



to our shareholders
and investors

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Business Conditions and Results

The fiscal year ended March 31, 2004 heralded a recovery in economic conditions across many markets. In the United States, increased consumer spending and higher levels of capital investment supported a robust recovery. In Europe, consumer spending remained sluggish while business investment picked up. In Asia, strong export growth supported ongoing regional expansion, with growth particularly vigorous in China. Japan also recovered steadily, driven by export growth and increased levels of private-sector capital investment. Even consumer spending showed some positive signs in various sectors of Japan's "digital economy."

Encouraging signs were also manifest in Nikon's business areas. Not only did the digital camera market continue to expand, but a belated recovery in the semiconductor market prompted gradual revitalization in capital investment.

Under such an environment, Nikon worked hard to expand sales and increase profitability by developing new products that fit market needs and expanding overseas networks of production, marketing and customer service facilities. We made concerted efforts during the year to implement a variety of structural reforms directed at fundamental improvements in our earnings structure. We sought to reduce variable and fixed costs and worked to improve our turnover in terms of both trade receivables and inventories.



From left: Shoichiro Yoshida, Kenji Enya, Teruo Shimamura

Consolidated net sales were up 8.0% on a year-on-year basis to a record high of ¥506,378 million, due primarily to expanded sales of digital cameras. Operating income was down 12.2% to ¥3,675 million (compared with ¥4,187 million in the previous year), due to deferral in semiconductor investment, and intensifying price competition and problems in certain areas of supply in digital cameras. Partly due to extraordinary income, we posted consolidated net income of ¥2,410 million for the year (compared with a net loss of ¥8,143 million in the previous fiscal year).

Although we fell short of achieving a full-scale recovery in results across the Nikon Group, I believe effective actions taken in each business domain throughout the year will provide an invaluable stepping stone to future progress.

Business Outlook

Although elements of uncertainty remain, the economic climate is expected to continue improving on the whole. The business environment surrounding the Nikon Group is currently undergoing an upturn – the digital camera market continues to expand amid rapid growth in SLR-type digital cameras, while a large increase in LCD panel investment and resurgence in the semiconductor market are anticipated to have a beneficial effect.

We plan to grasp all opportunities throughout the Nikon Group to realize a V-shaped recovery and stimulate new growth in the year ending March 2005, thereby restoring profitable earning structures. Our strategy is to launch competitive products in markets that are expanding (SLR-type digital cameras and LCD steppers) or in a recovery phase (IC steppers) to expand and enhance these key business areas. We will also actively continue to pursue R&D activities so that we can leverage our unique technologies to cultivate new businesses.

At the same time, we continue to focus on making the most efficient use of assets and capital investments to strengthen our finances. We are also using business process reforms to make our operations more efficient. Through such company-wide efforts, we will generate stable cash flow and quickly realize a strong financial structure that will enable us to conduct ongoing investment as well as deal with any changes in the market. Our aim is to greatly improve the profitability of the Nikon Group.

We will continue to provide stable dividends to shareholders based on consideration of business results and the need to conduct medium- to long-term investment in R&D and growth areas.

We ask shareholders and investors to understand our current situation, and to extend us your continued support as we execute ongoing reforms.

July 2004

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