



Micro

***Nikon***

ANNUAL REPORT 1998

Optics

## COMPANY PROFILE

Nikon Corporation was established in 1917. The Company pioneered optical glass manufacturing technology in Japan and has grown to become an international organization recognized for its comprehensive range of high-quality optical equipment. In addition to its lineup of premier single lens reflex (SLR) cameras, Nikon manufactures and markets a diverse range of steppers and other semiconductor manufacturing related equipment and is steadily expanding its industrial product offerings. In July 1997, Nikon celebrated its 80th anniversary and will continue to utilize its superior R&D capabilities to develop next-generation technologies and ultrahigh-precision equipment that will support profitable growth as it aims to pioneer new frontiers for the 21st century.

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## FINANCIAL HIGHLIGHTS

Nikon Corporation and Consolidated Subsidiaries  
Years ended March 31, 1998 and 1997

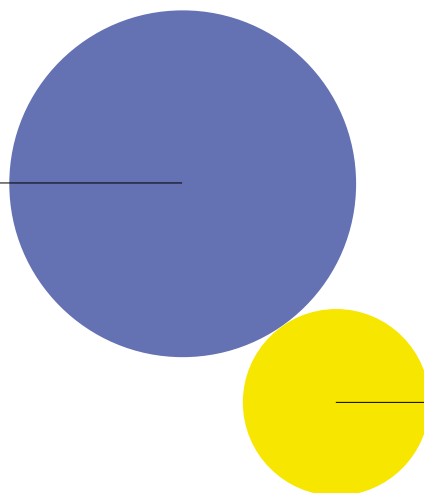
	Millions of Yen		Millions of	Increase
	1998	1997	U.S. Dollars	(Decrease)
			1998	(%)
<b>For the year</b>				
Net sales	<b>¥372,145</b>	¥379,089	<b>\$2,817</b>	(1.8%)
Operating income	<b>27,476</b>	46,912	<b>208</b>	(41.4%)
Net income	<b>8,318</b>	19,936	<b>62</b>	(58.3%)
Amounts per share (yen and U.S. dollars):				
Net income	<b>¥ 22.48</b>	¥ 53.89	<b>\$ 0.17</b>	(58.3%)
Cash dividends applicable to the year	<b>8.00</b>	8.00	<b>0.06</b>	—
<b>At year-end</b>				
Total assets	<b>¥507,326</b>	¥460,271	<b>\$3,840</b>	10.2%
Shareholders' equity	<b>171,051</b>	165,773	<b>1,294</b>	3.2%

Notes: 1. Amounts per share are computed based on the weighted average number of shares outstanding during the year.

2. U.S. dollar figures are translated for reference only at ¥132.10 to \$1.00, the exchange rate at March 31, 1998.

Industrial Instruments

65.0%



Consumer Products

35.0%

## A MESSAGE FROM THE MANAGEMENT

In fiscal 1998, ended March 31, 1998, the Japanese economy slipped into recession as lackluster personal consumption following a rise in the consumption tax rate and increasing anxiety regarding the stability of Japan's financial sector weighed heavily on the economy. Japan was also hit hard by economic turmoil elsewhere in Asia as Asian currencies—particularly those of Thailand, Indonesia, and Korea—plummeted and stock markets throughout the region, including Hong Kong's Hang Seng Index, suffered steep drops.

In consumer products, the depreciation of the yen helped stimulate camera sales in overseas markets, although overall market conditions remained severe in light of flagging demand and intense price competition. In industrial instruments, the semiconductor market remained stagnant against a backdrop of crumbling prices for 16M dynamic random access memories (DRAMs). This, in turn, stifled demand for semiconductor manufacturing related equipment. Amid these adverse conditions, Nikon Corporation continued to develop new products and technologies that are at the forefront of evolving market trends. During the year under review, Nikon focused its energies on making the structural changes needed to further increase efficiency and accelerate operations with the goal of boosting the productivity of the entire Nikon Group. Despite these efforts, consolidated net sales fell 1.8%, to ¥372.1 billion (US\$2,817 million), while operating income dropped 41.4%, to ¥27.5 billion (US\$208 million), and net income plunged 58.3%, to ¥8.3 billion (US\$63 million). Consequently, net income per share fell from ¥53.89 to ¥22.48 (US\$0.17).

### *Business Summary*

**Cameras** During fiscal 1998, the stellar performance of the Nikon F5—the latest addition and the Company's flagship single lens reflex (SLR) camera—and surging demand for the Company's main lineup of cameras both domestically and overseas helped lift sales of cameras. Sales of interchangeable lenses were also buoyant, as Nikon continued to develop and launch lenses worthy of the Nikon name, such as the world's first micro AF zoom lens for SLR cameras. Nikon worked to expand sales of compact cameras by promoting the Nikon Nuvis series, featuring the Advanced Photo System.

**Ophthalmic Products** In eyewear, sluggish demand for lenses and intense price competition resulted in decreased

sales. During the fiscal year, Nikon worked to boost demand for eyewear products by launching new lines of progressive lenses for nearsightedness. In ophthalmic and ophthalmological equipment, sales were stagnant in Japan and elsewhere in Asia, although sales of the Hand Held Auto Refract-Keratometers recorded strong growth in Europe and North America. In binoculars, demand for compact zoom binoculars grew, particularly in the United States, while our new top-of-the-line binoculars also recorded stronger sales.

**Industrial Instruments** In semiconductor manufacturing related equipment, an oversupply of 16M DRAMs continued to depress prices while the economic crises gripping Korea and countries throughout Southeast Asia discouraged capital investment by semiconductor manufacturers in Japan and abroad. Despite sluggish market conditions, these manufacturers made strategic investments in miniaturization technologies to dramatically reduce chip size and continued to allocate R&D resources for developing next-generation devices. To meet this demand for these technologies, Nikon broke ground on a new addition to its Kumagaya Plant which will increase production capacity for excimer steppers. In addition, during the term sales of steppers used to manufacture liquid crystal displays (LCDs)—steppers substantially increase the efficiency of LCD production—and semiconductor inspection equipment increased. However, demand for integrated circuit steppers fell due to deteriorating market conditions for semiconductors, and, as a result, sales of semiconductor manufacturing related equipment decreased on a year-on-year basis.

In microscopes and measuring instruments, sales of the top-of-the-line ECLIPSE series of biological microscopes continued to expand. Demand for industrial-use microscopes was strong, particularly in the United States, and the NEXIV series of computerized numerical control (NC) video measuring systems and newly launched large-scale profile projectors both recorded steady sales growth during the term.

Turning to other fields, although Nikon was able to reap the rewards of its efforts to expand sales of surveying instruments in overseas markets, cutbacks in public spending and a dearth of civil engineering and construction projects in Japan continued to hamper sales in this field. During the period under review, Nikon worked to boost demand



Shigeo Ono, Chairman

for film scanners and focused efforts on promoting newly developed products, with particular emphasis on digital cameras. In new business areas, Nikon began offering optics engines for use in high-resolution, high-brightness LCD projectors.

### ***Overseas Expansion***

In Europe, the Company established Nikon Optical U.K. Ltd., a small-scale optical lens factory located on the outskirts of London that is responsible for marketing activities as well as the processing, coloring, and coating of lenses for sale in the European market. Elsewhere, Nikon Precision Europe GmbH's training center, DUV Education & Application Centre, opened in Livingston, Scotland. The center will enhance technical training and support capabilities for excimer steppers. In a related move, a new office at Nikon Precision Korea Ltd. was completed, which will further improve service and customer support activities in the Korean stepper market.

### ***Research and Development***

While half of Nikon's R&D budget is targeted at the continued development of cutting-edge excimer steppers, the development of sophisticated digital cameras and products for new business fields continues to command a major share of R&D funding. Areas of particular success include the development and recent launch of a high-resolution, high-performance compact infrared charged-coupled device camera that ensures outstanding image quality. Nikon has also developed a motion detector that works as a high-performance sensor with a built-in image processing function that can be used in security cameras, electronic eyes for robots, and digital cameras. In these and other ways, Nikon is steadily expanding its range of quality products by creating and commercializing superior technologies.

### ***Outlook***

Although the release of Microsoft Windows® 98 and the accelerating sales of PCs equipped with new microprocessors should serve as a catalyst for bolstering investment by semiconductor manufacturers, the outlook for stronger earnings in the near term remains dim. However, Nikon is confident that the Company will again achieve robust growth and performance with the expansion of the semiconductor industry in the medium-to-long term. Nikon

*Microsoft and Windows 98 are registered trademarks of Microsoft Corporation.*

will focus its attention on employing three fundamental business strategies. First, Nikon will concentrate on the fastest possible development of next-generation Argon Fluoride (ArF) excimer steppers and other high-technology products to meet the needs of the rapidly progressing market for semiconductor manufacturing related equipment. Second, the Company will devote all its energies to accelerating the product development cycle and creating innovative products that meet sophisticated consumer needs. Finally, we will strategically apply our core technologies to create innovative products and develop new business areas to follow in the path of our successful stepper operations.

