

NIKON CORPORATION
annual report
2004

corporate profile

Since its founding in 1917, Nikon has been in the forefront of optical glass manufacturing in Japan. Proficiency in optical technologies amassed over the years has gained us global acclaim for an extensive range of superior optical equipment. With a focus on growth, we manufacture and market a wide-ranging lineup that includes industrial instruments, such as steppers, microscopes and measuring instruments, which complement our array of conventional film and digital cameras.

Amid an ever-changing business environment and the diversifying needs of customers, our efforts center on “transformation and progression.” We constantly promote technological innovation and work to strengthen cohesiveness within the Nikon Group to achieve business expansion, high profitability and a strong financial base.

Nikon’s flexibility is visible in numerous new product developments with leading-edge technologies, the implementation of structural reform and a proactive future-oriented focus. We will continue to strive towards greater growth and enhanced corporate value as we maximize the opportunities that lie before us.

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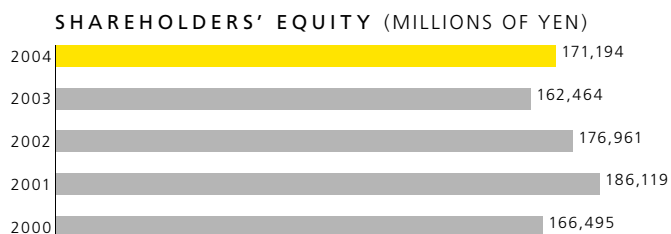
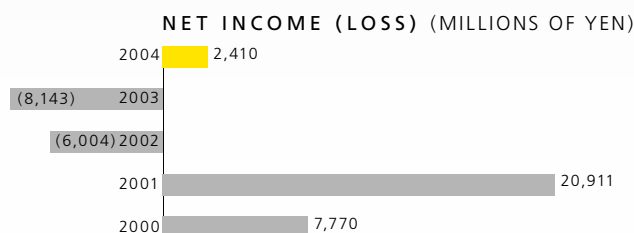
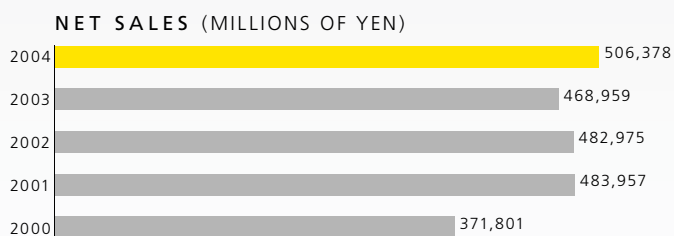
Statements contained in this report regarding the plans, projections and strategies of the Nikon Corporation and its subsidiaries and affiliates that comprise the Nikon Group (hereinafter “Nikon”) that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data that are obtainable at the time of announcement in compliance with Nikon’s management policies and certain premises that are deemed reasonable by Nikon. Hence, actual results may differ, in some cases significantly, from these forward-looking statements due to changes in various factors, including—but not limited to—economic conditions in principal markets, product and service demand trends, customer capital investment trends, and currency exchange rate fluctuations.

financial highlights

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen		Millions of U.S. Dollars	%
	2004	2003	2004	Increase (Decrease)
FOR THE YEAR				
Net sales	¥ 506,378	¥ 468,959	\$ 4,791	8.0%
Operating income	3,675	4,187	35	(12.2%)
Net income (loss)	2,410	(8,143)	23	
Per share of common stock (Yen and U.S. dollars):				
Basic net income (loss)	¥ 6.52	¥ (22.03)	\$ 0.06	
Diluted net income	6.02		0.06	
Cash dividends applicable to the year	4.00		0.04	100%
AT YEAR-END				
Total assets	¥ 606,513	¥ 576,912	\$ 5,739	5.1%
Shareholders' equity	171,194	162,464	1,620	5.4%

- 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 ¥105.69 to U.S.\$1.00, the exchange rate at March 31, 2004.
3. Diluted net income per share for the year ended March 31, 2003 is not disclosed because of the Company's net loss position.





to our shareholders
and investors

We believe effective actions taken in each business domain throughout the year will provide an invaluable stepping stone to future progress.

Business Conditions and Results

The fiscal year ended March 31, 2004 heralded a recovery in economic conditions across many markets. In the United States, increased consumer spending and higher levels of capital investment supported a robust recovery. In Europe, consumer spending remained sluggish while business investment picked up. In Asia, strong export growth supported ongoing regional expansion, with growth particularly vigorous in China. Japan also recovered steadily, driven by export growth and increased levels of private-sector capital investment. Even consumer spending showed some positive signs in various sectors of Japan's "digital economy."

Encouraging signs were also manifest in Nikon's business areas. Not only did the digital camera market continue to expand, but a belated recovery in the semiconductor market prompted gradual revitalization in capital investment.

Under such an environment, Nikon worked hard to expand sales and increase profitability by developing new products that fit market needs and expanding overseas networks of production, marketing and customer service facilities. We made concerted efforts during the year to implement a variety of structural reforms directed at fundamental improvements in our earnings structure. We sought to reduce variable and fixed costs and worked to improve our turnover in terms of both trade receivables and inventories.



From left: Shoichiro Yoshida, Kenji Enya, Teruo Shimamura

Consolidated net sales were up 8.0% on a year-on-year basis to a record high of ¥506,378 million, due primarily to expanded sales of digital cameras. Operating income was down 12.2% to ¥3,675 million (compared with ¥4,187 million in the previous year), due to deferral in semiconductor investment, and intensifying price competition and problems in certain areas of supply in digital cameras. Partly due to extraordinary income, we posted consolidated net income of ¥2,410 million for the year (compared with a net loss of ¥8,143 million in the previous fiscal year).

Although we fell short of achieving a full-scale recovery in results across the Nikon Group, I believe effective actions taken in each business domain throughout the year will provide an invaluable stepping stone to future progress.

Business Outlook

Although elements of uncertainty remain, the economic climate is expected to continue improving on the whole. The business environment surrounding the Nikon Group is currently undergoing an upturn – the digital camera market continues to expand amid rapid growth in SLR-type digital cameras, while a large increase in LCD panel investment and resurgence in the semiconductor market are anticipated to have a beneficial effect.

We plan to grasp all opportunities throughout the Nikon Group to realize a V-shaped recovery and stimulate new growth in the year ending March 2005, thereby restoring profitable earning structures. Our strategy is to launch competitive products in markets that are expanding (SLR-type digital cameras and LCD steppers) or in a recovery phase (IC steppers) to expand and enhance these key business areas. We will also actively continue to pursue R&D activities so that we can leverage our unique technologies to cultivate new businesses.

At the same time, we continue to focus on making the most efficient use of assets and capital investments to strengthen our finances. We are also using business process reforms to make our operations more efficient. Through such company-wide efforts, we will generate stable cash flow and quickly realize a strong financial structure that will enable us to conduct ongoing investment as well as deal with any changes in the market. Our aim is to greatly improve the profitability of the Nikon Group.

We will continue to provide stable dividends to shareholders based on consideration of business results and the need to conduct medium- to long-term investment in R&D and growth areas.

We ask shareholders and investors to understand our current situation, and to extend us your continued support as we execute ongoing reforms.

July 2004

Shoichiro Yoshida
Chairman of the Board and
Chief Executive Officer

Kenji Enya
Vice Chairman of the Board and
Chief Financial Officer

Teruo Shimamura
President, Member of the Board and
Chief Operating Officer



message from
the chief executive officer

transformation
and
progression



Toward a V-Shaped Recovery

A primary task of the Nikon Group in year ahead is to engineer a V-shaped recovery on the back of revitalization in the semiconductor market and an improving business environment. We plan to adopt an aggressive stance to achieve this aim.

Reports by the presidents of each in-house company within the Nikon Group elsewhere in this report provide more details of operational strategy in each area. Here, I want to take a general look at the direction of each business as well as of the Nikon Group as a whole.

The key to engineering a V-shaped recovery is to restore profits in Precision Equipment. An upturn in the semiconductor market coupled with growing demand for IC steppers and revitalized investment in large-size panels led to a strong performance in our LCD stepper business. We have also achieved dramatic reductions in production lead times. These positive factors point to brighter prospects for the year ending March 2005. We continue to invest in the development of next-generation machines to ensure that we can secure a competitive edge in the latest lithography technology. At the same time, we are pursuing further structural reforms to generate higher profitability.

Imaging Products faces a favorable business environment as a sharp increase in demand for SLR-type digital cameras in accord with ongoing expansion of the market for digital cameras countered concerns over price competition in compact digital cameras. We aim to enhance our dominant position in SLR-type digital cameras. In the compact digital camera segment, where price-based competition is especially intense, we plan to boost profitability by enhancing our production system with greater in-house production of key compo-

nents and higher China-based production capacity to reduce costs.

In Instruments, since the life sciences are the field with the greatest growth potential, we are investing primarily in biological microscopes to develop our strong position in this sector.

Several other businesses also provide us with good growth prospects in the coming year. Our new CMP (Chemical Mechanical Polishing) systems business is now starting to produce results. We also expect to start making profits from surveying instruments after the successful establishment and start-up of a joint venture, Nikon-Trimble Co., Ltd., with U.S.-based sector leader Trimble Navigation Ltd. Elsewhere, we have new business ventures in glass materials and optics engines, which have application in high quality projection TVs.

Hence, my point is that we will soon start to see the results of various reform and investment programs undertaken over the past few years. Combined with an upturn in the business environment, the prospects are now better than they have been for several years.

Results expected for the year ending March 2005 indicate that we will achieve a V-shaped recovery. Besides anticipated record sales, we plan to secure a high level of operating income owing to strong contributions from Imaging Products and Precision Equipment, which will mark a return to profitability.

I am confident that this is the turning point from the difficulties we have faced over the past few years and we can now look forward to new growth. We intend to establish a top global position by making the most of opportunities that lie before us. We will launch highly competitive products and revamp business processes to boost

competitive edge and profitability in core business areas. We will also aggressively develop new business areas to get our business back on track and raise the competitive strength of the entire Nikon Group.

Advanced Technology Remains the Key to Growth

Nikon has grown over the years by developing a number of advanced technologies in line with areas that the Japanese government has designated as strategic industrial sectors. At Nikon, the creation of cutting-edge technologies lies deeply entrenched in the company's DNA. Of the four strategic industrial sectors currently promoted by the government – information and communication technologies, life sciences, nanotechnology and the environmental sciences – we are closely involved in three domains where we possess world-class resources in the Nikon Group. Cultivating these resources and assertively striving to challenge new areas will help us establish highly advanced technologies inside the Nikon Group that are very difficult to replicate.

In the years to come, we seek to expand our business in various fields by focusing on how to effectively utilize these refined technologies on a commercial basis, including leveraging alliances with other companies.

Another aspect of today's increasingly borderless world is that we need to send out our own personnels to countries and regions that conduct highly sophisticated technological research. This way, we can better understand where the market is headed, allowing us to predict future needs and discern areas that possess the most growth potential. In our instruments business, we have

dispatched our personnel to our U.S. base for designing state-of-the-art technology in the life sciences. The center is putting into practice this product development philosophy of assessing market needs in the scientific and medical fields on the ground. Our aim is to find out exactly what customers want and use Nikon technology to develop and supply attractive products that fulfill precisely determined needs.

Production Capability Supporting Technological Innovation

In the manufacturing industry, a company's competitive edge is determined by its ability to produce excellent products. This requires an integrated process of development, design and production. In Imaging Products, where we are rapidly shifting to overseas production, we have created a highly reliable system geared at launching new products whereby our domestic manufacturing subsidiaries provide technical guidance on manufacturing and quality control technologies to facilities in Thailand and China. Meanwhile, our domestic manufacturing facilities now also take on the role as engineering centers. In future years, we will establish optimum production systems in each business sector and step up in-house technologies for the development of key devices. These actions will strengthen the Nikon Group's creative capabilities.

Strengthening Corporate Governance and Compliance

Amid an increasingly global business environment, strengthening corporate governance to boost corporate value on a long-term basis has become a top management priority. We have already implemented a number of measures in past years designed to strengthen management structures, such as the in-house company and executive officer systems. Besides strengthening management structures, we have implemented various management structural reforms, including introduction of stock options, changes to the system of directors' and executive officers' remuneration, and creation of an Executive Compensation Committee to boost management objectivity and transparency. We have also reduced the terms of directors from two years to one year to ensure we remain responsive to the rapidly moving business cycle.

