

## A MESSAGE FROM THE MANAGEMENT

In fiscal 1998, ended March 31, 1998, the Japanese economy slipped into recession as lackluster personal consumption following a rise in the consumption tax rate and increasing anxiety regarding the stability of Japan's financial sector weighed heavily on the economy. Japan was also hit hard by economic turmoil elsewhere in Asia as Asian currencies—particularly those of Thailand, Indonesia, and Korea—plummeted and stock markets throughout the region, including Hong Kong's Hang Seng Index, suffered steep drops.

In consumer products, the depreciation of the yen helped stimulate camera sales in overseas markets, although overall market conditions remained severe in light of flagging demand and intense price competition. In industrial instruments, the semiconductor market remained stagnant against a backdrop of crumbling prices for 16M dynamic random access memories (DRAMs). This, in turn, stifled demand for semiconductor manufacturing related equipment. Amid these adverse conditions, Nikon Corporation continued to develop new products and technologies that are at the forefront of evolving market trends. During the year under review, Nikon focused its energies on making the structural changes needed to further increase efficiency and accelerate operations with the goal of boosting the productivity of the entire Nikon Group. Despite these efforts, consolidated net sales fell 1.8%, to ¥372.1 billion (US\$2,817 million), while operating income dropped 41.4%, to ¥27.5 billion (US\$208 million), and net income plunged 58.3%, to ¥8.3 billion (US\$63 million). Consequently, net income per share fell from ¥53.89 to ¥22.48 (US\$0.17).

### *Business Summary*

**Cameras** During fiscal 1998, the stellar performance of the Nikon F5—the latest addition and the Company's flagship single lens reflex (SLR) camera—and surging demand for the Company's main lineup of cameras both domestically and overseas helped lift sales of cameras. Sales of interchangeable lenses were also buoyant, as Nikon continued to develop and launch lenses worthy of the Nikon name, such as the world's first micro AF zoom lens for SLR cameras. Nikon worked to expand sales of compact cameras by promoting the Nikon Nuvis series, featuring the Advanced Photo System.

**Ophthalmic Products** In eyewear, sluggish demand for lenses and intense price competition resulted in decreased

sales. During the fiscal year, Nikon worked to boost demand for eyewear products by launching new lines of progressive lenses for nearsightedness. In ophthalmic and ophthalmological equipment, sales were stagnant in Japan and elsewhere in Asia, although sales of the Hand Held Auto Refract-Keratometers recorded strong growth in Europe and North America. In binoculars, demand for compact zoom binoculars grew, particularly in the United States, while our new top-of-the-line binoculars also recorded stronger sales.

**Industrial Instruments** In semiconductor manufacturing related equipment, an oversupply of 16M DRAMs continued to depress prices while the economic crises gripping Korea and countries throughout Southeast Asia discouraged capital investment by semiconductor manufacturers in Japan and abroad. Despite sluggish market conditions, these manufacturers made strategic investments in miniaturization technologies to dramatically reduce chip size and continued to allocate R&D resources for developing next-generation devices. To meet this demand for these technologies, Nikon broke ground on a new addition to its Kumagaya Plant which will increase production capacity for excimer steppers. In addition, during the term sales of steppers used to manufacture liquid crystal displays (LCDs)—steppers substantially increase the efficiency of LCD production—and semiconductor inspection equipment increased. However, demand for integrated circuit steppers fell due to deteriorating market conditions for semiconductors, and, as a result, sales of semiconductor manufacturing related equipment decreased on a year-on-year basis.

In microscopes and measuring instruments, sales of the top-of-the-line ECLIPSE series of biological microscopes continued to expand. Demand for industrial-use microscopes was strong, particularly in the United States, and the NEXIV series of computerized numerical control (NC) video measuring systems and newly launched large-scale profile projectors both recorded steady sales growth during the term.

Turning to other fields, although Nikon was able to reap the rewards of its efforts to expand sales of surveying instruments in overseas markets, cutbacks in public spending and a dearth of civil engineering and construction projects in Japan continued to hamper sales in this field. During the period under review, Nikon worked to boost demand



Shigeo Ono, Chairman



for film scanners and focused efforts on promoting newly developed products, with particular emphasis on digital cameras. In new business areas, Nikon began offering optics engines for use in high-resolution, high-brightness LCD projectors.

### ***Overseas Expansion***

In Europe, the Company established Nikon Optical U.K. Ltd., a small-scale optical lens factory located on the outskirts of London that is responsible for marketing activities as well as the processing, coloring, and coating of lenses for sale in the European market. Elsewhere, Nikon Precision Europe GmbH's training center, DUV Education & Application Centre, opened in Livingston, Scotland. The center will enhance technical training and support capabilities for excimer steppers. In a related move, a new office at Nikon Precision Korea Ltd. was completed, which will further improve service and customer support activities in the Korean stepper market.

### ***Research and Development***

While half of Nikon's R&D budget is targeted at the continued development of cutting-edge excimer steppers, the development of sophisticated digital cameras and products for new business fields continues to command a major share of R&D funding. Areas of particular success include the development and recent launch of a high-resolution, high-performance compact infrared charged-coupled device camera that ensures outstanding image quality. Nikon has also developed a motion detector that works as a high-performance sensor with a built-in image processing function that can be used in security cameras, electronic eyes for robots, and digital cameras. In these and other ways, Nikon is steadily expanding its range of quality products by creating and commercializing superior technologies.

### ***Outlook***

Although the release of Microsoft Windows® 98 and the accelerating sales of PCs equipped with new microprocessors should serve as a catalyst for bolstering investment by semiconductor manufacturers, the outlook for stronger earnings in the near term remains dim. However, Nikon is confident that the Company will again achieve robust growth and performance with the expansion of the semiconductor industry in the medium-to-long term. Nikon

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will focus its attention on employing three fundamental business strategies. First, Nikon will concentrate on the fastest possible development of next-generation Argon Fluoride (ArF) excimer steppers and other high-technology products to meet the needs of the rapidly progressing market for semiconductor manufacturing related equipment. Second, the Company will devote all its energies to accelerating the product development cycle and creating innovative products that meet sophisticated consumer needs. Finally, we will strategically apply our core technologies to create innovative products and develop new business areas to follow in the path of our successful stepper operations.

We are confident that the successful application of these three strategies will place Nikon firmly on the road to higher sales and improved profitability. We look forward to your continued guidance and encouragement in the years ahead.

July 1998



Shigeo Ono, Chairman



Shoichiro Yoshida, President





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