



(Right)
Shoichiro Yoshida
Chairman of the Board and
Chief Executive Officer

(Left)
Teruo Shimamura
President, Member of the Board and
Chief Operating Officer

To Our Shareholders

Business Results Overview

The fiscal year ended March 31, 2001 produced very strong results for the Nikon Group, with sales rising 30.2% year-on-year to ¥484.0 billion. Our precision equipment and instruments businesses experienced increased demand due to expansion in the markets for semiconductor-related devices. These divisions posted growth of 36.3% and 15.9%, with sales rising to ¥234.8 billion and ¥59.0 billion, respectively. Our imaging products business benefited from a continued expansion in the digital camera market, both in Japan and overseas. With an array of successful new product introductions, this division generated sales growth of 31.2% over the previous year, recording sales of ¥180.1 billion.*

Profits also grew strongly during the year. Greater economies of scale from higher production levels combined with a Group-wide focus on raising profitability to produce growth in operating income of 233.2%, to ¥61.4 billion. Net income soared 169.1% to ¥20.9 billion. Both figures marked record highs.

We decided to accelerate the amortization of transitional obligation that arose as a result of a new accounting standard for employees' retirement benefits. The sum, determined as of the beginning of year, is being amortized over two years instead of the initially planned three-year period.

Planning for Stable Growth in the 21st Century


Despite the strong performance of the year, future growth prospects remain unclear. The US economy continues to stagnate, while European and Asian economies seem likely to produce at best sluggish growth. Within Japan, there are no indications that a robust economic recovery will materialize soon. In addition, the relatively high exposure of the Nikon Group to the highly cyclical semiconductor sector means that cutbacks in capital investment by semiconductor manufacturers constitute a clear sign of danger. We are therefore cautious about the road ahead.

How can we plan for strong, stable earnings growth in this new century? We must proactively strengthen our organization, become ever more nimble in response to market changes, and based on our core technical base, develop new technologies and undertake business initiatives that meet the needs of the age. Inaction is not an option. Below, we outline some of the moves the Nikon Group has been taking and is planning to take to prepare for the challenges ahead.

In-house company system firmly in place

Since October 1999, the Nikon Group has adopted an in-house company system that delegates responsibility for sales and earnings growth to specific business units. No member of the Group is exempt from this fundamental focus on bottom-line performance. This fiscal year saw progress towards the full

* Beginning with the year ended March 2001, financial results are reported in accordance with the Nikon Group's in-house company system. Previously, just two divisions, Consumer Products and Industrial Instruments, were the basis for reporting. There are now four business segments within the Nikon Group: Precision Equipment, Imaging Products, Instruments, and Other.



realization of this system. In addition to the extensive revision of each company's objectives and management structures within Japan, similar consolidation efforts proceeded in America and Europe.

In the United States, the instruments, and ophthalmic frames and sunglasses businesses of local sales subsidiary Nikon Inc. have been spun off into two new sales companies. Nikon Inc. will continue to provide sales and service support for our imaging products. On October 1, 2000, the holding company that controls these subsidiaries and others, Nikon Americas Inc., took on the additional responsibilities of capital funding, management and operations, as well as the supervision of consolidated tax compliance in America. In Europe, Nikon Holdings Europe B.V. started operations on October 1, 2000 to act as a holding company for assets in Europe, to conduct effective financing, and to provide tax compliance support for Nikon Group companies in that region.

Medium- and long-term strategic plans formulated

While the Nikon Group in-house company system is helping to devolve decision-making power closer to the market, we simultaneously and thoroughly implement the Nikon Group's medium- and long-term strategic plans. Our vision statement, Vision Nikon 21, which was unveiled in March 2000, points the way for the next decade. In October 2000, a decisive list of actions for the next six years was formulated with the Nikon Group Six-Year Plan in a move towards realization of this vision. To achieve the growth and profitability targets of these plans, we also fixed a set of specific numerical targets. These are specified in terms of three-year goals, also drawn up over this fiscal year.

Introduction of an executive officer system and stock option program

In line with strengthening the Nikon Group's management and administration system came the introduction of an executive officer system on June 28, 2001. The initiatives were to increase speed of decision-making and execution of operational strategies by the Board of Directors, as well as to ensure consistent management in each company of the Group. It is hoped that this new structure will further strengthen the division and delegating powers with regard to decision-making and the execution of operational strategies, while being able to provide the opportunity to deploy the right personnel into the most suitable positions.

Along with this change, Shoichiro Yoshida leads the new Board of Directors as Chairman of the Board and CEO. Kenji Enya serves as Vice Chairman of the Board and CFO, while Teruo Shimamura has been appointed President, Member of the Board and COO.

We have also established a stock option program. Timed to coincide with the changes in executive officer system, the program explicitly links shareholder value to individual motivation to produce better results.

New Technologies, New Products in Development

Creating products that define new trends

Nikon has as one of its missions the creation of products that literally define their markets through cutting-edge research and development. Our Precision Equipment Company has continued the production of ArF excimer steppers for mass-production. Its task next year is the commercialization of our new EB stepper for R&D use, which uses an electron beam as a light source to realize resolution of less than 70 nanometers.

In our Instruments Company, in response to the needs of semiconductor manufacturers to produce ultra-fine chip, we have fashioned new kinds of measuring and inspection equipment such as overlay measuring system and automatic macro inspection system.

Neither will our Imaging Company rest on its laurels after the successes of its single-lens reflex (SLR) camera development. We will continue to ride the wave of the digital era, and make full use of our expertise to produce highly innovative products.

New business initiatives

This fiscal year, Nikon has made the decision to enter the chemical mechanical polishing (CMP) system market, which is targeted at semiconductor manufacturers. CMP systems polish and planarize the surfaces of LSI chips formed on silicon wafers. As semiconductor devices become more precise, this system will only grow in importance. We have been able to use our years of research in precision optical polishing, mechanical process, and optical measurement technologies to create this new product, and we firmly believe that this Nikon initiative will spur the evolution of the next generation of LSIs.

The 21st Century: Ever Greater Heights for the Nikon Group

The business world that we survey as we stand at the entrance to this new century is full of challenges. Technology advances at an ever-quicken pace. Business activities are increasingly global in scale. The links between industries are now highly complex and interdependent. Nothing in the previous century could have prepared us for the degree and speed of change that we face today.

Yet we have three major assets that we believe will see us through these challenges. The first of these is our core base in world-class opto-electronics and precision technologies, plus the strength of the Nikon brand name that is trusted the world over. Building on this core as we go forward, our continued development of the stepper will lead to steady advancement and cultivation of nanotechnology. Cameras built the Nikon brand and we will continue to nurture it as our corporate brand. In addition, we will aggressively cross industrial sector boundaries and form alliances with partners in semiconductors, life sciences, and optical communications.

The Nikon of the 21st century is ours to imagine, and to build. That is why the people of Nikon form our second major asset. As the new Vision Nikon 21 mindset permeates our Group, they will build on our technology and teamwork to build a fresher, younger, more exciting company, as well as a corporate culture that creates high employee satisfaction and motivation.

As our third asset, we have the power of management to turn new ideas and technology quickly into market-leading products. We would like to construct a Nikon Group corporate management system suitable to the times, which includes the implementation of various reforms such as the comprehensive execution of the in-house company system, and the possible establishment of a holding company.

We ask for the continued support of all our shareholders as we embark on this mission.

July 2001



Shoichiro Yoshida
Chairman of the Board and
Chief Executive Officer



Teruo Shimamura
President, Member of the Board and
Chief Operating Officer