In response to increasing demand for greater corporate social responsibility from companies, we established a Compliance Section in 2003 to ensure all corporate activities are legal, sound and fair. We revised the Nikon Code of Conduct, which we adopted in 2001, and formulated the Nikon Charter of Corporate Behavior in April 2004. This expresses the Nikon Group's basic stance on ensuring appropriate decisions based on ethical values and clarifies responsibilities and roles of senior management.

In the coming years, we will continue to promote social responsibility as an extremely important management issue. Besides providing superior products and services, we will enhance corporate ethics, environmental activities and contributions to the local community to deepen trust from all stakeholders – customers, shareholders and society at large.

Building Greater Nikon Group Cohesiveness

The most important issue we face at the moment is to restore profitability. Because we have implemented measures, I believe we can realistically expect our earnings situation to improve the year ahead. But if we want to raise profits on a long-term basis, I believe we also need to build the cohesiveness of the overall Nikon Group, in personnel, corporate climate modification and other terms. We need to make the entire company more competitive.

We introduced a new personnel system and performance-based pay structure during the year to develop a higher level of professionalism in the Nikon Group workforce, with the objective of transforming the company into one full of "positive, powerful and proactive" people.

We will also promote a system that fosters the sharing of management information and that allows to we can gather accurate information worldwide while boosting consolidated management functions and capabilities to facilitate rapid operational responses.

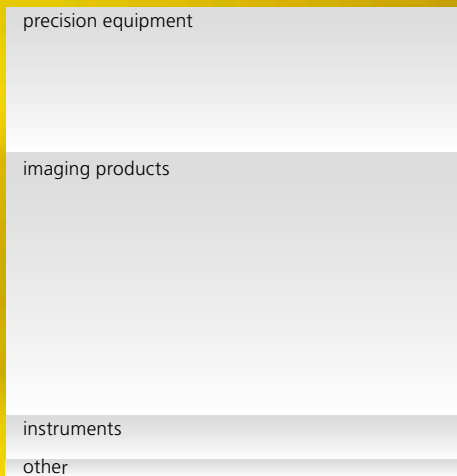
I believe that we have already created the blueprint for a V-shaped earnings recovery, which will bear fruit both now and long into the future. I also believe the Nikon Group can achieve sustainable growth by developing technologies, products and services that will enhance the prosperity and development of society. Along with every Nikon Group employee, I commit fully to taking up the prospective challenges whose achievement will ensure the Nikon name continues to be warmly accepted in society.

I look forward to your continued guidance and support as we forge ahead into the future.

Shoichiro Yoshida

Chairman of the Board and Chief Executive Officer

Breakdown of Net Sales



review of operations

Precision Equipment

IC and LCD steppers

30.9%

Imaging Products

digital cameras,
film cameras,
interchangeable camera lenses,
film scanners

56.0%

Instruments

biological microscopes,
industrial microscopes,
measuring instruments,
inspection equipment

9.2%

Other

sport optics products,
surveying instruments,
ophthalmic frames and sunglasses

3.9%

The above percentages figures are based on net sales for outside customers by industry segment.



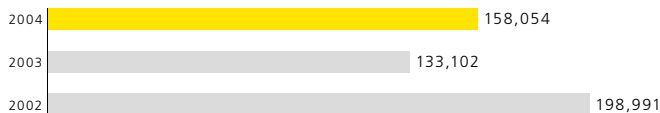
precision equipment

We made progress in the year ended March 2004 as our structural reforms began to produce results. The continued development of our profit-reaping sales strategy will drive strong growth in the year ending March 2005.

Growth in demand within all the major consumer electronics market segments, notably PCs, mobile phones, digital cameras and DVD equipment, drove the expansion of the semiconductor market in the year ended March 2004. Semiconductors started to show definite signs of recovery, having been stagnant throughout the previous year. Despite this progress, semiconductor manufacturers remained cautious about investing in steppers. We were able to post net sales of ¥158,054 million (up 18.7% year-on-year) while squeezing the operating loss to ¥20,806 million, compared with a loss of ¥24,595 million in the year ended March 2003.

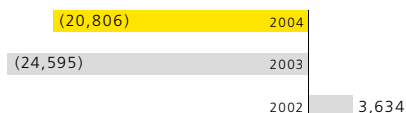
We made steady progress in the year ended March 2004 by taking the measures that I outlined in last year's annual report. First, we worked to entrench the position of Nikon in steppers based on the latest technical advances. We launched the NSR-S307E stepper with an N.A. 0.85 lens. In ArF excimer steppers we captured over half of the market and grabbed the top global share in terms of total sales units, thereby reinforcing our position as the leading manufacturer in the world. We plan to follow up these gains with the launch of the NSR-S308F model equipped with an N.A. 0.92 lens that has a resolution of less than 65nm and that improves throughput performance, with shipments scheduled to commence by the end of 2004.

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (LOSS) (MILLIONS OF YEN)





NSR-S307E
ArF excimer stepper equipped with N.A. 0.85 projection lens



NSR-S308F
ArF excimer stepper equipped with a super-high N.A. 0.92 projection lens and that has a resolution of less than 65 nm



FX-63S
LCD stepper that supports sixth-generation large plate sizes

Michio Kariya
*Executive Vice President,
Member of the Board,
President of Precision Equipment Company*



Our development programs continued to focus on keeping Nikon in the forefront of next-generation lithography. Our immersion lithography technology, which introduces purified water between the projection lens and the wafer, promises to improve lens resolution significantly. We are on course to start selling the world's first mass-produced stepper with a lens of N.A. greater than or equal to 1.0 in the latter half of 2005. In response to demand for further miniaturization of semiconductor devices, I believe we will strengthen the position of Nikon as the supplier of choice for the most advanced steppers.

We also made significant progress during the year ended March 2004 in the field of LCD steppers. We began shipments of the FX-61S/63S sixth-generation model, which can handle the largest glass substrates in the world, currently used in the production of LCD panels for large televisions. We have developed an original multi-lens scanning system in our LCD steppers that promises to come into its own as panel sizes continue to increase. We are now developing machines capable of handling even larger LCD panels.

Besides immersion lithography technology, which will soon produce an ultra-high N.A. ArF stepper range, our highly efficient development programs are focusing on other approaches to achieving new levels of performance in next-generation lithography. The latest field is Extreme Ultraviolet Lithography (EUVL), which aims to realize even greater device miniaturization. We are engaged in the development of EUVL systems as part of a special national research project conducted by Extreme Ultraviolet Lithography System Development Association (EUVA). Full-scale product development is now under way to finish an initial system by 2006.

Our second main aim was to expand our customer base. In addition to our lineup of i-line, KrF and ArF steppers, we are working to satisfy a broad range of customer requirements by offering second-hand machines as well as rapid-response after-sales services. This approach started to deliver results in the year

ended March 2004. We are also aggressively expanding our business by developing capabilities in applications support as well as hardware. This approach allows us to monitor the operating condition of our machines remotely and use the data to propose optimized solutions to individual customers. Such peripheral services promise to provide us with another source of earnings.

Our third strategic aim was to focus our efforts on fundamental structural reform of all Precision Equipment Company operations. Our main objective was to speed up operational throughput to reduce delivery lead times, as measured from lens cutting and finishing to completion of machine installation, to a maximum of six months. We achieved this goal during the year, thereby cutting lead times in half. This not only allows us to respond to rapidly changing market conditions better but also promises to translate into lower costs, reduced inventories and stronger finances. At the same time, we are working to cut development lead times. We are using prior risk evaluation and checks to eliminate as far as possible any dead-ends in development processes. This involves adopting a new management style for development functions.

The preparatory actions we took in the year ended March 2004 put us in a good position to benefit as capital investment levels start to recover in the semiconductor market in the year ending March 2005. Our sales strategy is based on generating higher profitability as the stepper market revives. Our goal for the year ending March 2005 is to become profitable at the operating level.

In the latter half of 2005, Nikon will introduce to the market a mass-produced ArF immersion stepper that has an N.A. greater than or equal to 1.0, which is a world first.



wafer

purified water



imaging products

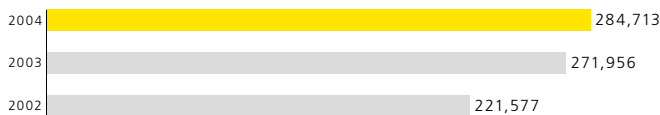
Competition continues to intensify in the digital camera market amid a shift to models with higher megapixel capabilities. Our mission at Nikon is to provide customers with the high-quality images and picture-taking enjoyment associated with the Nikon brand.

Although the global market for digital cameras continued to expand, competition intensified further, most notably in the compact camera segment. Price erosion was a marked feature of the year. Net sales rose 4.7% year-on-year to ¥284,713 million, but operating income dropped 9.1% to ¥25,222 million.

When Nikon adopted its new corporate brand symbol, we chose the branding statement "At the heart of the image" to summarize our commitment to customers. The emphasis in the digital camera market continues to shift toward models with higher megapixel CCD image sensors. Even compact digital cameras now have CCD image sensors with 3 or 4 megapixels; the time is approaching when 5 or even 8 megapixels will be the norm. I am confident that this ongoing shift will suit the strengths of Nikon, since we enjoy an advantage in advanced imaging technology. We know exactly what customers are looking for in terms of a true image. Our goal is to develop digital imaging technology to enable customers to enjoy this brave new world of digital images. To do this requires a command not just of the digital camera hardware but also of the image-processing software, as well as a wide range of peripheral devices. Nikon is a name intimately associated with photography, and so we must take up the challenge of developing products that embody the concept "at the heart of the image."

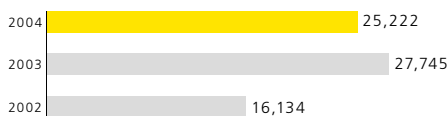
We retain a dominant position due to our pioneering development of the SLR-type digital camera. In November 2003, we launched the D2H, a professional lens-interchangeable SLR-type digital camera fitted with our original LBCAST image sensor that can take continuous images at high speed. Sales to the end of March 2004 were good. In March 2004, we launched the D70, an easy-to-use SLR-type digital camera

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (MILLIONS OF YEN)





D70
Digital SLR camera targeting a wide range of users from beginners to photographic enthusiasts



COOLPIX 8700
Digital camera that features 8.0 effective megapixels and an 8x Zoom-Nikkor lens



COOLPIX 5200
High-resolution, easy-to-use digital camera with 5.1 effective megapixels and a lightweight aluminum body



COOLPIX 4100
Features an easy-to-grasp grip style design for beginners, 4.0 effective megapixels and a 3x optical zoom lens

Makoto Kimura
Managing Director,
Member of the Board & Senior Executive Officer,
President of Imaging Company



designed for amateur photography enthusiasts that combines exceptional image quality with superior continuous shooting capability. This model was extremely well received in Japan, where it was awarded the Japan Camera Grand Prix 2004 award. In Europe, the D70 garnered the Best Consumer Digital SLR Camera 2004 award from TIPA. Faced with demand that is higher than we anticipated, we are now working to increase production capacity for this model.

In the compact digital camera market, competition has become extremely fierce as many manufacturers vie for the attention of consumers. Nikon's brand in this segment of the market is COOLPIX. In the year ended March 2004, we launched seven new models under this brand: the 5.1 effective megapixel COOLPIX 5400 featuring a 4x wide angle Zoom-Nikkor lens; COOLPIX SQ of innovative design; three stylish compact cameras, the COOLPIX 3700, the COOLPIX 3200, and the COOLPIX 2200; and the COOLPIX 8700, which has an 8.0 effective megapixel CCD and a newly developed 8x Zoom-ED Nikkor lens. We plan to launch more models in the coming year to maintain our competitive edge within this segment.

We also made further progress in reinforcing our cost competitiveness by raising the proportion of key components and finished products manufactured in-house, and in building extra production capacity to supply an expanding market. We have enhanced our new production capacity outside Japan so that we can lower production costs while also maintaining stable supplies. We established Nikon Imaging (China) Co., Ltd. in Wuxi, Jiangsu Province, China as a manufacturing subsidiary for compact digital cameras, and production has commenced. We have also extended the floor area at this plant to raise capacity and enable a greater degree of in-house production of components. Annual output is scheduled to rise substantially in the year ending March 2006. At Nikon (Thailand) Co., Ltd., which manufactures the D70, we are invest-

ing to expand aspherical lens processing and in-house production of high-value-added lens units for compact digital cameras.

To cultivate our image-processing software development capabilities, we have set up an initiative called "PictureProject." This is a communications channel devoted to digital image-processing software that we hope will evolve into a network that connects Nikon to customers, while also allowing us to market software that we have developed. This year we also announced to launch COOLWALKER, a products that allows people to share digital images that they have taken pretty easily. Equipped with a 2.5-inch color TFT LCD and a 30GB hard disk drive, this is the modern digital equivalent of a portable photograph album that can be used anytime, anywhere. Unlike its analog predecessor, however, COOLWALKER has the advantage that it can also be used to share video clips as well as still images.