We are confident that the successful application of these three strategies will place Nikon firmly on the road to higher sales and improved profitability. We look forward to your continued guidance and encouragement in the years ahead.

July 1998



Shigeo Ono, Chairman



Shoichiro Yoshida, President



Shoichiro Yoshida, President

# Consumer Products

### *Business Results*

The business environment affecting Nikon's consumer products operations remained harsh in fiscal 1998, exemplified by ongoing downward price pressure and increasing competition. Despite the Camera Division's return to profitability for the first time in five fiscal years, sales of consumer products fell, slipping 0.8%, to ¥130.3 billion (US\$986 million), and accounted for 35.0% of consolidated net sales.

### *Cameras*

During the period under review, the Nikon F5 and Nikon F90X (N90s in the United States) SLR cameras

received high acclaim from consumers around the world. Coupled with strong performances by the Nikon F50 and Nikon F70 series and the new F50, with its metallic-colored body, camera sales continued to surge. In 1997, the Nikon F5 was awarded first prize in the Camera Grand Prix '97 in Japan and selected Camera of the Year and Best SLR Camera in overseas competitions.

Sales of interchangeable lenses grew during the term, thanks in part to the successful launch of the world's first micro AF zoom lens (AF Zoom Micro Nikkor ED70mm-180mm, f4.5-5.6D) suitable for

SLR cameras. This lens provides photographers with zoom capabilities—even for near-range photographs—allows the switching of reproduction ratios without changing the position of the camera, and increases flexibility in framing the shot. Other strong-selling interchangeable lenses include the compact AF Zoom Nikkor 28mm-200mm f3.5-5.6D (IF), which boasts a zoom ratio of approximately 7X, and the AF Zoom Nikkor ED70mm-300mm f4.5-5.6D, which offers superior cost performance.

In compact cameras, Nikon introduced the Advanced Photo System Nuvis 160i—which features a







Quix '97

superior 4.2X zoom lens—and the easy-to-operate Nuvis 110i. In addition, during the period under review we initiated activities aimed at enhancing customer support and increasing sales in this area.

#### *Ophthalmic Products*

In eyewear, in the first half of the year Nikon introduced the Nikon Lite Effort high-refraction lens and Nikon Soltes CPI and CPII progressive lenses for nearsightedness. In Japan and elsewhere in Asia, sales of ophthalmic and ophthalmological equipment fell while in the United States and Europe demand for the Retinomax series of cordless Hand Held Auto

Refract-Keratometer refraction measuring devices and Zoom-Slit Lamp Microscope NS-1V eye diagnostics equipment displayed significant growth. In binoculars, 8-20 × 25CF-Zoom compact binoculars (DX series overseas) sold well, and the Company launched the Mikron 6 × 15 CF, a commemorative model designed to resemble the original Mikron, which was launched in 1921. In addition, top-of-the-line 8 × 42HG DCF WP and 10 × 42HG DCF WP binoculars, which offer brighter visuals and higher resolution than conventional binoculars, recorded impressive sales.

#### *Future Outlook*

The positive effects of the weaker yen and sterling success of the Nikon F5 have given a tremendous boost to the performance of the Camera Division. Nikon will continue to promote its Total Productivity Management system—which links every division, from design and development through marketing—and work to stimulate the market with the launch of attractive new products, including new lines of cameras featuring the Advanced Photo System.



8 × 42HG DCF WP/  
10 × 42HG DCF WP



Nikon Soltes CPI/CPII

# KrF Excimer Scann

## Industrial Instruments

### *Business Results*

In fiscal 1998, sales of industrial instruments declined 2.4%, to ¥241.9 billion (US\$1,831 million), and accounted for 65.0% of consolidated net sales. This fall was due primarily to a slump in the market for semiconductors.

### *Steppers*

The market for semiconductor manufacturing related equipment continued to stagnate as memory prices continued to plummet, stifling demand for capital investment by semiconductor manufacturers.

Also pulling down the market were delays and withdrawals of orders from companies in Korea, which had previously comprised a stronger market of steppers and now are hard pressed by the economic turmoil in that country. Amid these harsh conditions, Nikon launched its new NSR-2205EX14C Krypton Fluoride (KrF) excimer steppers for use in the mass production of such next-generation devices as third- and fourth-generation 64M DRAMs. In addition, we introduced the NSR-S202A Step-and-Repeat KrF Excimer Scanning System for

the mass production of 256M DRAMs and next-generation microprocessors. Orders are now being accepted for both products.

### *Other Precision Instruments*

In microscopes and measuring instruments, Nikon introduced the ECLIPSE E1000, a new addition to its top-of-the-line ECLIPSE series of biological microscopes. The ECLIPSE E1000 was designed to offer unparalleled performance to researchers conducting detailed, exacting studies. This fully automated



# ing System



microscope allows users to switch to optimal magnification with just the touch of a button and boasts a variety of features that meet sophisticated and diversified user needs. During the period under review, Nikon was successful in boosting demand for its NEXIV series of computerized NC video measuring systems and the new Nikon V-20B large-scale profile projector.

In addition, we have developed and begun marketing three new varieties of surveying instruments in our DTM-800 series that can

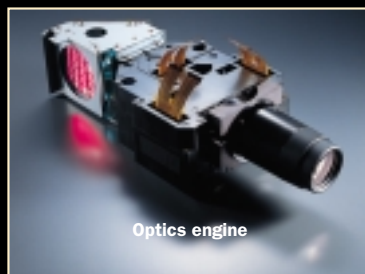
be made to perform an array of measurement functions simply by changing the application program card.

### *Future Outlook*

Despite the effects of deteriorating conditions in the semiconductor market, Nikon continues to work to increase its global market share for excimer steppers and is confident that by constantly improving the quality and reliability of its products it will realize higher earnings in the current term. We have already commenced the

shipment of equipment for R&D of 300mm wafers and have made delivery on a prototype for the next-generation ArF excimer stepper, which we will begin producing commercially in 1999.

Furthermore, Nikon expects to improve its performance through the strong sales of COOLPIX 900 digital cameras, which were launched in April 1998, and optics engines, which will be installed in the company's high-resolution, high-brightness LCD projectors.



# BOARD OF DIRECTORS

## *Chairman*

**Shigeo Ono**

## *President*

**Shoichiro Yoshida**

## *Executive Vice*

### *President*

**Tadao Tsuruta**

*Technology, New Enterprises,*

*Imaging Products Business*

## *Senior Managing Director*

**Kenji Enya**

*Financing & Accounting,*

*International Business,*

*Ophthalmic Products Business*

## *Managing Directors*

**Nobuo Itoi**

*Fundamental Technologies,*

*Research & Development*

**Yuji Obana**

*Administration at Headquarters,*

*Public Relations, Safety & Health,*

*Domestic Sales, Advertising,*

*Customer Service*

**Toyohisa Kuramoto**

*Production Engineering, Procurement,*

*Quality Control, Product Liability,*

*Environmental Affairs*

**Yasujiro Hara**

*Corporate Strategy,*

*Planning, Corporate Estate Administration,*

*Financing & Accounting Department*

**Teruo Shimamura**

*IC & LCD Equipment*

*Business Headquarters*

## *Directors*

**Hiroshi Saito**

*Business in Europe*

**Naoya Ozaki**

*Ophthalmic Products Division*

**Hideo Ikeda**

*Intellectual Property Headquarters*

**Akinori Kiribuchi**

*New Business Division*

**Michio Kariya**

*Imaging Products Division*

**Shinya Sasayama**

*IC & LCD Equipment*

*Business Headquarters*

**Yosuke Takahashi**

*R&D Headquarters*

**Kazumasa Tokoi**

*Corporate Planning Headquarters*

**Masami Kurosawa**

*IC Equipment Division*

## *Advisory Directors*

**Haruo Takeda**

*Counselor, The Tokio Marine*

*and Fire Insurance Co., Ltd.*

**Terumichi Tsuchida**

*Senior Advisor,*

*Meiji Life Insurance Company*

## *Standing Statutory Auditors*

**Yoshiro Imagawa**

**Tomochika Nakano**

## *Statutory Auditors*

**Takuji Shidachi**

**Mitsutake Okano**

(As of July 1, 1998)

