28.0% precision equipment

IC and LCD steppers.

57.6% imaging products

Silver halide cameras, digital cameras,
interchangeable camera lenses,
film scanners.

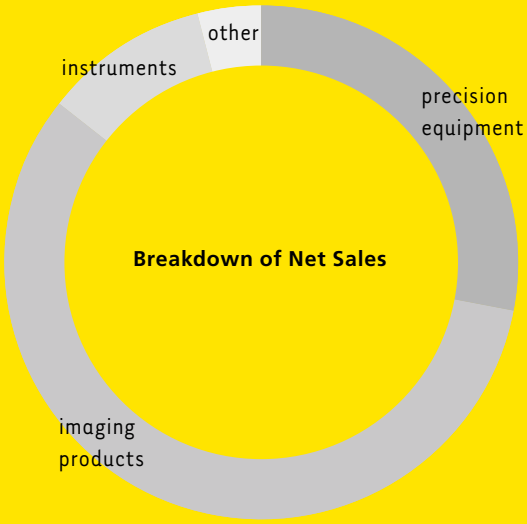
10.4% instruments

Biological microscopes, industrial microscopes, measuring instruments, inspection equipment.

4.0% other

Binocular & telescope products, surveying instruments, ophthalmic frames and sunglasses.

The above percentages figures are based on net sales for outside customers by industry segment.



precision equipment

Operating Results

The protracted downturn in the semiconductor industry took another turn for the worse in the summer of 2002, leading many semiconductor manufacturers to slash capital investment. This caused sales of IC steppers to fall significantly below initially forecast levels in volume terms. Segment sales dropped 33.1% to ¥133,102 million, which resulted in an operating loss of ¥24,595 million.

Business Strategy

We are taking a fresh look at the issues facing us in this business and developing solutions to individual issues as quickly as possible, all the while seeking to build on our strengths. The strategy that we are implementing has three specific aims.

Our first aim is to entrench the position of Nikon in steppers based on the latest technical advances. In March 2003, we delivered an NSR-S306D ArF excimer stepper to a customer in the United States. This model boasts a resolution of less than 80nm with the world's highest NA 0.85 lens. In October 2003, we plan to launch the next model in this series, the NSR-S307E. Besides its world-beating lens capabilities and wider exposure area, this stepper also boosts manufacturing productivity. Nikon steppers lead the world not only in terms of lens quality, but also in total output (the number of non-defective wafers processed in a given time), and we are always developing and refining the technology to upgrade performance on both counts.

To ensure that we retain this technical edge, we also continue to invest in the development of next-generation lithography to respond to evolving requirements as chip architecture becomes increasingly intricate. In June 2003, Nikon delivered its first stepper for R&D that prints the circuit pattern using electron beams (EB) instead of light. EB steppers are designed for ultra-high resolution of less than 45nm.

Moreover, we are currently in promising sales negotiations for LCD steppers designed to handle large 5th and 6th-generation glass substrates, and we expect these machines to contribute to sales growth in the upcoming year.

Second, we are actively seeking to expand our customer base. Since semiconductor production lines are not always necessarily reliant on the latest technology, and the manufacturing equipment that is required differs according to the devices being produced, we are developing various more affordable product options that can cater to the needs of a broader range of customers. In November 2003, we plan to launch a new NSR-SF200 KrF scan field stepper. This offering can be mixed and matched with our latest ArF stepper models, and this flexibility will allow customers to reduce the cost of their overall investment. In addition, with ArF steppers, we are developing immersion technology, which introduces pure deionized water between the projection lens and the wafer, thereby improving lens resolution significantly. This illustrates another possible approach to meeting the needs of customers in an affordable manner. To attain this, we are strengthening our sales and marketing capabilities.

Original Nikon stepper installations now exceed 7,000 units. Taking advantage of this, we are seeking to expand business through the sale of second-hand machines. Demand for second-hand steppers is especially high in China, a market where Nikon already has the leading share in the industry. Recycling of the installed stepper base presents a major business opportunity for us. In December 2002, we established a local stepper maintenance and repair service subsidiary in Shanghai. Close cooperation with this new company promises to generate higher sales revenues from the Chinese market.