Elsewhere, the ongoing contraction of the traditional film camera market unexpectedly accelerated during the year, with sales of both SLR-type and compact cameras falling. Although this is a shrinking market, many fans of film photography and Nikon film cameras still remain. We continue to offer new products with Nikon features to this market segment so that they can enjoy traditional photography to get the most out of their hobby.

While there are still many keen disciples of traditional film, which retains its unique appeal, many have been converted to the relative fun and simplicity of digital cameras. Digital pictures will allow users to adjust color, 3-D information and focus after shooting in the future. We are also looking at collaborative ventures with various other companies, including one in the United States. Nikon remains one of the world's most instantly recognized names associated with taking images. We continue to take a leading role to maintain a strong brand image amid the ongoing digital revolution in photography.



Nikon Imaging (China) Co., Ltd. is manufacturing compact digital cameras in Wuxi, China.

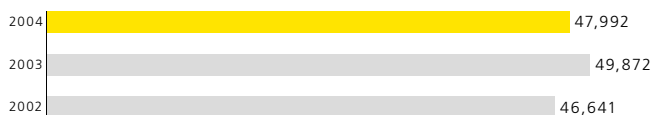


Our D70 SLR-type digital camera received the Japan Camera Grand Prix 2004 award.

instruments

Our two key growth themes are life sciences and digitalization. Our goal is to transform the Instruments Company into a development-oriented enterprise dedicated to the launch of products that match customer requirements precisely.

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (MILLIONS OF YEN)



Although sales of measuring instruments rose compared with the previous year, the transfer of overseas sales operations for surveying instruments to Nikon-Trimble Co., Ltd. inevitably had a slightly negative impact on sales. We posted operating income of ¥2,685 million (up 45.8% year-on-year) on net sales of ¥47,992 million (down 3.8% year-on-year).

Although net sales for the year ended March 2004 dipped slightly relative to the previous year, we generated significantly higher operating income. Considering the weakness of markets for biological microscopes in Europe and the U.S., where Nikon has a strong position, I believe these results were creditable. Still, we cannot be satisfied yet. Here I outline the challenges we must undertake to achieve our goals.

The most important issue we face remains to boost profitability. To do this, we must first expand levels of sales to the point where we can achieve the reductions in manufacturing costs that will result in higher profits. However, I do not believe we can achieve this goal by trying to grab increased market share. Instead, we need to focus on developing products that are highly attractive to customers, and then selling these at competitive prices. In this context, "attractiveness" means creating products customers will want to use because they fulfill requirements exactly. The substantial degree of value-added in the process of achieving this feat will make our products competitive, and thereby raise sales and profits. I believe this is the path we must take toward growth.

For instance, in the biological microscopes field we are working to assess what sort of advanced technology the market wants by creating partnerships with researchers at leading Western bio-research institutions. We have also dispatched our personnel to our U.S. base to incorporate feedback from customers into our technical development program for biological micro-



COOLSCOPE

Digital microscope with numerous user-friendly operational features



ECLIPSE 90i

Advanced research microscope perfect for the life sciences with enhanced performance, the facilitation of digital image observation and recording, and system expandability



NEXIV VMR-H3030 Z120X

CNC video measuring system for high-magnification, high-speed, high-precision measurements (NEXIV VMR-H3030TZ in Japan)



NRM-3100

Overlay measuring system that supports a 90 nm lithography process with 300 mm IC wafers

Hidetoshi Mori
Executive Officer,
President of Instruments Company



scopes. In Japan, we are working alongside researchers from leading public universities to ascertain which future avenues of research will be the most important. Information on such trends can then be incorporated in our product development programs. In essence, we have changed the entire emphasis of our product development at Nikon. Before, it was technology-oriented; now, it is customer-oriented. I believe this change in focus will translate into products that add more value for customers. The new systematic approach to creating attractiveness in our product range will help us to raise profitability.

One of the first products to emerge from this new development process was the COOLSCOPE digital microscope, which went on sale in the year ended March 2004. Rather than the traditional eyepiece lens system, the COOLSCOPE uses digital images displayed on a monitor. The advantages of this innovation are that teams of people can view the images in the laboratory. In addition, since they are digitally created, the images can also be transmitted over a network, which is particularly useful for applications such as remote consultations or online tuition. The COOLSCOPE was the result of our designers and other development staff working directly with customers to discover their needs. It also marked a successful collaborative effort with Nikon Imaging Company. The result is an attractive product at a competitive price. COOLSCOPE achieved more than double the initial annual sales target in a mere nine months.

During the year we also completely revised and updated our leading ranges of biological microscopes. With the ECLIPSE i-series, we upgraded basic functions and boosted operability while also converting them to digital. This resulted in a major improvement in peripheral areas of the field of vision in terms of image smoothness. This was also the result of the application of Nikon's competitive strengths in digital imaging technology.

Turning to industrial microscopes, in June 2004 we launched the ECLIPSE L300 and L300D models,

which are designed to handle the inspection of 300 mm IC wafers and LCD panels. In this field, the market is moving toward digitalization and increased panel sizes. Our product development programs are focused on these trends, and I believe this is an area with good earnings growth potential. In both semiconductor inspection equipment and our NEXIV CNC video measuring systems, the key is to achieve high measurement precision together with improved image-processing technology. In this area, we are in a solutions business. By continuing to refine our image-processing technology, we can provide solutions that the market will want.

Indicators point to a market recovery in inspection equipment for semiconductors and LCDs, and I see the industrial segment leading our sales growth in the short term. To reduce costs further, we plan to raise production capacity at our microscope production facility in China (Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.). We also plan to upgrade our marketing and after-sales customer service capabilities in the potentially huge Chinese market through a local subsidiary that we established in August 2003 (Nikon Instruments (Shanghai) Co., Ltd.).

In biological microscopes, all the signs are that capital investment in bioscience is on a rising trend in major markets, in both the public and private sectors. We are actively engaged in R&D to create a new market for products that enable researchers to study living cells in detail. Overall, our objective is to increase sales and profitability by transforming the Instruments Company into an aggressively development-oriented enterprise.

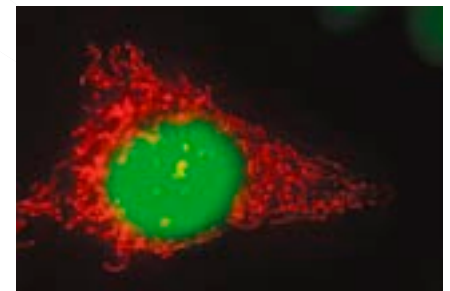


Image of living cell: the mitochondria and nucleus of HeLa cell stained with fluorescent protein taken with a fluorescent deconvolution microscope
(Image courtesy of Associate Professor Seiji Yamamoto, Hamamatsu University School of Medicine Photon Medical Research Center)



NPS3301
CMP system capable of high-precision polishing



Action Series
Binoculars made for the outdoors with a wide range of uses, including bird- and nature-watching



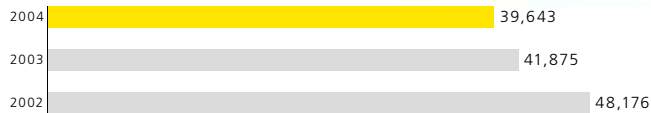
PROGUE NEXIA
World's first ophthalmic frames using photocatalyst responsive to visible light



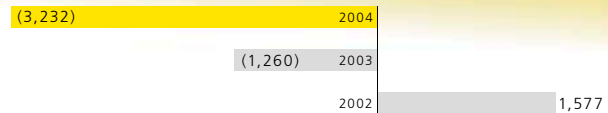
Optics Engine
Optics engines for LCOS-type projection TVs.

other

NET SALES* (MILLIONS OF YEN)



OPERATING INCOME (LOSS) (MILLIONS OF YEN)



*The above figures include intersegment sales.

Operating Results for the Year Ended March 2004

Net sales declined 5.3% year-on-year to ¥39,643 million, resulting in an operating loss of ¥3,232 million (compared with a loss of ¥1,260 million in the previous year).

The Customized Products Business posted higher sales due to special orders for aerospace-related products and other factors.

Sales of sport optics products increased in Japan as newly introduced models of binoculars and field scopes supplemented solid sales of existing products. Lower sales in the United States, however, caused overall sales in this sector to decline.

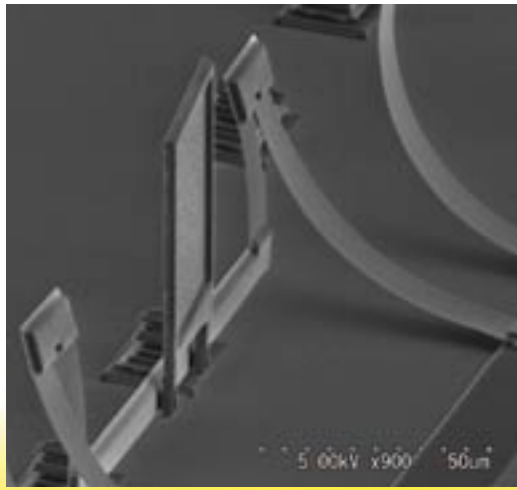
In surveying instruments, strong growth in China and other overseas markets helped to offset sluggish sales in Japan. We established Nikon-Trimble Co., Ltd., a Japan-based 50:50 joint venture with Trimble Navigation Ltd. of the United States, one of the world's leading makers of surveying instruments. Supplying a broad range of high-performance products for the surveying industry, Nikon-Trimble aims to expand their presence in this sector. Operations commenced on July 1, 2003.

In ophthalmic products, sales of ophthalmic lenses increased in overseas markets, while sales of frames and sunglasses declined amid sluggish sales in Japan.

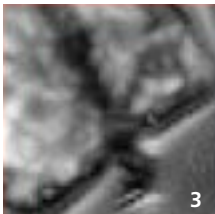
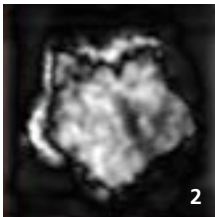
Business Strategy

Three new businesses are set to drive future growth in this segment.

1. Chemical mechanical polishing (CMP) systems:
We established a separate business unit in November 2002 to guide the development of our business in CMP systems, which are used to make LSI chip surfaces even. Although the introduction to the industry of CMP systems for ultra low-k materials was delayed, business negotiations for use of copper interconnect of DRAM were successful. We expect to sell 10 machines in the year ending March 2005.
2. We established a business unit for glass-related operations in October 2003. Nikon is a specialist supplier of ultrahigh-quality glass materials such as silica glass. This unit is engaged in expanding sales of glass materials.
3. In June 2003, we initiated a full-scale company-wide commercial project to develop business related to optics engines. As digital broadcasting rolls out, many consumers are upgrading to digital televisions. HDTV-capable micro-display (MD) projection TVs are expected to increase in popularity as replacements for CRT-type PTVs, which have become popular in the United States. Optics engines are a critical component of LCOS-type MD PTV, which produces extremely high-quality images using highly reflective liquid crystal on silicon (LCOS). We began manufacturing and selling optics engines based on Nikon's wealth of expertise in optical technology in the year ended March 2003. The market for LCOS-type MD PTVs is forecast to grow as digital HDTV broadcasting becomes more widely available. Sales of optics engines are set to rise sharply from the year ending March 2005 up to and including the year ending March 2006.



research and development



1. Nail embedded in a cookie
2. Terahertz image makes it possible to see the nail inside the cookie
3. Terahertz image (enlarged)

Nikon's research and development activities focus on opto-electronics and precision technologies, areas where Nikon has honed its competitive edge over decades. By combining core technical expertise with digital, control, information and communications technologies, Nikon R&D teams are involved in the development of many innovative products that bring together the benefits of different avenues of scientific research.

The nucleus of technical development at Nikon is the Core Technology Center, which undertakes basic research from a long-term perspective and is also engaged in the development of cutting-edge technology. The in-house companies and Nikon Group firms also conduct various R&D programs.

This report spotlights two areas with unique potential: MEMS and terahertz technologies.

Micro Electro Mechanical System (MEMS) technology

MEMS technology involves electromechanical systems that operate at the microscopic level. Nikon has developed a number of such devices using its core technical expertise in various areas. One example is a self-assembling microarray of mirrors. Nikon has succeeded in creating impressively solid structures from thin films of these mirrors, despite the films having a thickness of less than one micrometer. The internal stress characteristics of the thin-film structure result in the spontaneous creation of thin-film mirrors of approximately 50 micrometer square in area (pictured top left). These mirrors assemble into an integrated whole, onto which is added an array of microactuators that can move vertically (pictured top right). The whole creates a MEMS structure that combines a number of Nikon technologies.

