downturn in consumer spending, sales in overseas markets prospered despite the strength of the yen. Worldwide sales of industrial instruments rose appreciably, benefiting from a sharp recovery in the market for semiconductor-related equipment.

Net Sales by Industry Segment

For the years ended March 31, 2000 and 1999

	(Millions of Yen, %)	
	2000	1999
Consumer products	¥150,288	¥139,204
Share of net sales	40.4%	45.5%
Industrial instruments	221,513	166,561
Share of net sales	59.6	54.5
Total	¥371,801	¥305,765

OPERATIONAL REVIEW AND ANALYSIS

Nikon implemented a number of initiatives during the year designed to boost consolidated earnings. The introduction of an in-house company system made individual firms within the Nikon Group more accountable for financial performance by delegating management responsibilities. The company's surveying instruments operations-development, production and sales functions-were unified and incorporated as a separate company. In addition, the ophthalmic lens business was merged into an international joint venture to aid its expansion and development. Nikon developed and launched a number of new products designed to appeal to market trends. Resources were also reallocated to shift management focus to prioritized areas.

Net consolidated sales in fiscal 2000 rose 21.6%, or ¥66.0 billion, to ¥371.8 billion. Net income recovered from a loss in fiscal 1999 to reach ¥7.8 billion.

In terms of performance by industry segment, net sales of consumer products increased 8.0% to ¥150.3 billion, largely as a result of buoyant sales of digital cameras. Operating income rose sharply, to ¥8.9 billion. With sales of steppers recovering strongly, consolidated net sales of industrial instruments rose 33.0% to ¥221.5 billion, producing operating income of ¥9.5 billion.

Splitting out the performance by region, sales in Japan were boosted by a swift recovery in the market for semiconductor-related equipment. Domestic revenues surged 21.4% to ¥333.3 billion, producing operating income of ¥9.4 billion. Overseas, sales of consumer products-especially digital cameras-and steppers and other industrial equipment advanced both in the United States and in Europe. Sales in the United States rose 20.3% to ¥97.0 billion, resulting in operating income of ¥6.0 billion. Sales in Europe soared 35.1% to ¥49.0 billion, leading to operating income of ¥0.3 billion. In Asia, principally due to continued price erosion in the consumer products sector, sales dipped 4.2% to ¥10.9 billion, producing operating income of ¥1.6 billion.

Income Analysis

For the years ended March 31, 2000 and 1999

	(% of Net Sales)	
	<u>2000</u>	<u>1999</u>
Net sales	100.0%	100.0%
Cost of sales	(66.6)	(67.4)
Gross profit	33.4	32.6
SG&A expenses	(28.5)	(35.5)
Operating income (loss)	4.9	(2.9)
Net interest expense and dividend income	(1.1)	(1.4)
Net other income (expenses)	(0.7)	(1.4)
Income (loss) before income taxes and minority interest	3.1	(5.7)
Income taxes	(1.0)	(0.3)
Minority interest	(0.0)	0.0
Net income (loss)	<u>2.1</u>	<u>(6.0)</u>

Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis

At March 31, 2000 and 1999

	(% of Total Assets)	
	<u>2000</u>	<u>1999</u>
Total assets	100.0%	100.0%
Total current assets	66.2	65.0
Inventories	30.6	31.7
Property, plant and equipment	17.8	21.4
Investments and other assets	16.0	13.6
Total current liabilities	47.4	44.1
Short-term borrowings	17.0	22.5
Long-term debt, less current portion	19.1	21.7
Shareholders' equity	<u>33.2</u>	<u>33.9</u>

FINANCIAL REVIEW AND ANALYSIS

At fiscal year-end, total assets amounted to ¥502.2 billion, up ¥27.2 billion, or 5.7%, from the previous fiscal year-end. This was primarily due to a rise in accounts receivable caused by a sharp increase in sales of industrial instruments towards the end of the year. As a result, current assets increased by 7.8%, or ¥23.9 billion.

On the liabilities side, while accounts payable rose sharply as a consequence of heightened production levels arising from increased sales, a slight drop in borrowings resulted in total liabilities increasing by just ¥21.7 billion.

Dividends paid in fiscal 2000 amounted to ¥2.0 billion. Although an increase in the number of consolidated subsidiaries caused retained earnings to fall by ¥0.2 billion, the return to profitability at the net income level boosted shareholders' equity by ¥7.8 billion. In net terms, total shareholders' equity increased by ¥5.5 billion.

Cash and cash equivalents at the year-end amounted to ¥32.6 billion. As a result of the various measures taken to boost earnings, to reform management structures and to strengthen Nikon's development, production and sales functions, net income for the year before income taxes and minority interest recovered from the previous year's loss to a relative high of ¥11.5 billion.

In terms of cash flows, net cash provided by operating activities increased by ¥15.4 billion to ¥37.5 billion, while net cash used in investing activities fell from ¥23.5 billion to ¥4.4 billion. As a result of a net reduction in the issuance of commercial paper, net cash used in financing activities amounted to ¥22.8 billion, compared with ¥5.5 billion provided by financing activities in the previous year. As a result, after accounting for a ¥1.1 billion decrease due to the effect of exchange rate changes, cash and cash equivalents rose ¥9.2 billion over the previous year.