# FINANCIAL SECTION SEGMENT INFORMATION

## ① Industry Segments

For the year ended March 31, 1998

(Millions of Yen, Thousands of U.S. Dollars)

	Net sales			Operating expenses	Operating income (loss)	Assets	Depreciation and amortization		Capital expenditures
	Outside Customers	Intersegment sales/transfer	Total						
Consumer products	¥ 130,266	¥ —	¥ 130,266	¥ 127,924	¥ 2,341	¥ 113,607	¥ 5,513	¥ 6,664	
	\$ 986,119	\$ —	\$ 986,119	\$ 968,391	\$ 17,728	\$ 860,012	\$ 41,739	\$ 50,452	
Industrial instruments	¥ 241,879	¥ —	¥ 241,879	¥ 216,744	¥ 25,135	¥ 341,462	¥ 12,893	¥ 19,504	
	\$ 1,831,033	\$ —	\$ 1,831,033	\$ 1,640,760	\$ 190,273	\$ 2,584,876	\$ 97,607	\$ 147,646	
Total	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 455,069	¥ 18,407	¥ 26,168	
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,444,888	\$ 139,346	\$ 198,098	
(Eliminations) or Corporate	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 52,257	¥ —	¥ —	
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 395,587	\$ —	\$ —	
Consolidated	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 507,326	¥ 18,407	¥ 26,168	
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,840,475	\$ 139,346	\$ 198,098	
For the year ended March 31, 1997									
Consumer products	¥ 131,282	¥ —	¥ 131,282	¥ 136,803	¥ (5,521)	¥ 120,581	¥ 6,277	¥ 12,034	
Industrial instruments	247,806	—	247,806	195,372	52,433	278,267	9,358	21,722	
Total	379,089	—	379,089	332,176	46,912	398,849	15,635	33,757	
(Eliminations) or Corporate	—	—	—	—	—	61,422	—	—	
Consolidated	¥ 379,089	¥ —	¥ 379,089	¥ 332,176	¥ 46,912	¥ 460,271	¥ 15,635	¥ 33,757	
For the year ended March 31, 1996									
Consumer products	¥ 106,918	¥ —	¥ 106,918	¥ 113,617	¥ (6,698)	¥ 107,860	¥ 5,474	¥ 6,216	
Industrial instruments	225,881	—	225,881	169,903	55,977	263,471	8,241	10,989	
Total	332,799	—	332,799	283,520	49,279	371,332	13,715	17,206	
(Eliminations) or Corporate	—	—	—	—	—	53,751	—	—	
Consolidated	¥ 332,799	¥ —	¥ 332,799	¥ 283,520	¥ 49,279	¥ 425,083	¥ 13,715	¥ 17,206	

## ② Geographic Segments

For the year ended March 31, 1998

(Millions of Yen, Thousands of U.S. Dollars)

	Net sales			Operating expenses	Operating income (loss)	Assets
	Outside Customers	Intersegment sales	Total			
Japan	¥ 220,553	¥ 96,716	¥ 317,270	¥ 299,492	¥ 17,778	¥ 377,864
	\$ 1,669,596	\$ 732,148	\$ 2,401,744	\$ 2,267,164	\$ 134,580	\$ 2,860,446
North America	¥ 101,313	¥ 280	¥ 101,594	¥ 93,205	¥ 8,388	¥ 65,290
	\$ 766,947	\$ 2,124	\$ 769,071	\$ 705,567	\$ 63,504	\$ 494,253
Europe	¥ 50,235	¥ 87	¥ 50,323	¥ 49,289	¥ 1,033	¥ 34,219
	\$ 380,281	\$ 665	\$ 380,946	\$ 373,122	\$ 7,824	\$ 259,044
Asia	¥ 43	¥ 7,153	¥ 7,196	¥ 4,773	¥ 2,423	¥ 5,941
	\$ 328	\$ 54,151	\$ 54,479	\$ 36,135	\$ 18,344	\$ 44,976
Total	¥ 372,145	¥ 104,238	¥ 476,384	¥ 446,760	¥ 29,623	¥ 483,316
	\$ 2,817,152	\$ 789,088	\$ 3,606,240	\$ 3,381,988	\$ 224,252	\$ 3,658,719
(Eliminations) or Corporate	¥ —	¥ 104,238	¥ (104,238)	¥ (102,091)	¥ (2,146)	¥ 24,010
	\$ —	\$ 789,088	\$ (789,088)	\$ (772,837)	\$ (16,251)	\$ 181,756
Consolidated	¥ 372,145	¥ —	¥ 372,145	¥ 344,668	¥ 27,476	¥ 507,326
	\$ 2,817,152	\$ —	\$ 2,817,152	\$ 2,609,151	\$ 208,001	\$ 3,840,475
For the year ended March 31, 1997						
Japan	¥ 238,430	¥ 83,945	¥ 322,376	¥ 288,181	¥ 34,194	¥ 304,755
Overseas	140,658	8,859	149,517	135,742	13,775	100,941
Total	379,089	92,805	471,894	423,923	47,970	405,696
(Eliminations) or Corporate	—	(92,805)	(92,805)	(91,747)	(1,057)	54,574
Consolidated	¥ 379,089	¥ —	¥ 379,089	¥ 332,176	¥ 46,912	¥ 460,271
For the year ended March 31, 1996						
Japan	¥ 224,572	¥ 63,203	¥ 287,775	¥ 247,016	¥ 40,759	¥ 309,032
Overseas	108,227	5,451	113,678	104,102	9,576	69,458
Total	332,799	68,654	401,454	351,118	50,335	378,490
(Eliminations) or Corporate	—	(68,654)	(68,654)	(67,598)	(1,056)	46,592
Consolidated	¥ 332,799	¥ —	¥ 332,799	¥ 283,520	¥ 49,279	¥ 425,083

### ③ Export Sales

For the years ended March 31, 1998, 1997 and 1996

(Millions of Yen, Thousands of U.S. Dollars, %)

	1998					1997	1996
	North America	Europe	Asia	Other areas	Total	Total	Total
Export sales (A)	¥ 99,830 \$755,723	¥ 59,794 \$452,649	¥ 54,453 \$412,215	¥ 7,080 \$53,602	¥ 221,160 \$1,674,189	¥215,752	¥176,829
Net sales (B)					¥ 372,145 \$2,817,152	¥379,089	¥332,799
(A)/(B)	26.8%	16.1%	14.6%	1.9%	59.4%	56.9%	53.1%

Note: U.S. dollar figures are translated for reference only at ¥132.10 to \$1.00, the exchange rate at March 31, 1998.

## SIX-YEAR SUMMARY

Nikon Corporation and Consolidated Subsidiaries  
For the years ended March 31

	Millions of Yen						Thousands of U.S. Dollars
	1998	1997	1996	1995	1994	1993	1998
<b>For the year</b>							
Net sales	¥372,145	¥379,089	¥332,799	¥288,485	¥246,165	¥231,924	\$2,817,152
Cost of sales	224,545	219,791	188,726	187,344	167,084	155,356	1,699,818
SG&A expenses	120,122	112,385	94,793	82,235	78,844	84,094	909,333
Operating income (loss)	27,476	46,912	49,279	18,905	236	(7,526)	208,001
Income (loss) before income taxes*	18,812	36,711	35,238	7,621	(2,610)	(8,656)	142,415
Net income (loss)	8,318	19,936	18,581	1,535	(4,357)	(8,813)	62,971
<b>Amounts per share (yen and U.S. dollars):</b>							
Net income (loss)	¥ 22.48	¥ 53.89	¥ 50.23	¥ 4.15	¥ (11.78)	¥ (23.82)	\$ 0.17
Cash dividends	8.00	8.00	6.50	5.00	5.00	7.00	0.06
<b>Capital expenditures</b>	¥ 26,168	¥ 33,757	¥ 17,206	¥ 8,054	¥ 7,387	¥ 9,082	\$ 198,098
Depreciation and amortization	18,407	15,635	13,715	14,708	13,982	14,652	139,346
R&D expenditures	21,633	19,681	16,951	12,050	10,266	11,762	163,764
<b>At year-end</b>							
Total assets	¥507,326	¥460,271	¥425,083	¥371,390	¥377,306	¥364,717	\$3,840,475
Shareholders' equity	171,051	165,773	148,657	132,505	135,799	142,508	1,294,861

\* Excluding minority interest and equity in earnings (losses) of unconsolidated subsidiaries and associated companies.

Notes: 1. Amounts per share are computed based on the weighted average number of shares outstanding during the year.

