

# management discussion and analysis

## Operating Environment

In fiscal 1999, the financial year ended March 31, 1999, markets differed substantially in terms of business conditions. In the United States, vigorous consumer spending fueled solid economic growth, although its future sustainability remains uncertain. In Europe, despite some evidence of a slowdown towards the end of the year, conditions were generally favorable. However, in Asia, the economic depression persisted. 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 flat growth in consumer spending, cast a pall over many industries. General business conditions remained extremely poor, although some signs that the worst was over began to emerge.

Nikon's business was badly affected by the adverse conditions in Japan. While camera equipment posted good results on the back of successful product launches and a U.S. consumer spending boom, ophthalmic products suffered as the domestic market contracted amid slumping demand. With falling corporate profitability greatly restricting capital investment budgets, sales of industrial instruments plunged in the face of the ongoing recession in Japan.

## Net Sales by Industry Segment

For the years ended March 31, 1999, 1998 and 1997

	(Millions of Yen, %)		
	1999	1998	1997
Consumer products	¥139,204	¥130,266	¥131,282
Share of net sales	45.5%	35.0%	34.6%
Industrial instruments	166,560	241,879	247,806
Share of net sales	54.5	65.0	65.4
Total	¥305,764	¥372,145	¥379,089

## Non-Consolidated Net Sales by Sector

This breakdown is provided as an approximate indication of the share of non-consolidated net sales by sector

For the years ended March 31, 1999, 1998 and 1997

	(% of Non-Consolidated Net Sales)		
	1999	1998	1997
Cameras	36.4%	26.8%	23.6%
Ophthalmic products	6.6	5.6	5.5
Semiconductor manufacturing related equipment	43.3	53.5	57.6
Microscopes and measuring instruments	8.5	8.0	6.7
Surveying instruments and others	5.2	6.1	6.6

## Regional Breakdown of Non-Consolidated Net Sales

This breakdown is provided for reference only.

For the years ended March 31, 1999, 1998 and 1997

	(% of Non-Consolidated Net Sales)		
	1999	1998	1997
Domestic	38.9%	43.6%	46.7%
Export (total):	61.1	56.4	53.3
North America	24.2	22.1	15.5
Europe	14.8	14.4	15.4
Asia and Oceania	22.0	19.8	22.3
Other areas	0.1	0.1	0.1

### Net Sales (¥ Billion)

1999	305.8
1998	372.1
1997	379.1
1996	332.8
1995	288.5

### Operating Income (Loss) (¥ Billion)

1999	(8.7)
1998	27.5
1997	46.9
1996	49.3
1995	18.9

## Operational Review and Analysis

Nikon instituted a company-wide restructuring initiative to reduce costs, raise operational efficiency and increase profits. At the same time, the Company redoubled efforts to boost margins by developing and launching new products carefully tailored to meet market needs. Unfortunately, the slowdown in consumer demand in Japan and other Asian markets, compounded by the long-standing slide in chip prices that is afflicting the semiconductor industry, meant that the fruits of these efforts could not fully offset falling sales revenues. A steep fall in sales of semiconductor-related industrial instruments caused consolidated net sales in fiscal 1999 to fall 17.8% to ¥305.8 billion, equivalent to a drop of ¥66.4 billion. Falling revenues and lower margins in the industrial instruments sector impacted the bottom line severely, and Nikon posted a net consolidated loss for the year of ¥18.2 billion.

In terms of performance by industry segment, net sales of consumer products rose 6.9% to ¥139.2 billion, producing a 23.3% surge in operating income to ¥2.5 billion. However, consolidated net sales of industrial instruments fell 31.1% to ¥166.6 billion, leading to an operating loss of ¥11.3 billion.

Splitting out the performance by region, sales in Japan slipped 13.5% to ¥274.5 billion, producing an operating loss of ¥11.0 billion. Overseas, results were better, though mixed. Sales in the United States dropped 20.6% to ¥80.6 billion, but produced operating income of ¥2.7 billion. Sales in Europe plunged 27.9% to ¥36.3 billion, leading to an operating loss of ¥0.2 billion. In Asia, principally due to an increase in the number of consolidated subsidiaries operating in the region, sales soared 57.6% to ¥11.3 billion, leading to operating income of ¥1.3 billion.

