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1999

Nikon
annual report

micro-technology
ultra-high definition
precision
professional
optical
capture
digital
focus
industrial

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company profile

Since our establishment in 1917, Nikon Corporation has been a leading pioneer in optical glass manufacturing technology in Japan, in turn achieving proven recognition for a wide range of high-quality optical equipment.

In addition to our distinctive lineup of premier single lens reflex (SLR) cameras, the Company manufactures a diverse range of industrial instruments, including steppers and other semiconductor manufacturing-related equipment, microscopes and measuring instruments. For the fiscal year ended March 31, 1999, the share of these industrial instruments accounted for 54.5% of total net sales.

Integrating our core technology of “micro and optics” with systems and electronics, Nikon will continue to strive to meet the diverse and changing needs of consumers and industries globally in the coming 21st century.

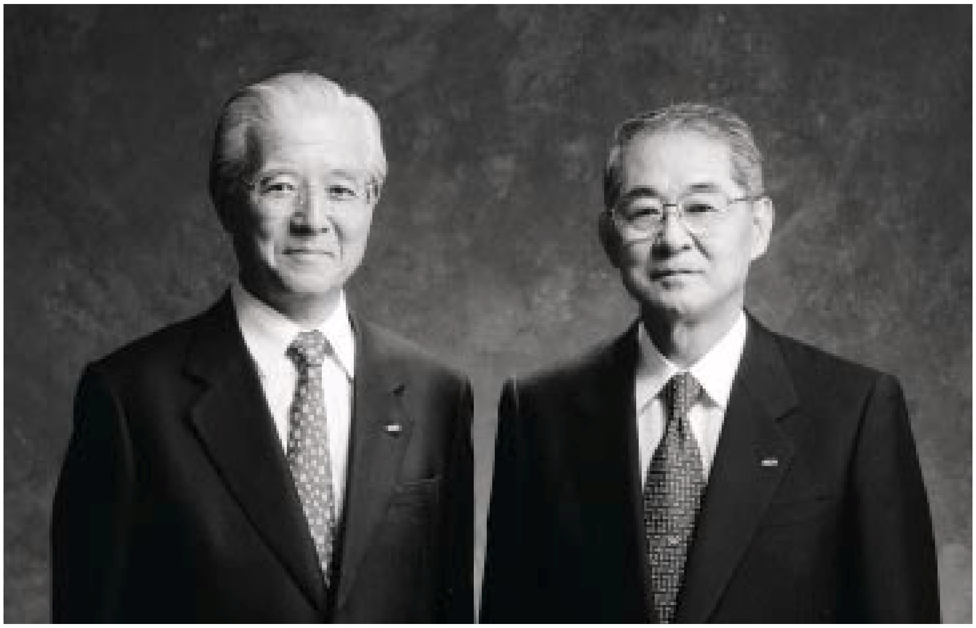
financial highlights

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 1999 and 1998

	Millions of Yen		Millions of U.S. Dollars	%
	1999	1998	**1999**	Decrease
For the year				
Net sales	**¥305,764**	¥372,145	**$2,536,415**	17.8%
Operating income (loss)	**(8,741)**	27,476	**(72,510)**	
Net income (loss)	**(18,232)**	8,318	**(151,247)**	
Per share of common stock (Yen and U.S. dollars):				
Net income (loss)	**¥ (49.28)**	¥ 22.48	**$ (0.41)**	
Cash dividends applicable to the year	**3.00**	8.00	**0.02**	62.5%
At year-end				
Total assets	**¥474,964**	¥507,326	**$3,939,982**	6.4%
Shareholders' equity	**160,990**	171,051	**1,335,469**	5.9%

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.
2. U.S. dollar figures are translated for reference only at ¥120.55 to U.S. $1.00, the exchange rate at March 31, 1999.

to our shareholders



Shigeo Ono, Chairman (right)
Shoichiro Yoshida, President

BUSINESS CONDITIONS AND RESULTS

In the fiscal year ended March 31, 1999, business conditions differed substantially between markets. In the United States, vigorous consumer spending fueled solid economic growth, although the future sustainability of this trend remained tinged with uncertainty. In Europe, despite some evidence of a slowdown towards the end of the year, conditions were generally favorable. In Asia, the economic depression persisted; nevertheless, some signs that the worst was over emerged. In Japan, while some parts of the economy began to benefit from extensive public-sector investment, a slump in private-sector capital investment, combined with low levels of consumer spending, cast a pall over many industries. General business conditions remained extremely poor.

Many of our operations were adversely affected by the domestic recession. In consumer products, while camera equipment posted positive sales results on the back of successful product launches and high levels of consumer spending in the United States, our ophthalmic products suffered as the domestic market contracted amid slumping demand. With falling corporate profitability greatly restricting capital investment budgets, industrial instruments sustained the greatest losses.

We responded to these harsh business conditions by developing and launching new products carefully tailored to meet market needs and by instituting a company-wide restructuring initiative to reduce costs, raise operational efficiency and increase profits. Unfortunately, the slowdown in consumer demand in Japan and other Asian markets, which was compounded by the continued downturn in the semiconductor market, meant that the fruits of these efforts could not offset falling sales revenues.

Consolidated net sales fell 17.8% to ¥305.8 billion (US$2,536 million). This was primarily due to poor results in the industrial instruments sector, where consolidated sales fell 31.1% to ¥166.6 billion (US$1,382 million). In comparison, consumer products rose 6.9% to ¥139.2 billion (US$1,155 million). Falling revenues and lower margins in the industrial instruments sector impacted our bottom line severely, resulting in a net consolidated loss for the year of ¥18.2 billion (US$151 million).

STRATEGIC REDEVELOPMENT BASED ON FIVE KEY CONCEPTS

Although we possess a well-recognized consumer brand, to date our Company's performance has been very much dependent on the fortunes of the semiconductor industry, as is clearly reflected in fiscal 1999 results. We are therefore instituting a variety of measures designed to enhance the profitability of the existing business and to foster new businesses that are not hostage to cyclical demand for steppers. As we develop such 'non-stepper' businesses, we intend to raise profits and stabilize the earnings stream.

The adversity in which we currently find ourselves is a prime opportunity for us to undertake across-the-board Company reform. Our task is to actively build a presence in new fields while improving established core business areas. To guide us as we overcome this difficult situation, we have formulated a business strategy characterized by five key concepts, as follows:

(1) Management Agility

Our drive to speed up decision-making is critical to the success of our management reform efforts. We have increased the level of delegation of divisional issues to enable more rapid decision-making and at the same time consolidated and clarified head office functions to streamline the organization's management processes and help pinpoint strategic management issues. In addition to facilitating faster turnaround, information technology is also being introduced to improve production, sales and inventory management. In parallel, we are using the latest concurrent engineering techniques to cut development lead times.

(2) Selectivity & Focus

Being in the right business is particularly important when general economic conditions worsen. We must therefore accelerate the process of business/product selection to continue to focus on our core competencies, while also concentrating on developing product areas with the most strategic potential. Our ground rule in this process is that continuing businesses must be able to expand and grow profitably. With this in mind, we are merging and closing subsidiaries, concluding tie-ups with other firms, and eliminating unprofitable businesses. An internal project team is leading such efforts while evaluating plans to move to an in–house company system for the Nikon Group.

As one of the first moves to restore profitability in our ophthalmic lens business, in May 1999 we reached to an agreement to form a 50:50 joint venture with the French firm Essilor. Commencing operations by the end of 1999, this cooperative endeavor promises to build on the strengths of both companies, with the mutual expectation of contributing substantially to our ophthalmic lens business.

With regard to unprofitable businesses, we are eliminating excess costs and targeting operational synergies. For example, sales of our inspection equipment have been hit hard by the cyclical downturn in the semiconductor industry, resulting in negative financial results. Nevertheless, the future potential of many of these products remains considerable. In view of such prospects, from the beginning of 1999 we rearranged the business, transferring many of the products to the IC and LCD Business Headquarters and Instruments Division.

(3) Global Business

At Nikon, we have come a long way in internationalizing our market presence. We have cultivated the Nikon brand name to the point where it commands worldwide recognition. However, our management perspective and methods have been based on those used in Japan, our home country of origin. Our mindset has tended to be one of a Japanese firm supplying the world.