2. U.S. dollar figures are translated for reference only at ¥132.10 to \$1.00, the exchange rate at March 31, 1998.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

## Operating Environment

In fiscal 1998, ended March 31, 1998, demand in the United States remained buoyant thanks to strong consumer spending and capital investment, while the economies of Europe staged an overall recovery in advance of the impending European Community currency unification. However, financial and currency crises in certain countries in Asia dampened economic growth in the region. In Japan, the increasing instability of the financial system and the downward trend in public-sector capital investment, along with a drop in consumer spending and housing starts in the wake of a rise in the consumption tax rate toward the end of the fiscal term, succeeded in pushing the economy further into recession.

In consumer products, the positive effects of the yen's depreciation helped boost sales of such products as cameras and ophthalmic equipment in overseas markets. However, the domestic market remained severe as a result of strong price competition. In addition, sales of industrial instruments, including semiconductor manufacturing related equipment, microscopes, and measuring equipment remained hampered by a lackluster market for semiconductors and constraints on investment in capital equipment.

## Operational Review and Analysis

In fiscal 1998, consolidated net sales fell 1.8%, or ¥6.9 billion, to ¥372.1 billion. During the fiscal year, the Nikon Group worked to strengthen and expand its manufacturing, sales, and service functions, endeavored to develop new products and technologies, reorganized both management and overall organizational structures with the aim of increasing the efficiency and speed of operations, and implemented a number of programs to improve productivity across the board. Despite these efforts, net income in fiscal 1998 dropped 58.3%, or ¥11.6 billion, to ¥8.3 billion, amid an increasingly harsh operating environment.

By industry segment, while sales in consumer products operations decreased a slight 0.8%, to ¥130.2 billion, operating income amounted to ¥2.3 billion, a substantial improvement compared with the previous fiscal year. Sales of industrial instruments fell 2.4%, to ¥241.8 billion, with operating income in this division totaling ¥25.1 billion.

By geographic segment, sales in Japan dropped 1.6%, to ¥317.2 billion, and operating income totaled ¥17.7 billion. Overseas sales rose 6.4%, to ¥159.1 billion, and operating income reached ¥11.8 billion.

## Net Sales by Industry Segment

For the years ended March 31, 1998, 1997 and 1996

	(Millions of Yen, %)		
	1998	1997	1996
Consumer products	<b>¥130,266</b>	¥131,282	¥106,918
Share of net sales	<b>35.0%</b>	34.6%	32.1%
Industrial instruments	<b>241,879</b>	247,806	225,881
Share of net sales	<b>65.0</b>	65.4	67.9
Total	<b>¥372,145</b>	¥379,089	¥332,799

## Non-Consolidated Net Sales by Sector

This breakdown is provided as an approximate indication of the share of non-consolidated net sales by sector.

For the years ended March 31, 1998, 1997 and 1996

	(% of Non-Consolidated Net Sales)		
	1998	1997	1996
Cameras	<b>26.8%</b>	23.6%	21.3%
Ophthalmic products	<b>5.6</b>	5.5	5.7
Semiconductor manufacturing related equipment	<b>53.5</b>	57.6	60.6
Microscopes and measuring instruments	<b>8.0</b>	6.7	6.4
Surveying instruments and others	<b>6.1</b>	6.6	6.0

## Regional Breakdown of Non-Consolidated Net Sales

This breakdown is provided for reference only.

For the years ended March 31, 1998, 1997 and 1996

	(% of Non-Consolidated Net Sales)		
	1998	1997	1996
Domestic	<b>43.6%</b>	46.7%	49.2%
Export (total):	<b>56.4</b>	53.3	50.8
North America	<b>22.1</b>	15.5	15.4
Europe	<b>14.4</b>	15.4	11.7
Asia and Oceania	<b>19.8</b>	22.3	23.6
Other areas	<b>0.1</b>	0.1	0.1

## Financial Review and Analysis

At fiscal year-end, total assets stood at ¥507.3 billion, up ¥47.0 billion, or 10.2%, from the previous fiscal year-end. Expanded inventories and a rise in sales credits pushed up total current assets 12.8%. In addition, capital investment related to restructuring of the Company's operations caused a 5.2% rise in net property, plant and equipment.

On the liabilities side, Nikon redeemed ¥15.0 billion in bonds during the fiscal year and issued ¥20.0 billion in new bonds, which—coupled with an increase in short-term borrowings—resulted in growth in total liabilities of ¥41.7 billion at the end of fiscal 1998.

Dividends paid in fiscal 1998 amounted to ¥2.9 billion, while net income totaled ¥8.3 billion and shareholders' equity rose ¥5.2 billion as of the end of the fiscal year.

## Income Analysis

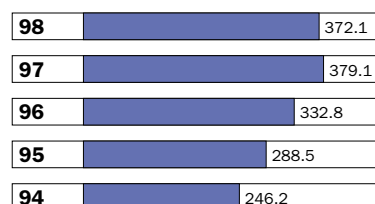
For the years ended March 31, 1998, 1997 and 1996

	(% of Net Sales)		
	1998	1997	1996
Net sales	<b>100.0%</b>	100.0%	100.0%
Cost of sales	<b>(60.3)</b>	(58.0)	(56.7)
Gross profit	<b>39.7</b>	42.0	43.3
SG&A expenses	<b>(32.3)</b>	(29.6)	(28.5)
Operating income	<b>7.4</b>	12.4	14.8
Net interest expense and dividend income	<b>(1.3)</b>	(1.4)	(1.7)
Net other income (expenses)	<b>(1.0)</b>	(1.3)	(2.5)
Income before income taxes*	<b>5.1</b>	9.7	10.6
Income taxes	<b>(2.9)</b>	(4.4)	(5.0)
Minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	<b>0.0</b>	0.0	0.0
Net income	<b>2.2</b>	5.3	5.6

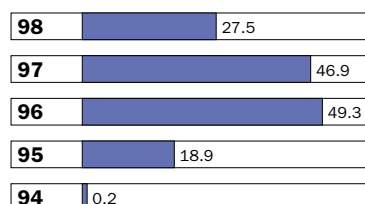
\* Excluding minority interest and equity in earnings of unconsolidated subsidiaries and associated companies

Note: All expenses and subtractive amounts are in parentheses.

■ Net Sales (¥ Billion)



■ Operating Income (¥ Billion)



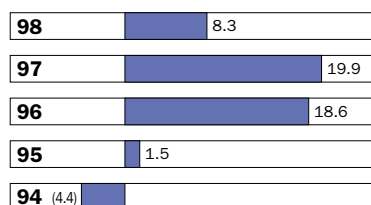


## Balance Sheet Analysis

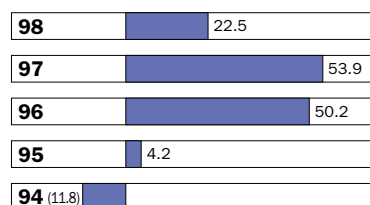
At March 31, 1998, 1997 and 1996

	(% of Total Assets)		
	1998	1997	1996
Total assets	<b>100.0%</b>	100.0%	100.0%
Total current assets	<b>69.0</b>	67.4	68.9
Inventories	<b>30.4</b>	26.1	27.3
Property, plant and equipment	<b>20.5</b>	21.5	19.1
Investments and other assets	<b>10.5</b>	11.1	12.0
Total current liabilities	<b>46.5</b>	44.8	43.2
Short-term borrowings	<b>20.5</b>	15.3	11.5
Long-term debt, less current portion	<b>19.4</b>	18.7	21.4
Shareholders' equity	<b>33.7</b>	36.0	35.0

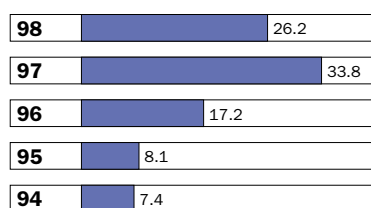
### ■ Net Income (Loss) (¥ Billion)



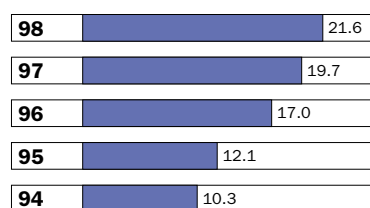
### ■ Net Income (Loss) per Share (¥)



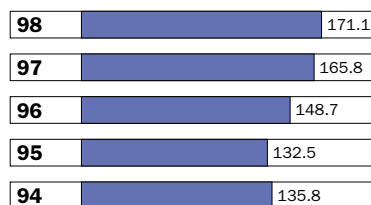
### ■ Capital Expenditures (¥ Billion)



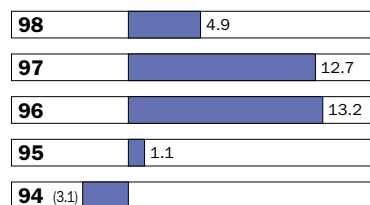
### ■ R&D Expenditures (¥ Billion)