Net Sales (¥ Billion)

2000	371.8
1999	305.8
1998	372.1
1997	379.1
1996	332.8

Operating Income (Loss) (¥ Billion)

2000	18.4
1999	(8.7)
1998	27.5
1997	46.9
1996	49.3

Net Income (Loss) (¥ Billion)

2000	7.8
1999	(18.2)
1998	8.3
1997	19.9
1996	18.6

Net Income (Loss) per Share (¥)

2000	21.0
1999	(49.3)
1998	22.5
1997	53.9
1996	50.2

Capital Expenditures (¥ Billion)

2000	13.9
1999	20.7
1998	26.2
1997	33.8
1996	17.2

R&D Expenditures (¥ Billion)

2000	17.8
1999	18.7
1998	21.6
1997	19.7
1996	17.0

Shareholders' Equity (¥ Billion)

2000	166.5
1999	161.0
1998	171.1
1997	165.8
1996	148.7

Return on Equity (%)

2000	4.7
1999	(11.0)
1998	4.9
1997	12.7
1996	13.2

CONSOLIDATED BALANCE SHEETS

Nikon Corporation and Consolidated Subsidiaries
March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
ASSETS			
Current assets			
Cash and cash equivalents	¥ 32,574	¥ 23,419	\$ 306,864
Marketable securities (Notes 3 and 5)	12	14,380	110
Notes and accounts receivable — trade (Note 5):			
Customers	122,285	99,335	1,151,998
Unconsolidated subsidiaries and associated companies	680	1,502	6,401
Allowance for doubtful receivables	(2,116)	(2,603)	(19,937)
Inventories (Note 4)	153,847	150,577	1,449,340
Deferred tax assets (Note 7)	12,521	10,066	117,959
Other current assets	12,502	11,707	117,787
Total current assets	<u>332,305</u>	<u>308,383</u>	<u>3,130,522</u>
Property, plant and equipment			
Land	13,736	15,171	129,404
Buildings and structures	81,999	88,021	772,481
Machinery and equipment	148,692	158,947	1,400,773
Construction in progress	6,243	4,139	58,810
Total	<u>250,670</u>	<u>266,278</u>	<u>2,361,468</u>
Accumulated depreciation	<u>(161,245)</u>	<u>(164,412)</u>	<u>(1,519,030)</u>
Net property, plant and equipment	<u>89,425</u>	<u>101,866</u>	<u>842,438</u>
Investments and other assets			
Investments in securities (Notes 3 and 5)	49,368	36,579	465,082
Investments in unconsolidated subsidiaries and associated companies	5,643	2,695	53,159
Long-term loans:			
Employees and other	808	979	7,610
Unconsolidated subsidiaries and associated companies	78	122	730
Allowance for doubtful receivables	(48)	(44)	(452)
Deferred tax assets (Note 7)	4,141	5,728	39,007
Deposit and long-term prepaid expenses	5,900	6,674	55,581
Foreign currency translation adjustments	7,107	2,963	66,952
Other	7,448	9,020	70,172
Total investments and other assets	<u>80,445</u>	<u>64,716</u>	<u>757,841</u>
Total	<u>¥502,175</u>	<u>¥474,965</u>	<u>\$4,730,801</u>

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Note 5)	¥ 85,558	¥106,666	\$ 806,007
Current portion of long-term debt (Note 5)	15,439	12,510	145,442
Notes and accounts payable — trade:			
Suppliers	86,685	53,229	816,630
Unconsolidated subsidiaries and associated companies	1,103	684	10,393
Income taxes payable	3,175	915	29,910
Accrued expenses	30,194	25,756	284,442
Other current liabilities (Note 5)	16,083	9,644	151,518
Total current liabilities	<u>238,237</u>	<u>209,404</u>	<u>2,244,342</u>
Long-term liabilities			
Long-term debt (Note 5)	95,728	103,091	901,817
Liability for severance indemnities	1,349	1,265	12,711
Other long-term liabilities	355	200	3,339
Total long-term liabilities	<u>97,432</u>	<u>104,556</u>	<u>917,867</u>
Minority interest	<u>11</u>	<u>14</u>	<u>107</u>
Commitments and Contingent liabilities (Notes 9,10 and 11)			
Shareholders' equity			
Common stock (Note 6):			
¥50 par value per share			
Authorized — 1,000,000,000 shares			
Issued and outstanding — 369,927,584 shares in 2000 and 1999	36,661	36,661	345,369
Additional paid-in capital (Note 6)	51,910	51,910	489,022
Retained earnings (Notes 6 and 12)	77,950	72,424	734,335
	<u>166,521</u>	<u>160,995</u>	<u>1,568,726</u>
Treasury stock, at cost :			
6,658 shares in 2000 and 2,407 shares in 1999	(26)	(4)	(241)
Total shareholders' equity	<u>166,495</u>	<u>160,991</u>	<u>1,568,485</u>
Total	<u>¥502,175</u>	<u>¥474,965</u>	<u>\$4,730,801</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Net sales	¥371,801	¥305,765	\$3,502,599
Cost of sales	247,473	205,984	2,331,350
Gross profit	124,328	99,781	1,171,249
Selling, general and administrative expenses	105,894	108,522	997,587
Operating income (loss)	18,434	(8,741)	173,662
Other income (expenses):			
Interest and dividend income	1,062	1,151	10,008
Interest expense	(5,216)	(5,642)	(49,134)
Write-down of inventories	(2,460)	(1,288)	(23,176)
Loss on disposals of inventories	(2,534)	(3,714)	(23,868)
Cash discount	(1,962)	(1,997)	(18,482)
Equity in earnings of unconsolidated subsidiaries and associated companies	174	96	1,637
Other-net	3,981	2,688	37,489
	(6,955)	(8,706)	(65,526)
Income (loss) before income taxes and minority interest	11,479	(17,447)	108,136
Income taxes (Note 7):			
Current	4,740	1,499	44,651
Deferred	(1,032)	(710)	(9,725)
Minority interest	1	(3)	9
Net income (loss)	¥ 7,770	¥ (18,233)	\$ 73,201
	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 2 (m)):			
Net income (loss)	¥ 21.01	¥ (49.29)	\$ 0.20
Cash dividends applicable to the year	5.00	3.00	0.05