Our third strategic aim is to focus effort on fundamental structural reform of all operations within the Precision Equipment Company. One particular objective is to speed up operational throughput so that we can meet customer requirements in a timely manner. By March 2004, we aim to cut production and installment lead times, as measured from lens cutting and finishing to completion of machine installation, to a maximum of six months, which is approximately half the current average value. We plan to achieve this by improvements in processes and production technology. Alongside this initiative, we are also tackling finance-related issues by actively reducing inventory to restore profitability.

As part of this program to reduce lead times, we have been making further progress in incorporating CAD/CAM and other IT systems, including CRM and SCM systems, to increase process productivity in various ways. These investments enable us to manage our business more efficiently without significant increases in headcount, allowing us to focus on making innovative product proposals to customers to solve their requirements. We are confident that the first results of our various restructuring initiatives will emerge as a marked improvement towards the end of the fiscal year ending March 2004.

Topics/Achievements

Nikon became the first manufacturer of steppers to receive a PQS (Preferred Quality Supplier) award from Intel Corporation of the U.S. In Japan, Nikon received similar recognition of its high-quality credentials in the form of a Good Partner award from Toshiba Corporation.

Michio Kariya
Senior Managing Director,
Member of the Board & Senior Executive Officer,
President of Precision Equipment Company

"We have a two-pronged strategy: to pursue the development of cutting-edge technology while undertaking structural reform of the Precision Equipment Company. I am confident that the results of this strategy will become evident when we post a recovery in profits towards the end of the year ending March 2004. We will fulfill our mission as a leading company, based on the keywords of quality, affordability and speed."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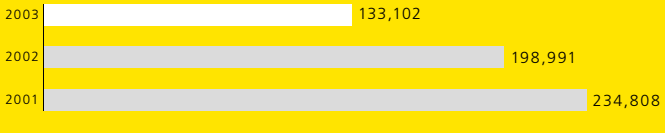
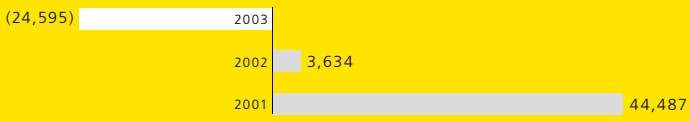
NET SALES* (MILLIONS OF YEN)



**The above figures include intersegment sales.*

OPERATING INCOME(LOSS) (MILLIONS OF YEN)



1 NSR-S306C
ArF excimer stepper for mass production of 100nm devices

2 NSR-SF200
KrF scan field stepper, suited for mix-and-match with ArF excimer steppers

3 FX-702J
High-resolution LCD stepper for mass production of small- and medium-sized panels

imaging products

Operating Results

Although the market for traditional film cameras continued to shrink, further brisk expansion of the digital camera market boosted segment performance significantly. Sales increased 22.7% year-on-year to ¥271,956 million. Gains in sales volume, a significant presence of high-margin SLR-type digital cameras within the overall sales mix, combined with a variety of cost-reduction measures, resulted in a large gain in segment operating income, which climbed 72.0% to ¥27,745 million.

Business Strategy

The digital camera market continues to expand rapidly worldwide. This strong growth has prompted the entry of manufacturers from other sectors into the market. Competition has also become fiercer as the battleground has widened following the introduction of products such as mobile phones equipped with built-in megapixel cameras.

Nikon's strategy with digital cameras is to play to its technical strengths in camera technology, in digital image processing technology, and in optical technologies that can boost the performance of image sensors. We are also deliberately targeting those segments of the market that are large in volume and the most profitable. We are the pioneers in the segment for lens-interchangeable SLR-type digital cameras, and we dominate this particular segment. During the year ended March 2003, in addition to the cameras for the professional market segment, we launched the D100, an SLR-type digital camera designed for professionals and amateur photography enthusiasts. It was received extremely well. We plan to extend this range of cameras further to develop SLR-type digital cameras that will appeal strongly to the average consumer.

We have now developed a strong position at the high-end consumer digital camera market. Our next goal is to extend this franchise to target middle-class and popular-class markets, while continuing to pay extra attention to brand loyalists. COOLPIX is the Nikon product brand in the consumer-market segment, and we continue to develop this range. Building on our high-quality brand image, we plan to develop products for a wider range of customers including younger consumers that create added value through video and audio capabilities and enhanced computer connectivity as well as advanced designs.