### ■ Shareholders' Equity (¥ Billion)



### ■ Return on Equity (%)



# CONSOLIDATED BALANCE SHEETS

Nikon Corporation and Consolidated Subsidiaries  
At March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and time deposits	¥ 18,290	¥ 22,992	\$ 138,463
Marketable securities (Notes 3 and 5)	21,851	27,569	165,420
Notes and accounts receivable—trade (Note 5):			
Customers	140,521	125,917	1,063,753
Unconsolidated subsidiaries and associated companies	2,534	2,704	19,189
Allowance for doubtful receivables	(3,001)	(1,933)	(22,723)
Inventories (Note 4)	154,368	120,175	1,168,576
Deferred income taxes	3,955	3,391	29,943
Other current assets	11,582	9,515	87,678
Total current assets	<u>350,104</u>	<u>310,332</u>	<u>2,650,299</u>
<b>Property, plant and equipment (Note 5)</b>			
Land	15,236	15,039	115,344
Buildings and structures	83,461	78,912	631,805
Machinery and equipment	150,725	140,909	1,140,993
Construction in progress	6,284	6,879	47,573
Accumulated depreciation	(151,792)	(142,972)	(1,149,070)
Net property, plant and equipment	<u>103,915</u>	<u>98,768</u>	<u>786,645</u>
<b>Investments and other assets</b>			
Investments in securities (Notes 3 and 5)	32,794	32,783	248,256
Investments in unconsolidated subsidiaries and associated companies (Note 3)	3,166	2,726	23,967
Other investments	14,157	11,290	107,176
Long-term loans:			
Employees and other	1,782	1,949	13,497
Unconsolidated subsidiaries and associated companies	233	268	1,766
Allowance for doubtful receivables	(522)	(31)	(3,954)
Other assets	1,693	2,181	12,823
Total investments and other assets	<u>53,306</u>	<u>51,170</u>	<u>403,531</u>
<b>Total</b>	<u>¥507,326</u>	<u>¥460,271</u>	<u>\$3,840,475</u>

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings (Notes 5 and 6)	¥104,049	¥ 70,402	\$ 787,659
Current portion of long-term debt (Notes 5 and 7)	13,676	23,935	103,534
Notes and accounts payable—trade:			
Suppliers	71,105	56,099	538,268
Unconsolidated subsidiaries and associated companies	871	1,715	6,599
Accrued income taxes	5,290	8,894	40,051
Accrued expenses	25,868	26,044	195,827
Other current liabilities (Note 5)	14,962	18,932	113,263
Total current liabilities	<u>235,825</u>	<u>206,023</u>	<u>1,785,201</u>
<b>Long-term liabilities</b>			
Long-term debt (Notes 5 and 7)	98,495	86,104	745,609
Liability for severance indemnities	1,312	1,367	9,938
Deferred income taxes	246	562	1,862
Other long-term liabilities	316	375	2,397
Total long-term liabilities	<u>100,370</u>	<u>88,409</u>	<u>759,806</u>
<b>Minority interest</b>	<u>80</u>	<u>64</u>	<u>607</u>
<b>Contingent liabilities</b> (Note 12)			
<b>Shareholders' equity</b>			
Common stock (Note 9):			
¥50 par value per share			
Authorized—1,000,000,000 shares			
Issued and outstanding—369,927,584 shares at March 31, 1998 and 1997	36,660	36,660	277,523
Additional paid-in capital (Note 9)	51,909	51,909	392,957
Legal reserve (Notes 10 and 14)	4,814	4,511	36,449
Retained earnings (Notes 11 and 14)	77,669	72,698	587,962
Total shareholders' equity	<u>171,055</u>	<u>165,781</u>	<u>1,294,891</u>
Treasury stock, at cost:			
3,281 shares at March 31, 1998			
4,223 shares at March 31, 1997	4	7	30
	<u>171,051</u>	<u>165,773</u>	<u>1,294,861</u>
<b>Total</b>	<u>¥507,326</u>	<u>¥460,271</u>	<u>\$3,840,475</u>

# CONSOLIDATED STATEMENTS OF INCOME

Nikon Corporation and Consolidated Subsidiaries  
For the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1998	1997	1996	1998
<b>Net sales</b>	<b>¥372,145</b>	¥379,089	¥332,799	<b>\$2,817,152</b>
<b>Cost of sales</b>	<b>224,545</b>	219,791	188,726	<b>1,699,818</b>
Gross profit	<b>147,599</b>	159,298	144,072	<b>1,117,334</b>
<b>Selling, general and administrative expenses</b>	<b>120,122</b>	112,385	94,793	<b>909,333</b>
Operating income	<b>27,476</b>	46,912	49,279	<b>208,001</b>
<b>Other income (expenses)</b>				
Interest and dividend income	<b>1,089</b>	1,197	1,270	<b>8,251</b>
Interest expense	<b>(5,953)</b>	(6,608)	(7,056)	<b>(45,069)</b>
Other, net	<b>(3,800)</b>	(4,790)	(8,255)	<b>(28,768)</b>
	<b>(8,663)</b>	(10,201)	(14,041)	<b>(65,586)</b>
Income before income taxes, minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	<b>18,812</b>	36,711	35,238	<b>142,415</b>
<b>Income taxes</b> (Note 8)				
Current	<b>11,429</b>	16,719	17,732	<b>86,520</b>
Deferred	<b>(831)</b>	72	(1,019)	<b>(6,297)</b>
	<b>10,597</b>	16,792	16,713	<b>80,223</b>
Income before minority interest and equity in earnings of unconsolidated subsidiaries and associated companies	<b>8,215</b>	19,919	18,524	<b>62,192</b>
<b>Minority interest</b>	<b>13</b>	11	22	<b>102</b>
<b>Equity in earnings of unconsolidated subsidiaries and associated companies</b>	<b>116</b>	29	79	<b>881</b>
Net income	<b>¥ 8,318</b>	¥ 19,936	¥ 18,581	<b>\$ 62,971</b>
		Yen		U.S. Dollars (Note 1)
<b>Amounts per share</b> (Note 2 (I)):				
Net income	<b>¥ 22.48</b>	¥ 53.89	¥ 50.23	<b>\$ 0.17</b>
Cash dividends applicable to the year	<b>8.00</b>	8.00	6.50	<b>0.06</b>

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nikon Corporation and Consolidated Subsidiaries  
For the years ended March 31, 1998, 1997 and 1996

	Number of Shares			
	1998	1997	1996	
<b>Shares of common stock</b> (Note 9)				
Balance at beginning of year	<b>369,927,584</b>	369,927,584	369,927,584	
Balance at end of year	<b>369,927,584</b>	369,927,584	369,927,584	
				Thousands of U.S. Dollars (Note 1)
	Millions of Yen			
	1998	1997	1996	1998
<b>Common stock</b> (Note 9)				
Balance at beginning of year	<b>¥36,660</b>	¥36,660	¥36,660	<b>\$277,523</b>
Balance at end of year	<b>¥36,660</b>	¥36,660	¥36,660	<b>\$277,523</b>
<b>Additional paid-in capital</b> (Note 9)				
Balance at beginning of year	<b>¥51,909</b>	¥51,909	¥51,909	<b>\$392,957</b>
Balance at end of year	<b>¥51,909</b>	¥51,909	¥51,909	<b>\$392,957</b>
<b>Legal reserve</b> (Notes 10 and 14)				
Balance at beginning of year	<b>¥ 4,511</b>	¥ 4,228	¥ 3,930	<b>\$ 34,155</b>
Transfer from retained earnings	<b>302</b>	282	297	<b>2,294</b>
Balance at end of year	<b>¥ 4,814</b>	¥ 4,511	¥ 4,228	<b>\$ 36,449</b>
<b>Retained earnings</b> (Notes 11 and 14)				
Balance at beginning of year	<b>¥72,698</b>	¥55,859	¥40,004	<b>\$550,332</b>
Net income	<b>8,318</b>	19,936	18,581	<b>62,971</b>
Cash dividends	<b>(2,959)</b>	(2,774)	(2,959)	<b>(22,403)</b>
Bonuses to directors and corporate auditors	<b>(40)</b>	(40)	(20)	<b>(302)</b>
Transfer to legal reserve	<b>(302)</b>	(282)	(297)	<b>(2,294)</b>
Adjustment due to increase (decrease) in consolidated subsidiaries	<b>(45)</b>	—	550	<b>(342)</b>
Balance at end of year	<b>¥77,669</b>	¥72,698	¥55,859	<b>\$587,962</b>