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Thousands	Millions of Yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 1998	369,928	¥ 36,661	¥ 51,910	¥ 82,485	¥ (4)
Adjustment of retained earnings for newly applied accounting for tax allocation (Note 2 (h))				8,725	
Net loss				(18,233)	
Cash dividends, ¥4 per share				(1,479)	
Bonuses to directors and corporate auditors				(20)	
Adjustment of retained earnings for newly consolidated subsidiaries				946	
BALANCE, MARCH 31, 1999	<u>369,928</u>	<u>¥ 36,661</u>	<u>¥ 51,910</u>	<u>¥ 72,424</u>	<u>¥ (4)</u>
Net income				7,770	
Cash dividends, ¥5.5 per share				(2,034)	
Adjustment of retained earnings for newly consolidated subsidiaries				(229)	
Adjustment of retained earnings for additional application of equity method				19	
Increase in treasury stock					(22)
BALANCE, MARCH 31, 2000	<u>369,928</u>	<u>¥ 36,661</u>	<u>¥ 51,910</u>	<u>¥ 77,950</u>	<u>¥ (26)</u>

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
BALANCE, MARCH 31, 1999	\$345,369	\$ 489,022	\$682,279	\$ (34)
Net income			73,201	
Cash dividends, U.S.\$ 0.05 per share			(19,167)	
Adjustment of retained earnings for newly consolidated subsidiaries			(2,161)	
Adjustment of retained earnings for additional application of equity method			183	
Increase in treasury stock				(207)
BALANCE, MARCH 31, 2000	<u>\$345,369</u>	<u>\$ 489,022</u>	<u>\$734,335</u>	<u>\$ (241)</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Operating activities:			
Income (loss) before income taxes and minority interest	¥ 11,479	¥ (17,447)	\$ 108,136
Adjustments for:			
Income taxes-paid	(2,561)	(4,721)	(24,130)
Depreciation and amortization	17,251	20,110	162,515
Reversal of doubtful receivables	(352)	(877)	(3,315)
Loss on sales or disposal of property, plant and equipment	1,004	1,003	9,454
Equity in earnings of non-consolidated subsidiaries and associated companies	(174)	(96)	(1,637)
Other-net	398	(4,163)	3,748
Change in assets and liabilities:			
Decrease (increase) in notes and accounts receivable — trade	(27,372)	39,751	(257,865)
Decrease (increase) in inventories	(7,311)	3,075	(68,869)
Increase (decrease) in notes and accounts payable — trade	38,874	(17,865)	366,218
Other-net	6,248	3,318	58,867
Total adjustments	26,005	39,535	244,986
Net cash provided by operating activities	37,484	22,088	353,122
Investing activities:			
Capital expenditures	(11,161)	(25,636)	(105,144)
Proceeds from sales of property, plant and equipment	2,682	2,592	25,264
Purchases of investments in securities	(5,630)	(4,775)	(53,034)
Proceeds from sales of investments in securities	1,282	707	12,076
Proceeds from sales of investments in consolidated subsidiaries	3,079		29,005
Net decrease (increase) in loans receivable	(3,961)	1,670	(37,318)
Proceeds from transfer of business	2,401		22,620
Other-net	6,882	1,946	64,833
Net cash used in investing activities	(4,426)	(23,496)	(41,698)
Financing activities:			
Proceeds from long-term debt	10,629	17,933	100,133
Repayments of long-term debt	(12,340)	(13,590)	(116,251)
Net increase (decrease) in short-term borrowings	(19,033)	2,616	(179,304)
Dividends paid	(2,037)	(1,480)	(19,188)
Other-net	(28)		(264)
Net cash provided by (used in) financing activities	(22,809)	5,479	(214,874)
Foreign currency translation adjustments on cash and cash equivalents	(1,081)	(758)	(10,188)
Net increase in cash and cash equivalents	9,168	3,313	86,362
Cash and cash equivalents of newly consolidated subsidiaries			
at beginning of year	39	646	366
Cash and cash equivalents of exclusive consolidated subsidiaries			
at end of year	(52)		(494)
Cash and cash equivalents at beginning of year	23,419	19,460	220,630
Cash and cash equivalents at end of year	¥ 32,574	¥ 23,419	\$ 306,864
Non-cash investing and financing activities			
Assets increased by consolidation of subsidiary previously unconsolidated	¥ 159	¥ 647	\$ 1,494
Liabilities increased by consolidation of subsidiary previously unconsolidated	62	124	581

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation (the "Company"), its domestic subsidiaries and affiliates maintain their records and prepare their financial statements in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan. The foreign consolidated subsidiaries maintain and prepare their financial statements in accordance with accounting principles generally accepted in the countries where such subsidiaries are established.

The consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan (the "Securities Law") and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and those for the years, ended March 31, 2000 and 1999 are presented herein.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥106.15 to U.S.\$1, the rate of exchange at March 31, 2000. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in 1999 financial statements to conform to classification used in 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2000, include the accounts of the Company and its 33 (33 in 1999) significant subsidiaries (collectively the "companies"). Investments in 3 (3 in 1999) unconsolidated subsidiaries and 1 associated company are accounted for by the equity method.