MEMS technology brings together many of Nikon's proprietary skills in spatial optics, including lenses, prisms and mirrors. It heralds the advent of new optical devices and a wide range of fascinating technical possibilities that hitherto could only be imagined.

Terahertz (THz) technology

Terahertz light is a relatively unused part of the electromagnetic wave that offers significant potential advantages over X-rays for looking inside a wide variety of objects. With a frequency range around 10^{12} Hz (1 THz, or one trillion hertz) between visible light and radio waves, terahertz light passes through non-metallic substances such as paper and rubber. Detectors built using terahertz light could thus provide a wide range of security benefits, such as non-invasive screening of mail for banned substances or explosives, for example. Other potential applications include medical scans for cancer cells or tumors and food testing to detect dangerous substances.

Tochigi Nikon Corporation is the first company in the world to develop a commercial product based on terahertz technology. The terahertz pulse spectrometer is able to recognize substances using terahertz light shined onto the object passes through or is reflected. Since the system debuted in February 2004, several machines have already been sold to research institutions in Japan.

Tochigi Nikon is also developing real-time THz imaging systems. This technology has the potential to provide safer body scanning capabilities than X-rays. It promises to yield significant advances in fields such as security and medicine.



Sorting and reduction of waste volume has been achieved at the Sendai Nikon Recycling Center through the use of special machines.



High-performance reflow furnace for lead-free soldering



Lenses and prisms made using eco-glass

enhancing corporate social responsibility



The Nikon Charter of Corporate Behavior and the Nikon Code of Conduct



ISO14001 certificate

Strengthening Corporate Governance and Compliance

Amid an increasingly global business environment, the Nikon Group strives to strengthen corporate governance and compliance to boost corporate value. Besides implementing in-house company and executive officer systems, we have also created an Executive Compensation Committee and introduced stock options.

We established a Compliance Section on July 1, 2003, to aggressively promote activities that are rooted in our corporate ethics. In April 2004, we formulated the Nikon Charter of Corporate Behavior and revised the Nikon Code of Conduct. These guidelines ensure that all Nikon personnel make appropriate decisions based on ethical values, while clarifying responsibilities and roles of senior management.

Environmental Conservation Activities

Nikon commenced full-fledged environmental conservation activities in 1992, when it created the "Nikon Basic Environmental Management Policy," which centers on the fundamental principles of recycling and minimal environmental impact. Specific examples include the acquisition of the international certification ISO14001 for environmental management systems at Nikon Group companies, and the implementation of the "Nikon Product Assessment" system to quantify the environmental friendliness of our products.

Established Zero-Emission Systems at All Manufacturing Sites and Main Domestic Manufacturing Subsidiaries

Nikon defines zero-emissions status as a reduction in the total volume of waste sent to landfill to below 1% of all emissions. By the end of the year ended March 2003, we had established zero-emission systems at all manufacture sites and Sendai Nikon Corp. During the year ended March 2004, we established the system at Tochigi Nikon Corp. and Kurobane Nikon. We will advance activities towards the creation of zero-emission systems at other domestic manufacturing subsidiaries in the future.

Introduced "Nikon Environmental Action Plan for Fiscal 2005"

On an annual basis, Nikon reviews the "Nikon Environmental Action Plan" and its mid- to long-term targets in terms of product and workplace environments. At the beginning of the year ending March 2005, we formulated the "Nikon Environmental Action Plan for Fiscal 2005." In the product environment, we are committed to reducing or eliminating harmful chemical substances and improving energy efficiency in design, while in the workplace environment, we seek to reduce waste, promote green procurement and conserve energy to help prevent global warming, a long-term target that was created this fiscal year.

The following outlines the contents of the new plan:

- More than a 5% reduction of greenhouse emissions (converted for CO₂) per net sales compared with figures for fiscal 2002 by fiscal 2007, and a 25% reduction by fiscal 2011
- Use of eco-glass in 100% of new consumer product optical designs by fiscal 2005 and in at least 96% of industrial products by fiscal 2007
- 100% of printed circuit boards in consumer products and more than 50% of new printed circuit boards in industrial products shipped in the second half of fiscal 2006 will be lead-free (with the goal of becoming 100% lead-free by fiscal 2007)
- Elimination of hexavalent chrome, lead, cadmium, mercury, PBB, PBDE and polyvinyl chloride from all consumer products shipped, excluding special materials, by the second half of fiscal 2006
- Total elimination of HCFC (ozone-depleting substance) as a refrigerant for IC and LCD steppers shipped by fiscal 2007

Note: The above fiscal years end at March 31

five-year summary

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31

	Millions of Yen					Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	2004
For the year						
Net sales	¥ 506,378	¥ 468,959	¥ 482,975	¥ 483,957	¥ 371,801	\$ 4,791,163
Cost of sales	346,898	307,503	306,793	301,759	247,473	3,282,220
SG&A expenses	155,805	157,269	153,943	120,775	105,894	1,474,172
Operating income	3,675	4,187	22,239	61,423	18,434	34,771
Income (loss) before income taxes and minority interest	9,490	(11,128)	2,755	29,827	11,479	89,787
Net income (loss)	2,410	(8,143)	(6,004)	20,911	7,770	22,802
Per share of common stock (Yen and U.S. dollars):						
Basic net income (loss)	¥ 6.52	¥ (22.03)	¥ (16.23)	¥ 56.53	¥ 21.01	\$ 0.06
Diluted net income	6.02					0.06
Cash dividends applicable to the year	4.00		4.00	8.00	5.00	0.04
Capital expenditures	¥ 22,267	¥ 20,226	¥ 33,546	¥ 25,996	¥ 13,881	\$ 210,681
Depreciation and amortization	20,213	20,435	17,917	16,007	17,251	191,249
R&D costs	30,165	27,506	27,313	22,794	17,798	285,413
At year-end						
Total assets	¥ 606,513	¥ 576,912	¥ 561,276	¥ 593,454	¥ 502,175	\$ 5,738,605
Shareholders' equity	171,194	162,464	176,961	186,119	166,495	1,619,776

- 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 ¥105.69 to U.S. \$1.00, the exchange rate at March 31, 2004.
3. Diluted net income per share for the year ended March 31, 2003 and 2002 is not disclosed because of the Company's net loss position.
Diluted net income per share for the year ended March 31, 2001 and 2000 is not disclosed because it was anti-dilutive.

management's discussion and analysis of operations

OPERATING ENVIRONMENT

In the fiscal year ended March 31, 2004, upward momentum in the market for semiconductors spurred gradual revitalization in capital investment, while the digital camera market continued to expand.

With regard to Nikon Group business segments, basic recovery in the semiconductor market drove new product launches and increased sales of existing products in Precision Equipment. Brisk business was also seen in Imaging Products as expansion in the digital camera market prompted the introduction of new products. In contrast, the ongoing downturn in the semiconductor market in the United States had a negative impact on sales in Instruments, where harsh business conditions continued to prevail.

Net Sales by Industry Segment

Years ended March 31, 2004 and 2003

	Millions of Yen, %		Thousands of U.S. Dollars
	2004	2003	2004
Precision Equipment	¥ 158,054	¥ 133,102	\$ 1,495,449
Share of net sales	31.2%	28.4%	
Imaging Products	284,713	271,956	2,693,845
Share of net sales	56.2	58.0	
Instruments	47,992	49,872	454,087
Share of net sales	9.5	10.6	
Other	39,643	41,875	375,091
Share of net sales	7.8	8.9	
Total	¥ 530,402	¥ 496,805	\$ 5,018,472
(Elimination)	(24,024)	(27,846)	(227,309)
	(4.7)	(5.9)	
Consolidated	¥ 506,378	¥ 468,959	\$ 4,791,163

OPERATIONAL REVIEW AND ANALYSIS

During the year, the Nikon Group pursued policies aimed at structural reform and the fundamental enhancement of profitability. Together with a focus on reducing variable and fixed costs, efforts were made to improve the turnover of accounts receivable and inventories. The Group also aggressively carved out new business territories to further expand existing businesses - while continuing to increase the overseas network of production, marketing and service bases, new products that catered to market needs were developed. Consolidated net sales totaled ¥506,378 million, up ¥37,419 million, or 8.0%, relative to the previous year. The Nikon Group recorded consolidated net income of ¥2,410 million.

Breaking down the results by business segment, Precision Equipment posted ¥158,054 million in net sales, a year-on-year increase of 18.7%, and an operating loss of ¥20,806 million. In IC steppers, Nikon not only led the world with the introduction of immersion lithography exposure tools, it commenced full-fledged development of next-generation extreme ultraviolet lithography (EUVL) systems. Sales of existing products grew, including CCD sensors, on the back of a market upturn. In LCD steppers, assertive efforts aimed at increasing sales ensured that performances considerably exceeded the previous year.

Imaging Products recorded net sales of ¥284,713 million, a 4.7% gain, while operating income amounted to ¥25,222 million. Despite lower sales of traditional film cameras due to a contracting market, new single-lens reflex (SLR) cameras and an expanded COOLPIX line propelled a steady increase in sales of digital cameras.

Instruments registered net sales of ¥47,992 million, dipping 3.8% relative to the previous year, alongside operating income of ¥2,685 million. Depressed sales in the United States outweighed robust sales in Japan and Asia through the launch of new products, notably the digital microscope COOLSCOPE and the advanced research microscope Eclipse80i.

Breaking down results by geographic segment, sales increased in Japan as steady growth in LCD products offset slumping sales of steppers despite a mild recovery in the semiconductor market. Continued expansion in the digital camera market also had positive spillover effects. Although sales in Japan rose by 9.2% to ¥435,189 million, an operating loss of ¥3,822 million was recorded.

Overseas, despite strong growth in sales of digital cameras, sales in North America dropped 5.4% to ¥151,817 million as the sluggish recovery in the semiconductor market forced a slowdown in sales. Operating income stood at ¥5,610 million.

In Europe, a gradual pickup in sales of steppers coupled with higher sales of digital cameras due to the booming market resulted in sales surging 23.7%, to ¥124,763 million. The region recorded operating income of ¥863 million.

In Asia, robust economic growth led to increased sales of digital products, industrial microscopes and semiconductor inspection equipment. The rising cost of sales, however, pushed up operating expenses. Regional sales jumped 23.5% to ¥55,890 million, while operating income totaled ¥2,148 million.

Income Analysis

Years ended March 31, 2004 and 2003

	(% of Net Sales)	
	2004	2003
Net sales	100.0%	100.0%
Cost of sales	(68.5)	(65.6)
Gross profit	31.5	34.4
SG&A expenses	(30.8)	(33.5)
Operating income	0.7	0.9
Net interest expense and dividend income	(0.3)	(0.3)
Net other income (expenses)	1.5	(2.9)
Income (loss) before income taxes and minority interest	1.9	(2.3)
Income taxes	(1.4)	0.6
Minority interest	0.0	(0.0)
Net income (loss)	0.5	(1.7)

Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis

March 31, 2004 and 2003

	(% of Total Assets)	
	2004	2003
Total assets	100.0%	100.0%
Total current assets	67.5	67.3
Inventories	39.2	39.3
Property, plant and equipment	17.6	19.2
Investments and other assets	14.9	13.5
Total current liabilities	41.1	44.1
Short-term borrowings	7.2	10.4
Long-term debt, less current portion	27.0	24.1
Shareholders' equity	28.2	28.2

FINANCIAL REVIEW AND ANALYSIS

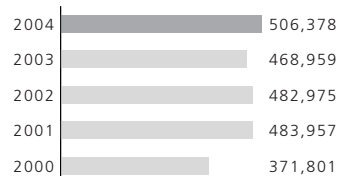
At fiscal year-end, total assets amounted to ¥606,513 million, up ¥29,601 million, or 5.1%, relative to the previous fiscal year-end. This increase primarily reflected higher levels of accounts receivable and inventories. Current assets totaled ¥409,331 million, up 5.4%.

An increase in accounts payable was the main reason for total liabilities rising by ¥20,848 million.

The combined effects of net income for the year of ¥2,410 million and an unrealized gain on available-for-sale securities resulted in a net increase in total shareholders' equity of ¥8,730 million.

In terms of cash flows, cash and cash equivalents at year-end amounted to ¥16,099 million. Net cash provided by operating activities totaled ¥1,400 million, mainly owing to an increase in accounts payable, which offset increases in accounts receivable and inventories. Net cash used in investing activities to fund capital expenditure, mainly related to payments for property, plant and equipment, and other factors, amounted to ¥8,328 million. Net cash used in financing activities totaled ¥184 million mainly due to a decrease in commercial paper and expenses from bond retirement, which countered revenue from bond issuance.