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Nikon Corporation and Consolidated Subsidiaries  
For the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1998	1997	1996	1998
<b>Cash flows from operating activities</b>				
Net income	¥ 8,318	¥19,936	¥18,581	\$ 62,971
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	18,407	15,635	13,715	139,346
Loss on sales or disposal of property, plant and equipment	546	910	1,228	4,140
Deferred income taxes	(880)	72	(1,080)	(6,665)
Equity in earnings of unconsolidated subsidiaries and associated companies	(116)	(29)	(79)	(881)
Other	2,571	(452)	853	19,468
Total adjustments	20,529	16,137	14,637	155,408
Changes in assets and liabilities:				
Increase in notes and accounts receivable—trade	(14,434)	(3,219)	(32,930)	(109,267)
Increase in inventories	(34,193)	(3,946)	(17,384)	(258,847)
Increase (decrease) in notes and accounts payable—trade and accrued expenses	13,987	(445)	15,810	105,882
Increase (decrease) in accrued income taxes	(3,603)	(6,060)	10,878	(27,279)
Other	(3,521)	475	5,950	(26,659)
Total change in assets and liabilities	(41,766)	(13,197)	(17,675)	(316,170)
Total reconciling items	(21,236)	2,940	(3,038)	(160,762)
Net cash provided by (used in) operating activities	(12,918)	22,877	15,543	(97,791)
<b>Cash flows from investing activities</b>				
Capital expenditures	(26,168)	(33,757)	(14,740)	(198,098)
Decrease (increase) in loans receivable	708	1,848	(1,521)	5,362
Payment for purchase of investments in securities	(1,948)	(3,280)	(10,411)	(14,753)
Other	(2,969)	6,323	16,586	(22,477)
Net cash used in investing activities	(30,378)	(28,866)	(10,087)	(229,966)
<b>Cash flows from financing activities</b>				
Proceeds from long-term debt	26,252	18,346	21,591	198,731
Repayment of long-term debt	(24,790)	(23,089)	(9,180)	(187,667)
Increase (decrease) in short-term borrowings	33,646	21,402	(704)	254,707
Dividends paid	(2,959)	(2,774)	(2,959)	(22,403)
Other	(40)	(40)	(12,708)	(303)
Net cash provided by (used in) financing activities	32,108	13,845	(3,961)	243,065
Net increase (decrease) in cash and cash equivalents	(11,187)	7,856	1,494	(84,692)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	768	—	177	5,821
Cash and cash equivalents at beginning of year	50,561	42,705	41,034	382,754
Cash and cash equivalents at end of year	¥40,142	¥50,561	¥42,705	\$303,883
<b>Supplemental information of cash flows</b>				
Cash paid during the year for:				
Interest expense	¥ 4,693	¥ 6,284	¥ 6,663	\$ 35,530
Income taxes	13,025	23,488	8,557	98,601
<b>Non-cash financing activities</b>				
Assets increased by newly consolidated subsidiaries	¥ 959	¥ —	¥ 154	\$ 7,262
Liabilities increased by newly consolidated subsidiaries	69	—	24	523

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Nikon Corporation and Consolidated Subsidiaries*

## ① *Basis of Presentation of Consolidated Financial Statements*

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The consolidated statements of cash flows are not required as a part of the basic financial statements in Japan but are presented herein as additional information.

In accordance with the Securities and Exchange Law, the Japanese yen amounts are presented in millions of yen and are rounded down to the nearest million yen. Certain totals may not correspond exactly to the addition of a column due to such rounding down.

U.S. dollar amounts are shown solely for the convenience of readers and are translated at the rate of ¥132.10 to \$1.00, the exchange rate prevailing at March 31, 1998.

## ② *Significant Accounting Policies*

### **(a) Consolidation Policies**

The consolidated financial statements include the accounts of Nikon Corporation (the Company) and all of its significant majority-owned domestic and foreign subsidiaries.

All significant intercompany accounts, transactions and unrealized profits or losses have been eliminated in consolidation.

The excess of cost of investments in consolidated subsidiaries over the equity in net assets at the time of acquisition is amortized on a straight-line basis over five years.

The fiscal years of all consolidated subsidiaries end on March 31, the fiscal year-end of the Company.

Investments in certain unconsolidated subsidiaries and 20%- to 50%-owned associated companies are accounted for by the equity method. The excess of cost of investments in such unconsolidated subsidiaries and associated companies over the equity in net assets at the time of acquisition is amortized on a straight-line basis over five years.

### **(b) Translation of Foreign Currency Financial Statements**

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rates. The differences resulting from such translations are reflected in the accompanying consolidated balance sheets as Investments and other assets, "Other assets."

### **(c) Cash and Cash Equivalents**

Cash and cash equivalents include cash, time deposits and marketable securities presented in current assets.

### **(d) Marketable Securities and Investments in Securities**

Marketable securities and investments in securities are stated principally at cost, cost being determined using the moving-average method.

### **(e) Inventories**

Inventories of the Company and domestic consolidated subsidiaries are stated at cost, cost being determined principally using the average method. Cost for work in process is determined primarily by the specific identification method. Inventories of foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined principally using the first-in, first-out method.

### **(f) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and domestic consolidated subsidiaries is computed using the declining-balance method at rates based on the estimated useful lives of the assets.

Depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed using the straight-line method at rates based on the estimated useful lives of the assets.

Major renewals and improvements are capitalized. Normal repair and maintenance expenses are charged to income as incurred.

### **(g) Liability for Severance Indemnities and Pension Plans**

The Company, foreign consolidated subsidiaries and certain domestic consolidated subsidiaries have funded pension plans which cover substantially all of their employees. Pension costs are charged to income as accrued.

Other domestic consolidated subsidiaries have unfunded severance payment plans which provide lump-sum severance indemnities to substantially all of their employees terminating their employment. The amounts of the indemnities are based generally on years of service and the rate of pay at the time of termination. These subsidiaries record provisions for such indemnities in accordance with applicable tax regulations.

#### (h) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

#### (i) Income Taxes

The Company does not provide for deferred income taxes resulting from temporary differences between income calculated for taxation and accounting purposes, except that deferred taxes are recognized with respect to the elimination of unrealized intercompany profits or losses and certain other adjustments relating to consolidation of subsidiaries' accounts.

#### (j) Research and Development Costs

Expenditures for research and development activities are charged to income as incurred.

#### (k) Stock Splits

The Commercial Code of Japan permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a "stock split" to shareholders to the extent that the aggregate par value of the shares to be distributed does not exceed the excess of the common stock account over the par value of shares issued and outstanding and to the extent that net assets per share exceed ¥50 after a stock split.

#### (l) Amounts per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not disclosed because it is anti-dilutive.

Dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved, but applicable to the year then ended.

### ③ *Marketable Securities and Investments in Securities*

Marketable securities at March 31, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Marketable equity securities	<b>¥15,568</b>	¥16,008	<b>\$117,857</b>
Bank debentures and other	<b>6,283</b>	11,560	<b>47,563</b>
	<b>¥21,851</b>	¥27,569	<b>\$165,420</b>

Investments in securities at March 31, 1998 and 1997 were principally equity securities with market quotations as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Equity securities	<b>¥32,724</b>	¥32,672	<b>\$247,726</b>
Trust bonds, debentures and other	<b>70</b>	111	<b>530</b>
	<b>¥32,794</b>	¥32,783	<b>\$248,256</b>

Investments in unconsolidated subsidiaries and associated companies at March 31, 1998 and 1997 were all equity securities as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Unconsolidated subsidiaries	<b>¥2,816</b>	¥2,545	<b>\$21,323</b>
Associated companies	<b>349</b>	181	<b>2,644</b>
	<b>¥3,166</b>	¥2,726	<b>\$23,967</b>



The carrying amounts and market values of marketable securities (current) and investments in securities (non-current) at March 31, 1998 and 1997 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current (market value available):			
Carrying amount	<b>¥16,285</b>	¥24,568	<b>\$123,283</b>
Market value	<b>27,380</b>	40,238	<b>207,270</b>
Net unrealized gains	<b>¥11,094</b>	¥15,669	<b>\$ 83,987</b>
Non-current (market value available):			
Carrying amount	<b>¥31,446</b>	¥31,094	<b>\$238,052</b>
Market value	<b>43,556</b>	47,641	<b>329,720</b>
Net unrealized gains	<b>¥12,109</b>	¥16,546	<b>\$ 91,668</b>

The difference between the above carrying amounts and the amounts shown in the accompanying balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

#### 4 Inventories

Inventories at March 31, 1998 and 1997 were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Finished and semifinished products	<b>¥ 66,210</b>	¥ 47,349	<b>\$ 501,217</b>
Raw materials and supplies	<b>12,675</b>	12,324	<b>95,956</b>
Work in process	<b>75,482</b>	60,501	<b>571,403</b>
	<b>¥154,368</b>	¥120,175	<b>\$1,168,576</b>