The differences between the cost and the underlying net equity of investments in consolidated subsidiaries, unconsolidated subsidiaries and an associated company accounted for by the equity method at acquisition ("Goodwill") are insignificant and are charged to income when incurred.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost as they are immaterial to the consolidated financial statements.

In the ophthalmic lenses business, the Company entered into a joint venture agreement with Essilor International S.A. on October 29, 1999, and started a joint venture company named "Nikon-Essilor Co., Ltd." in January, 2000.

All significant intercompany balances and transactions have been eliminated in consolidations. All material unrealized profit included in assets resulting from transactions within the companies is eliminated.

(b) Cash and 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, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of the date of acquisition.

The scope of cash and cash equivalents at beginning and end of year 1999 were changed from ¥40,142 million and ¥42,596 million to ¥19,460 million and ¥23,419 million, respectively, to conform with the presentation in 2000.

(c) Marketable Securities and Investments in Securities

Marketable securities and investments in securities are stated principally at cost as determined using the moving-average method. See Note 3 for reclassification in 2000.

(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 computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities incidental to buildings) of the Company and domestic subsidiaries and the property, plant and equipment of foreign subsidiaries at rates based on the estimated useful lives of the assets.

Accounting Change - Effective April 1, 1999, the Company and domestic subsidiaries adopted the straight-line method of depreciation for the buildings (excluding facilities incidental to buildings), which, previously, had been depreciated by the declining-balance method. This change was made to more accurately allocate the cost of the buildings in light of the operations of the Companies.

The effect of this change was to decrease depreciation expenses by ¥520 million (\$4,907 thousand) and to increase income before income taxes by ¥388 million (\$3,659 thousand) for the year ended March 31, 2000.

(f) Retirement Benefits

The Company and major domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees of the Company and such subsidiaries. Foreign subsidiaries have principally contributory pension plans.

Other domestic subsidiaries have unfunded severance payment plans and have established a liability for severance indemnities at 40% of the amount which would be required if all employees voluntarily terminated their employment at each balance sheet date.

(g) 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.

(h) Income Taxes

Effective April 1, 1998, the Company and consolidated subsidiaries adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥8,725 million was included as an adjustment to retained earnings as of April 1, 1998.

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 together with the tax effect of loss carryforwards. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(i) Research and Development Costs

The companies are active in research and development and such costs are charged to income as incurred.

(j) Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the following year upon shareholders' approval.

(k) Foreign Currency Transactions

Balances denominated in foreign currencies, except for those hedged by forward exchange contracts, are translated into Japanese yen at the current exchange rates in effect at each balance sheet date for monetary current assets and liabilities, and at historical rates for non-current assets and liabilities. Foreign currency balances hedged by forward exchange contracts are translated into Japanese yen at the contracted rates. Exchange and translation gains or losses are credited or charged to income as incurred.

(l) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates except for shareholders' equity, which is translated at the historical exchange rates. The differences resulting from such translations are reflected in the consolidated balance sheets as investments and other assets.

(m) Per Share Information

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 369,918,890 shares for 2000 and 369,925,009 shares for 1999.

Cash dividends per share shown in the consolidated statements of operations are presented on an accrual basis and include interim dividends paid and year ended dividends to be approved after the balance sheet date.

3. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Marketable equity securities	¥ 2	¥13,663	\$ 16
Bank debentures and other	<u>10</u>	<u>717</u>	<u>94</u>
	<u>¥ 12</u>	<u>¥14,380</u>	<u>\$ 110</u>

Investments in securities at March 31, 2000 and 1999 were principally equity securities with market quotations as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Equity securities	¥49,266	¥36,522	\$464,121
Trust bonds, debentures and other	<u>102</u>	<u>57</u>	<u>961</u>
	<u>¥49,368</u>	<u>¥36,579</u>	<u>\$465,082</u>

The carrying amounts and market values of marketable securities (current) and investments in securities (non-current) at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current (market value available):			
Carrying amount	¥ 2	¥14,243	\$ 16
Aggregate market value	<u>3</u>	<u>21,839</u>	<u>31</u>
Net unrealized gains	¥ 1	¥ 7,596	\$ 15
Non-current (market value available):			
Carrying amount	¥44,856	¥32,230	\$422,568
Aggregate market value	<u>58,975</u>	<u>43,435</u>	<u>555,581</u>
Net unrealized gains	<u>¥14,119</u>	<u>¥11,205</u>	<u>\$133,013</u>

The difference between the above carrying amounts and the amounts shown in the accompanying balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

Due to the change in the Companies' investment policy during the year ended March 31, 2000, the Company reclassified corporate shares in the aggregate amount of ¥12,636 million (\$119,048 thousand) from "Marketable securities" to "Investments in securities".

4. INVENTORIES

Inventories at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Finished and semi-finished products	¥ 55,072	¥ 62,401	\$ 518,817
Work in process	<u>85,213</u>	<u>72,354</u>	<u>802,760</u>
Raw materials and supplies	<u>13,562</u>	<u>15,822</u>	<u>127,763</u>
	<u>¥153,847</u>	<u>¥150,577</u>	<u>\$1,449,340</u>

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Short-term loans, principally from banks:			
2000: 0.4402%-7.3840%			
1999: 0.4937%-8.0000%	¥ 71,558	¥ 74,666	\$ 674,118
Commercial paper:			
2000: 0.0709%- 0.1235%			
1999: 0.4500%-0.9050%	<u>14,000</u>	<u>32,000</u>	<u>131,889</u>
	<u>¥ 85,558</u>	<u>¥106,666</u>	<u>\$ 806,007</u>

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Loans, principally from banks and insurance companies:			
2000: 1.18%-9.185% due 2000-2006			
1999: 1.13%-9.185% due 2000-2006	¥ 21,167	¥ 25,601	\$ 199,405
Bonds	<u>90,000</u>	<u>90,000</u>	<u>847,854</u>
	<u>111,167</u>	<u>115,601</u>	<u>1,047,259</u>
Less: Current portion	<u>(15,439)</u>	<u>(12,510)</u>	<u>(145,442)</u>
Long-term debt, less current portion	<u>¥ 95,728</u>	<u>¥103,091</u>	<u>\$ 901,817</u>

The following is a summary of the terms of bonds which the Company may at any time purchase at any price in the open market or otherwise.

