

TO OUR SHAREHOLDERS AND INVESTORS

The fiscal year ended March 31, 2003, proved another difficult one for the Nikon Group. Although private-sector capital investment stopped contracting and began to grow again, the economic slowdown in the United States intensified as growth in consumer spending tapered off. European economies also continued to stagnate amid poor export conditions. Asia experienced a mild economic expansion, with growth still vigorous in China. In Japan, deflation became more entrenched across many sectors of the economy and consumer spending remained lackluster. Depressed levels of capital investment, housing investment and public-works spending contributed to persistently stagnant growth. Overall, harsh business conditions continued to prevail.

Looking at industry trends that had a direct influence on our business, signs were generally favorable in the global semiconductor industry at the start of the fiscal year. Conditions quickly deteriorated, however, and from mid-2002 onwards many semiconductor manufacturers started to reduce capital investment once more. This had a highly negative effect on sales of steppers in our Precision Equipment segment. On a more positive note, the market for digital cameras continued to expand rapidly around the world, which helped to generate excellent business conditions in the Imaging Products segment.

We responded by working to expand sales through timely launches of new products and by continuing to develop our overseas network of production and service bases. We also sought to develop new businesses based on our proprietary technology. Consolidated net sales declined 2.9% from the previous year, to ¥468,959 million.

To strengthen the Nikon Group earnings structure, our efforts focused on reducing variable costs, including manufacturing costs, and other fixed costs through measures such as the expansion of an early retirement program for employees, which helped to trim headcount. Elsewhere, we focused on restructuring and liquidating unprofitable businesses and subsidiary companies, and on numerous cost-reduction initiatives to lower costs further.

These moves could not fully offset the severe downturn in the Precision Equipment segment, and operating income slumped 81.2% year-on-year to ¥4,187 million. Partly due to the effects of a write-down of investment securities and the tax-effect accounting implications of the introduction of a new local corporate taxation system based on business size, we posted a consolidated net loss of ¥8,143 million for the year.

Our consolidated operating profitability varied markedly by business segment. For the Nikon Group as a whole, although increased digital camera sales boosted profits in the Imaging Products segment considerably, the gains were insufficient to compensate for the loss recorded in the

Precision Equipment segment as a result of the deterioration in business conditions in that area. Operating conditions and results in each business segment are discussed in greater detail in other sections of this report.

Although there are a few signs of impending recovery in the fiscal year ending March 2004, we still anticipate harsh business conditions for the Nikon Group as a whole. We have therefore regrettably decided to suspend payment of interim and final dividends for the year ended March 31, 2003.

As the top management of the Nikon Group, we intend to redouble efforts to cut costs across the Nikon Group while boosting business efficiency. We will also continue to try to apply our core technical expertise to produce higher Nikon Group growth through the creation and development of new, profit-generating businesses.

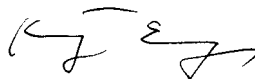
The entire Nikon Group is currently applying itself to concentrate on improving results from a variety of angles. While the business environment is still tough at present, we are confident that the future for the Nikon Group remains promising. We believe that Nikon possesses important core technologies that can make a significant contribution in areas with high growth potential such as nanotechnology and life science. Once our development work in these areas comes to fruition, we expect new businesses to emerge.

We ask shareholders and investors to understand our current situation. Now more than ever, we trust that you will continue to extend us your support.

July 2003



Shoichiro Yoshida
*Chairman of the Board and
Chief Executive Officer*



Kenji Enya
*Vice Chairman of the Board and
Chief Financial Officer*



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



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

Kenji Enya (left)
*Vice Chairman of the Board and
Chief Financial Officer*

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

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