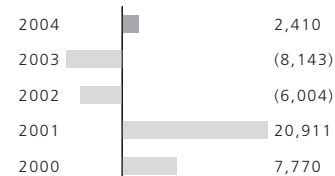
NET SALES (¥ Million)



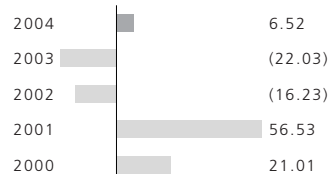
OPERATING INCOME (¥ Million)



NET INCOME (LOSS) (¥ Million)



BASIC NET INCOME (LOSS) PER SHARE (¥)



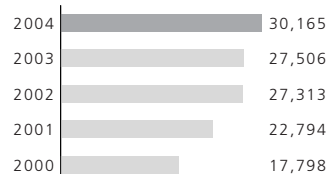
DILUTED NET INCOME PER SHARE (¥)



CAPITAL EXPENDITURES (¥ Million)



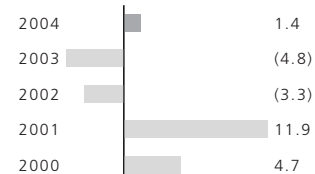
R&D COSTS (¥ Million)



SHAREHOLDERS' EQUITY (¥ Million)



RETURN ON EQUITY (%)



consolidated balance sheets

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
ASSETS			
Current assets			
Cash and cash equivalents	¥ 16,099	¥ 23,692	\$ 152,326
Notes and accounts receivable — trade (Note 6):			
Customers	117,652	104,042	1,113,177
Unconsolidated subsidiaries and associated companies	2,249	858	21,276
Allowance for doubtful receivables	(2,572)	(2,940)	(24,340)
Inventories (Note 5)	237,506	226,627	2,247,198
Deferred tax assets (Note 10)	19,675	23,606	186,156
Other current assets	18,722	12,428	177,150
Total current assets	<u>409,331</u>	<u>388,313</u>	<u>3,872,943</u>
Property, plant and equipment			
Land	16,419	16,894	155,349
Buildings and structures	93,964	94,968	889,050
Machinery and equipment	127,216	123,738	1,203,672
Furniture and fixtures	56,485	56,171	534,437
Construction in progress	6,138	6,815	58,077
Total	<u>300,222</u>	<u>298,586</u>	<u>2,840,585</u>
Accumulated depreciation	(193,383)	(188,075)	(1,829,718)
Net property, plant and equipment	<u>106,839</u>	<u>110,511</u>	<u>1,010,867</u>
Investments and other assets			
Investment securities (Notes 4 and 6)	54,592	37,534	516,533
Investments in and advances to unconsolidated subsidiaries and associated companies	7,541	6,946	71,354
Long-term loans to employees and other	257	497	2,435
Allowance for doubtful receivables	(51)	(148)	(479)
Software	6,520	5,538	61,690
Goodwill	204	272	1,934
Security deposit	2,942	3,239	27,840
Deferred tax assets (Note 10)	9,817	17,374	92,888
Other	8,521	6,836	80,600
Total investments and other assets	<u>90,343</u>	<u>78,088</u>	<u>854,795</u>
Total	<u>¥ 606,513</u>	<u>¥ 576,912</u>	<u>\$ 5,738,605</u>

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Note 6)	¥ 43,918	¥ 59,845	\$ 415,538
Current portion of long-term debt (Note 6)	12,727	22,208	120,416
Notes and accounts payable — trade:			
Suppliers	140,325	98,145	1,327,707
Unconsolidated subsidiaries and associated companies	807	648	7,637
Income taxes payable	2,961	3,227	28,015
Accrued expenses	34,940	38,976	330,591
Other current liabilities (Note 10)	13,262	31,267	125,480
Total current liabilities	<u>248,940</u>	<u>254,316</u>	<u>2,355,384</u>
Long-term liabilities			
Long-term debt (Note 6)	163,871	138,809	1,550,484
Liability for employees' retirement benefits (Note 7)	21,010	19,880	198,786
Other long-term liabilities (Note 10)	1,321	1,289	12,502
Total long-term liabilities	<u>186,202</u>	<u>159,978</u>	<u>1,761,772</u>
Minority interests	<u>177</u>	<u>154</u>	<u>1,673</u>
Commitments and Contingent liabilities (Notes 12, 13 and 14)			
Shareholders' equity			
Common stock (Note 8):			
Authorized — 1,000,000,000 shares			
Issued — 369,945,332 shares in 2004 and 2003	36,661	36,661	346,872
Capital surplus (Note 8)	51,927	51,924	491,316
Retained earnings (Note 8)	83,035	80,582	785,650
Unrealized gain (loss) on available-for-sale securities	6,109	(3,531)	57,803
Foreign currency translation adjustments	(5,885)	(2,628)	(55,682)
Treasury stock, at cost:			
626,596 shares in 2004 and 550,081 shares in 2003	(653)	(544)	(6,183)
Total shareholders' equity	<u>171,194</u>	<u>162,464</u>	<u>1,619,776</u>
Total	<u>¥ 606,513</u>	<u>¥ 576,912</u>	<u>\$ 5,738,605</u>

See Notes to Consolidated Financial Statements.

consolidated statements of operations

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Net sales (Note 3)	¥ 506,378	¥ 468,959	\$ 4,791,163
Cost of sales (Note 3)	346,898	307,503	3,282,220
Gross profit	159,480	161,456	1,508,943
Selling, general and administrative expenses (Note 3 and 9)	155,805	157,269	1,474,172
Operating income	3,675	4,187	34,771
Other income (expenses)			
Interest and dividend income	808	1,067	7,648
Interest expense	(2,356)	(2,627)	(22,288)
Cash discount	(3,160)	(3,528)	(29,897)
Royalty income	478	1,186	4,519
Bond issue costs		(1,353)	
Write-down of inventories	(4,453)	(5,063)	(42,131)
Loss on disposals of inventories	(830)	(2,513)	(7,855)
Loss on sales of investment securities	(486)	(2,041)	(4,602)
Loss on disposals of property, plant and equipment	(707)	(606)	(6,692)
Gain on sales of property, plant and equipment	13,359	9,270	126,402
Gain on sales of investment securities	3,418	1,548	32,343
Additional retirement benefits paid to employees	(1,070)	(11,019)	(10,125)
Equity in earnings of unconsolidated subsidiaries and associated companies	839	757	7,937
Other-net	(25)	(393)	(243)
Other income (expenses)-net	5,815	(15,315)	55,016
Income (loss) before income taxes and minority interest	9,490	(11,128)	89,787
Income taxes (Note 10)			
Current	2,745	5,400	25,963
Deferred	4,312	(8,380)	40,803
Total income taxes	7,057	(2,980)	66,766
Minority interests	23	(5)	219
Net income (loss)	¥ 2,410	¥ (8,143)	\$ 22,802

	Yen	U.S. Dollars (Note 1)
Per share of common stock (Note 2(o)):		
Basic net income (loss)	¥ 6.52	¥ (22.03) \$ 0.06
Diluted net income	6.02	0.06
Cash dividends applicable to the year	4.00	0.04

See Notes to Consolidated Financial Statements.

consolidated statements of shareholders' equity

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Thousands		Millions of Yen				
	outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2002	369,805	¥ 36,661	¥ 51,924	¥ 88,725	¥ 1,079	¥ (1,265)	¥ (163)
Net loss				(8,143)			
Net decrease in unrealized gain on available-for-sale securities					(4,610)		
Net decrease in foreign currency translation adjustments						(1,363)	
Increase in treasury stock (410,112 shares)	(410)						(381)
BALANCE AT MARCH 31, 2003	369,395	¥ 36,661	¥ 51,924	¥ 80,582	¥ (3,531)	¥ (2,628)	¥ (544)
Excess arising from retirement of treasury stock			3				
Net income				2,410			
Increase by merger between non-consolidated subsidiary and consolidated subsidiary				46			
Adjustment of retained earnings for elimination of consolidated subsidiary				(3)			
Net increase in unrealized gain on available-for-sale securities					9,640		
Net decrease in foreign currency translation adjustments						(3,257)	
Increase in treasury stock (76,515 shares)	(76)						(109)
BALANCE AT MARCH 31, 2004	369,319	¥ 36,661	¥ 51,927	¥ 83,035	¥ 6,109	¥ (5,885)	¥ (653)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2003	\$346,872	\$491,290	\$762,444	\$ (33,414)	\$ (24,868)	\$ (5,155)
Excess arising from retirement of treasury stock			26			
Net income			22,802			
Increase by merger between non-consolidated subsidiary and consolidated subsidiary			435			
Adjustment of retained earnings for elimination of consolidated subsidiary			(31)			
Net increase in unrealized gain on available-for-sale securities				91,217		
Net decrease in foreign currency translation adjustments					(30,814)	
Increase in treasury stock (76,515 shares)						(1,028)
BALANCE AT MARCH 31, 2004	\$346,872	\$491,316	\$785,650	\$ 57,803	\$ (55,682)	\$ (6,183)

See Notes to Consolidated Financial Statements.

consolidated statements of cash flows

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2004	2003	2004
Operating activities:			
Income (loss) before income taxes and minority interest	¥ 9,490	¥ (11,128)	\$ 89,787
Adjustments for:			
Income taxes-refund (paid)	(3,272)	1,695	(30,963)
Depreciation and amortization	20,145	20,367	190,605
Provision for employees' retirement benefits	1,440	2,457	13,623
Loss on sales or disposal of property, plant and equipment	778	650	7,362
Gain on sales of property, plant and equipment	(13,359)	(9,270)	(126,402)
Loss on sales of investment securities	486	2,041	4,602
Gain on sales of investment securities	(3,418)	(1,548)	(32,343)
Other-net	3,105	1,044	29,377
Change in assets and liabilities:			
Increase in notes and accounts receivable-trade	(19,374)	(2,223)	(183,311)
Increase in inventories	(15,985)	(20,298)	(151,249)
Increase in notes and accounts payable-trade	43,249	20,020	409,207
Other-net	(21,885)	5,597	(207,055)
Total adjustments	(8,090)	20,532	(76,547)
Net cash provided by operating activities	1,400	9,404	13,240
Investing activities:			
Capital expenditures	(18,186)	(19,760)	(172,067)
Proceeds from sales of property, plant and equipment	14,993	9,879	141,861
Purchases of investment securities	(15,246)	(6,147)	(144,253)
Proceeds from sales of investment securities	15,390	5,973	145,613
Net decrease (increase) in loans receivable	106	(77)	1,002
Other-net	(5,385)	(8,400)	(50,949)
Net cash used in investing activities	(8,328)	(18,532)	(78,793)
Financing activities:			
Net decrease in short-term borrowings	(15,907)	(52,756)	(150,501)
Proceeds from long-term debt	38,391	78,317	363,241
Repayments of long-term debt	(22,600)	(16,524)	(213,836)
Dividends paid	(5)	(8)	(50)
Other-net	(64)	(383)	(603)
Net cash provided by (used in) financing activities	(185)	8,646	(1,749)
Foreign currency translation adjustments on cash and cash equivalents	(1,179)	(681)	(11,152)
Net decrease in cash and cash equivalents	(8,292)	(1,163)	(78,454)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	917	241	8,673
Cash and cash equivalents of eliminated consolidated subsidiary, beginning of year	(264)		(2,496)
Cash and cash equivalents of merged previously non-consolidated subsidiary	46		436
Cash and cash equivalents, beginning of year	23,692	24,614	224,167
Cash and cash equivalents, end of year	¥ 16,099	¥ 23,692	\$ 152,326

See Notes to Consolidated Financial Statements.

notes to consolidated financial statements

NIKON CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles 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 2003 financial statements to conform to classification used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikon Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to U.S.\$1, the rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2004 include the accounts of the Company and its 46 significant (45 in 2003) 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 3 associated companies (2 associated companies in 2003) are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies accounted for by the equity method at acquisition ("Goodwill") are charged to income when incurred, if they are small sum, and the others are being amortized on a straight-line basis over 5 years.

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

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(c) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

- i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings,
- ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and
- iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

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 first-in, first-out method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of the Company and domestic subsidiaries is principally computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities incidental to buildings), and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is principally from 30 to 40 years for buildings and structures, and from 5 to 10 years for machinery and equipment.