The bonds purchased or otherwise acquired by the Company may be held or resold or, at the discretion of the Company, may be canceled (together with any unmatured coupons attached thereto or purchased therewith).

	Issued in	To be redeemed in	Millions of Yen		Thousands of U.S. Dollars
			2000	1999	2000
6.2% Euro-Yen Unsecured Bonds	July 1992	October 1999		10,000	
4.85% Euro-Yen Unsecured Bonds	September 1994	December 2001	10,000	10,000	94,206
4.4% Yen Unsecured Bonds	January 1995	January 2001	10,000	10,000	94,206
2.95% Yen Unsecured Bonds	February 1996	February 2003	10,000	10,000	94,206
2.7% Yen Unsecured Bonds	February 1996	February 2002	10,000	10,000	94,206
2.45% Yen Unsecured Bonds	March 1997	March 2004	10,000	10,000	94,206
2.7% Yen Unsecured Bonds	June 1997	June 2003	10,000	10,000	94,206
2.5% Yen Unsecured Bonds	November 1997	November 2007	10,000	10,000	94,206
2.575% Yen Unsecured Bonds	April 1998	April 2005	10,000	10,000	94,206
1.76% Yen Unsecured Bonds	August 1999	August 2004	10,000		94,206
Long-term debt, less current portion			<u>¥ 90,000</u>	<u>¥ 90,000</u>	<u>\$ 847,854</u>

The aggregate annual maturities of long-term debt for the years following March 31, 2000 are as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2001	¥ 15,439	\$ 145,442
2002	24,154	227,546
2003	15,752	148,393
2004	21,836	205,709
2005	11,843	111,567
Thereafter	<u>22,143</u>	<u>208,602</u>
	<u>¥111,167</u>	<u>\$1,047,259</u>

At March 31, 2000, the following assets were pledged as collateral for the short-term borrowings, long-term debt and other liabilities.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Notes and accounts receivable—trade	¥ 11,213	\$ 105,632
Marketable securities and investments in securities	<u>10,594</u>	<u>99,807</u>
	<u>¥ 21,807</u>	<u>\$ 205,439</u>

Liabilities secured by the above assets were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Short-term borrowings	¥ 2,266	\$ 21,348
Other current liabilities	188	1,771
Long-term debt, including current portion	<u>3,880</u>	<u>36,554</u>
	<u>¥ 6,334</u>	<u>\$ 59,673</u>

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 Company has never been requested to provide any additional collateral.

6. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares of common stock to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥ 50.

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

Under the Code, the Company may resolve to repurchase its treasury stock for retirement and related reduction of retained earnings pursuant to resolution of the Board of Directors, subject to approval by the shareholders.

At the general shareholders' meeting held on June 29, 1999, the Company's shareholders approved that the Company is authorized to repurchase, at management's discretion, up to 35 million shares of Company's stock for the purpose of canceling the shares by charging repurchased amounts to retained earnings.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2000, retained earnings as recorded on the Company's books were ¥55,850 million (\$526,142 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

7. 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 rates of approximately 42% and 48% for the years ended March 31, 2000, and 1999, respectively.

The tax effects of significant temporary differences and loss carryforwards which result in deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets:			
Devaluation of inventories	¥ 4,649	¥ 5,082	\$ 43,800
Allowance for doubtful receivables	3,256	515	30,669
Depreciation and amortization	6,118	5,117	57,637
Tax loss carryforwards	249	5,759	2,346
Other	4,882	2,346	45,996
	<u>¥19,154</u>	<u>¥18,819</u>	<u>\$180,448</u>
Valuation allowance of ¥3,451 million (\$32,518 thousand) in 2000 and ¥4,000 million in 1999 were deducted from the amounts calculated above.			
Deferred tax liabilities :			
Deferred profits on sales of property to be replaced	2,141	2,073	20,167
Other	494	952	4,660
	<u>¥ 2,635</u>	<u>3,025</u>	<u>\$ 24,827</u>
Net deferred tax assets	<u>¥16,519</u>	<u>15,794</u>	<u>\$155,621</u>

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and 1999, and the actual effective tax rates reflected in the consolidated statements of operation were as follows:

	Year ended March 31,	
	2000	1999
Normal statutory tax rate	42%	48%
Nontaxable consolidated adjustment	13.9	(25)
Valuation allowance change	(26.1)	(9.1)
Effect of tax rate reduction		(5.0)
Other-net	2.5	(4.4)
Actual effective tax rate	<u>32.3%</u>	<u>4.5%</u>

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥ 17,798 million (\$ 167,667 thousand) and ¥ 18,729 million for the years ended March 31, 2000 and 1999, respectively.