The digital camera market is increasingly marked by intense technology-based competition, by inexorable compression of development cycles, and by fierce competition on price. To some extent, these problems are unavoidable. Our response is to speed up all processes of the business cycle, from product development to sales, so that we can always ensure timely product launches. Hence, one of our most important business issues is how to maintain profitability. We continue to work hard to drive down unit costs and reassess the entire value chain so that we can raise profitability and launch the most competitive products.

As part of this drive, we have established Nikon Imaging (China) Co., Ltd., a manufacturing subsidiary mainly for consumer-type digital cameras. Based in Wuxi, Jiangsu Province in China, production of consumer digital cameras is scheduled to begin in the latter half of the year ending March 2004. In addition, we have established a local sales branch of Nikon Imaging (China) Co., Ltd. in Shanghai to boost sales in the Chinese market. Elsewhere, we have invested in production capacity at Nikon (Thailand) Co., Ltd. for lens units, which are key parts of digital cameras. These moves promise to boost our cost- and value-competitiveness substantially.

We are striving to boost our share of the market for traditional film cameras even as it declines so that we can continue to generate stable profits from this sector. In the popular segment of this market we were successful in achieving this aim as a result of the popularity of new models such as the Nikon F75 (or N75 in the United States and U2 in Japan).

New initiatives in the pipeline include development projects in the areas of image-related software/hardware and other applications. We will also consider possibilities to collaborate with other firms to achieve our objectives. In addition, as part of our brand strategy, through an increased dialogue with a wide range of customers, we are trying to give Nikon products a more accessible and easily enjoyable image, which is ideally suited to the digital camera age.

Topics/Achievements

Nikon Imaging (China) Co., Ltd. will initiate production of consumer digital cameras in the latter half of the fiscal year ending March 2004, with full-scale production scheduled from the fiscal year ending March 2005 onwards. Construction work is currently underway to increase total production floor area. Enhanced production capacity will facilitate greater in-house manufacturing of some components.

Makoto Kimura
Managing Director,
Member of the Board & Senior Executive Officer,
President of Imaging Company

"Our main objective now is to expand businesses based on the dominance we enjoy at the markets in SLR-type and high-end consumer-type digital cameras. In the traditional film camera market, I believe that our goal must be to remain true to Nikon traditions. Overall, we aim to continue to build the Nikon brand so that people will readily associate the name with true enjoyment of the creation of images in everyday life."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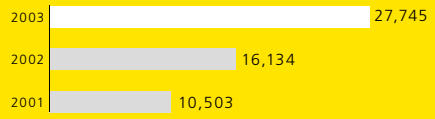
NET SALES* (MILLIONS OF YEN)

**The above figures include intersegment sales.*

OPERATING INCOME (MILLIONS OF YEN)



1 D100
SLR-type digital camera targeting professionals and amateur photography enthusiasts

2 F75
Compact, lightweight 35mm autofocus camera (N75 in the United States and U2 in Japan)

3 COOLPIX SQ
A compact digital camera with many advanced functions in its square, fully metal-cased body

4 COOLPIX 5700
Features 5.0 effective megapixels and 8x Zoom-Nikkor lens

instruments

Operating Results

Sales of biological microscopes recorded steady growth, particularly research models. Although the ongoing downturn in the semiconductor market had an impact on sales of industrial microscopes, measuring instruments and semiconductor inspection equipment, sales of CCD Test System Light Source supported overall sales in the industrial sector. Total sales rose 6.9% year-on-year to ¥49,872 million. Successful measures to boost profitability helped operating income climb to ¥1,842 million, an increase of 293.6% relative to the previous year.

Business Strategy

Nikon's instruments business encompasses biological microscopes, industrial microscopes, measuring instruments, semiconductor inspection equipment, and other products. Since the major customers are hospitals, universities and research institutions, the biological microscopes business tends to be relatively immune to the economic cycle, and profits are relatively stable. While continuing to focus on this sector, we will work hard to improve profitability with other product groups to generate higher profits for the whole Instruments Business.