#### 5 Pledged Assets

The following assets were pledged as collateral at March 31, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable—trade	¥14,676	\$111,100
Property, plant and equipment (net of accumulated depreciation)	517	3,916
Marketable securities and investments in securities	6,618	50,106
	<b>¥21,812</b>	<b>\$165,122</b>

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 9,297	\$ 70,378
Other current liabilities	376	2,846
Long-term debt, including current portion	4,950	37,476
	<b>¥14,623</b>	<b>\$110,700</b>

#### 6 Short-Term Borrowings

Short-term borrowings at March 31, 1998 and 1997 were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Short-term loans, principally from banks:			
1998, 1.01563%–6.58125%	<b>¥ 64,049</b>	¥65,402	<b>\$484,858</b>
1997, 0.8075%–6.3125%			
Commercial paper:			
1998, 0.9060%–1.5600%	<b>40,000</b>	5,000	<b>302,801</b>
1997, 0.5449%–0.5810%			
	<b>¥104,049</b>	¥70,402	<b>\$787,659</b>

## 7 Long-Term Debt

Long-term debt at March 31, 1998 and 1997 was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Loans, principally from banks and insurance companies:			
1998, 1.32%–9.185% due 1998–2004			
1997, 1.31%–9.185% due 1997–2004	¥ 22,171	¥ 25,039	\$167,843
Bonds	90,000	85,000	681,300
	<b>112,171</b>	110,039	<b>849,143</b>
Less: Current portion	(13,676)	(23,935)	(103,534)
Long-term debt, less current portion	<b>¥ 98,495</b>	¥ 86,104	<b>\$745,609</b>

The aggregate annual maturities of long-term debt for the years following March 31, 1998 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 13,676	\$103,534
2000	11,838	89,618
2001	16,213	122,734
2002	23,532	178,138
2003	15,007	113,604
Thereafter	31,904	241,515
	<b>¥112,171</b>	<b>\$849,143</b>

The following is a summary of the terms of bonds which the Company and/or any subsidiary may at any time purchase at any price in the open market or otherwise.

The bonds purchased or otherwise acquired by the Company and/or any subsidiary may be held or resold or, at the discretion of the Company and/or such subsidiary, may be canceled (together with any unmatured coupons attached thereto or purchased therewith).

	Issued in	To be redeemed in	Millions of Yen		Thousands of U.S. Dollars
			1998	1997	1998
6.05% Euro-yen unsecured bonds	July 1992	October 1997	¥ —	¥10,000	\$ —
6.2% Euro-yen unsecured bonds	July 1992	October 1999	10,000	10,000	75,700
6.1% Euro-yen unsecured bonds	August 1992	November 1997	—	5,000	—
4.85% Euro-yen unsecured bonds	September 1994	December 2001	10,000	10,000	75,700
4.4% yen unsecured bonds	January 1995	January 2001	10,000	10,000	75,700
4.0% yen unsecured bonds	January 1995	January 1999	10,000	10,000	75,700
2.95% yen unsecured bonds	February 1996	February 2003	10,000	10,000	75,700
2.7% yen unsecured bonds	February 1996	February 2002	10,000	10,000	75,700
2.45% yen unsecured bonds	March 1997	March 2004	10,000	10,000	75,700
2.7% yen unsecured bonds	June 1997	June 2003	10,000	—	75,700
2.5% yen unsecured bonds	November 1997	November 2007	10,000	—	75,700
			<b>¥90,000</b>	¥85,000	<b>\$681,300</b>

## 8 Income Taxes

The Company is subject to a number of taxes based on income, such as corporate income tax, inhabitants tax and enterprise tax, which in the aggregate resulted in a normal statutory tax rate of approximately 51% for 1998 and 1997. The effective tax rates reflected in the accompanying consolidated statements of income differed from the normal statutory tax rate due principally to temporary differences and expenses permanently not deductible for income tax purposes.

## 9 Common Stock and Additional Paid-In Capital

The Commercial Code of Japan requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

### ⑩ Legal Reserve

The Commercial Code of Japan provides that an amount equal to at least 10% of cash payments made as appropriations of retained earnings, including cash dividends and bonuses to directors and corporate auditors applicable to each fiscal year, be appropriated as a legal reserve until such reserve equals 25% of stated capital.

This reserve is not available for dividends, but it may be used to reduce a deficit by a resolution of the shareholders, or it may be transferred to common stock by a resolution of the Board of Directors.

### ⑪ Retained Earnings

Under the Commercial Code of Japan, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1998, retained earnings as recorded on the Company's books were ¥56,586 million (\$428,359 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

### ⑫ Contingent Liabilities

Contingent liabilities at March 31, 1998 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 1,751	\$ 13,258
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	13,668	103,470
	<u>¥15,419</u>	<u>\$116,728</u>

### ⑬ Lease Payments

Total lease payments during the years ended March 31, 1998 and 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>	<u>1998</u>
	¥5,032	¥3,789	\$38,095

Obligations under finance leases at March 31, 1998 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 4,122	\$31,204
Due after one year	8,041	60,873
	<u>¥12,163</u>	<u>\$92,077</u>

The amount of obligations under finance leases includes the imputed interest expense portion.

### ⑭ Subsequent Events

(a) On April 1, 1998, the Company, upon approval by the Board of Directors, issued 2.575% yen unsecured bonds due 2005 in the amount of ¥10,000 million (\$75,700 thousand).

(b) On June 26, 1998, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,479	\$11,201
Transfer to legal reserve	150	1,136
Bonuses to directors and corporate auditors	20	151
	<u>¥1,649</u>	<u>\$12,488</u>

# REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte Touche  
Tohmatsu**

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To the Board of Directors of  
NIKON CORPORATION:

We have examined the consolidated balance sheets of NIKON CORPORATION and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of NIKON CORPORATION and consolidated subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 26, 1998

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**Deloitte Touche  
Tohmatsu  
International**

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# CORPORATE DIRECTORY

## *Head Office*

Fuji Bldg., 2-3, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8331, Japan  
Tel: 03-3214-5311

## *Domestic Office*

Osaka

## *Domestic Plants*

### **Ohi Plant**

6-3, Nishiohi 1-chome,  
Shinagawa-ku, Tokyo 140-8601  
Tel: 03-3773-1111

### **Yokohama Plant**

471, Nagaodai-machi,  
Sakae-ku, Yokohama,  
Kanagawa 244-8533  
Tel: 045-852-2111

### **Sagamihara Plant**

10-1, Asamizodai 1-chome,  
Sagamihara, Kanagawa 228-0828  
Tel: 0427-40-6300

### **Kumagaya Plant**

201-9, Oaza-miizugahara,  
Kumagaya, Saitama 360-8559  
Tel: 0485-33-2111

### **Mito Plant**

276-6, Motoishikawa-cho,  
Mito, Ibaraki 310-0843  
Tel: 029-240-1111

## *Major Domestic Subsidiaries*

### **Tochigi Nikon Corporation**

770, Midori Otawara,  
Tochigi 324-0045  
Tel: 0287-28-1111

### **Mito Nikon Corporation**

4500, Sugaya, Naka-machi,  
Naka-gun, Ibaraki 311-0194  
Tel: 029-298-8111

### **Sendai Nikon Corporation**

277, Aza-hara Tako,  
Natori, Miyagi 981-1221  
Tel: 022-384-0011

### **Zao Nikon Co., Ltd.**

20, Aza-shinoyoke,  
Miya, Zao-cho, Katta-gun,  
Miyagi 989-0701  
Tel: 0224-32-2336

### **Kurobane Nikon Co., Ltd.**

1434, Oaza-kurobanemuko-machi,  
Kurobane-machi, Nasu-gun,  
Tochigi 324-0241  
Tel: 0287-53-1111

### **Nasu Nikon Co., Ltd.**

1956-3, Oaza-kyono,  
Karasuyama-machi, Nasu-gun,  
Tochigi 321-0611  
Tel: 0287-84-2111

### **Aichi Nikon Co., Ltd.**

1-2, Aza 2-chome, Sawakihama,  
Mito-cho, Hoi-gun, Aichi 441-0304  
Tel: 0533-76-4800