9. LEASE PAYMENTS

Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥ 3,479 million (\$ 32,773 thousand) and ¥4,735 million for the years ended March 31, 2000 and 1999, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2000			2000		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,002	¥ 9,036	¥15,038	\$56,544	\$85,122	\$141,666
Accumulated depreciation	2,815	4,974	7,789	26,524	46,852	73,376
Net leases property	<u>¥ 3,187</u>	<u>¥ 4,062</u>	<u>¥ 7,249</u>	<u>\$30,020</u>	<u>\$38,270</u>	<u>\$ 68,290</u>

	Millions of Yen		
	1999		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥10,854	¥10,916	¥21,770
Accumulated depreciation	5,375	5,240	10,615
Net leases property	<u>¥ 5,479</u>	<u>¥ 5,676</u>	<u>¥11,155</u>

Obligations under finance leases at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 2,811	¥ 3,863	\$ 26,478
Due after one year	4,438	7,292	41,812
	<u>¥ 7,249</u>	<u>¥11,155</u>	<u>\$ 68,290</u>

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

Depreciation expense, which is not reflected in the accompanying consolidated statement of operations, computed by the straight-line method, was ¥3,479 million (\$32,773 thousand) and ¥4,735 million for the year ended March 31, 2000 and 1999, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2000 and 1999 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 732	¥ 958	\$ 6,896
Due after one year	1,034	1,368	9,744
	<u>¥ 1,766</u>	<u>¥ 2,326</u>	<u>\$ 16,640</u>

10. DERIVATIVES

The Company and consolidated subsidiaries enter into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, currency option contracts and interest rate swap contracts to hedge foreign exchange risk and interest rate exposures.

The Company and consolidated subsidiaries do 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 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 derivatives are limited to major international financial institutions, the Company and consolidated subsidiaries do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company and consolidated subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivatives contracts outstanding at March 31, 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2000		2000	
	Contract or Notional Amount	Net Unrealized Gain (Loss)	Contract or Notional Amount	Net Unrealized Gain (Loss)
Forward Exchange Contracts:				
Selling U.S.\$	¥ 5,252	¥ 70	\$ 49,480	\$ 662
Selling EUR	<u>6,016</u>	<u>266</u>	<u>56,673</u>	<u>2,508</u>
Buying YEN	¥15,733	¥ 682	\$148,214	\$ 6,429
Buying EUR	<u>3,691</u>	<u>(165)</u>	<u>34,767</u>	<u>(1,558)</u>
Currency Option Contracts:				
Selling Call U.S.\$	¥ 1,073		\$ 10,111	
Option premiums	24	¥ 9	222	\$ 81
Buying Put U.S.\$	1,035		9,750	
Option premiums	<u>24</u>	<u>(4)</u>	<u>222</u>	<u>(41)</u>
Interest Rate Swaps:				
(fixed rate receipt, floating rate payment)	¥40,000	¥ 1,490	\$376,825	\$ 14,034
(fixed rate payment, floating rate receipt)	<u>20,000</u>	<u>(460)</u>	<u>188,413</u>	<u>(4,333)</u>
	<u>¥60,000</u>	<u>¥ 1,030</u>	<u>\$565,238</u>	<u>\$ 9,701</u>

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end are not subject to the disclosure of market value information.

11. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 926	\$ 8,725
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	<u>13,315</u>	<u>125,438</u>
	<u>¥ 14,241</u>	<u>\$134,163</u>

12. SUBSEQUENT EVENT

On June 29, 2000, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 925	\$ 8,712
Bonuses to directors and corporate auditors	<u>30</u>	<u>283</u>
	<u>¥ 955</u>	<u>\$ 8,995</u>

13. SEGMENT INFORMATION

(a) Industry Segments

	Millions of Yen				
	Consumer products	Industrial instruments	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2000					
Net sales	¥ 150,288	¥ 221,513	¥ 371,801		¥ 371,801
Operating expenses	<u>141,376</u>	<u>211,991</u>	<u>353,367</u>		<u>353,367</u>
Operating income	<u>¥ 8,912</u>	<u>¥ 9,522</u>	<u>¥ 18,434</u>		<u>¥ 18,434</u>
Assets	¥ 103,695	¥ 314,356	¥ 418,051	¥ 84,124	¥ 502,175
Depreciation and amortization	4,703	12,548	17,251		17,251
Capital expenditures	<u>3,519</u>	<u>10,362</u>	<u>13,881</u>		<u>13,881</u>
For the year ended March 31, 1999					
Net sales	¥ 139,204	¥ 166,561	¥ 305,765		¥ 305,765
Operating expenses	<u>136,683</u>	<u>177,823</u>	<u>314,506</u>		<u>314,506</u>
Operating income (loss)	<u>¥ 2,521</u>	<u>¥ (11,262)</u>	<u>¥ (8,741)</u>		<u>¥ (8,741)</u>
Assets	¥ 112,838	¥ 287,680	¥ 400,518	¥ 74,447	¥ 474,965
Depreciation and amortization	6,871	13,239	20,110		20,110
Capital expenditures	<u>6,088</u>	<u>14,631</u>	<u>20,719</u>		<u>20,719</u>
Thousands of U.S. Dollars					
For the year ended March 31, 2000					
Net sales	\$1,415,807	\$2,086,792	\$3,502,599		\$3,502,599
Operating expenses	<u>1,331,851</u>	<u>1,997,086</u>	<u>3,328,937</u>		<u>3,328,937</u>
Operating income	<u>\$ 83,956</u>	<u>\$ 89,706</u>	<u>\$ 173,662</u>		<u>\$ 173,662</u>
Assets	\$ 976,872	\$2,961,430	\$3,938,302	\$792,499	\$4,730,801
Depreciation and amortization	44,302	118,213	162,515		162,515
Capital expenditures	<u>33,156</u>	<u>97,613</u>	<u>130,769</u>		<u>130,769</u>