The most important issue that we face is the implementation of comprehensive structural reforms directed at boosting profitability. The financial results for the year ended March 2003 confirm that the effects of structural reforms are gradually starting to emerge. We are continuing with our program of reform to further reduce costs and boost efficiency, both on the development and production side and on the sales side.

Our development and production reforms have centered on the construction of integrated supply chain management practices to integrate our production, including outside consignment manufacturers, sales and distribution functions. The introduction of SCM is helping to raise the efficiency of production processes. It is also playing an important role as we strive to achieve drastic cuts in procurement and manufacturing lead times and improve inventory management. Our goal is to drastically halve global inventory levels. Separately, we are raising microscope production at our subsidiary in China (Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.) to reduce costs further.

On the sales side, we are planning to revise the distributor system that we have been introducing to boost sales of microscopes in Japan, creating a range of incentives designed to increase distributor focus on Nikon products. At the same time, we are expanding the marketing capabilities of our sales branch to facilitate closer contact with customers. In turn, we expect this to improve the process of information feedback to product development through better assessment of customer requirements.

The year witnessed various overseas developments. In July 2002, our U.S. subsidiary, Nikon Instruments Inc., established a new sales branch in Arizona for semiconductor inspection equipment. In Europe, the instruments division of Nikon Europe B.V. became an independent operation in April 2002 with the creation of Nikon Instruments Europe B.V. Moreover, in China, where we anticipate strong market growth, we will set up a local marketing and after-sales service subsidiary, Nikon Instruments (Shanghai) Co., Ltd., and start operations in August 2003.

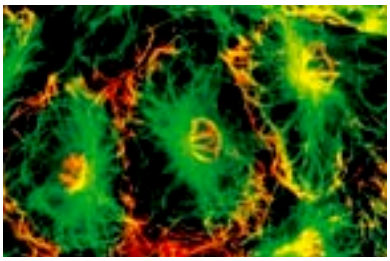
The life sciences are projected to be the source of much of the company's future growth. In Japan, levels of both state and private-sector capital investment continue to rise steadily in this field. We expect demand to rise for advanced microscope systems, measuring equipment and analyzers that will be needed to push this scientific envelope. We are tailoring R&D programs to develop products that will meet this demand based on the latest Nikon technological advances. One area that is already benefiting in sales terms is that of microscopes with evanescent wave illumination, which can play an important part in several areas of the latest life science research. We plan to expand sales of these products further.

Another product area with substantial market growth potential is one that marries optical microscopes with two other Nikon strengths—digital cameras and digital image processing technology. In June 2003, we launched the COOLSCOPE, a digital microscope that replaces the traditional eyepiece lens with digital images displayed on a monitor. We plan to focus on sales efforts on this product, which boasts numerous features designed to make operation user-friendly.

