

consumer products



BUSINESS RESULTS

In the fiscal year ended March 31, 1999, divisional sales rose 6.9% to ¥139.2 billion. Operating income surged 23.3% to ¥2.5 billion, which caused the operating margin to rise 0.2 percentage point to 1.8%.

IMAGING PRODUCTS

In June 1998, the Camera Division and Electronic Imaging Division were merged into the Imaging Products Division to boost operational efficiency. Sales of single-lens reflex (SLR) cameras increased during the year as a result of the popularity of models such as the new Nikon F100, a lightweight multi-functional compact version of our flagship Nikon F5. The Nikon Pronea S, which utilizes Advanced Photo System (APS) technology, enjoyed resounding success, while the Nikon F60 series, a range of easy-to-use models for beginners, also proved highly popular. While the new range of interchangeable lenses with built-in silent wave motors



Pronea S

(ultrasonic motors) performed well, price erosion negatively affected sales of lenses as a whole. In compact cameras, the launch of new models such as the high-performance APS Nikon Nuvis S, which features a superior 3.0X zoom lens, helped boost sales. In digital cameras, the year saw the introduction of the COOLPIX910 [COOLPIX900 (E900S)], the successor to the COOLPIX900, which has received a number of accolades including the Digital Camera of the Year award in Japan, and the COOLPIX950, which features a 2.1 million-pixel CCD imaging element. As well as the excellent performance of these new models, booming market demand for digital cameras in general boosted sales compared with the previous year. Nikon's high-speed film scanners such as the LS-2000 (SUPER COOLSCAN 2000) and the COOLSCAN III, which offer outstanding image quality, also did well, with sales rising year-on-year.

The strategic aim of this division is to raise margins, while also increasing its overall share of consolidated net sales. This is in line with Nikon's drive to try to reduce dependence on sales of steppers. As part of this initiative, the division is studying whether it can lessen its reliance on production outsourcing by bringing the manufacture of more parts and materials



in-house. With growth in the camera market predominantly in the digital camera segment, the cost of electronic parts presently makes up an increasingly large proportion of the whole. Outsourcing the production of these critical elements tends to limit the savings that can be made in the cost of sales. Nikon is therefore developing its own internal electronics manufacturing expertise, and, on the software side, is making moves to boost its large-scale integration (LSI) systems design capabilities within the Nikon Group. At the center of these efforts, Sendai Nikon Corporation is developing printed circuit board (PCB) manufacturing know-how.

OPHTHALMIC PRODUCTS

In ophthalmic lenses, the Company launched Nikon Soltes FP-III progressive lenses for correcting near-sightedness. Together with an increase in the number of foreign sales bases, this helped increase sales of ophthalmic lenses in overseas markets. However, a fall in domestic demand outweighed these advances. Sales of ophthalmic and ophthalmologic equipment were higher than in the previous year, mainly due to the successful launch in European and Asian markets of the Speedy-1 auto-refract meter, whose simple

operation permits fast, highly accurate readings to be made. In binoculars, the Action series and Ribino (DX) series both sold well in the United States, and also benefited from the successful introduction of the Naturescope Farbel Mini (Naturescope Mini), a hand-held outdoor model.

OUTLOOK

During the upcoming fiscal year, Nikon's domestic joint venture with the French firm



COOLPIX950

Essilor should help raise profits in the ophthalmic lens business. In cameras, the popularity of the recently launched COOLPIX950 model should enhance Nikon's growing presence in the digital camera market, as will the much-awaited professional-use Nikon D1, due to be launched in autumn 1999, which will combine all the benefits of a high-resolution digital camera with interchangeable conventional SLR lenses. Strong growth is anticipated on both sales and profit fronts.

Note: Products in parentheses refer to brand names in overseas markets.

review of operations

industrial instruments



BUSINESS RESULTS

In the fiscal year ended March 31, 1999, divisional sales fell 31.1% to ¥166.6 billion, leading to an operating loss of ¥11.3 billion.

SEMICONDUCTOR MANUFACTURING-RELATED EQUIPMENT

Although integrated chip (IC) manufacturers around the world continued to upgrade their production equipment to cope with smaller chip sizes and more advanced chip functionality, the trend to refrain from investing in higher production capacity became more pronounced, and exceptionally poor market conditions prevailed. Nikon started taking orders for the newly developed third generation NSR-S203B Step-and-Repeat KrF Excimer Scanning System, which boasts a new kind of lens for use in the manufacture of next-generation DRAMs and MPUs, and initiated delivery of



NSR-S203B

the Step-and-Repeat ArF Excimer Scanning System. Nikon also expanded sales of existing lines such as the NSR-2205i14E i-line stepper and the NSR-