### **Sagami Optical Co., Ltd.**

3330-1, Tana, Sagamihara,  
Kanagawa 229-1124  
Tel: 0427-63-1291

### **Nikon Photo Products Inc.**

23-1, Azumabashi 1-chome,  
Sumida-ku, Tokyo 130-8677  
Tel: 03-5608-5500

### **Nikon Instech Co., Ltd.**

4-25, Koraku 1-chome,  
Bunkyo-ku, Tokyo 112-0004  
Tel: 03-5802-0211

### **Nikon Geotecs Co., Ltd.**

16-2, Minamikamata 2-chome,  
Ota-ku, Tokyo 144-0035  
Tel: 03-5710-2580

### **Nikon Optical Co., Ltd.**

10-8, Ryogoku 2-chome,  
Sumida-ku, Tokyo 130-0026  
Tel: 03-5600-3521

### **Kogaku Co., Ltd.**

8-2, Meishinguchi 3-chome,  
Toyonaka, Osaka 561-0841  
Tel: 06-333-3191

### **Nikon Tec Corporation**

5-21, Katsushima 1-chome,  
Shinagawa-ku, Tokyo 140-0012  
Tel: 03-5762-8911

### **Nikon System Inc.**

3-3, Minatomirai 2-chome,  
Nishi-ku, Yokohama,  
Kanagawa 220-6116  
Tel: 045-682-0120

### **Nikon Life Co., Ltd.\***

3-3, Nishiohi 1-chome,  
Shinagawa-ku, Tokyo 140-0015  
Tel: 03-3775-6823

### **Nikon Sales-Promotion Co., Ltd.\***

9-10, Hamamatsucho 1-chome,  
Minato-ku, Tokyo 105-0013  
Tel: 03-5470-6850

### **Nikon Logistics Corporation\***

13-17, Nishiohi 4-chome,  
Shinagawa-ku, Tokyo 140-0014  
Tel: 03-3773-0351

## *Major Overseas Subsidiaries*

### **Nikon Inc.**

1300 Walt Whitman Road,  
Melville, NY 11747-3064, U.S.A.  
Tel: (1) 516-547-4200

### **Nikon Microscope Sales Inc.**

L. Mark Weeks,  
One Battery Park Plaza,  
NY 10004, U.S.A.  
Tel: (1) 504-277-7562

### **Nikon Canada Inc.**

1366 Aerowood Drive,  
Mississauga, Ontario,  
Canada L4W 1C1  
Tel: (1) 905-625-9910

### **Nikon Europe B.V.**

Schipholweg 321,  
1171 PL Badhoevedorp,  
The Netherlands  
Tel: (31) 2044-96222

### **Nikon AG**

Kaspar-Fenner-Strasse 6,  
8700 Küsnacht/ZH, Switzerland  
Tel: (41) 1-913-61-11

### **Nikon Svenska AB\***

Anton Tamms väg 3, Box 84 S 194 22,  
Upplands-Väsby, Sweden  
Tel: (46) 8-594 109 00

### **Nikon GmbH**

Tiefenbroicher Weg 25,  
40472 Düsseldorf, Germany  
Tel: (49) 211-9414-0

### **Nikon U.K. Ltd.**

380 Richmond Road,  
Kingston-Upon-Thames,  
Surrey KT2 5PR, U.K.  
Tel: (44) 181-541-4440

### **Nikon France S.A.**

191, rue du Marché Rollay,  
94504 Champigny Sur Marne,  
Cedex, France  
Tel: (33) 1-45-16-45-16

### **Nikon Instruments S.p.A.\***

Via Tevere 54,  
50019 Sesto Fiorentino,  
Firenze, Italy  
Tel: (39) 55-3009601

### **Nikon Kft.\***

H-1134 Budapest,  
Dévai, útca 26-28,  
Hungary  
Tel: (36) 1-270-5525

### **Nikon s.r.o.\***

Stepanska 45/640,  
111 21 Prague 1,  
The Czech Republic  
Tel: (420) 2-24227590

### **Nikon Singapore Pte Ltd\***

150 Beach Road #30-01/04,  
The Gateway West,  
Singapore 189720  
Tel: (65) 2978123

### **Nikon Hong Kong Ltd.\***

Suite 1001, 10F City Plaza One,  
1111 King's Road, Taikoo Shing,  
Hong Kong  
Tel: (852) 2882-3936

### **Beijing Nikon Ophthalmic Products Co., Ltd.\***

9 Xiangongfu Street,  
Dongcheng District,  
Beijing 100006, China  
Tel: (86) 10-6512-2557

### **Nikon Precision Inc.**

1399 Shoreway Road, Belmont,  
CA 94002-4107, U.S.A.  
Tel: (1) 650-508-4674

### **Nikon Precision Europe GmbH**

Paul-Ehrlich-Strasse 3-5,  
63225 Langen, Germany  
Tel: (49) 6103-973-0

### **Nikon Precision Korea Ltd.**

17-24 Shingal-Ri, Kihung-Eup,  
Yongin-City, Kyungki-Do,  
South Korea  
Tel: (82) 331-285-4320

### **Nikon Precision Taiwan Ltd.\***

10th Floor, No. 55,  
Tung Kuang Road,  
Hsinchu, Taiwan, R.O.C.  
Tel: (886) 35-733-622

### **Nikon Research Corporation of America\***

1399 Shoreway Road, Belmont,  
CA 94002-4107, U.S.A.  
Tel: (1) 650-508-4674

### **Nikon Ventures Corporation**

1399 Shoreway Road, Belmont,  
CA 94002-4107, U.S.A.  
Tel: (1) 650-508-4674

### **Nikon Optical Canada Inc.\***

5075 Fullum Street, Suite 100,  
Montreal, Quebec,  
Canada H2H 2K3  
Tel: (1) 514-522-3301

### **Nikon Optical U.K. Ltd.\***

3 Tanners Drive, Blakelands,  
Milton Keynes MK14 5BU,  
United Kingdom  
Tel: (44) 1908-214-100

### **Nikon (Thailand) Co., Ltd.**

1/42 Moo 5, Rojana Industrial Park,  
Rojana Road, Tambol Kanham,  
Amphur U-Thai, Ayutthaya 13210,  
Thailand  
Tel: (66) 35-330-152

\*Unconsolidated subsidiary

(As of March 31, 1998)

## INVESTOR INFORMATION

### *Nikon Corporation*

Fuji Bldg., 2-3, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8331, Japan  
Tel: 03-3214-5311  
Cable: NIKKO TOKYO  
Telex: J22601 NIKON  
Fax: 03-3201-5856

### *Date of Establishment*

July 25, 1917

### *Common Stock*

Authorized: 1,000,000,000 shares  
Issued: 369,927,584 shares  
¥36,660 million

### *Number of Shareholders*

15,253

### *Major Shareholders*

	Number of shares held (thousands)	Percentage of total shares issued
Meiji Life Insurance Company	24,050	6.50%
The Mitsubishi Trust and Banking Corporation	22,162	5.99
The Bank of Tokyo-Mitsubishi, Ltd.	16,996	4.59
The Sumitomo Trust & Banking Co., Ltd.	12,343	3.34
The Tokio Marine and Fire Insurance Co., Ltd.	10,567	2.86
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	8,927	2.41
The Asahi Bank, Ltd.	8,360	2.26
Nippon Life Insurance Company	7,997	2.16
The Joyo Bank, Ltd.	7,886	2.13
The Dai-ichi Mutual Life Insurance Company	7,595	2.05

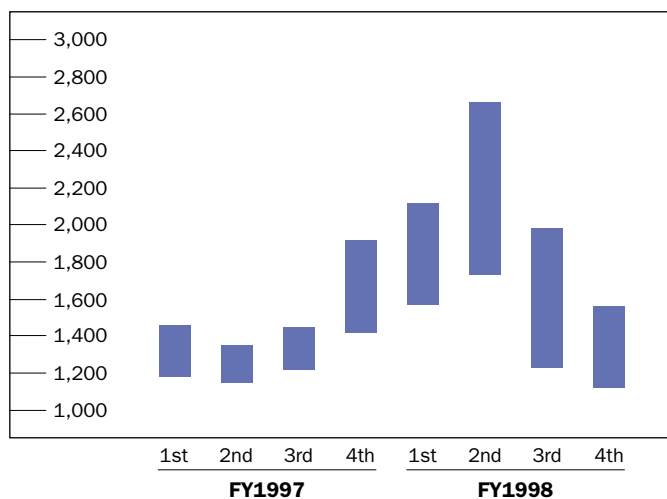
### *Stock Exchange Listings*

Tokyo, Osaka, Kyoto, Hiroshima,  
Fukuoka, Niigata, Sapporo

### *Transfer Agent and Registrar*

The Mitsubishi Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku,  
Tokyo 100-0005, Japan  
Tel: 03-3212-1211

### *Price Range of Common Stock (¥)*



(As of March 31, 1998)

For further information or additional copies of this annual report,  
please contact the Public Relations Department.



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