(f) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(g) Retirement and Pension Plans

The Company and major subsidiaries have non-contributory funded pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory pension plans.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

(h) Research and Development Costs

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

(i) Leases

All leases are accounted for as operating leases by the Company and its domestic subsidiaries. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(j) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liability 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.

(k) Appropriations of Retained Earnings

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

(l) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at each balance sheet date. The foreign exchange gains and losses from transactions are recognized in the statement of operations to the extent that they were not hedged by forward exchange contracts.

(m) Foreign Currency Financial Statements

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

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

(n) Derivatives and Hedging Activities

The Group enters into derivative financial instruments ("derivatives"), including contracts of foreign exchange forward, currency option, foreign currency swap and interest rate swap to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading or speculative purposes.

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

(o) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding warrants. Diluted income per share for the year ended March 31, 2003 is not disclosed because of the Company's net loss position.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year. Cash dividends per share for the year ended March 31, 2003 are not disclosed, because there were no dividends.

(p) New Accounting Pronouncements

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

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that 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 Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. ACCOUNTING CHANGE

The Emerging Issues Task Force in the United States of America reached a final consensus on Issue No.00-21("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables". Certain foreign subsidiaries adopted the provisions of EITF 00-21 for their transactions. The revenue recognition for the stepper products was changed from the time of completion of the installation to the time of customer acceptance. As a result of adopting the provision of EITF 00-21, there is no effect in operating income and income before income taxes and minority interests for the year ended March 31, 2004, as compared with the amounts calculated by the previous method.

4. INVESTMENT SECURITIES

Investment securities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Non-Current :			
Equity securities	¥ 54,591	¥ 37,485	\$ 516,524
Trust bonds, debentures and other	1	49	9
Total	¥ 54,592	¥ 37,534	\$ 516,533

The carrying amounts and aggregate fair values of investment securities at March 31, 2004 and 2003 were as follows:

March 31, 2004	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 39,547	¥ 10,603	¥ 332	¥ 49,818
Debt securities	1			1
Total	<u>¥ 39,548</u>	<u>¥ 10,603</u>	<u>¥ 332</u>	<u>¥ 49,819</u>

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

March 31, 2004	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 374,180	\$ 100,325	\$ 3,145	\$ 471,360
Debt securities	5			5
Total	<u>\$ 374,185</u>	<u>\$ 100,325</u>	<u>\$ 3,145</u>	<u>\$ 471,365</u>

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

Available-for-sale:	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Equity securities	¥ 4,773	¥ 4,117	\$ 45,164
Other securities	0		4
Total	<u>¥ 4,773</u>	<u>¥ 4,117</u>	<u>\$ 45,168</u>

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2004 and 2003 were ¥15,347 million (\$145,204 thousand) and ¥5,890 million, respectively. Gross realized gains on these sales for the fiscal year ended March 31, 2004 and 2003 were ¥3,418 million (\$32,343 thousand) and 1,548 million, respectively. Gross realized losses on these sales for the fiscal years ended March 31, 2004 and 2003 were ¥486 million (\$4,602 thousand) and ¥2,041 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due in one year or less	¥ 0	¥ 1	\$ 0
Due after one year through five years		3	
Total	<u>¥ 0</u>	<u>¥ 4</u>	<u>\$ 0</u>

5. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Finished and semi-finished products	¥ 108,932	¥114,361	\$1,030,671
Work in process	112,037	96,845	1,060,058
Raw materials and supplies	16,537	15,421	156,469
Total	¥ 237,506	¥226,627	\$2,247,198

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Short-term loans, principally from banks:			
2004: 0.3675%-6.5000%			
2003: 0.3759%-5.5000%	¥ 43,918	¥ 46,845	\$ 415,538
Commercial paper:			
2003: 0.0390%-0.0492%		13,000	
Total	¥ 43,918	¥ 59,845	\$ 415,538

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans, principally from banks and insurance companies:			
2004: 0.50%-5.510% due 2004-2011			
2003: 0.72%-6.250% due 2003-2007	¥ 11,098	¥ 10,017	\$ 105,000
Bonds	165,500	151,000	1,565,900
Total	176,598	161,017	1,670,900
Less: Current portion	(12,727)	(22,208)	(120,416)
Long-term debt, less current portion	¥ 163,871	¥138,809	\$1,550,484

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		Thousands of U.S. Dollars
			2004	2003	2004
2.45% Yen Unsecured Bonds	March, 1997	March, 2004		¥ 10,000	
2.7% Yen Unsecured Bonds	June, 1997	June, 2003		10,000	
2.5% Yen Unsecured Bonds	November, 1997	November, 2007	¥ 10,000	10,000	\$ 94,616
2.575% Yen Unsecured Bonds	April, 1998	April, 2005	10,000	10,000	94,616
1.76% Yen Unsecured Bonds	August, 1999	August, 2004	10,000	10,000	94,616
1.0% Yen Unsecured Bonds	April, 2001	April, 2006	10,000	10,000	94,616
1.3% Yen Unsecured Bonds	December, 2001	December, 2006	10,000	10,000	94,616
1.7% Yen Unsecured Bonds	December, 2001	December, 2008	5,000	5,000	47,309
1.15% Yen Unsecured Bonds	February, 2003	February, 2008	10,000	10,000	94,616
1.4% Yen Unsecured Bonds	February, 2003	February, 2010	10,000	10,000	94,616
Yen Zero Coupon Convertible Bond	June, 2002	March, 2007	56,000	56,000	529,852
Yen Zero Coupon Convertible Bond	March, 2004	March, 2011	34,500		326,427
Total			¥ 165,500	¥151,000	\$1,565,900

The aggregate annual maturities of long-term debt for the years following March 31, 2004 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 12,727	\$ 120,416
2006	16,519	156,299
2007	76,701	725,721
2008	20,700	195,856
2009	5,450	51,566
Thereafter	44,501	421,042
Total	<u>¥ 176,598</u>	<u>\$ 1,670,900</u>

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, 2004 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, 2004 entitled the holders to subscribe for 16,763,848 shares which was computed using the above-mentioned exercise price.

At March 31, 2004, the following assets were pledged as collateral for long-term debt.

	Millions of Yen	Thousands of U.S. Dollars
	<u>2004</u>	<u>2004</u>
Notes and accounts receivable-trade	¥ 20,961	\$ 198,328
Investment securities	6,962	65,868
Total	<u>¥ 27,923</u>	<u>\$ 264,196</u>

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2004</u>	<u>2004</u>
Short-term borrowings	¥ 807	\$ 7,634
Long-term debt, including current portion	3,251	30,761
Total	<u>¥ 4,058</u>	<u>\$ 38,395</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 Group has never been requested to provide any additional collateral.

7. RETIREMENT AND PENSION PLANS

The Company and major domestic subsidiaries have non-contributory funded 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.

On April 1, 2004, the Company revised the pension plan and implemented a defined benefit corporate pension plan (cash balance plan). As a result, the projected benefit obligation is to be decreased by ¥18,004 million (\$170,356 thousand) and the amount is being amortized as prior service cost over 10 years as of April 1, 2004.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 115,743	¥116,719	\$1,095,121
Fair value of plan assets	(71,364)	(53,439)	(675,224)
Unrecognized actuarial loss	(23,288)	(42,960)	(220,347)
Unrecognized prior service cost	(626)	(721)	(5,920)
	<u>20,465</u>	<u>19,599</u>	<u>193,630</u>
Prepayment of service cost	545	281	5,156
Net Liability	<u>¥ 21,010</u>	<u>¥ 19,880</u>	<u>\$ 198,786</u>

The components of net periodic benefit costs for the fiscal years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 5,142	¥ 5,094	\$ 48,652
Interest cost	3,041	3,129	28,770
Expected return on plan assets	(1,315)	(1,583)	(12,441)
Recognized actuarial loss	4,463	3,545	42,227
Amortization of prior service cost	82	89	780
Net periodic benefit costs	<u>¥ 11,413</u>	<u>¥ 10,274</u>	<u>\$ 107,988</u>

Assumptions used for the fiscal years ended March 31, 2004 and 2003 were principally set forth as follows:

	2004	2003
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

The Company is subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

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

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amounts common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥50,209 million (\$475,057 thousand) as of March 31, 2004,

based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2004 and 2003 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Advertising expenses	¥ 30,823	¥ 33,064	\$ 291,638
Provision of warranty costs	4,005	4,992	37,898
Employees' salaries	27,502	28,361	260,209
Employees' retirement benefit plan	5,295	4,751	50,096
Employees' bonuses and others	11,801	12,222	111,655
Research and development costs	30,165	27,506	285,413

10. INCOME TAXES

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

On March 31 2003, a new local tax was enacted and become effective for fiscal years beginning on or after April 1, 2004. The new local tax law decreased the local tax rate and introduced a new tax levied based on paid-in capital. As a result, the statutory effective tax rate applied on or after April 1, 2004 to the deferred income taxes and liabilities has been decreased from 42.0% to 40.6%.

The tax effects of significant temporary differences and loss carry forwards which resulted in deferred tax assets and liabilities, at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets :			
Write-down of inventories	¥ 10,490	¥ 9,823	\$ 99,252
Warranty reserve	1,375	1,496	13,014
Liability for employees' retirement benefits	10,573	9,410	100,036
Depreciation and amortization	12,068	10,589	114,179
Net operating loss carryforwards	2,494	8,325	23,596
Accrued bonus	2,928	2,506	27,704
Other	3,569	8,672	33,769
Total	¥ 43,497	¥ 50,821	\$ 411,550
Deferred tax liabilities :			
Deferred gains on sales of property to be replaced	7,192	5,742	68,049
Unrealized gain on available-for-sale securities	4,061		38,426
Undistributed earnings of foreign subsidiaries	2,392	2,310	22,637
Other	713	2,030	6,739
Total	¥ 14,358	¥ 10,082	\$ 135,851
Net deferred tax assets	¥ 29,139	¥ 40,739	\$ 275,699

A valuation allowance of ¥3,228 million (\$30,546 thousand) in 2004 and ¥2,520 million in 2003 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2004 and 2003, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Year ended March 31,	
	2004	2003
Normal statutory tax rate	42%	42%
Consolidated adjustment on unrealizable profits in inventories	10.3	11.6
Dividends from foreign subsidiaries not applicable to foreign tax credits	6.1	(14.4)
Tax rate differences in foreign subsidiaries		4.4
Increase (decrease) in valuation allowance	5.3	(12.2)
Effect on tax levied based on paid-in capital	5.2	(0.6)
Other-net	5.5	(4.0)
Actual effective tax rate	74.4%	26.8%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥30,165 million (\$285,413 thousand) and ¥27,506 million for the fiscal years ended March 31, 2004 and 2003, 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 ¥2,519 million (\$23,838 thousand) and ¥2,929 million for the fiscal years ended March 31, 2004 and 2003, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 1,110	¥ 1,230	\$ 10,507
Due after one year	1,969	2,676	18,623
Total	¥ 3,079	¥ 3,906	\$ 29,130

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, 2004 and 2003 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004			2004		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,510	¥ 6,308	¥ 12,818	\$ 61,596	\$ 59,686	\$ 121,282
Accumulated depreciation	3,076	3,589	6,665	29,103	33,963	63,066
Net leased property	¥ 3,434	¥ 2,719	¥ 6,153	\$ 32,493	\$ 25,723	\$ 58,216

	Millions of Yen		
	2003		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 7,180	¥ 7,035	¥ 14,215
Accumulated depreciation	3,526	3,924	7,450
Net leased property	¥ 3,654	¥ 3,111	¥ 6,765

Obligations under finance leases at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 2,238	¥ 2,399	\$ 21,175
Due after one year	3,915	4,366	37,041
Total	¥ 6,153	¥ 6,765	\$ 58,216

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method, was ¥2,519 million (\$23,838 thousand) and ¥2,929 million for the fiscal years ended March 31, 2004 and 2003, 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, 2004 and 2003, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004		Net Unrealized Gain (Loss)	2004		Net Unrealized Gain (Loss)
	Contract or Notional Amount	Fair Value		Contract or Notional Amount	Fair Value	
Foreign exchange forward contracts :						
Selling USD	¥ 19,523	¥ 19,202	¥ 321	\$ 184,722	\$ 181,682	\$ 3,040
Selling EUR	19,787	19,088	699	187,222	180,604	6,618
Buying JPY	2,583	2,673	90	24,443	25,295	852
Buying USD	580	574	(6)	5,484	5,426	(58)
Buying EUR	4,656	4,539	(117)	44,056	42,950	(1,106)
Total			987			9,346
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	549	549	\$ 189,233	\$ 5,200	\$ 5,200
(fixed rate payment, floating rate receipt)	10,000	(535)	(535)	94,616	(5,063)	(5,063)
Total	¥ 30,000	¥ 14	¥ 14	\$ 283,849	\$ 137	\$ 137

	Millions of Yen		
	2003		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign exchange forward contracts :			
Selling JPY	¥ 7,376	¥ 7,430	¥ (54)
Selling USD	6,780	6,819	(39)
Selling EUR	19,974	20,342	(368)
Buying JPY	11,248	11,491	243
Buying USD	549	541	(8)
Buying EUR	1,675	1,671	(4)
Total			(230)
Interest rate swaps :			
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 861	¥ 861
(fixed rate payment, floating rate receipt)	10,000	(772)	(772)
Total	¥ 30,000	¥ 89	¥ 89

Derivatives which qualified for hedge accounting and related amounts were included with the associated assets and liabilities, and were excluded from disclosure of market value information in the preceding table.