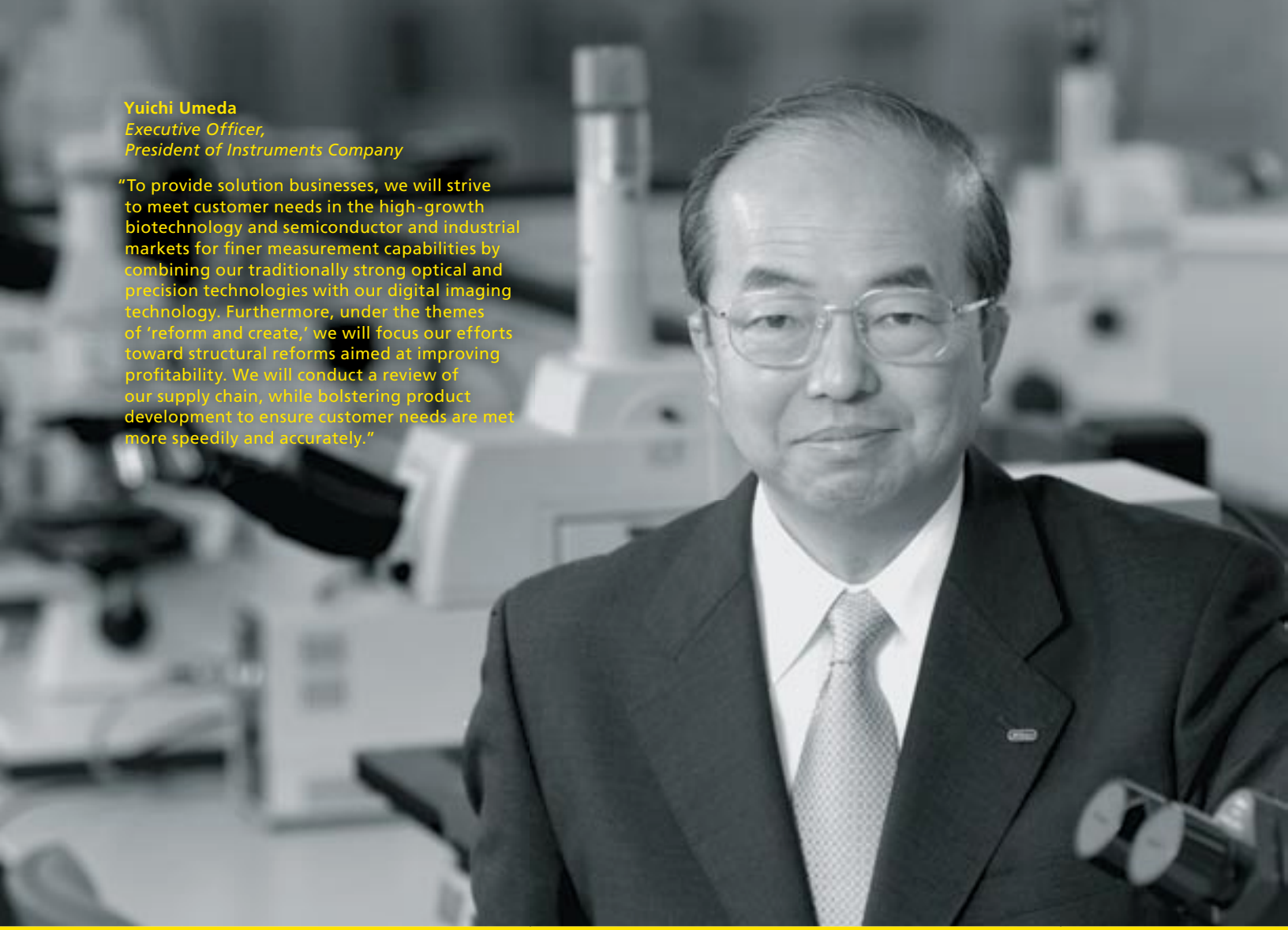
Semiconductor inspection equipment is another area with growth potential. Increasingly diverse customer requirements, greater expectations of automated functionality and various demands for observation and inspection are driving market demand for advanced measurement capabilities. We plan to expand sales by developing new products that play to our technical strengths, focusing particularly on the trend toward 300mm IC wafers and meeting the latest requirement for a line-width of 90nm.

Topics/Achievements

Nikon has developed an Evanescent Wave Imaging System that enables observations of single moleculars in living cells of proteins or genes. This system promises to play an important role at the cutting edge of research in the life sciences.



Fibroblasts from mouse skin displayed with pseudo-color through imaging that Ovelay of the images with evanescence wave illumination and with epi-fluorescent illumination.
Image courtesy of Dr. Gregg. G. Gundersen, Columbia University



Yuichi Umeda
Executive Officer,
President of Instruments Company

"To provide solution businesses, we will strive to meet customer needs in the high-growth biotechnology and semiconductor and industrial markets for finer measurement capabilities by combining our traditionally strong optical and precision technologies with our digital imaging technology. Furthermore, under the themes of 'reform and create,' we will focus our efforts toward structural reforms aimed at improving profitability. We will conduct a review of our supply chain, while bolstering product development to ensure customer needs are met more speedily and accurately."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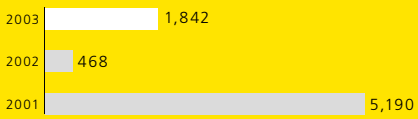
NET SALES* (MILLIONS OF YEN)

**The above figures include intersegment sales.*

OPERATING INCOME (MILLIONS OF YEN)