## Income Analysis

For the years ended March 31, 1999, 1998 and 1997

	(% of Net Sales)		
	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Cost of sales	(67.4)	(60.3)	(58.0)
Gross profit	32.6	39.7	42.0
SG&A expenses	(35.5)	(32.3)	(29.6)
Operating income	(2.9)	7.4	12.4
Net interest expense and dividend income	(1.4)	(1.3)	(1.4)
Net other income (expenses)	(1.4)	(1.0)	(1.3)
Income (loss) before income taxes*	(5.7)	5.1	9.7
Income taxes	(0.3)	(2.9)	(4.4)
Minority interest	0.0	0.0	0.0
Net income (loss)	<u>(6.0)</u>	<u>2.2</u>	<u>5.3</u>

\* Excluding minority interest

Note: All expenses and subtractive amounts are in parentheses.

## Balance Sheet Analysis

At March 31, 1999, 1998 and 1997

	(% of Total Assets)		
	1999	1998	1997
Total assets	100.0%	100.0%	100.0%
Total current assets	65.0	69.0	67.4
Inventories	31.7	30.4	26.1
Property, plant and equipment	21.4	20.5	21.5
Investments and other assets	<u>13.6</u>	<u>10.5</u>	<u>11.1</u>
Total current liabilities	44.1	46.5	44.8
Short-term borrowings	22.5	20.5	15.3
Long-term debt, less current portion	21.7	19.4	18.7
Shareholders' equity	<u>33.9</u>	<u>33.7</u>	<u>36.0</u>

### Net Income (Loss) (¥ Billion)

1999	(18.2)
1998	8.3
1997	19.9
1996	18.6
1995	1.5

### Net Income (Loss) per Share (¥)

1999	(49.3)
1998	22.5
1997	53.9
1996	50.2
1995	4.2

### Capital Expenditures (¥ Billion)

1999	20.7
1998	26.2
1997	33.8
1996	17.2
1995	8.1

## Financial Review and Analysis

At fiscal year-end, total assets amounted to ¥475.0 billion, down ¥32.4 billion, or 6.4%, from the previous fiscal year-end. A decrease in accounts receivable caused by the drop in net sales was the main reason behind the 11.9% drop in current assets to ¥41.7 billion. Tangible fixed assets increased by 4.3%, or ¥6.8 billion.

On the liabilities side, although borrowings increased slightly, the large drop in accounts payable helped reduce total liabilities by ¥22.3 billion.

Dividends paid in fiscal 1999 amounted to ¥1.5 billion. Pursuant to the introduction of tax-effect accounting, Nikon made a prior-year tax adjustment to retained earnings of ¥8.7 billion. In addition, an increase in the number of consolidated subsidiaries added a further ¥0.9 billion to the retained surplus. However, the net effect of these two moves was more than offset by the consolidated net loss for the year of ¥18.2 billion, which caused a net decrease in shareholders' equity of ¥10.1 billion.

## five-year summary

Nikon Corporation and Consolidated Subsidiaries  
For the years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	1999	1998	1997	1996	1995	1999
<b>For the year</b>						
Net sales	¥ 305,764	¥ 372,145	¥ 379,089	¥ 332,799	¥288,485	\$ 2,536,415
Cost of sales	205,984	224,545	219,791	188,726	187,344	1,708,704
SG&A expenses	108,521	120,122	112,385	94,793	82,235	900,221
Operating income (loss)	(8,741)	27,476	46,912	49,279	18,905	(72,510)
Income (loss) before income taxes*	(17,447)	18,929	36,740	35,317	7,714	(144,730)
Net income (loss)	(18,232)	8,318	19,936	18,581	1,535	(151,247)
<b>Per share of common stock (Yen and U.S. dollars):</b>						
Net income (loss)	¥ (49.28)	¥ 22.48	¥ 53.89	¥ 50.23	¥ 4.15	\$ (0.41)
Cash dividends applicable to the year	3.00	8.00	8.00	6.50	5.00	0.02
Capital expenditures	¥ 20,718	¥ 26,168	¥ 33,757	¥ 17,206	¥ 8,054	\$ 171,869
Depreciation and amortization	20,110	18,407	15,635	13,715	14,708	166,819
R&D expenses	18,729	21,633	19,681	16,951	12,050	155,368
<b>At year-end</b>						
Total assets	¥ 474,964	¥ 507,326	¥ 460,271	¥ 425,083	¥371,390	\$ 3,939,982
Shareholders' equity	160,990	171,051	165,773	148,657	132,505	1,335,469

\* Excluding minority interest

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 ¥120.55 to U.S. \$1.00, the exchange rate at March 31, 1999.

### R&D Expenditures (¥ Billion)

1999	18.7
1998	21.6
1997	19.7
1996	17.0
1995	12.1

### Shareholders' Equity (¥ Billion)

1999	161.0
1998	171.1
1997	165.8
1996	148.7
1995	132.5

### Return on Equity (%)

1999	(11.0)
1998	4.9
1997	12.7
1996	13.2
1995	1.1