(b) Geographic Segments

Millions of Yen

	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2000							
Net sales							
Outside customers	¥ 219,188	¥ 96,699	¥ 48,926	¥ 6,988	¥ 371,801	¥	¥ 371,801
Intersegment sales	114,093	322	104	3,879	118,398	(118,398)	
Total	333,281	97,021	49,030	10,867	490,199	(118,398)	371,801
Operating expenses	323,878	91,002	48,702	9,261	472,843	(119,476)	353,367
Operating income	¥ 9,403	¥ 6,019	¥ 328	¥ 1,606	¥ 17,356	¥ 1,078	¥ 18,434
Assets	¥ 357,750	¥ 58,158	¥ 29,249	¥ 8,848	¥ 454,005	¥ 48,170	¥ 502,175

For the year ended March 31, 1999

Net sales							
Outside customers	¥ 183,725	¥ 80,366	¥ 36,129	¥ 5,545	¥ 305,765	¥	¥ 305,765
Intersegment sales	90,731	281	172	5,801	96,985	(96,985)	
Total	274,456	80,647	36,301	11,346	402,750	(96,985)	305,765
Operating expenses	285,427	77,965	36,524	10,051	409,967	(95,461)	314,506
Operating income (loss)	¥ (10,971)	¥ 2,682	¥ (223)	¥ 1,295	¥ (7,217)	¥ (1,524)	¥ (8,741)
Assets	¥ 339,740	¥ 57,255	¥ 27,423	¥ 7,946	¥ 432,364	¥ 42,601	¥ 474,965

Thousands of U.S. Dollars

	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2000							
Net sales							
Outside customers	\$ 2,064,891	\$ 910,970	\$ 460,909	\$ 65,829	\$ 3,502,599	\$	\$ 3,502,599
Intersegment sales	1,074,826	3,030	987	36,544	1,115,387	(1,115,387)	
Total	3,139,717	914,000	461,896	102,373	4,617,986	(1,115,387)	3,502,599
Operating expenses	3,051,131	857,298	458,808	87,245	4,454,482	(1,125,545)	3,328,937
Operating income	\$ 88,586	\$ 56,702	\$ 3,088	\$ 15,128	\$ 163,504	\$ 10,158	\$ 173,662
Assets	\$ 3,370,231	\$ 547,882	\$ 275,545	\$ 83,358	\$ 4,277,016	\$ 453,785	\$ 4,730,801

(c) Export Sales

For the years ended March 31, 2000 and 1999

	Millions of Yen, %				Thousands of U.S. Dollars
	<u>2000</u>	<u>(A)/(B)</u>	<u>1999</u>	<u>(A)/(B)</u>	<u>2000</u>
Export sales (A)					
North America	¥ 95,557	25.7 %	¥ 78,869	25.8%	\$ 900,208
Europe	52,002	14.0	46,714	15.3	489,891
Asia	95,195	25.6	53,754	17.6	896,793
Other Area	4,436	1.2	7,032	2.3	41,794
Total	¥247,190	66.5 %	¥186,369	61.0%	\$2,328,686
Net sales (B)	¥371,801		¥305,765		\$3,502,599

Tohmatsu & Co.

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Fax: +81-3-3769-8508

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NIKON CORPORATION:

We have examined the consolidated balance sheets of NIKON CORPORATION and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of NIKON CORPORATION and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for the depreciation method of buildings as discussed in Note 2(e).

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2000

CORPORATE DIRECTORY

HEAD OFFICE

Fuji Bldg., 2-3, Marunouchi 3-chome,
Chiyoda-ku, Tokyo 100-8331, Japan
Tel: 03-3214-5311

DOMESTIC OFFICE

Osaka

DOMESTIC PLANTS

Ohi plant

6-3, Nishiohi 1-chome,
Shinagawa-ku,
Tokyo 140-8601
Tel: 03-3773-1111

Yokohama Plant

471, Nagaodai-machi,
Sakae-ku, Yokohama,
Kanagawa 244-8533
Tel: 045-852-2111

Sagamihara Plant

10-1, Asamizodai 1-chome,
Sagamihara,
Kanagawa 228-0828
Tel: 042-740-6300

Kumagaya Plant

201-9, Oaza-miizugahara, Kumagaya,
Saitama 360-8559
Tel: 0485-33-2111

Mito Plant

276-6, Motoishikawa-cho,
Mito, Ibaraki 310-0843
Tel: 029-240-1111

MAJOR DOMESTIC SUBSIDIARIES

Tochigi Nikon Corporation

770, Midori Otawara,
Tochigi 324-8625
Tel: 0287-28-1111

Mito Nikon Corporation

4500, Sugaya, Naka-machi,
Naka-gun, Ibaraki 311-0194
Tel: 029-298-8111

Sendai Nikon Corporation

277, Aza-hara, Tako, Natori,
Miyagi 981-1221
Tel: 022-384-0011

Zao Nikon Co., Ltd.

20, Aza-shinoyoke, Miya,
Zao-cho, Katta-gun,
Miyagi 989-0701
Tel: 0224-32-2336

Kurobane Nikon Co., Ltd.

1434, Oaza-kurobanemuko-machi,
Kurobane-machi, Nasu-gun,
Tochigi 324-0241
Tel: 0287-53-1111

Sagami Optical Co., Ltd.

3330-1, Tana, Sagamihara,
Kanagawa 229-1124
Tel: 042-763-1291

Nikon Photo Products Inc.