Competition between companies is now becoming global. We must therefore benchmark our management efforts against global standards. This means that it is essential to move to a system of Group management based on international financial accounting standards. Using a similar rationale, we have worked to gain ISO9000 series accreditation for the quality control procedures in all of our parent company divisions. In addition, all Nikon parent company factories have gained ISO14000 series accreditation, with subsidiary plants on course to follow this lead and gain certification before the end of the current fiscal year.

On the technical side as well, we aim to develop products that use the latest technology common throughout the world. In doing so, we aim to ensure that all of our production, design and management standards meet or exceed criteria matching the best practices used around the world. In short, we are thinking and acting globally, and fostering a corporate culture that encourages all our employees to do likewise.

(4) Fairness

One of the critical qualities of truly global management is fairness not only in the way in which we assess our businesses but also how we evaluate our employees. Success is measured by efforts to instill total confidence throughout all operations based on fair and equitable actions.

As part of the transformation of our business as we move to an in–house company system, alongside the financial indicators conventionally used in assessing business progress an additional emphasis is being placed on cash flow. This will provide a more rounded impression of overall business performance and ensure that we judge each segment of the business fairly. At the same time, we are also instituting personnel evaluation systems based on merit, including the use of performance-related compensation methods.

(5) Trust & Brand Value

Over the past 80 years, we have built up a great degree of trust among our customers. Today, the Nikon brand name is associated with high-quality products. Our principal task is to maintain and build on this base of trust through enhancing the value of our brand. By maximizing brand value, we can better establish our reputation worldwide–not just in single-lens reflex and digital cameras, but also in steppers and other advanced technologies.

OUTLOOK

In the near term the economic outlook remains dim. Private-sector demand is not forecast to revive sharply in Japan, preventing the economy from staging any swift recovery. Economies in the rest of Asia look likely to remain in the doldrums. In Europe, signs of slowdown are apparent, while in the United States, numerous concerns exist about the viability of the current expansion. On a bright note, the semiconductor industry appears to be heading in the right direction, and profits in this key sector are predicted to improve over the coming year. In addition, we expect to benefit from the high popularity of our new range of digital cameras and the planned launch of a digital camera model for the professional market this autumn.

Earnings are therefore expected to rebound in the current fiscal year. Raising consolidated profitability will remain the priority focus of the entire Nikon Group. We will continue to work to lower the profitability threshold, reducing management-related and other costs. While focusing efforts on the swift development of competitive products and their timely introduction into the market, the process of restructuring inefficient areas of our operations will continue.

In closing, we would like to summarize our vision for Nikon. Our core business domain is defined as a combination of “micro and optics” with systems and electronics. We will continue to develop the associated core technologies that have brought success in these chosen fields, and, in doing so, this will allow the creation of new products and businesses outside of the framework utilized to date. Moreover, we are reforming business practices within operations and believe solid headway is being achieved. We ask our shareholders for their continued understanding and support as we take up the challenges before us.

July 1999

Shigeo Ono

Shigeo Ono
Chairman

Shoichiro Yoshida

Shoichiro Yoshida
President

consumer products

BUSINESS RESULTS

In the fiscal year ended March 31, 1999, divisional sales rose 6.9% to ¥139.2 billion. Operating income surged 23.3% to ¥2.5 billion, which caused the operating margin to rise 0.2 percentage point to 1.8%.

IMAGING PRODUCTS

In June 1998, the Camera Division and Electronic Imaging Division were merged into the Imaging Products Division to boost operational efficiency. Sales of single-lens reflex (SLR) cameras increased during the year as a result of the popularity of models such as the new Nikon F100, a lightweight multi-functional compact version of our flagship Nikon F5. The Nikon Pronea S, which utilizes Advanced Photo System (APS) technology, enjoyed resounding success, while the Nikon F60 series, a range of easy-to-use models for beginners, also proved highly popular. While the new range of interchangeable lenses with built-in silent wave motors (ultrasonic motors) performed well, price erosion negatively affected sales of lenses as a whole. In compact cameras, the launch of new models such as the high-performance APS Nikon Nuvis S, which features a superior 3.0X zoom lens, helped boost sales. In digital cameras, the year saw the introduction of the COOLPIX910 [COOLPIX900 (E900S)], the successor to the COOLPIX900, which has received a number of accolades including the Digital Camera of the Year award in Japan, and the COOLPIX950, which features a 2.1 million-pixel CCD imaging element. As well as the excellent performance of these new models, booming market demand for digital cameras in general boosted sales compared with the previous year. Nikon's high-speed film scanners such as the LS-2000 (SUPER COOLSCAN 2000) and the COOLSCAN III, which offer outstanding image quality, also did well, with sales rising year-on-year.

The strategic aim of this division is to raise margins, while also increasing its overall share of consolidated net sales. This is in line with Nikon's drive to try to reduce dependence on sales of steppers. As part of this initiative, the division is studying whether it can lessen its reliance on production outsourcing by bringing the manufacture of more parts and materials

Pronea S

in-house. With growth in the camera market predominantly in the digital camera segment, the cost of electronic parts presently makes up an increasingly large proportion of the whole. Outsourcing the production of these critical elements tends to limit the savings that can be made in the cost of sales. Nikon is therefore developing its own internal electronics manufacturing expertise, and, on the software side, is making moves to boost its large-scale integration (LSI) systems design capabilities within the Nikon Group. At the center of these efforts, Sendai Nikon Corporation is developing printed circuit board (PCB) manufacturing know-how.

OPHTHALMIC PRODUCTS

In ophthalmic lenses, the Company launched Nikon Soltes FP-III progressive lenses for correcting nearsightedness. Together with an increase in the number of foreign sales bases, this helped increase sales of ophthalmic lenses in overseas markets. However, a fall in domestic demand outweighed these advances. Sales of ophthalmic and ophthalmologic equipment were higher than in the previous year, mainly due to the successful launch in European and Asian markets of the Speedy-1 auto-refract meter, whose simple operation permits fast, highly accurate readings to be made. In binoculars, the Action series and Ribino (DX) series both sold well in the United States, and also benefited from the successful introduction of the Naturescope Farbel Mini (Naturescope Mini), a handheld outdoor model.

OUTLOOK

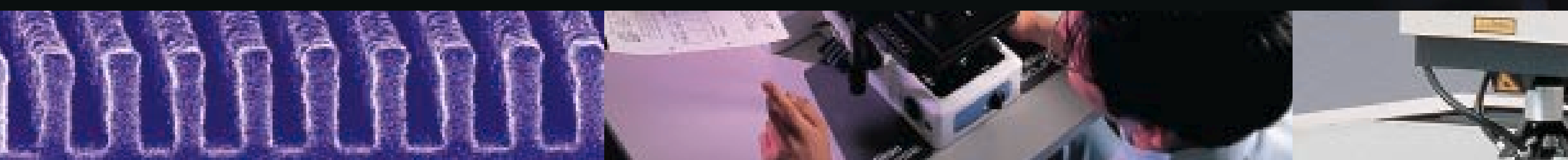
COOLPIX950

During the upcoming fiscal year, Nikon's domes-tic joint venture with the French firm Essilor should help raise profits in the ophthalmic lens business. In cameras, the popularity of the recently launched COOLPIX950 model should enhance Nikon's growing presence in the digital camera market, as will the much-awaited professional-use Nikon D1, due to be launched in autumn 1999, which will combine all the benefits of a high-resolution digital camera with interchangeable conventional SLR lenses. Strong growth is anticipated on both sales and profit fronts.

Note: Products in parentheses refer to brand names in overseas markets.

review of operations

industrial instruments



BUSINESS RESULTS

In the fiscal year ended March 31, 1999, divisional sales fell 31.1% to ¥166.6 billion, leading to an operating loss of ¥11.3 billion.

SEMICONDUCTOR MANUFACTURING-RELATED EQUIPMENT

Although integrated chip (IC) manufacturers around the world continued to upgrade their production equipment to cope with smaller chip sizes and more advanced chip functionality, the trend to refrain from investing in higher production capacity became more pronounced, and exceptionally poor market conditions prevailed. Nikon started taking orders for the newly developed third generation NSR-S203B Step-and-Repeat KrF Excimer Scanning System, which boasts a new kind of lens for use in the manufacture of next-generation DRAMs and MPUs, and initiated delivery of the Step-and-Repeat ArF Excimer Scanning System. Nikon also expanded sales of existing lines such as the NSR-2205i14E i-line stepper and the NSR-2205EX14C KrF excimer stepper.

