

■ To Our Shareholders

BUSINESS RESULTS OVERVIEW

Operating conditions in the fiscal year ended March 31, 2002 proved extremely harsh throughout the Nikon Group. The effects of the economic downturn intensified across all major markets. In particular, the semiconductor industry suffered the most severe contraction in its history as the IT-related global slump fed through to steep falls in chip manufacturing output. This inevitably had a negative impact on our business.

Looking at geographic regions, the picture was slightly more varied. In the United States, despite the shock of the terrorist attacks and a further deterioration in the economy, strong underlying consumer spending helped mitigate the fall in business investment. Signs emerged during the year that the economy had hit bottom. In contrast, falling exports and a capital investment slump contributed to a steadily deteriorating economic picture in Europe. Overall growth in Asia was also dented. In Japan, a sharp fall in capital investment combined with persistently sluggish consumer spending to tip the economy back into recession.

We responded to the harsh business environment by redoubling our focus on supplying products and services that deliver complete customer satisfaction. We also devoted considerable effort to entrenching the benefits derived from our in-house company system and focus on consolidated management. We further boosted efforts to slash fixed and variable costs across the Nikon Group, focusing on cutting inventory levels and reducing receivables through tighter credit control.

Results varied considerably by business segment. Against the backdrop of steady expansion in the digital camera market, the launch of digital single-lens reflex (SLR) cameras for professionals and other new models helped Imaging Products to achieve favorable growth in sales, gain market share, and post considerably higher earnings. Both Precision Equipment and Instruments were hit hard by the slump in semiconductor markets, however. Although the positive impact of a weak yen provided some relief, consolidated net sales edged down 0.2% to ¥483.0 billion, while operating income tumbled 63.8% to ¥22.2 billion. Partly as a result of the amortization of transitional obligation that arose as a result of a new accounting standard for employees' retirement benefits in

the previous year, we posted a net loss for the year of ¥6.0 billion.

PERSISTENCE OF VISION, SPECIFIC ACTIONS

As vividly illustrated by the conditions we experienced this year, the most significant challenge we face within the Nikon Group is recasting and strengthening our business structure and profit base so that, as a manufacturer, we can deliver strong, stable earnings in such a rapidly changing operating environment. To achieve this objective we need to implement a variety of measures across the Nikon Group to take our business in a clear direction. We established a new internal committee to examine from a number of perspectives the reform measures that are required. We made progress during the year on a number of fronts, as discussed briefly below.

Promoting decentralized management

Following our move to an in-house company system in October 1999, we introduced an executive officer system in June 2001 to accelerate business decision-making and execution of operational strategies. The enhanced delegation of operating authority that this has inspired is producing overwhelmingly positive results—as evidenced most eloquently by the way we have been able to seize the initiative and take the lead in the market for digital SLR cameras. We plan to accelerate this decentralization trend by boosting business accountability further. The long-term aim of these moves is to create a system of management that is highly, rapidly and efficiently responsive to fast-changing operating environments. We do not preclude spinning off individual businesses at some point in the future.

Implementation of structural reforms

Structural reforms remain ongoing across the Nikon Group with the twin aims of heightening management effectiveness and boosting earnings. Specifically, we have devoted considerable effort to Groupwide reductions in fixed costs. Besides restricting selling, general and administrative expenses, we have implemented initiatives to expand the scope of an early retirement program and adopted other measures to help reduce numbers of personnel. Our goal is to lower headcount at the consolidated level by around 1,000 by March 2004. We are also adopting a variety of other measures to raise

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

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



operational cost-effectiveness: introduction of more performance-based remuneration systems and a system that links bonuses to business results; consolidation and disposal of unprofitable businesses; sale of idle assets; and reduction of inventories and receivables. In parallel with this drive to cut fixed costs, we are also implementing a plan to reduce variable costs in each business unit. Together, these various initiatives are helping to streamline the Nikon Group and create a more effective business structure capable of responding to rapid external change.

Strengthening core businesses

The competitiveness of our core stepper business remains a key issue. We are boosting our development capabilities and further refining our production technology to give us the required edge over competitors in bringing new models to market. In our Imaging Products business, our goal is to establish a production system that can enable us to thrive amid intensifying price competition as we try to deepen our penetration of the consumer digital camera market. To this end, we have newly established a manufacturing subsidiary for digital cameras and other imaging products in the city of Wuxi, China (Jiangsu Province). Production is due to commence at the new plant in April 2003. Together with our existing facility in Thailand, this will give us two major offshore production bases.

Technological development to prepare for a future industrial structure

In a plan to realize a creative society based on science and technology, the Japanese government has identified and promoted four key areas—information and communication technologies, life sciences, nanotechnology and materials, and the environmental sciences. Our business encompasses three of these. We plan to invest aggressively in R&D related to these areas, building on the base of expertise that we have acquired over the years in opto-electronics. We anticipate these efforts will help expand our business into new fields.

Already, we are making progress on several product development fronts. In information and communication technologies, we are expanding

our imaging products business (especially digital cameras) into related software. Chemical mechanical polishing (CMP) systems as well as measuring and inspection equipment are helping us expand our semiconductor-related business and stabilize earnings. We also plan to expand our business field for optical communications components, and invest in new areas related to micro electro mechanical systems (MEMS). In life sciences, our innovation in microscopes promises to deliver exciting new advances in medical and biochemical fields. Technical development work related to nanotechnology and materials is underway in parallel in both Precision Equipment and Instruments. By leveraging the advantages gained through this endeavor, we will continue to challenge new areas of business.

FOCUS ON RAISING CORPORATE VALUE

People, technology and the power of the Nikon brand promise to play the major roles in restoring our profitability quickly and enhancing our corporate value. We are working to boost the effectiveness of each of these three key elements. First, we are placing increased emphasis on human resource development at a number of levels. In line with the goal stated in the Vision Nikon 21 plan formulated in March 2000 to create a company characterized by trustworthiness and creativity, we are reiterating the importance of these qualities at the individual level and putting in place a range of Groupwide incentives to make Nikon a more dynamic and creative force.

By leveraging the combined specialist skills of our employees with the wealth of technical expertise within the company and the power of the Nikon brand, we believe that we can clear a broad path of new business development for this century that will provide us with the opportunities to reverse our fortunes in the current harsh operating environment. We feel confident that the collective focus of our concerted actions across the Nikon Group will translate into enhanced corporate value. We ask for the continued support of our shareholders as we strive to meet such expectations.

July 2002



Shoichiro Yoshida
Chairman of the Board and Chief Executive Officer



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