23-1, Azumabashi 1-chome,
Sumida-ku, Tokyo 130-8677
Tel: 03-5608-5500

Nikon Instech Co., Ltd.

4-25, Koraku 1-chome,
Bunkyo-ku, Tokyo 112-0004
Tel: 03-5802-0211

Nikon Geotecs Co., Ltd.

16-2, Minamikamata 2-chome,
Ota-ku, Tokyo 144-0035
Tel: 03-5710-2580

Nikon Eyewear Co., Ltd.

10-8, Ryogoku 2-chome,
Sumida-ku, Tokyo 130-0026
Tel: 03-5600-2471

Kogaku Co., Ltd.

8-2, Meishinguchi 3-chome,
Toyonaka, Osaka 561-0841
Tel: 06-6333-3191

Nikon Tec Corporation

5-21, Katsushima 1-chome,
Shinagawa-ku, Tokyo 140-0012
Tel: 03-5762-8911

Nikon Systems Inc.

3-3, Minatomirai 2-chome,
Nishi-ku, Yokohama,
Kanagawa 220-6116
Tel: 045-682-0120

Nikon Life Co., Ltd.*

4-25, Nishiohi 1-chome,
Shinagawa-ku, Tokyo 140-0015
Tel: 03-3773-2122

Nikon Sales-Promotion Co., Ltd.*

4-25, Nishiohi 1-chome,
Shinagawa-ku, Tokyo 140-0015
Tel: 03-5709-8281

Nikon Logistics Corporation*

13-17, Nishiohi 4-chome,
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Tel: 03-3773-0351

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The Netherlands
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Anton Tamms väg 3, Box 84 S 194 22,
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Nikon Instruments S.p.A.

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50019 Sesto Fiorentino,
Firenze, Italy
Tel: (39) 055-3009601

Nikon Kft.*

H-1134 Budapest,
Dévai, útca 26-28,
Hungary
Tel: (36) 1-350-5525

Nikon s.r.o.*

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100 10 Praha 10,
The Czech Republic
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Nikon Singapore Pte Ltd

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The Gateway West,
Singapore 189720
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Nikon Hong Kong Ltd.

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Beijing Nikon Ophthalmic Products Co., Ltd.*

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Dongcheng District,
Beijing 100006, China
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Nikon Precision Inc.

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Nikon Precision Europe GmbH

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Tel: (49) 6103-973-0

Nikon Precision Korea Ltd.

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Yongin-si, Kyungki-do,
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Nikon Precision Taiwan Ltd.

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Hsinchu, Taiwan
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Nikon Precision Singapore Pte Ltd*

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Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.

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China
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*Unconsolidated
(As of March 31, 2000)

INVESTOR INFORMATION

Nikon Corporation

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Chiyoda-ku, Tokyo 100-8331, Japan
Tel: 03-3214-5311
Fax: 03-3201-5856

Date of Establishment

July 25, 1917

Number of Employees

11,946

Common Stock

Authorized: 1,000,000,000 shares
Issued: 369,927,584 shares
¥36,661 million

Number of Shareholders

18,100

Major Shareholders

	Number of shares held (thousands)	Percentage of total shares issued
Meiji Life Insurance Company	23,550	6.37 %
The Mitsubishi Trust and Banking Corporation	17,186	4.65
The Bank of Tokyo-Mitsubishi, Ltd.	16,996	4.59
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	13,751	3.72
The Tokio Marine and Fire Insurance Co., Ltd.	10,567	2.86
The Asahi Bank, Ltd.	9,013	2.44
The Sumitomo Trust & Banking Co., Ltd. (Trust Account)	8,792	2.38
State Street Bank and Trust Company	8,769	2.37
Boston Safe Deposit BSDT Treaty Clients Omnibus	8,766	2.37
Nippon Life Insurance Company	7,994	2.16

Stock Exchange Listings

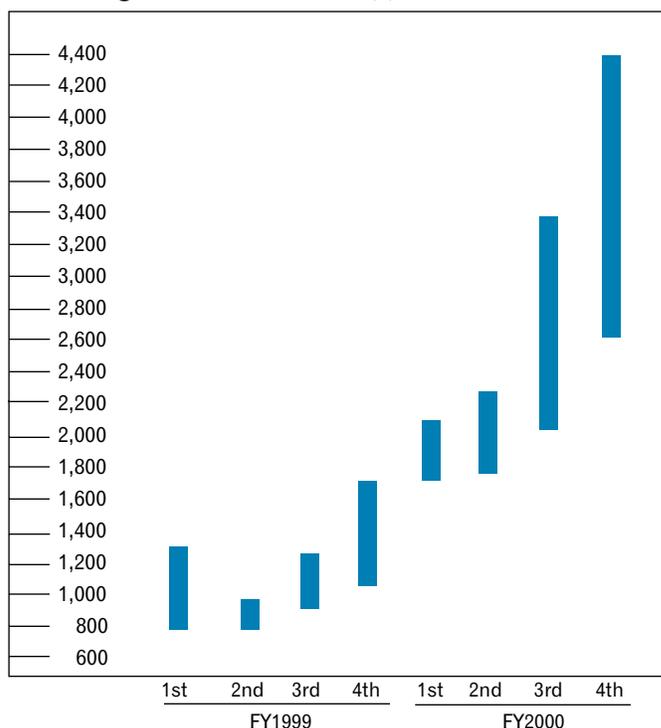
Tokyo, Osaka, Kyoto,
Fukuoka, Sapporo

Transfer Agent and Registrar

The Mitsubishi Trust and Banking Corporation
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(As of March 31, 2000)

Price Range of Common Stock (¥)



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



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