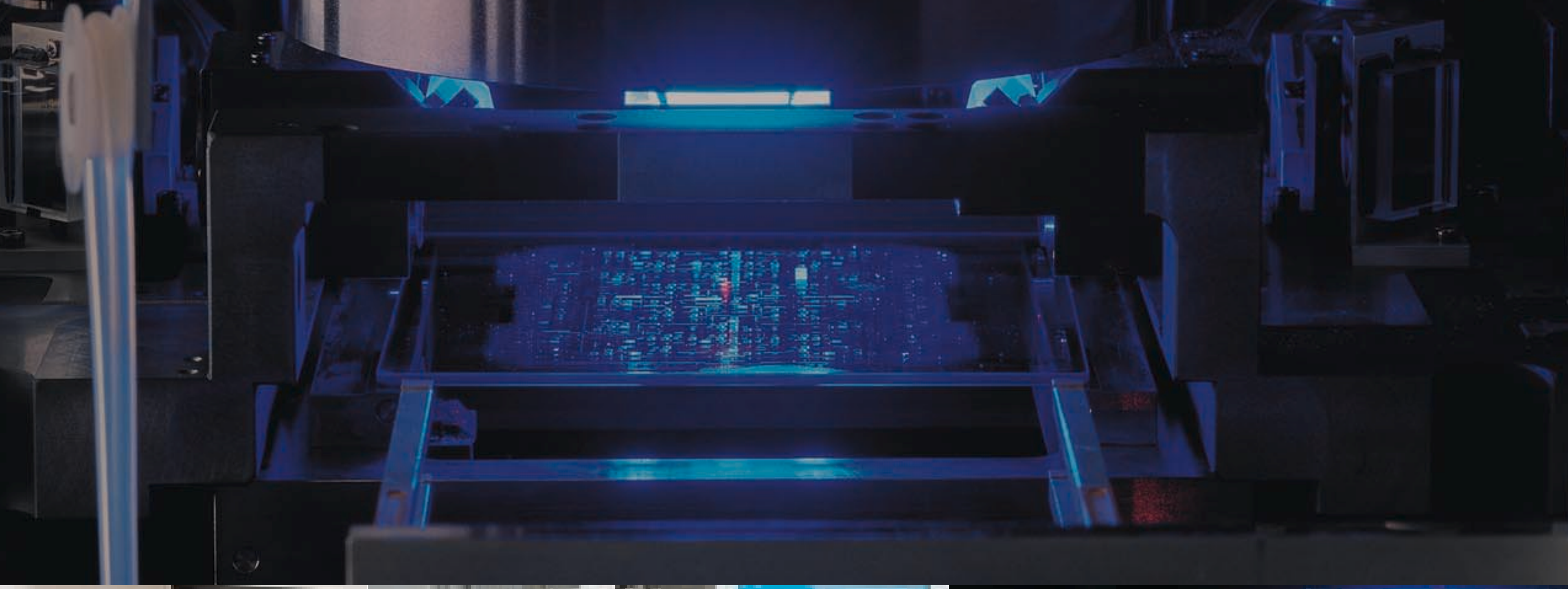
NSR-S203B

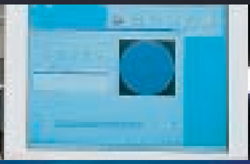
R&D for the next generation of lithography system continued, with advances being made in the development of an electron optical system for EB steppers, which allows for extremely high-productivity manufacturing of ICs with sub-0.1 μm minimum-pattern linewidth. At the same time, the division strove to cut costs, and reduce production and delivery lead times.

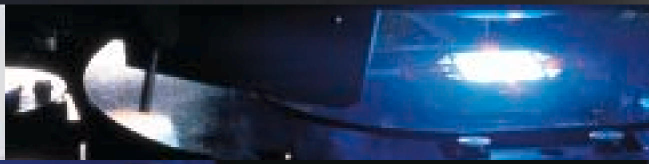
Nikon is working to make flat-panel display exposure systems its second major line in this field. During the year, the company launched the FX-701M model, which boasts a much higher throughput. However, with Japan's LCD panel manufacturers all cutting back on capital investment, sales dropped.

MICROSCOPES AND MEASURING EQUIPMENT

Buoyant sales in the U.S. market and the establishment of further overseas servicing bases helped boost sales of biological microscopes, largely offsetting poor results in the domestic market. However, a slump in the semiconductor-related business also impacted sales of industrial microscopes, which fell despite the launch of products such as the DUV Inspection System LU2000-DUV that uses a far-UV laser as a light source. In measuring equipment, the year saw Nikon's line of comput-







erized numerical control video measuring systems augmented by the launch of the NEXIV VM-1000N, which permits measurement of much larger objects. However, a lack of capital investment by the Japanese machine tool industry contributed to a decline in sales in this sector.

NEW BUSINESS DEVELOPMENT

Nikon is currently developing a number of new businesses, of which the following three hold out the most promise:

Projectors

Nikon is supplying users with optics engines on an OEM basis, and is planning to develop whole projector systems under its own brand name.

Linear-type ultrasonic actuators

As well as being used in camera focusing units, where the principal motion involved is rotation, these elements can be developed into actuators capable of producing a linear motive force. The chief advantages in this regard are that they are quiet and do not produce an electromagnetic field. A wide range of applications are envisaged for such actuators, for example, to power magnetic card issuing machines in convenience stores in Japan.

NEXIV VM-1000N

Infrastructure maintenance

Many of Japan's bridges, roads and other infrastructures date back to the period of post-war reconstruction. Nikon is applying its expertise in digital cameras, including infra-red CCD cameras, measuring equipment and surveying instruments to provide an integrated surveillance and maintenance service to the various authorities responsible for the upkeep of such infrastructures.

In each of these new areas, Nikon will be able to differentiate its products and services from competitors and can confidently deliver considerable value on a competitive basis.

OUTLOOK

During the upcoming fiscal year, the semiconductor industry is expected to turn the corner, and general business conditions should begin to improve. As sales of steppers, flat-panel display exposure systems and inspection equipment revive, revenues and profits are expected to recover.

board of directors

CHAIRMAN
Shigeo Ono

PRESIDENT
Shoichiro Yoshida

EXECUTIVE VICE PRESIDENTS
Tadao Tsuruta
Technology, Information System, New Enterprises,
Imaging Products Business

Kenji Enya
International Business,
Ophthalmic Products Business

MANAGING DIRECTORS
Yuji Obana
Administration at Headquarters,
Safety & Health, Domestic Sales,
Advertising, Customer Service

Toyohisa Kuramoto
Production Engineering, Procurement,
Quality Control, Product Liability,
Environmental Affairs

Yasujiro Hara
Corporate Strategy,
Management Planning,
Public Relations

Teruo Shimamura
IC & LCD Equipment Business Headquarters

Hideo Ikeda
Fundamental Technologies,
Intellectual Property Headquarters

DIRECTORS
Akinori Kiribuchi
New Business Division

Michio Kariya
Imaging Products Division

Shinya Sasayama
IC& LCD Equipment Business Headquarters,
IC Equipment Division

Yosuke Takahashi
R&D Headquarters

Kazumasa Tokoi
Corporate Planning Headquarters

Masami Kurosawa
Financing & Accounting Department

Yoichi Nishida
Ophthalmic Products Division

Takashi Tamori
Instruments Division

Motosuke Otsuka
Production Management Headquarters

ADVISORY DIRECTORS
Haruo Takeda
Counsellor,
The Tokio Marine and Fire Insurance Co., Ltd.

