



message from
the chief executive officer

transformation
and
progression



Toward a V-Shaped Recovery

A primary task of the Nikon Group in year ahead is to engineer a V-shaped recovery on the back of revitalization in the semiconductor market and an improving business environment. We plan to adopt an aggressive stance to achieve this aim.

Reports by the presidents of each in-house company within the Nikon Group elsewhere in this report provide more details of operational strategy in each area. Here, I want to take a general look at the direction of each business as well as of the Nikon Group as a whole.

The key to engineering a V-shaped recovery is to restore profits in Precision Equipment. An upturn in the semiconductor market coupled with growing demand for IC steppers and revitalized investment in large-size panels led to a strong performance in our LCD stepper business. We have also achieved dramatic reductions in production lead times. These positive factors point to brighter prospects for the year ending March 2005. We continue to invest in the development of next-generation machines to ensure that we can secure a competitive edge in the latest lithography technology. At the same time, we are pursuing further structural reforms to generate higher profitability.

Imaging Products faces a favorable business environment as a sharp increase in demand for SLR-type digital cameras in accord with ongoing expansion of the market for digital cameras countered concerns over price competition in compact digital cameras. We aim to enhance our dominant position in SLR-type digital cameras. In the compact digital camera segment, where price-based competition is especially intense, we plan to boost profitability by enhancing our production system with greater in-house production of key compo-

nents and higher China-based production capacity to reduce costs.

In Instruments, since the life sciences are the field with the greatest growth potential, we are investing primarily in biological microscopes to develop our strong position in this sector.

Several other businesses also provide us with good growth prospects in the coming year. Our new CMP (Chemical Mechanical Polishing) systems business is now starting to produce results. We also expect to start making profits from surveying instruments after the successful establishment and start-up of a joint venture, Nikon-Trimble Co., Ltd., with U.S.-based sector leader Trimble Navigation Ltd. Elsewhere, we have new business ventures in glass materials and optics engines, which have application in high quality projection TVs.

Hence, my point is that we will soon start to see the results of various reform and investment programs undertaken over the past few years. Combined with an upturn in the business environment, the prospects are now better than they have been for several years.

Results expected for the year ending March 2005 indicate that we will achieve a V-shaped recovery. Besides anticipated record sales, we plan to secure a high level of operating income owing to strong contributions from Imaging Products and Precision Equipment, which will mark a return to profitability.

I am confident that this is the turning point from the difficulties we have faced over the past few years and we can now look forward to new growth. We intend to establish a top global position by making the most of opportunities that lie before us. We will launch highly competitive products and revamp business processes to boost

competitive edge and profitability in core business areas. We will also aggressively develop new business areas to get our business back on track and raise the competitive strength of the entire Nikon Group.

Advanced Technology Remains the Key to Growth

Nikon has grown over the years by developing a number of advanced technologies in line with areas that the Japanese government has designated as strategic industrial sectors. At Nikon, the creation of cutting-edge technologies lies deeply entrenched in the company's DNA. Of the four strategic industrial sectors currently promoted by the government – information and communication technologies, life sciences, nanotechnology and the environmental sciences – we are closely involved in three domains where we possess world-class resources in the Nikon Group. Cultivating these resources and assertively striving to challenge new areas will help us establish highly advanced technologies inside the Nikon Group that are very difficult to replicate.

In the years to come, we seek to expand our business in various fields by focusing on how to effectively utilize these refined technologies on a commercial basis, including leveraging alliances with other companies.

Another aspect of today's increasingly borderless world is that we need to send out our own personnels to countries and regions that conduct highly sophisticated technological research. This way, we can better understand where the market is headed, allowing us to predict future needs and discern areas that possess the most growth potential. In our instruments business, we have

dispatched our personnel to our U.S. base for designing state-of-the-art technology in the life sciences. The center is putting into practice this product development philosophy of assessing market needs in the scientific and medical fields on the ground. Our aim is to find out exactly what customers want and use Nikon technology to develop and supply attractive products that fulfill precisely determined needs.

Production Capability Supporting Technological Innovation

In the manufacturing industry, a company's competitive edge is determined by its ability to produce excellent products. This requires an integrated process of development, design and production. In Imaging Products, where we are rapidly shifting to overseas production, we have created a highly reliable system geared at launching new products whereby our domestic manufacturing subsidiaries provide technical guidance on manufacturing and quality control technologies to facilities in Thailand and China. Meanwhile, our domestic manufacturing facilities now also take on the role as engineering centers. In future years, we will establish optimum production systems in each business sector and step up in-house technologies for the development of key devices. These actions will strengthen the Nikon Group's creative capabilities.

Strengthening Corporate Governance and Compliance

Amid an increasingly global business environment, strengthening corporate governance to boost corporate value on a long-term basis has become a top management priority. We have already implemented a number of measures in past years designed to strengthen management structures, such as the in-house company and executive officer systems. Besides strengthening management structures, we have implemented various management structural reforms, including introduction of stock options, changes to the system of directors' and executive officers' remuneration, and creation of an Executive Compensation Committee to boost management objectivity and transparency. We have also reduced the terms of directors from two years to one year to ensure we remain responsive to the rapidly moving business cycle.

In response to increasing demand for greater corporate social responsibility from companies, we established a Compliance Section in 2003 to ensure all corporate activities are legal, sound and fair. We revised the Nikon Code of Conduct, which we adopted in 2001, and formulated the Nikon Charter of Corporate Behavior in April 2004. This expresses the Nikon Group's basic stance on ensuring appropriate decisions based on ethical values and clarifies responsibilities and roles of senior management.

In the coming years, we will continue to promote social responsibility as an extremely important management issue. Besides providing superior products and services, we will enhance corporate ethics, environmental activities and contributions to the local community to deepen trust from all stakeholders – customers, shareholders and society at large.

Building Greater Nikon Group Cohesiveness

The most important issue we face at the moment is to restore profitability. Because we have implemented measures, I believe we can realistically expect our earnings situation to improve the year ahead. But if we want to raise profits on a long-term basis, I believe we also need to build the cohesiveness of the overall Nikon Group, in personnel, corporate climate modification and other terms. We need to make the entire company more competitive.

We introduced a new personnel system and performance-based pay structure during the year to develop a higher level of professionalism in the Nikon Group workforce, with the objective of transforming the company into one full of "positive, powerful and proactive" people.

We will also promote a system that fosters the sharing of management information and that allows to we can gather accurate information worldwide while boosting consolidated management functions and capabilities to facilitate rapid operational responses.

I believe that we have already created the blueprint for a V-shaped earnings recovery, which will bear fruit both now and long into the future. I also believe the Nikon Group can achieve sustainable growth by developing technologies, products and services that will enhance the prosperity and development of society. Along with every Nikon Group employee, I commit fully to taking up the prospective challenges whose achievement will ensure the Nikon name continues to be warmly accepted in society.

I look forward to your continued guidance and support as we forge ahead into the future.

Shoichiro Yoshida

Chairman of the Board and Chief Executive Officer