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
As the endorser of trade notes receivable discounted with banks	¥ 103	\$ 971
As the guarantor for bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	6,838	64,705
Total	¥ 6,941	\$ 65,676

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2004 is as follows:

	Yen in millions	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted average Shares	EPS	
For the year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	¥ 2,410	369,361	¥ 6.52	\$ 0.062
Effect of Dilutive Securities				
Warrants		40		
Convertible bonds		30,935		
Diluted EPS				
Net income for computation	¥ 2,410	400,336	¥ 6.02	\$ 0.057

16. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 29, 2004, The Company's shareholders approved the following stock option plan for the Company's directors and administrative directors, purchase of treasury stock and appropriation of Retained Earnings.

(a) Stock option plan

The plan provides for granting options to directors and administrative directors to purchase up to 210 thousand shares of the Company's common stock in the period from June 30, 2006 to June 29, 2014. 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.

(b) Purchase of treasury stock

At the General Meeting of Shareholders held on June 29, 2004, the Articles of Incorporation were partially amended so as to read, "In accordance with Article 211-3.1.2. of the Commercial Code, the Company may, by resolution of the Board of Directors, purchase its own shares."

(c) Appropriations of Retained Earnings

The Company's shareholders approved appropriation of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4.00 (\$0.04) per share	¥ 1,477	\$ 13,977

17. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2004 and 2003, 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, 2004							
Net sales							
Outside customers	¥ 156,572	¥ 283,347	¥ 46,705	¥ 19,754	¥ 506,378		¥ 506,378
Intersegment sales/transfer	1,482	1,366	1,287	19,889	24,024	¥ (24,024)	
Total	158,054	284,713	47,992	39,643	530,402	(24,024)	506,378
Operating expenses	178,860	259,491	45,307	42,875	526,533	(23,830)	502,703
Operating income (loss)	¥ (20,806)	¥ 25,222	¥ 2,685	¥ (3,232)	¥ 3,869	¥ (194)	¥ 3,675
Assets	¥ 236,542	180,213	¥ 35,218	¥ 58,818	¥ 510,791	¥ 95,722	¥ 606,513
Depreciation and amortization	9,685	5,063	1,132	4,333	20,213		20,213
Capital expenditures	5,134	13,381	1,840	1,912	22,267		22,267

	Millions of Yen						
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2003							
Net sales							
Outside customers	¥ 131,127	¥ 270,327	¥ 48,696	¥ 18,809	¥ 468,959		¥ 468,959
Intersegment sales/transfer	1,975	1,629	1,176	23,066	27,846	¥ (27,846)	
Total	133,102	271,956	49,872	41,875	496,805	(27,846)	468,959
Operating expenses	157,697	244,211	48,030	43,135	493,073	(28,301)	464,772
Operating income (loss)	¥ (24,595)	¥ 27,745	¥ 1,842	¥ (1,260)	¥ 3,732	¥ 455	¥ 4,187
Assets	¥ 268,859	¥ 134,167	¥ 35,543	¥ 38,977	¥ 477,546	¥ 99,366	¥ 576,912
Depreciation and amortization	14,662	3,447	823	1,503	20,435		20,435
Capital expenditures	12,298	6,404	861	663	20,226		20,226

Thousands of U.S. Dollars

	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2004							
Net sales							
Outside customers	\$1,481,423	\$2,680,919	\$ 441,909	\$ 186,912	\$4,791,163		\$4,791,163
Intersegment sales/transfer	14,026	12,926	12,178	188,179	227,309	\$ (227,309)	
Total	1,495,449	2,693,845	454,087	375,091	5,018,472	(227,309)	4,791,163
Operating expenses	1,692,309	2,455,208	428,680	405,663	4,981,860	(225,468)	4,756,392
Operating income (loss)	\$ (196,860)	\$ 238,637	\$ 25,407	\$ (30,572)	\$ 36,610	\$ (1,841)	\$ 34,771
Assets	\$2,238,074	\$1,705,108	\$ 333,220	\$ 556,515	\$4,832,917	\$ 905,688	\$5,738,605
Depreciation and amortization	91,634	47,908	10,712	40,995	191,249		191,249
Capital expenditures	48,574	126,610	17,405	18,092	210,681		210,681

Precision Equipment : IC steppers, LCD steppers, etc.

Imaging Products : Cameras, Interchangeable camera lenses, Digital cameras, etc.

Instruments : Microscopes, Measuring instruments, Inspection equipment etc.

Other : Sport optics products, Ophthalmic frames, Surveying instruments, etc.

Note: Amortization of Goodwill is included in "Depreciation and amortization" for the year ended March 31, 2004 and 2003.

(b) Geographic Segments

	Millions of Yen					(Eliminations) or corporate	Consolidated
	Japan	North America	Europe	Asia	Total		
For the year ended March 31, 2004							
Net sales							
Outside customers	¥ 196,562	¥ 148,696	¥ 124,134	¥ 36,986	¥ 506,378		¥ 506,378
Intersegment sales	238,627	3,121	629	18,904	261,281	¥ (261,281)	
Total	435,189	151,817	124,763	55,890	767,659	(261,281)	506,378
Operating expenses	439,011	146,207	123,900	53,742	762,860	(260,157)	502,703
Operating income (loss)	¥ (3,822)	¥ 5,610	¥ 863	¥ 2,148	¥ 4,799	¥ (1,124)	¥ 3,675
Assets	¥ 468,545	¥ 58,828	¥ 53,040	¥ 33,151	¥ 613,564	¥ (7,051)	¥ 606,513

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

Thousands of U.S. Dollars

	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 2004							
Net sales							
Outside customers	\$ 1,859,796	\$ 1,406,906	\$ 1,174,510	\$ 349,951	\$ 4,791,163		\$ 4,791,163
Intersegment sales	2,257,805	29,533	5,950	178,858	2,472,146	\$(2,472,146)	
Total	<u>4,117,601</u>	<u>1,436,439</u>	<u>1,180,460</u>	<u>528,809</u>	<u>7,263,309</u>	<u>(2,472,146)</u>	<u>4,791,163</u>
Operating expenses	4,153,762	1,383,355	1,172,293	508,488	7,217,898	(2,461,506)	4,756,392
Operating income (loss)	<u>\$ (36,161)</u>	<u>\$ 53,084</u>	<u>\$ 8,167</u>	<u>\$ 20,321</u>	<u>\$ 45,411</u>	<u>\$ (10,640)</u>	<u>\$ 34,771</u>
Assets	<u>\$ 4,433,197</u>	<u>\$ 556,612</u>	<u>\$ 501,841</u>	<u>\$ 313,667</u>	<u>\$ 5,805,317</u>	<u>\$ (66,712)</u>	<u>\$ 5,738,605</u>

(c) Export Sales

For the years ended March 31, 2004 and 2003

	Millions of Yen, %				Thousands of U.S. Dollars
	2004	(A)/(B)	2003	(A)/(B)	2004
Export sales (A)					
North America	¥ 146,624	29.0%	¥157,163	33.5%	\$1,387,302
Europe	122,583	24.2	100,577	21.4	1,159,840
Asia	96,726	19.1	76,864	16.4	915,189
Other Area	3,770	0.7	12,850	2.8	35,673
Total	<u>369,703</u>	<u>73.0%</u>	<u>¥347,454</u>	<u>74.1%</u>	<u>\$3,498,004</u>
Net sales (B)	<u>¥ 506,378</u>		<u>¥468,959</u>		<u>\$4,791,163</u>

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

18. TRADE MATTERS

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

Furthermore, The Company and their subsidiaries are in litigation with ASM Lithography B.V., ASM Lithography, Inc., ASML Netherlands B.V. and its affiliated companies over patent infringement cases in the Federal District Court for the Northern District of California, in the Tokyo District Court, in the Seoul District Court and in the Suwon District Court.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NIKON CORPORATION:

We have audited the accompanying consolidated balance sheets of NIKON CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIKON CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

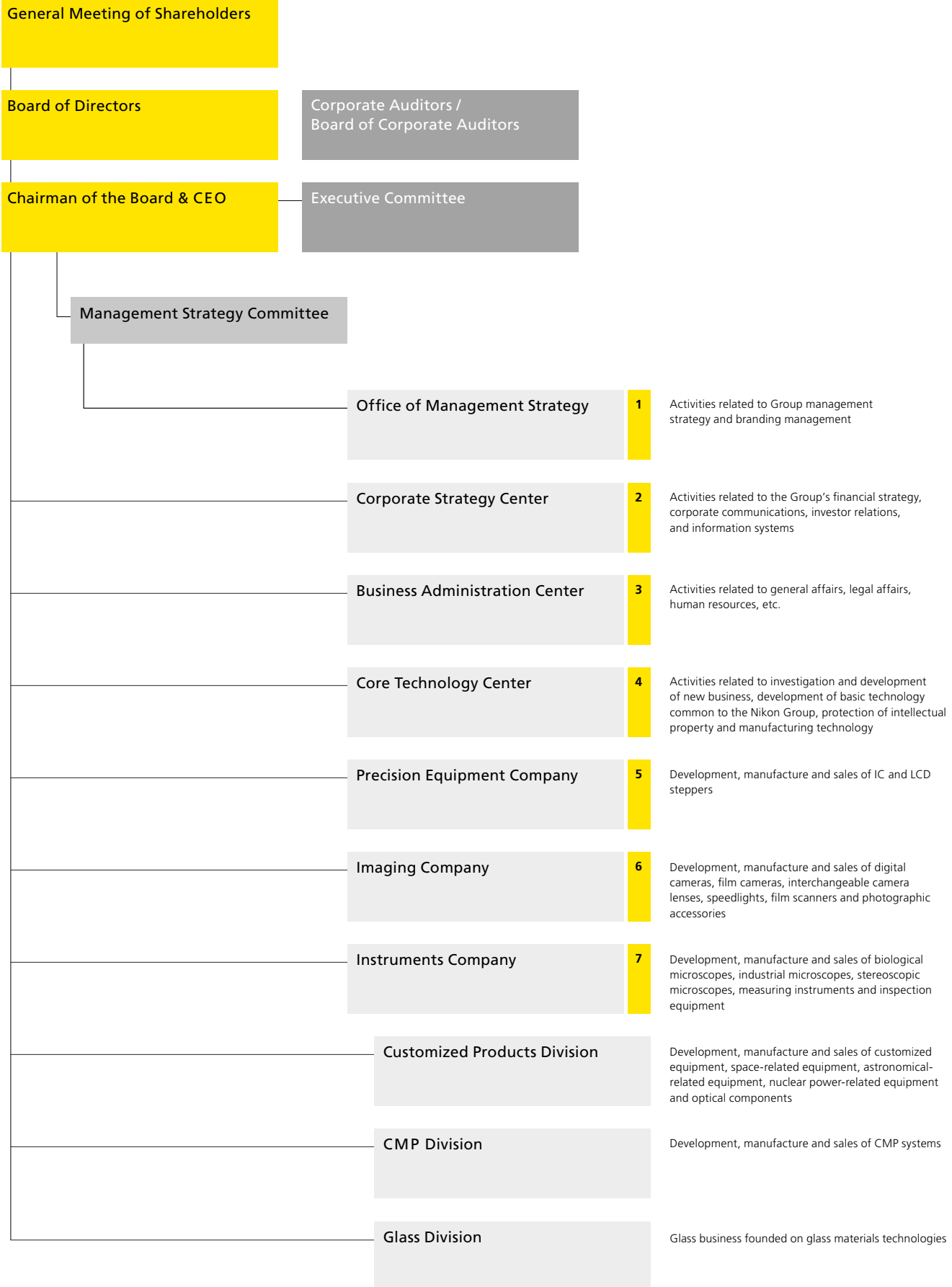
Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

organization of nikon group

AS OF JULY 1, 2004



nikon group companies (domestic)