Terumichi Tsuchida
Senior Corporate Advisor,
Meiji Life Insurance Company

STANDING CORPORATE AUDITORS
Yoshiro Imagawa
Tomochika Nakano

CORPORATE AUDITORS
Takuji Shidachi
Mitsutake Okano

management discussion and analysis

Operating Environment

In fiscal 1999, the financial year ended March 31, 1999, markets differed substantially in terms of business conditions. In the United States, vigorous consumer spending fueled solid economic growth, although its future sustainability remains uncertain. In Europe, despite some evidence of a slowdown towards the end of the year, conditions were generally favorable. However, in Asia, the economic depression persisted. In Japan, while some parts of the economy began to benefit from extensive public-sector investment, a slump in private-sector capital investment, combined with flat growth in consumer spending, cast a pall over many industries. General business conditions remained extremely poor, although some signs that the worst was over began to emerge.

Nikon's business was badly affected by the adverse conditions in Japan. While camera equipment posted good results on the back of successful product launches and a U.S. consumer spending boom, ophthalmic products suffered as the domestic market contracted amid slumping demand. With falling corporate profitability greatly restricting capital investment budgets, sales of industrial instruments plunged in the face of the ongoing recession in Japan.

Net Sales by Industry Segment
For the years ended March 31, 1999, 1998 and 1997

(Millions of Yen, %)

	1999	1998	1997
Consumer products	**¥139,204**	¥130,266	¥131,282
Share of net sales	**45.5%**	35.0%	34.6%
Industrial instruments	**166,560**	241,879	247,806
Share of net sales	**54.5**	65.0	65.4
Total	**¥305,764**	¥372,145	¥379,089

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, 1999, 1998 and 1997

(% of Non-Consolidated Net Sales)

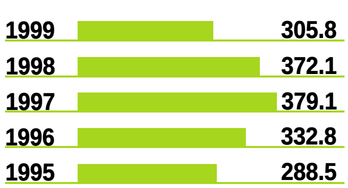
	1999	1998	1997
Cameras	**36.4%**	26.8%	23.6%
Ophthalmic products	**6.6**	5.6	5.5
Semiconductor manufacturing related equipment	**43.3**	53.5	57.6
Microscopes and measuring instruments	**8.5**	8.0	6.7
Surveying instruments and others	**5.2**	6.1	6.6

Regional Breakdown of Non-Consolidated Net Sales
This breakdown is provided for reference only.
For the years ended March 31, 1999, 1998 and 1997

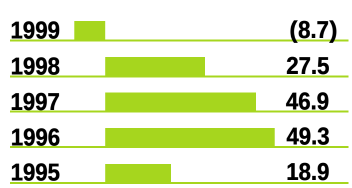
(% of Non-Consolidated Net Sales)

	1999	1998	1997
Domestic	**38.9%**	43.6%	46.7%
Export (total):	**61.1**	56.4	53.3
North America	**24.2**	22.1	15.5
Europe	**14.8**	14.4	15.4
Asia and Oceania	**22.0**	19.8	22.3
Other areas	**0.1**	0.1	0.1

Net Sales
(¥ Billion)



Operating Income (Loss)
(¥ Billion)



Operational Review and Analysis

Nikon instituted a company-wide restructuring initiative to reduce costs, raise operational efficiency and increase profits. At the same time, the Company redoubled efforts to boost margins by developing and launching new products carefully tailored to meet market needs. Unfortunately, the slowdown in consumer demand in Japan and other Asian markets, compounded by the long-standing slide in chip prices that is afflicting the semiconductor industry, meant that the fruits of these efforts could not fully offset falling sales revenues. A steep fall in sales of semiconductor-related industrial instruments caused consolidated net sales in fiscal 1999 to fall 17.8% to ¥305.8 billion, equivalent to a drop of ¥66.4 billion. Falling revenues and lower margins in the industrial instruments sector impacted the bottom line severely, and Nikon posted a net consolidated loss for the year of ¥18.2 billion.

In terms of performance by industry segment, net sales of consumer products rose 6.9% to ¥139.2 billion, producing a 23.3% surge in operating income to ¥2.5 billion. However, consolidated net sales of industrial instruments fell 31.1% to ¥166.6 billion, leading to an operating loss of ¥11.3 billion.

Splitting out the performance by region, sales in Japan slipped 13.5% to ¥274.5 billion, producing an operating loss of ¥11.0 billion. Overseas, results were better, though mixed. Sales in the United States dropped 20.6% to ¥80.6 billion, but produced operating income of ¥2.7 billion. Sales in Europe plunged 27.9% to ¥36.3 billion, leading to an operating loss of ¥0.2 billion. In Asia, principally due to an increase in the number of consolidated subsidiaries operating in the region, sales soared 57.6% to ¥11.3 billion, leading to operating income of ¥1.3 billion.

Income Analysis
For the years ended March 31, 1999, 1998 and 1997

(% of Net Sales)

	1999	1998	1997
Net sales	**100.0%**	100.0%	100.0 %
Cost of sales	**(67.4)**	(60.3)	(58.0)
Gross profit	**32.6**	39.7	42.0
SG&A expenses	**(35.5)**	(32.3)	(29.6)
Operating income	**(2.9)**	7.4	12.4
Net interest expense and dividend income	**(1.4)**	(1.3)	(1.4)
Net other income (expenses)	**(1.4)**	(1.0)	(1.3)
Income (loss) before income taxes*	**(5.7)**	5.1	9.7
Income taxes	**(0.3)**	(2.9)	(4.4)
Minority interest	**0.0**	0.0	0.0
Net income (loss)	**(6.0)**	2.2	5.3

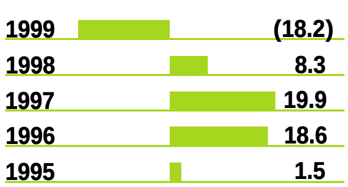
* Excluding minority interest
Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis
At March 31, 1999, 1998 and 1997

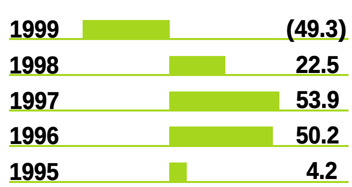
(% of Total Assets)

	1999	1998	1997
Total assets	**100.0%**	100.0%	100.0%
Total current assets	**65.0**	69.0	67.4
Inventories	**31.7**	30.4	26.1
Property, plant and equipment	**21.4**	20.5	21.5
Investments and other assets	**13.6**	10.5	11.1
Total current liabilities	**44.1**	46.5	44.8
Short-term borrowings	**22.5**	20.5	15.3
Long-term debt, less current portion	**21.7**	19.4	18.7
Shareholders' equity	**33.9**	33.7	36.0

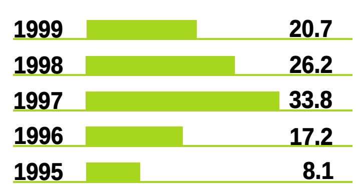
Net Income (Loss)
(¥ Billion)



Net Income (Loss) per Share (¥)



Capital Expenditures
(¥ Billion)



Financial Review and Analysis

At fiscal year-end, total assets amounted to ¥475.0 billion, down ¥32.4 billion, or 6.4%, from the previous fiscal year-end. A decrease in accounts receivable caused by the drop in net sales was the main reason behind the 11.9% drop in current assets to ¥41.7 billion. Tangible fixed assets increased by 4.3%, or ¥6.8 billion.

On the liabilities side, although borrowings increased slightly, the large drop in accounts payable helped reduce total liabilities by ¥22.3 billion.