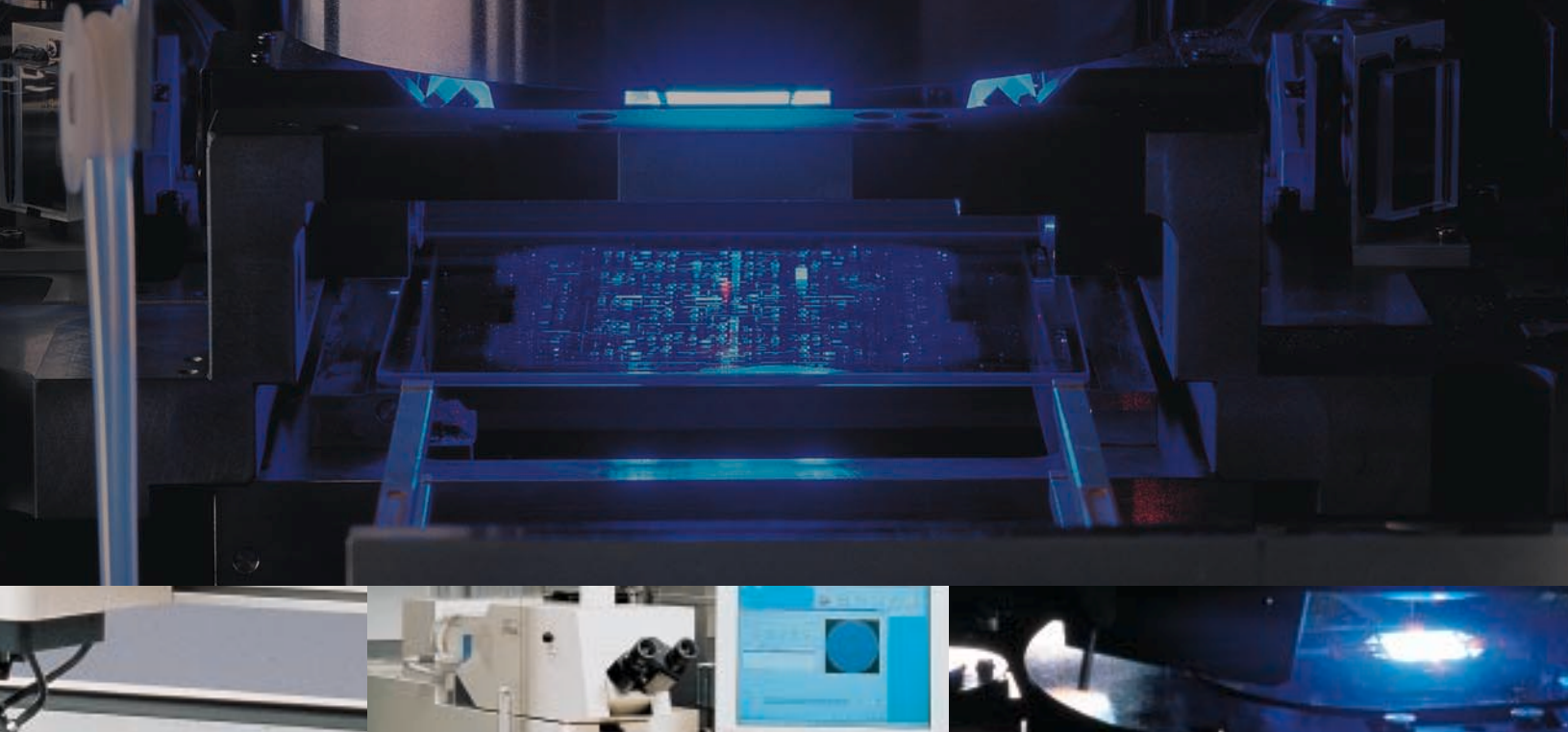
2205EX14C KrF excimer stepper.

R&D for the next generation of lithography system continued, with advances being made in the development of an electron optical system for EB steppers, which allows for extremely high-productivity manufacturing of ICs with sub-0.1 μm minimum-pattern linewidth. At the same time, the division strove to cut costs, and reduce production and delivery lead times.

Nikon is working to make flat-panel display exposure systems its second major line in this field. During the year, the company launched the FX-701M model, which boasts a much higher throughput. However, with Japan's LCD panel manufacturers all cutting back on capital investment, sales dropped.

MICROSCOPES AND MEASURING EQUIPMENT

Buoyant sales in the U.S. market and the establishment of further overseas servicing bases helped boost sales of biological microscopes, largely offsetting poor results in the domestic market. However, a slump in the semiconductor-related business also impacted sales of industrial microscopes, which fell despite the launch of products such as the DUV Inspection System LU2000-DUV that uses a far-UV laser as a light source. In measuring equipment, the year saw Nikon's line of comput-



erized numerical control video measuring systems augmented by the launch of the NEXIV VM-1000N, which permits measurement of much larger objects. However, a lack of capital investment by the Japanese machine tool industry contributed to a decline in sales in this sector.

NEW BUSINESS DEVELOPMENT

Nikon is currently developing a number of new businesses, of which the following three hold out the most promise:

Projectors

Nikon is supplying users with optics engines on an OEM basis, and is planning to develop whole projector systems under its own brand name.

Linear-type ultrasonic actuators

As well as being used in camera focusing units, where the principal motion involved is rotation, these elements can be developed into actuators capable of producing a linear motive force. The chief advantages in this regard are that they are quiet and do not produce an electromagnetic field. A wide range of applications are envisaged for such actuators, for example,

to power magnetic card issuing machines in convenience stores in Japan.

Infrastructure maintenance

Many of Japan's bridges, roads and other infrastructures date back to the period of post-war reconstruction. Nikon is applying its expertise in digital cameras, including infra-red CCD cameras, measuring equipment and surveying instruments to provide an integrated surveillance and maintenance service to the various authorities responsible for the upkeep of such infrastructures.

In each of these new areas, Nikon will be able to differentiate its products and services from competitors and can confidently deliver considerable value on a competitive basis.



OUTLOOK

During the upcoming fiscal year, the semiconductor industry is expected to turn the corner, and general business conditions should begin to improve. As sales of steppers, flat-panel display exposure systems and inspection equipment revive, revenues and profits are expected to recover.