

to our shareholders



*Shigeo Ono, Chairman (right)
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BUSINESS CONDITIONS AND RESULTS

In the fiscal year ended March 31, 1999, business conditions differed substantially between markets. In the United States, vigorous consumer spending fueled solid economic growth, although the future sustainability of this trend remained tinged with uncertainty. In Europe, despite some evidence of a slowdown towards the end of the year, conditions were generally favorable. In Asia, the economic depression persisted; nevertheless, some signs that the worst was over emerged. In Japan, while some parts of the economy began to benefit from extensive public-sector investment, a slump in private-sector capital investment, combined with low levels of consumer spending, cast a pall over many industries. General business conditions remained extremely poor.

Many of our operations were adversely affected by the domestic recession. In consumer products, while camera equipment posted positive sales results on the back of successful product launches and high levels of consumer spending in the United States, our ophthalmic products suffered as the domestic market contracted amid slumping demand. With falling corporate profitability greatly restricting capital investment budgets, industrial instruments sustained the greatest losses.

We responded to these harsh business conditions by developing and launching new products carefully tailored to meet market needs and by instituting a company-wide restructuring initiative to reduce costs, raise operational efficiency and increase profits. Unfortunately, the slowdown in consumer demand in Japan and other Asian markets, which was compounded by the continued downturn in the semiconductor market, meant that the fruits of these efforts could not offset falling sales revenues.

Consolidated net sales fell 17.8% to ¥305.8 billion (US\$2,536 million). This was primarily due to poor results in the industrial instruments sector, where consolidated sales fell 31.1% to ¥166.6 billion (US\$1,382 million). In comparison, consumer products rose 6.9% to ¥139.2 billion (US\$1,155 million). Falling

revenues and lower margins in the industrial instruments sector impacted our bottom line severely, resulting in a net consolidated loss for the year of ¥18.2 billion (US\$151 million).

STRATEGIC REDEVELOPMENT BASED ON FIVE KEY CONCEPTS

Although we possess a well-recognized consumer brand, to date our Company's performance has been very much dependent on the fortunes of the semiconductor industry, as is clearly reflected in fiscal 1999 results. We are therefore instituting a variety of measures designed to enhance the profitability of the existing business and to foster new businesses that are not hostage to cyclical demand for steppers. As we develop such 'non-stepper' businesses, we intend to raise profits and stabilize the earnings stream.

The adversity in which we currently find ourselves is a prime opportunity for us to undertake across-the-board Company reform. Our task is to actively build a presence in new fields while improving established core business areas. To guide us as we overcome this difficult situation, we have formulated a business strategy characterized by five key concepts, as follows:

(1) Management Agility

Our drive to speed up decision-making is critical to the success of our management reform efforts. We have increased the level of delegation of divisional issues to enable more rapid decision-making and at the same time consolidated and clarified head office functions to streamline the organization's management processes and help pinpoint strategic management issues. In addition to facilitating faster turnaround, information technology is also being introduced to improve production, sales and inventory management. In parallel, we are using the latest concurrent engineering techniques to cut development lead times.

(2) Selectivity & Focus

Being in the right business is particularly important when general economic conditions worsen. We must therefore accelerate the process of business/product selection to continue to

focus on our core competencies, while also concentrating on developing product areas with the most strategic potential. Our ground rule in this process is that continuing businesses must be able to expand and grow profitably. With this in mind, we are merging and closing subsidiaries, concluding tie-ups with other firms, and eliminating unprofitable businesses. An internal project team is leading such efforts while evaluating plans to move to an in-house company system for the Nikon Group.

As one of the first moves to restore profitability in our ophthalmic lens business, in May 1999 we reached to an agreement to form a 50:50 joint venture with the French firm Essilor. Commencing operations by the end of 1999, this cooperative endeavor promises to build on the strengths of both companies, with the mutual expectation of contributing substantially to our ophthalmic lens business.

With regard to unprofitable businesses, we are eliminating excess costs and targeting operational synergies. For example, sales of our inspection equipment have been hit hard by the cyclical downturn in the semiconductor industry, resulting in negative financial results. Nevertheless, the future potential of many of these products remains considerable. In view of such prospects, from the beginning of 1999 we rearranged the business, transferring many of the products to the IC and LCD Business Headquarters and Instruments Division.

(3) Global Business

At Nikon, we have come a long way in internationalizing our market presence. We have cultivated the Nikon brand name to the point where it commands worldwide recognition. However, our management perspective and methods have been based on those used in Japan, our home country of origin. Our mindset has tended to be one of a Japanese firm supplying the world.

Competition between companies is now becoming global. We must therefore benchmark our management efforts against global standards. This means that it is essential to move to a system of Group management based on international financial accounting standards. Using a similar rationale, we have worked to gain ISO9000 series accreditation for the quality control procedures in all of our parent company divisions. In addition, all Nikon parent company factories have gained ISO14000 series accreditation, with subsidiary plants on course to follow this lead and gain certification before the end of the current fiscal year.

On the technical side as well, we aim to develop products that use the latest technology common throughout the world. In doing so, we aim to ensure that all of our production, design and management standards meet or exceed criteria matching the best practices used around the world. In short, we are thinking and acting globally, and fostering a corporate culture that encourages all our employees to do likewise.

(4) Fairness

One of the critical qualities of truly global management is fairness not only in the way in which we assess our businesses but also how we evaluate our employees. Success is measured by efforts to instill total confidence throughout all operations based on fair and equitable actions.

As part of the transformation of our business as we move to an in-house company system, alongside the financial indicators conventionally used in assessing business progress an additional emphasis is being placed on cash flow. This will

provide a more rounded impression of overall business performance and ensure that we judge each segment of the business fairly. At the same time, we are also instituting personnel evaluation systems based on merit, including the use of performance-related compensation methods.

(5) Trust & Brand Value

Over the past 80 years, we have built up a great degree of trust among our customers. Today, the Nikon brand name is associated with high-quality products. Our principal task is to maintain and build on this base of trust through enhancing the value of our brand. By maximizing brand value, we can better establish our reputation worldwide—not just in single-lens reflex and digital cameras, but also in steppers and other advanced technologies.

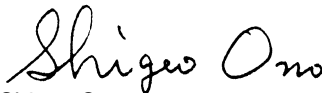
OUTLOOK

In the near term the economic outlook remains dim. Private-sector demand is not forecast to revive sharply in Japan, preventing the economy from staging any swift recovery. Economies in the rest of Asia look likely to remain in the doldrums. In Europe, signs of slowdown are apparent, while in the United States, numerous concerns exist about the viability of the current expansion. On a bright note, the semiconductor industry appears to be heading in the right direction, and profits in this key sector are predicted to improve over the coming year. In addition, we expect to benefit from the high popularity of our new range of digital cameras and the planned launch of a digital camera model for the professional market this autumn.

Earnings are therefore expected to rebound in the current fiscal year. Raising consolidated profitability will remain the priority focus of the entire Nikon Group. We will continue to work to lower the profitability threshold, reducing management-related and other costs. While focusing efforts on the swift development of competitive products and their timely introduction into the market, the process of restructuring inefficient areas of our operations will continue.

In closing, we would like to summarize our vision for Nikon. Our core business domain is defined as a combination of “micro and optics” with systems and electronics. We will continue to develop the associated core technologies that have brought success in these chosen fields, and, in doing so, this will allow the creation of new products and businesses outside of the framework utilized to date. Moreover, we are reforming business practices within operations and believe solid headway is being achieved. We ask our shareholders for their continued understanding and support as we take up the challenges before us.

July 1999



Shigeo Ono
Chairman



Shoichiro Yoshida
President