Dividends paid in fiscal 1999 amounted to ¥1.5 billion. Pursuant to the introduction of tax-effect accounting, Nikon made a prior-year tax adjustment to retained earnings of ¥8.7 billion. In addition, an increase in the number of consolidated subsidiaries added a further ¥0.9 billion to the retained surplus. However, the net effect of these two moves was more than offset by the consolidated net loss for the year of ¥18.2 billion, which caused a net decrease in shareholders' equity of ¥10.1 billion.

five-year summary

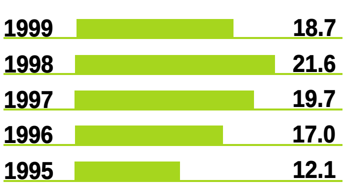
Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	1999	1998	1997	1996	1995	**1999**
For the year						
Net sales	**¥ 305,764**	¥ 372,145	¥ 379,089	¥ 332,799	¥288,485	**$ 2,536,415**
Cost of sales	**205,984**	224,545	219,791	188,726	187,344	**1,708,704**
SG&A expenses	**108,521**	120,122	112,385	94,793	82,235	**900,221**
Operating income (loss)	**(8,741)**	27,476	46,912	49,279	18,905	**(72,510)**
Income (loss) before income taxes*	**(17,447)**	18,929	36,740	35,317	7,714	**(144,730)**
Net income (loss)	**(18,232)**	8,318	19,936	18,581	1,535	**(151,247)**
Per share of common stock (Yen and U.S. dollars):						
Net income (loss)	**¥ (49.28)**	¥ 22.48	¥ 53.89	¥ 50.23	¥ 4.15	**$ (0.41)**
Cash dividends applicable to the year	**3.00**	8.00	8.00	6.50	5.00	**0.02**
Capital expenditures	**¥ 20,718**	¥ 26,168	¥ 33,757	¥ 17,206	¥ 8,054	**$ 171,869**
Depreciation and amortization	**20,110**	18,407	15,635	13,715	14,708	**166,819**
R&D expenses	**18,729**	21,633	19,681	16,951	12,050	**155,368**
At year-end						
Total assets	**¥ 474,964**	¥ 507,326	¥ 460,271	¥ 425,083	¥371,390	**$ 3,939,982**
Shareholders' equity	**160,990**	171,051	165,773	148,657	132,505	**1,335,469**

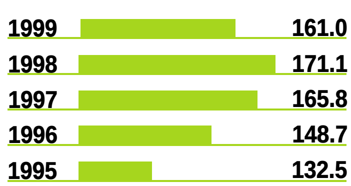
* Excluding minority interest

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.
2. U.S. dollar figures are translated for reference only at ¥120.55 to U.S. $1.00, the exchange rate at March 31, 1999.

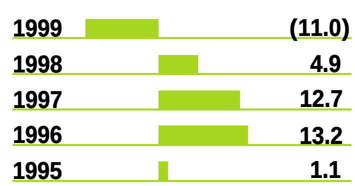
R&D Expenditures
(¥ Billion)



Shareholders' Equity
(¥ Billion)



Return on Equity (%)



consolidated balance sheets

Nikon Corporation and Consolidated Subsidiaries
At March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
ASSETS			
Current assets			
Cash and time deposits	**¥ 21,996**	¥ 18,290	**$ 182,466**
Marketable securities (Notes 3 and 5)	**20,600**	21,851	**170,884**
Notes and accounts receivable — trade (Note 5):			
Customers	**99,334**	140,521	**824,012**
Unconsolidated subsidiaries and associated companies	**1,502**	2,534	**12,460**
Allowance for doubtful receivables	**(2,603)**	(3,001)	**(21,594)**
Inventories (Note 4)	**150,576**	154,368	**1,249,080**
Deferred income taxes (Note 9)	**10,065**	3,955	**83,497**
Other current assets	**6,910**	11,582	**57,325**
Total current assets	**308,382**	350,104	**2,558,130**
Property, plant and equipment (Note 5)			
Land	**15,170**	15,236	**125,846**
Buildings and structures	**88,021**	83,461	**730,163**
Machinery and equipment	**158,946**	150,725	**1,318,512**
Construction in progress	**4,139**	6,284	**34,339**
Total	**266,278**	255,707	**2,208,860**
Accumulated depreciation	**(164,412)**	(151,792)	**(1,363,853)**
Net property, plant and equipment	**101,865**	103,915	**845,007**
Investments and other assets			
Investments in securities (Notes 3 and 5)	**36,579**	32,794	**303,434**
Investments in unconsolidated subsidiaries and associated companies	**2,694**	3,166	**22,352**
Long-term loans:			
Employees and other	**979**	1,782	**8,122**
Unconsolidated subsidiaries and associated companies	**122**	233	**1,014**
Allowance for doubtful receivables	**(43)**	(522)	**(361)**
Deferred income taxes (Note 9)	**5,728**		**47,517**
Deposit and long-term prepaid expenses	**14,490**	14,157	**120,205**
Other	**4,166**	1,693	**34,562**
Total investments and other assets	**64,716**	53,306	**536,845**
Total	**¥474,964**	¥507,326	**$3,939,982**

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	**1999**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Notes 5 and 6)	**¥106,665**	¥104,049	**$ 884,826**
Current portion of long-term debt (Notes 5 and 7)	**12,509**	13,676	**103,773**
Notes and accounts payable — trade:			
Suppliers	**53,229**	71,105	**441,555**
Unconsolidated subsidiaries and associated companies	**684**	871	**5,675**
Income taxes payable	**914**	5,290	**7,589**
Accrued expenses	**25,756**	25,868	**213,656**
Other current liabilities (Note 5)	**9,643**	14,962	**79,999**
Total current liabilities	**209,404**	235,825	**1,737,073**
Long-term liabilities			
Long-term debt (Notes 5 and 7)	**103,091**	98,495	**855,173**
Liability for severance indemnities	**1,265**	1,312	**10,495**
Deferred income taxes (Note 9)		246	
Other long-term liabilities	**199**	316	**1,653**
Total long-term liabilities	**104,555**	100,370	**867,321**
Minority interest	**14**	80	**119**
Contingent liabilities (Note 12)			
Shareholders' equity			
Common stock (Note 8):			
¥50 par value per share			
Authorized — 1,000,000,000 shares			
Issued and outstanding — 369,927,584 shares in 1999 and 1998	**36,660**	36,660	**304,113**
Additional paid-in capital (Note 8)	**51,909**	51,909	**430,607**
Retained earnings (Notes 8 and 13)	**72,423**	82,484	**600,779**
	160,994	171,055	**1,335,499**
Treasury stock, at cost :			
2,407 shares in 1999 and 3,281 shares in 1998	**(3)**	(4)	**(30)**
Total shareholders' equity	**160,990**	171,051	**1,335,469**
Total	**¥474,964**	¥507,326	**$3,939,982**

consolidated statements of operations

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1999	1998	1997	**1999**
Net sales	**¥305,764**	¥372,145	¥379,089	**$2,536,415**
Cost of sales	**205,984**	224,545	219,791	**1,708,704**
Gross profit	**99,780**	147,599	159,298	**827,711**
Selling, general and administrative expenses	**108,521**	120,122	112,385	**900,221**
Operating income (loss)	**(8,741)**	27,476	46,912	**(72,510)**
Other income (expenses):				
Interest and dividend income	**1,150**	1,089	1,197	**9,545**
Interest expense	**(5,641)**	(5,953)	(6,608)	**(46,799)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**96**	116	29	**799**
Other, net	**(4,311)**	(3,800)	(4,790)	**(35,765)**
	(8,706)	(8,547)	(10,172)	**(72,220)**
Income (loss) before income taxes, minority interest	**(17,447)**	18,929	36,740	**(144,730)**
Income taxes (Note 9):				
Current	**1,498**	11,429	16,719	**12,429**
Deferred	**(709)**	(831)	72	**(5,889)**
Minority interest	**(2)**	13	11	**(23)**
Net income (loss)	**¥(18,232)**	¥ 8,318	¥ 19,936	**$ (151,247)**

	Yen			U.S. Dollars (Note 1)
Per share of common stock (Note 2 (l))**:**				
Net income (loss)	**¥ (49.28)**	¥ 22.48	¥ 53.89	**$ (0.41)**
Cash dividends applicable to the year	**3.00**	8.00	8.00	**0.02**

See Notes to Consolidated Financial Statements.

consolidated statements of shareholders' equity

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1999, 1998 and 1997

	Thousands	Millions of Yen		
	Outstanding Number of Shares of Common Stock (Note 8)	Common Stock (Note 8)	Additional Paid-in Capital (Note 8)	Retained Earnings (Notes 8 and 13)
BALANCE, APRIL 1, 1996	369,927	¥ 36,660	¥ 51,909	¥ 60,088
Net income				19,936
Cash dividends, ¥8 per share				(2,774)
Bonuses to directors and corporate auditors				(40)
BALANCE, MARCH 31, 1997	369,927	36,660	51,909	77,210
Net income				8,318
Cash dividends, ¥8 per share				(2,959)
Bonuses to directors and corporate auditors				(40)
Adjustment of retained earnings for newly consolidated subsidiaries				(45)
BALANCE, MARCH 31, 1998	369,927	36,660	51,909	82,484
Adjustment of retained earnings for newly applied accounting for tax allocation				**8,725**
Net loss				**(18,232)**
Cash dividends, ¥3 per share				**(1,479)**
Bonuses to directors and corporate auditors				**(20)**
Adjustment of retained earnings for newly consolidated subsidiaries				**946**
BALANCE, MARCH 31, 1999	**369,927**	**¥ 36,660**	**¥ 51,909**	**¥ 72,423**