AS OF JULY 1, 2004

	Name	Consolidated*	Business
1	Tochigi Nikon Corporation	*	Manufacture of IC/LCD steppers, optical lenses, etc.
	Setagaya Industry Co., Ltd.	*	Process and assembly of parts for interchangeable camera lenses
	Nikon Optical Shop Co., Ltd.		Retail sales of ophthalmic frames and lenses, etc.
	Nikon Eyewear Co., Ltd.	*	Development, manufacture, sales and services of ophthalmic frames, sunglasses, etc.
	Nikon Vision Co., Ltd.	*	Development, manufacture, sales and services of sport optics products
	Nikon Engineering Co., Ltd.	*	Designing, manufacture and sales of microprocessing systems, special microscopes, etc.
	Nikon-Trimble Co., Ltd.		Development, manufacture, sales and services of surveying instruments
	Nikon-Essilor Co., Ltd.		Development, manufacture, sales and services of ophthalmic lenses and others
2	Nikon Systems Inc.	*	Development and support of computer software
3	Nikon Logistics Corporation	*	Logistics
	Nikon Life Co., Ltd.	*	Services for welfare
	Nikon Tsubasa Inc.		Process, assembly and packing of parts for optical instruments and others
4	Nikon Technologies, Inc.	*	Chemical analysis and measurement, patent investigation, translation
5	Mito Nikon Corporation	*	Manufacture of units for IC/LCD steppers, cameras, etc.
	Zao Nikon Co., Ltd.	*	Manufacture of units for IC/LCD steppers, surveying instruments
	Nikon Tec Corporation	*	Maintenance service for IC/LCD steppers, sales of used steppers, etc.
6	Sendai Nikon Corporation	*	Manufacture of cameras, LCD steppers, units for IC/LCD steppers, etc.
	Nikon Photo Products Inc.	*	Sales and services of cameras and others
7	Kurobane Nikon Co., Ltd.	*	Manufacture of lenses for microscopes, profile projectors and surveying instruments
	Nikon Instech Co., Ltd.	*	Sales and maintenance service of microscopes, measuring instruments, inspection equipment, etc.
	Kogaku Co., Ltd.	*	Sales and maintenance service of microscopes, measuring instruments, inspection equipment, etc.
	Okuma Shokai Co., Ltd.	*	Sales and maintenance service of microscopes, measuring instruments, inspection equipment, etc.

nikon group companies (overseas)

AS OF JULY 1, 2004

	Name	Consolidated*	Business
1	Beijing Nikon Ophthalmic Products Co., Ltd.		Sales, processing and repair of ophthalmic products
2	Nikon Americas Inc.	*	Centralized supply, administration and management of funds of the affiliates in the U.S.
	Nikon Holdings Europe B.V.	*	Centralized supply, administration and management of funds of the affiliates in Europe
5	Nikon Precision Inc.	*	Import, sales and maintenance service of IC steppers
	Nikon Research Corporation of America	*	R&D for IC related equipment
	Nikon Precision Europe GmbH	*	Import, sales and maintenance service of IC steppers
	Nikon Precision Korea Ltd.	*	Maintenance service of IC/LCD steppers
	Nikon Precision Taiwan Ltd.	*	Maintenance service of IC/LCD steppers
	Nikon Precision Singapore Pte Ltd	*	Maintenance service of IC/LCD steppers
	Nikon Precision Shanghai Co., Ltd.	*	Consulting for maintenance service of IC/LCD steppers
6	Nikon Inc.	*	Import, sales and services of cameras and others
	Nikon Canada Inc.	*	Import, sales and services of cameras, microscopes, measuring instruments and others
	Nikon Europe B.V.	*	Import, sales and services of cameras and others
	Nikon AG	*	Import, sales and services of cameras, microscopes, measuring instruments, etc.
	Nikon Svenska AB	*	Import, sales and services of cameras and others
	Nikon GmbH	*	Import, sales and services of cameras, microscopes, measuring instruments, etc.
	Nikon U.K. Ltd.	*	Import, sales and services of cameras, microscopes, measuring instruments, etc.
	Nikon France S.A.	*	Import, sales and services of cameras, microscopes, measuring instruments, etc.
	Nikon Kft.		Import, sales and services of cameras and others
	Nikon s.r.o.		Import, sales and services of cameras and others
	Nikon Polska Sp.z o.o.		Import, sales and services of cameras and others
	Nikon Singapore Pte Ltd	*	Import, sales and services of cameras, microscopes, measuring instruments
	Nikon (Malaysia) Sdn. Bhd.	*	Support for sales and services of cameras, microscopes, measuring instruments, etc.
	Nikon Hong Kong Ltd.	*	Import, sales and services of cameras and others
	Nikon (Thailand) Co., Ltd.	*	Manufacture of cameras and others
	Nikon Imaging (China) Co., Ltd.	*	Manufacture and sales of digital cameras and others
		Guang Dong Nikon Camera Co., Ltd.	
	Hang Zhou Nikon Camera Co., Ltd.		Manufacture of cameras and others
7	Nikon Instruments Inc.	*	Import, sales and maintenance service of microscopes, measuring instruments, inspection equipment, etc.
	Nikon Instruments Europe B.V.	*	Import, sales and maintenance service of microscopes, measuring instruments, etc.
	Nikon Instruments S.p.A.	*	Import, sales and maintenance service of microscopes, measuring instruments, etc.
	Nikon Instruments (Shanghai) Co., Ltd.		Marketing, maintenance service of microscopes, measuring instruments and inspection equipment
	Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.		Manufacture of microscopes

* Consolidated as of March 31, 2004

directors, auditors and officers

AS OF JULY 1, 2004

Board of Directors

Chairman of the Board & Chief Executive Officer*	Shoichiro Yoshida	In charge of items related to Group's management policies
Vice Chairman of the Board & Chief Financial Officer*	Kenji Enya	Assistant of Chairman, comprehensive control of financial, overseas, IR and group-wide strategies
President, Member of the Board & Chief Operating Officer*	Teruo Shimamura	In charge of company's operations
Executive Vice President, Member of the Board*	Yasujiro Hara	Assistant of President, President of Business Administration Center
Executive Vice President, Member of the Board*	Michio Kariya	Assistant of President, President of Precision Equipment Company
Managing Director, Member of the Board & Senior Executive Officer	Takashi Tamori	President of Core Technology Center & General Manager of Production Technology Headquarters, Core Technology Center
Managing Director, Member of the Board & Senior Executive Officer	Mamoru Kajiwara	President of Corporate Strategy Center & Vice President of Business Administration Center
Managing Director, Member of the Board & Senior Executive Officer	Makoto Kimura	President of Imaging Company
Managing Director, Member of the Board & Senior Executive Officer	Norio Miyauchi	Divisional President of Office of Management Strategy
Managing Director, Member of the Board & Senior Executive Officer	Naoki Tomino	Vice President of Imaging Company
Director, Member of the Board	Terumichi Tsuchida	Senior Corporate Advisor, Meiji Yasuda Life Insurance Company
Director, Member of the Board	Shunji Kono	Counselor, The Tokio Marine and Fire Insurance Co., Ltd.
Director, Member of the Board & Executive Officer	Kyoichi Suwa	Vice President of Precision Equipment Company & General Manager of LCD Equipment Division, Precision Equipment Company
Director, Member of the Board & Executive Officer	Yoshimichi Kawai	Vice President of Precision Equipment Company & General Manager of Production Headquarters, Precision Equipment Company

Corporate Auditors

Standing Corporate Auditor	Masami Kurosawa	
Standing Corporate Auditor	Hisayuki Shimizu	
Corporate Auditor	Toyoshi Nakano	Senior Advisor, The Mitsubishi Trust and Banking Corporation
Corporate Auditor	Susumu Kani	Corporate Advisor, Mitsubishi Corporation

Executive Officers

Executive Officer	Yuichi Umeda	General Manager of Glass Division
Executive Officer	Hidetoshi Mori	President of Instruments Company
Executive Officer	Takao Watanabe	Vice President of Core Technology Center & General Manager of Intellectual Property Headquarters, Core Technology Center
Executive Officer	Hideshi Hirai	General Manager of Marketing Management Department, Imaging Company
Executive Officer	Yutaka Ichihara	Vice President of Core Technology Center & General Manager of Optical Technology Headquarters, Core Technology Center
Executive Officer	Akikazu Tanimoto	Assistant of President of Precision Equipment Company
Executive Officer	Kazuo Ushida	General Manager of Development Headquarters, Precision Equipment Company
Executive Officer	Masami Kumazawa	General Manager of Planning Department, Precision Equipment Company
Executive Officer	Tetsuro Goto	General Manager of Development Management Department, Imaging Company
Executive Officer	Koji Morishita	Vice President of Business Administration Center

* Indicates Representative Director of the Board

investor information

Nikon Corporation

Fuji Bldg., 2-3, Marunouchi 3-chome,
Chiyoda-ku, Tokyo 100-8331, Japan
Tel : +81-3-3214-5311
Fax : +81-3-3216-1454

Date of Establishment

July 25, 1917

Number of Employees

13,636

Common Stock

Authorized:
1,000,000,000 shares
Issued:
369,945,332 shares
¥36,661 million

Number of Shareholders

31,373

Major Shareholders	Number of shares held (thousands)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd., Trust Account	35,028	9.5
Meiji Yasuda Life Insurance Company	20,565	5.6
Japan Trustee Services Bank, Ltd., Trust Account	12,614	3.4
The Bank of Tokyo-Mitsubishi, Ltd.	12,297	3.3
State Street Bank and Trust Company	10,392	2.8
The Tokio Marine and Fire Insurance Co., Ltd.	10,067	2.7
The Mitsubishi Trust and Banking Corporation	9,134	2.5
Nippon Life Insurance Company	8,994	2.4
The Chase Manhattan Bank NA London	7,687	2.1
The Nomura Trust and Banking Co., Ltd., Investment Trust Account	7,488	2.0

Stock Exchange Listings

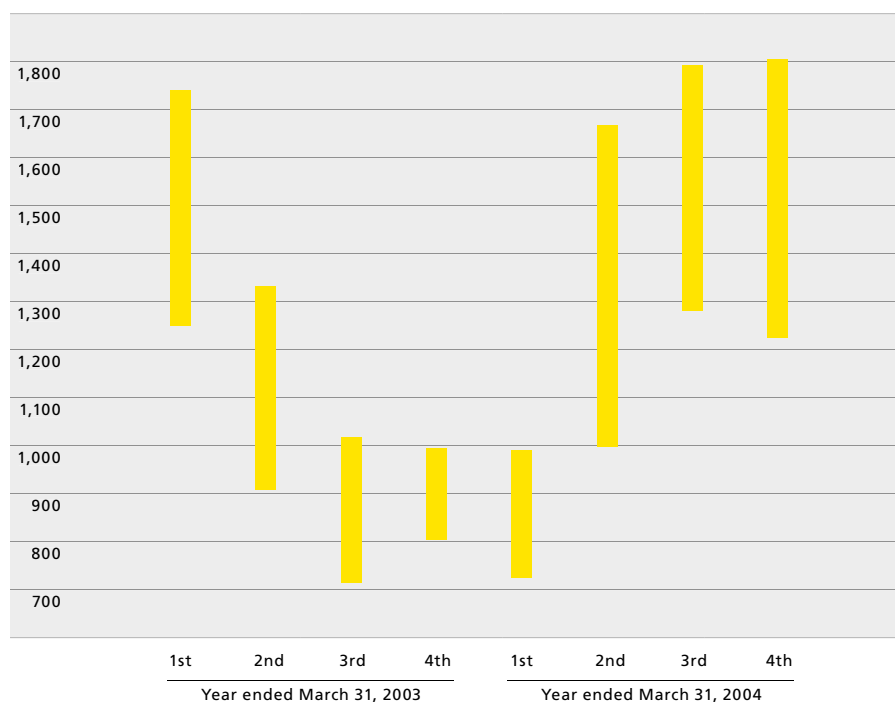
Tokyo, Osaka, Fukuoka, Sapporo

Transfer Agent and Registrar

The Mitsubishi Trust and Banking Corporation
Transfer Agent Department
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan

(As of March 31, 2004)

Price Range of Common Stock (¥)



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

Homepage: Nikon has created a Web site specifically for investors containing released financial reports, fact books and other information.
<http://www.nikon.co.jp/main/eng/portfolio/ir/index.htm>



NIKON CORPORATION

Fuji Bldg., 2-3, Marunouchi 3-chome, Chiyoda-ku
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www.nikon.co.jp/eng/