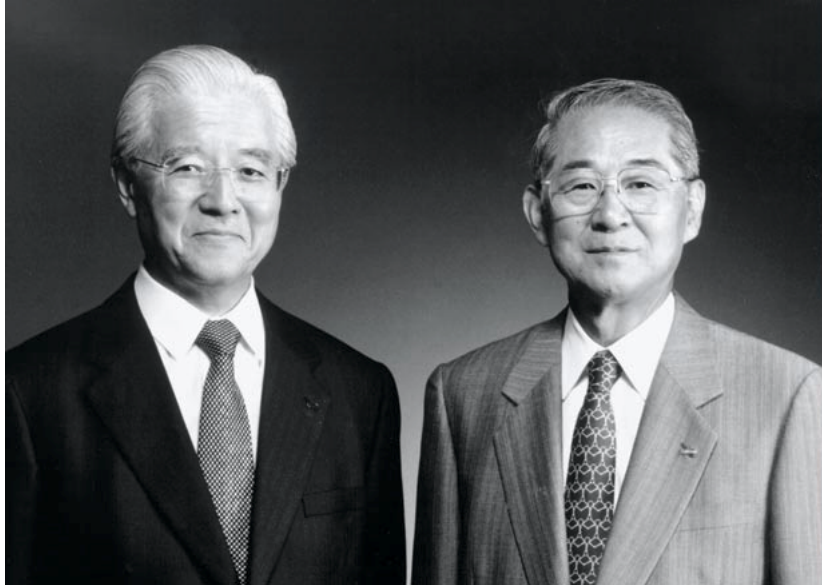




TO OUR SHAREHOLDERS

ZOOM
FUTURE



Shoichiro Yoshida, President (left), Shigeo Ono, Chairman (right)

BUSINESS CONDITIONS AND RESULTS

In the fiscal year ended March 31, 2000, the consolidated net sales of the Nikon Group recovered strongly, rising 21.6% to ¥371.8 billion (US\$3,503 million). In consumer products, buoyant sales of digital cameras both in Japan and in overseas markets helped overcome the effects of stalled consumer spending in Japan and the strong appreciation of the yen, as demonstrated by a solid growth in recorded revenues. In industrial instruments, a general recovery in the semiconductor market contributed to a sharp rise in sales of semiconductor-related equipment. In addition, the effects of the various measures enacted across the Nikon Group to increase earnings began to impact the bottom line. As a result, a positive operating income of ¥18,434 million (US\$174 million) was recorded, and net income amounted to ¥7,770 million (US\$73 million).

In line with a change in accounting policy, we decided to amortize unfunded pension and severance payment liabilities totaling approximately ¥27 billion* (US\$ 255 million) over a three-year period, starting in the fiscal year ended March 31, 2001.

BOOSTING EARNINGS POTENTIAL AND OPERATIONAL RESPONSE SPEED

Despite our return to profit during the year, we believe there is still considerable room for improvement in profit performance. Since October 1999, we have introduced an in-house company system designed to make all the companies within the Nikon Group individually responsible for sales and profit performance. The new system puts companies on an equal footing with a clear delegation of responsibilities. To support companies in achieving their sales and profit targets, we are also making greater use of information technology to reform our business management practices. The introduction of a new performance evaluation system supports these moves, making the entire process more efficient and results-oriented.

During the year, we implemented several specific organizational measures to improve the performance of the Nikon Group. First, we established our surveying instrument business as an independent company. Second, we merged our ophthalmic lens business in a joint venture with Essilor International S.A. of France.

The full benefits of the implementation of the in-house company system are expected to become evident in fiscal year 2001. From this year, we plan to begin managing the Nikon Group with the various companies forming their own separate business segments.

* Approximate amount as of March 31, 2000

WORKING WITH NEW VISION

In March 2000, we formulated a new vision statement and management plan for the Nikon Group. Vision Nikon 21 contains a revised corporate philosophy, in which the keywords are "trustworthiness and creativity," as well as concrete goals that we must achieve collectively as a company. It is the leading concept of our policies, and sets out the actions that we need to take as individual employees and group firms to realize both the spirit and foundation of our corporate vision.

Our two major business domains are focused within the visual imaging field, chiefly cameras, and high-tech industry related fields, mainly steppers. Vision Nikon 21 sets out the direction we must take in both these domains to foster the creation of new business over the coming decades.

REEVALUATION OF THE VALUE CHAIN

To further strengthen the Nikon brand and enhance profitability, we are currently in the process of reevaluating and reconstructing the entire value chain of our research and product development, manufacturing, sales, logistics and customer service. By adopting a consistent, comprehensive, value-oriented philosophy, we are working to establish a business model within each stage of this process to enhance profitability as well as to make Nikon more resilient to today's harsh and fast-changing business environment.

FOCUSING MANAGEMENT RESOURCES ON GROWTH AREAS

In addition to the various measures outlined above, we are focusing our efforts in the areas that have the greatest potential. In practical terms, this means concentrating our management resources and investing selectively in existing businesses that show the greatest potential. At the same time, we also plan to invest in new business areas to augment sales growth.

In the visual imaging field, we see significant potential in the development of digital cameras as portable IT devices. We intend to make this business a key contributor to Nikon Group revenues. Within high-tech industry related fields, we plan to build on our core competencies and create fresh business opportunities in stepper-related fields.

We also plan to move into the field of optical disk stampers, which constitute a fast-growing market.

BUSINESS OUTLOOK

Foreign exchange market trends continue to pose a potential threat to our sales in overseas markets. Although fragility of a recovery in consumer spending gives little cause for optimism in the consumer products sector in Japan, the markets for digital cameras are expected to expand worldwide. Private-sector capital investment in Japan, on the other hand, appears to be at the beginning of an upturn, and the semiconductor market is projected to stage a sharp recovery. The prospects for our industrial instruments business therefore appear comparatively positive.

Refreshed by a strengthened corporate vision and inspired with fresh motivation, we are working hard to reconstruct our various business and management systems. These efforts will make us more market-responsive as a company, raise profit margins, and further strengthen the power of the Nikon brand. We ask all our shareholders for their continued support and understanding as we forge ahead with these tasks.

JULY 2000


Shigeo Ono
Chairman


Shoichiro Yoshida
President