	Thousands of U.S. Dollars (Note 1)		
	Common Stock	Additional Paid-in Capital	Retained Earnings
BALANCE, MARCH 31, 1998	$304,113	$430,607	$684,236
Adjustment of retained earnings for newly applied accounting for tax allocation			**72,380**
Net loss			**(151,247)**
Cash dividends, U.S.$0.02 per share			**(12,275)**
Bonuses to directors and corporate auditors			**(166)**
Adjustment of retained earnings for newly consolidated subsidiaries			**7,851**
BALANCE, MARCH 31, 1999	**$304,113**	**$430,607**	**$ 600,779**

See Notes to Consolidated Financial Statements.

consolidated statements of cash flows

Nikon Corporation and Consolidated Subsidiaries
For the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1999	1998	1997	**1999**
Operating activities:				
Net income (loss)	**¥(18,232)**	¥ 8,318	¥ 19,936	**$(151,247)**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	**20,110**	18,407	15,635	**166,819**
Loss on sales or disposal of property, plant and equipment	**1,003**	546	910	**8,324**
Deferred income taxes	**(709)**	(880)	72	**(5,889)**
Equity in earnings of non-consolidated subsidiaries and associated companies	**(96)**	(116)	(29)	**(799)**
Other	**(3,901)**	2,571	(452)	**(32,367)**
Change in assets and liabilities:				
Decrease (increase) in notes and accounts receivable — trade	**39,750**	(14,434)	(3,219)	**329,747**
Decrease (increase) in inventories	**3,075**	(34,193)	(3,946)	**25,513**
Increase (decrease) in notes and accounts payable — trade and accrued expenses	**(17,716)**	13,987	(445)	**(146,966)**
Decrease in accrued income taxes	**(4,343)**	(3,603)	(6,060)	**(36,031)**
Other	**3,169**	(3,521)	475	**26,293**
Total adjustments	**40,341**	(21,236)	2,940	**334,644**
Net cash provided by (used in) operating activities	**22,108**	(12,918)	22,877	**183,397**
Investing activities:				
Capital expenditures	**(20,718)**	(26,168)	(33,757)	**(171,868)**
Decrease in loans receivable	**1,670**	708	1,848	**13,854**
Purchases of investments in securities	**(4,775)**	(1,948)	(3,280)	**(39,611)**
Other	**(1,178)**	(2,969)	6,323	**(9,774)**
Net cash used in investing activities	**(25,001)**	(30,378)	(28,866)	**(207,399)**
Financing activities:				
Proceeds from long-term debt	**17,932**	26,252	18,346	**148,758**
Repayments of long-term debt	**(13,590)**	(24,790)	(23,089)	**(112,737)**
Increase in short-term borrowings	**2,616**	33,646	21,402	**21,701**
Dividends paid	**(1,479)**	(2,959)	(2,774)	**(12,275)**
Other	**(20)**	(40)	(40)	**(166)**
Net cash provided by financing activities	**5,458**	32,108	13,845	**45,281**
Effect of exchange rate changes on cash and cash equivalents	**(758)**			**(6,291)**
Net increase (decrease) in cash and cash equivalents	**1,806**	(11,187)	7,856	**14,988**
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	**646**	768		**5,365**
Cash and cash equivalents at beginning of year	**40,142**	50,561	42,705	**332,998**
Cash and cash equivalents at end of year	**¥ 42,596**	¥ 40,142	¥ 50,561	**$ 353,351**
Additional cash flows information				
Interest paid	**¥ 5,559**	¥ 4,693	¥ 6,284	**$ 46,115**
Income taxes paid	**4,720**	13,025	23,488	**39,162**
Non cash financing activities				
Assets increased by newly consolidated subsidiaries	**¥ 647**	¥ 959	¥	**$ 5,370**
Liabilities increased by newly consolidated subsidiaries	**124**	69		**1,030**

See Notes to Consolidated Financial Statements.

notes to consolidated financial statements

Nikon Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation (the “Company”), its domestic subsidiaries and affiliates maintain their records and prepare their financial statements in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”), the related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan. The foreign consolidated subsidiaries maintain and prepare their financial statements in accordance with accounting principles generally accepted in the countries, where such subsidiaries are established.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan (the “Securities 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 financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Under the Securities Law the consolidated statements of cash flows are not required, but are presented herein as additional information. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.55 to U.S.$1, the approximate rate of exchange at March 31, 1999. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Japanese yen amounts presented herewith are rounded down to the nearest millions of yen.

Certain reclassifications have been made in 1998 and 1997 financial statements to conform to classification used in 1999.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of Nikon Corporation and of its 33 (29 in 1998 and 24 in 1997) significant subsidiaries (collectively the “ Companies ”). The remaining 26 (31 in 1998 and 33 in 1997) unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies have also been eliminated. Investments in 3 unconsolidated subsidiaries are accounted for by the equity method. The differences between the cost and underlying net equity of investments in consolidated subsidiaries and unconsolidated subsidiaries accounted for by the equity method at acquisition (“Goodwill”) are amortized on a straight-line basis over five years or, insignificant in amount, such difference is charged to income when incurred.

Investments in 9 (9 in 1998 and 8 in 1997) associated companies (ownership: 20% to 50%) are stated at cost as they are immaterial to the accompanying consolidated financial statements.

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, time deposits and marketable securities presented in current assets.

(c) 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.

(d) Inventories

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

(e) Property, Plant and Equipment

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

(f) Retirement Benefits

The Company and major domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees of the Company and such subsidiaries. Foreign subsidiaries have principally contributory pension plans.

Other domestic subsidiaries have unfunded severance payment plans and established a liability for severance indemnities at 40% of the amount which would be required if all employees voluntarily terminated their employment at each balance sheet date.

(g) Leases

All leases are accounted for as operating leases by the Company and its domestic subsidiaries. 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.

(h) Income Taxes

Effective April 1, 1998, the Company and consolidated subsidiaries adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥8,725 million ($72,380 thousand) is included as an adjustment to retained earnings as of April 1, 1998.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes together with the tax effect of loss carryforwards. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(i) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(j) Foreign Currency Transactions

Balances denominated in foreign currencies, except for those hedged by forward exchange contracts, are translated into Japanese yen at the current exchange rates in effect at each balance sheet date for monetary current assets and liabilities, and at historical rates for non-current assets and liabilities. Foreign currency balances hedged by forward exchange contracts are translated into Japanese yen at the contracted rates. Exchange and translation gains or losses are credited or charged to income as incurred.

(k) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the foreign subsidiaries are translated into Japanese 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.

(l) Per Share Information

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.

Cash dividends per share shown in the consolidated statements of operations are presented on an accrual basis and include interim dividends paid and year ended dividends to be approved after the balance sheet date.

3. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Marketable equity securities	**¥13,662**	¥15,568	**$113,336**
Bank debentures and other	**6,937**	6,283	**57,548**
	¥20,600	¥21,851	**$170,884**

Investments in securities at March 31, 1999 and 1998 were principally equity securities with market quotations as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Equity securities	**¥36,522**	¥32,724	**$302,965**
Trust bonds, debentures and other	**56**	70	**469**
	¥36,579	¥32,794	**$303,434**

The carrying amounts and market values of marketable securities (current) and investments in securities (non-current) at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Current (market value available):			
Carrying amount	**¥14,243**	¥16,285	**$118,151**
Aggregate market value	**21,838**	27,380	**181,158**
Net unrealized gains	**¥ 7,595**	¥11,094	**$ 63,007**
Non-current (market value available):			
Carrying amount	**¥32,229**	¥31,446	**$267,356**
Aggregate market value	**43,434**	43,556	**360,305**
Net unrealized gains	**¥11,204**	¥12,109	**$ 92,949**

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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Finished and semi–finished products	**¥ 62,401**	¥ 66,210	**$ 517,636**
Work in process	**72,354**	75,482	**600,203**
Raw materials and supplies	**15,821**	12,675	**131,241**
	¥150,576	¥154,368	**$1,249,080**

5. PLEDGED ASSETS

The following assets were pledged as collateral at March 31, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable–trade	¥14,807	$122,835
Property, plant and equipment (net of accumulated depreciation)	510	4,237
Marketable securities and investments in securities	10,508	87,168
	¥25,826	$214,240

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 7,283	$ 60,415
Other current liabilities	282	2,339
Long-term debt, including current portion	7,103	58,930
	¥14,668	$121,684

6. SHORT-TERM BORROWINGS

Short-term borrowings at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Short-term loans, principally from banks:			
1999: 0.49370%-8.00000%			
1998: 1.01563%-6.58125%	**¥ 74,665**	¥ 64,049	**$ 619,376**
Commercial paper:			
1999: 0.4500%-0.9050%			
1998: 0.9060%-1.5600%	**32,000**	40,000	**265,450**
	¥106,665	¥104,049	**$ 884,826**

7. LONG-TERM DEBT

Long-term debt at March 31, 1999 and 1998 was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Loans, principally from banks and insurance companies:			
1999: 1.13%-9.185% due 2000-2006			
1998: 1.32%-9.185% due 1999-2004	**¥ 25,601**	¥ 22,171	**$ 212,369**
Bonds	**90,000**	90,000	**746,577**
	115,601	112,171	**958,946**
Less: Current portion	**(12,509)**	(13,676)	**(103,773)**
Long-term debt, less current portion	**¥103,091**	¥ 98,495	**$ 855,173**

The aggregate annual maturities of long-term debt for the years following March 31, 1999 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 12,509	$ 103,773
2001	17,152	142,287
2002	26,025	215,893
2003	15,608	129,481
2004	22,017	182,643
Thereafter	22,286	184,869
	¥115,601	$ 958,946

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
			1999	1998	1999
6.2% Euro-Yen Unsecured Bonds	July 1992	October 1999	**¥10,000**	¥10,000	**$ 82,953**
4.85% Euro-Yen Unsecured Bonds	September 1994	December 2001	**10,000**	10,000	**82,953**
4.4% Yen Unsecured Bonds	January 1995	January 2001	**10,000**	10,000	**82,953**
4.0% Yen Unsecured Bonds	January 1995	January 1999		10,000	
2.95% Yen Unsecured Bonds	February 1996	February 2003	**10,000**	10,000	**82,953**
2.7% Yen Unsecured Bonds	February 1996	February 2002	**10,000**	10,000	**82,953**
2.45% Yen Unsecured Bonds	March 1997	March 2004	**10,000**	10,000	**82,953**
2.7% Yen Unsecured Bonds	June 1997	June 2003	**10,000**	10,000	**82,953**
2.5% Yen Unsecured Bonds	November 1997	November 2007	**10,000**	10,000	**82,953**
2.575% Yen Unsecured Bonds	April 1998	April 2005	**10,000**		**82,953**
			¥90,000	¥90,000	**$746,577**

8. SHAREHOLDERS' EQUITY

The Code 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.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve amount, which is included in retained earnings, totals ¥4,964 million ($41,185 thousand) and ¥4,814 million as of March 31, 1999 and 1998, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares of common stock to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the Company may resolve to repurchase its treasury stock for retirement and related reduction of retained earnings pursuant to resolution of the Board of Directors, subject to approval by the shareholders.

At the general shareholders' meeting held on June 29, 1999, the Company's shareholders approved that the Company is authorized to repurchase, at management's discretion, up to 3,500 million shares of Company's stock for the purpose of canceling the shares by charging repurchased amounts to retained earnings.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1999, retained earnings as recorded on the Company's books were ¥53,416 million ($443,108 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 48%, 51% and 51% for the years ended March 31, 1999, 1998 and 1997, respectively.

On March 31, 1999, a tax reform law was enacted in Japan, which changed the normal effective statutory tax rate from approximately 48% to 42%, effective for years beginning April 1, 1999.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 1999 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Devaluation of inventories	¥ 5,082	$ 42,159
Depreciation and amortization	5,116	42,444
Tax loss carryforwards	5,759	47,776
Other	2,860	23,733
	¥18,819	$156,112
Deferred tax liabilities :		
Deferred profits on sales of property to be replaced	(2,073)	(17,200)
Other	(952)	(7,899)
	¥ (3,025)	$ (25,099)
Net deferred tax assets	¥15,793	$131,013

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses incurred were ¥18,729 million ($155 thousand), ¥21,633 million and ¥19,681 million for the years ended March 31, 1999, 1998 and 1997, respectively.

11. LEASE PAYMENTS

Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥4,735 million ($ 39,282 thousand), ¥5,032 million and ¥3,789 million for the years ended March 31, 1999, 1998 and 1997, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, and depreciation expense of finance leases that do not transfer ownership of the leased property to the leasee on an "as if capitalized" basis for the years ended March 31, 1999, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥10,854	¥10,916	¥21,770	$90,040	$90,556	$180,596
Accumulated depreciation	5,375	5,239	10,615	44,593	43,466	88,059
Net leases property	¥ 5,478	¥ 5,676	¥11,155	$45,447	$47,090	$ 92,537

Obligations under finance leases at March 31, 1999 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	**1999**
Due within one year	**¥ 3,863**	¥ 4,122	**$32,050**
Due after one year	**7,291**	8,041	**60,487**
	¥11,155	¥12,163	**$92,537**

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

Depreciation expense, which are not reflected in the accompanying consolidated statement of operations, computed by the straight-line method was applied ¥4,735 million ($39,282 thousand) for the year ended March 31, 1999.

The minimum rental commitments under noncancellable operating leases at March 31, 1999 were as follows :

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 958	$ 7,951
Due after one year	1,368	11,351
	¥2,326	$19,302

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 1999 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
As the endorser of trade notes receivable discounted with banks	¥ 2,351	$ 19,503
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	12,729	105,595
	¥15,080	$125,098

13. SUBSEQUENT EVENTS

On June 29, 1999, the Company's shareholders approved appropriations of retained earnings as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,109	$ 9,206
Transfer to legal reserve	111	921
	¥1,220	$10,127

14. SEGMENT INFORMATION
(a) Industry Segments

	Millions of Yen				
	Consumer products	Industrial instruments	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999					
Net sales	**¥ 139,204**	**¥ 166,560**	**¥ 305,764**	**¥**	**¥ 305,764**
Operating expenses	**136,683**	**177,822**	**314,505**		**314,505**
Operating income (loss)	**¥ 2,521**	**¥ (11,262)**	**¥ (8,741)**	**¥**	**¥ (8,741)**
Assets	**¥ 112,838**	**¥ 287,679**	**¥ 400,518**	**¥ 74,446**	**¥ 474,964**
Depreciation and amortization	**6,870**	**13,239**	**20,110**		**20,110**
Capital expenditures	**6,087**	**14,631**	**20,718**		**20,718**
For the year ended March 31, 1998					
Net sales	¥ 130,266	¥ 241,879	¥ 372,145	¥	¥ 372,145
Operating expenses	127,924	216,744	344,668		344,668
Operating income	¥ 2,341	¥ 25,135	¥ 27,476	¥	¥ 27,476
Assets	¥ 113,607	¥ 341,462	¥ 455,069	¥ 52,257	¥ 507,326
Depreciation and amortization	5,513	12,893	18,407		18,407
Capital expenditures	6,664	19,504	26,168		26,168
For the year ended March 31, 1997					
Net sales	¥ 131,282	¥ 247,806	¥ 379,089	¥	¥ 379,089
Operating expenses	136,803	195,372	332,176		332,176
Operating income (loss)	¥ (5,521)	¥ 52,433	¥ 46,912	¥	¥ 46,912
Assets	¥ 120,581	¥ 278,267	¥ 398,849	¥ 61,422	¥ 460,271
Depreciation and amortization	6,277	9,358	15,635		15,635
Capital expenditures	12,034	21,722	33,757		33,757

	Thousands of U.S. Dollars				
For the year ended March 31, 1999					
Net sales	**$1,154,743**	**$1,381,672**	**$2,536,415**	**$**	**$2,536,415**
Operating expenses	**1,133,830**	**1,475,095**	**2,608,925**		**2,608,925**
Operating income (loss)	**$ 20,913**	**$ (93,423)**	**$ (72,510)**	**$**	**$ (72,510)**
Assets	**$ 936,030**	**$2,386,395**	**$3,322,425**	**$617,557**	**$3,939,982**
Depreciation and amortization	**56,996**	**109,823**	**166,819**		**166,819**
Capital expenditures	**50,499**	**121,370**	**171,869**		**171,86**

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999							
Net sales							
Outside customers	**¥ 183,725**	**¥ 80,366**	**¥ 36,128**	**¥ 5,544**	**¥ 305,764**	**¥**	**¥ 305,764**
Intersegment sales	**90,730**	**281**	**172**	**5,800**	**96,984**	**(96,984)**	
Total	**274,455**	**80,647**	**36,301**	**11,345**	**402,749**	**(96,984)**	**305,764**
Operating expenses	**285,426**	**77,964**	**36,523**	**10,051**	**409,966**	**(95,460)**	**314,505**
Operating income (loss)	**¥ (10,971)**	**¥ 2,682**	**¥ (222)**	**¥ 1,294**	**¥ (7,216)**	**¥ (1,524)**	**¥ (8,741)**
Assets	**¥ 339,739**	**¥ 57,254**	**¥ 27,422**	**¥ 7,946**	**¥ 432,363**	**¥ 42,601**	**¥ 474,964**
For the year ended March 31, 1998							
Net sales							
Outside customers	¥ 220,553	¥ 101,313	¥ 50,235	¥ 43	¥ 372,145	¥	¥ 372,145
Intersegment sales	96,716	280	87	7,153	104,238	(104,238)	
Total	317,270	101,594	50,323	7,196	476,384	(104,238)	372,145
Operating expenses	299,492	93,205	49,289	4,773	446,760	(102,091)	344,668
Operating income	¥ 17,778	¥ 8,388	¥ 1,033	¥ 2,423	¥ 29,623	¥ (2,146)	¥ 27,476
Assets	¥ 377,864	¥ 65,290	¥ 34,219	¥ 5,941	¥ 483,316	¥ 24,010	¥ 507,326

	Japan	Overseas	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1997					
Net sales					
Outside customers	¥ 238,430	¥ 140,658	¥ 379,089	¥	¥ 379,089
Intersegment sales	83,945	8,859	92,805	(92,805)	
Total	322,376	149,517	471,894	(92,805)	379,089
Operating expenses	288,181	135,742	423,923	(91,747)	332,176
Operating income	¥ 34,194	¥ 13,775	¥ 47,970	¥ (1,057)	¥ 46,912
Assets	¥ 304,755	¥ 100,941	¥ 405,696	¥ 54,574	¥ 460,271

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or corporate	Consolidated
For the year ended March 31, 1999							
Net sales							
Outside customers	**$ 1,524,058**	**$ 666,664**	**$ 299,699**	**$ 45,994**	**$ 2,536,415**	**$**	**$ 2,536,415**
Intersegment sales	**752,640**	**2,331**	**1,431**	**48,118**	**804,520**	**(804,520)**	
Total	**2,276,698**	**668,995**	**301,130**	**94,112**	**3,340,935**	**(804,520)**	**2,536,415**
Operating expenses	**2,367,706**	**646,742**	**302,978**	**83,376**	**3,400,802**	**(791,877)**	**2,608,925**
Operating income (loss)	**$ (91,008)**	**$ 22,253**	**$ (1,848)**	**$ 10,736**	**$ (59,867)**	**$ (12,643)**	**$ (72,510)**
Assets	**$ 2,818,249**	**$ 474,948**	**$ 227,479**	**$ 65,916**	**$ 3,586,592**	**$ 353,390**	**$ 3,939,982**

(c) Export Sales

For the years ended March 31, 1999, 1998 and 1997

	Millions of Yen, %						Thousands of U.S. Dollars
	1999	**(A)/(B)**	1998	(A)/(B)	1997	(A)/(B)	**1999**
Export sales (A)							
North America	**¥ 78,869**	**25.8 %**	¥99,830	26.8 %			**$ 654,244**
Europe	**46,713**	**15.3**	59,794	16.1			**387,505**
Asia	**53,754**	**17.6**	54,453	14.6			**445,907**
Other Area	**7,032**	**2.3**	7,080	1.9			**58,336**
Total	**¥186,369**	**61.0 %**	¥221,160	59.4 %	¥215,752	56.9%	**$1,545,992**
Net sales (B)	**¥305,764**		¥372,145		¥379,089		**$2,536,415**

independent auditors' report

Deloitte Touche Tohmatsu

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
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Telephone : (03)3457-7321
Facsimile : (03)3769-8508

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, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1999, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices 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 29, 1999

corporate directory

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Tel: 03-3214-5311

DOMESTIC OFFICE
Osaka

DOMESTIC PLANTS

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Sakae-ku, Yokohama,
Kanagawa 244-8533
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Sagamihara,
Kanagawa 228-0828
Tel: 042-740-6300

Kumagaya Plant
201-9, Oaza-miizugahara, Kumagaya,
Saitama 360-8559
Tel: 048-533-2111

Mito Plant
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Mito, Ibaraki 310-0843
Tel: 029-240-1111

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Tel: 0287-28-1111

Mito Nikon Corporation
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Naka-gun, Ibaraki 311-0194
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Sendai Nikon Corporation
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Miyagi 981-1221
Tel: 022-384-0011

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20, Aza-shinoyoke, Miya,
Zao-cho, Katta-gun,
Miyagi 989-0701
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1434, Oaza-kurobanemuko-machi,
Kurobane-machi, Nasu-gun,
Tochigi 324-0241
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1956-3, Oaza-kyono,
Karasuyama-machi,
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Aichi Nikon Co., Ltd.
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Nikon Instech Co., Ltd.
4-25, Koraku 1-chome,
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Nikon Geotecs Co., Ltd.
16-2, Minamikamata 2-chome,
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Tel: 03-5710-2580

Nikon Optical Co., Ltd.
10-8, Ryogoku 2-chome,
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Tel: 03-5600-3521

Kogaku Co., Ltd.
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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

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Nikon Ventures Corporation
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*Unconsolidated subsidiary
(As of March 31, 1999)

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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
14,704

Major Shareholders

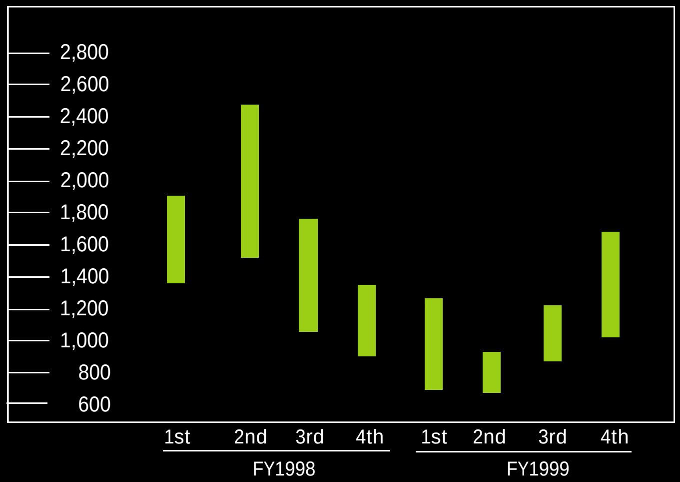
	Number of shares held (thousands)	Percentage of total shares issued
Meiji Life Insurance Company	24,050	6.50 %
The Mitsubishi Trust and Banking Corporation	17,189	4.65
The Bank of Tokyo-Mitsubishi, Ltd.	16,996	4.59
The Sumitomo Trust & Banking Co., Ltd. (Trust Account)	11,780	3.18
The Tokio Marine and Fire Insurance Co., Ltd.	10,567	2.86
The Asahi Bank, Ltd.	9,013	2.44
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	8,320	2.25
Nippon Life Insurance Company	7,995	2.16
The Joyo Bank, Ltd.	7,886	2.13
The Mitsubishi Trust and Banking Corporation (Trust Account)	7,233	1.96

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

(As of March 31, 1999)

Price Range of Common Stock (¥)



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