1 COOLSCOPE
Digital microscope with numerous user-friendly operational features

2 DIGITAL ECLIPSE C1
Modular confocal microscope system providing a high-contrast image of intercellular structure

3 NEXIV VMR-H3030 Z120X
CNC video measuring system for performance of high-magnification, high-speed, high-precision measurements
(NEXIV VMR-H3030TZ in Japan)

4 NRM-3100
Overlay measuring system for 90nm lithography process management support with 300mm IC wafers

other

Operating Results

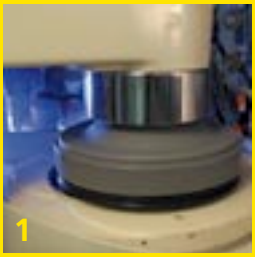
Net sales declined 13.1% to ¥41,875 million, generating an operating loss of ¥1,260 million. Despite efforts to develop new markets, the Customized Products Business suffered a sharp fall in sales as the prolonged market downturn impacted demand for optical components for fiber-optic communications applications. Sales of customized equipment also declined significantly. Sales of binoculars and telescopes products rose as sales of new products, including updated ranges of high-grade binoculars HG series and loupes supplemented solid sales of existing products. Demand for surveying instruments from the construction and civil engineering sectors cooled amid reduced public-works spending in Japan, resulting in lower sales of these products. Sales of eyewear products also declined overall amid poor market conditions. In ophthalmic lenses, sales of high-added-value items, such as progressive addition lenses, increased, while sales of lenses with single vision lenses also held up well. This was offset, however, by price erosion with ophthalmic frames and sunglasses, which dragged down total sales in the eyewear sector.

Business Strategy and Topics/Achievements

This segment consists of a number of different business units. Currently we are undertaking various structural and other reforms to boost profitability, with the aim of ensuring that each business unit can generate steady earnings growth and contribute to improved consolidated profitability overall.

In the surveying instruments field, the year ended March 2003 marked the conclusion of an agreement to establish a Japan-based 50:50 joint venture between Nikon and Trimble Navigation Ltd., of the United States, a leader in surveying instruments. Bringing together Nikon's advanced optical technology, sales network in Japan and the high-quality reputation of the Nikon brand with Trimble's broad range of GPS (Global Positioning System) and other instruments and its global sales network, the establishment of this venture, called Nikon-Trimble Co., Ltd., promises to generate substantial mutual benefits by enabling both companies to expand their presence in the surveying instruments field. The joint venture commenced operations on July 1, 2003, in the process of transforming the Nikon Group surveying instrument development, manufacturing and sales operations to Nikon Geotecs Co., Ltd.

We made further progress during the year ended March 2003 in the development of Nikon's chemical mechanical polishing (CMP) system business with the creation in November 2002 of an internal division to oversee business development in this area. Increasingly advanced semiconductor manufacturing processes designed to cope with higher levels of large-scale integration (LSI) in chips and the introduction of new materials are driving demand for methods of ensuring that the multiple layers of conductors and dielectric layers packed on top of silicon wafers are uniform. CMP system meets this need by applying both chemical and physical processes to the surfaces of these layers to polish them and make them uniformly even. At Nikon, we are applying our various technical expertise in optical lens polishing and optical measurement, as well as other stepper-derived technology, to develop high-precision CMP systems. Business development efforts are now at a relatively advanced stage. We anticipate that this business will make a significant contribution to earnings once it becomes established.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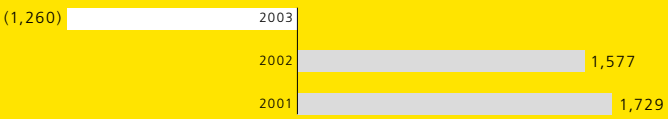
NET SALES* (MILLIONS OF YEN)

**The above figures include intersegment sales.*

OPERATING INCOME(LOSS) (MILLIONS OF YEN)



1 NPS3301
CMP system capable of high-precision polishing

2 8×32HG DCF
High-grade binoculars deliver high-resolution performance for a clear field of view

3 NPL-302 SERIES
Total Station featuring non-prism function (NST-300N SERIES in Japan)

4 PROGUE NEXIA
Ophthalmic frames using the world's first earpiece tips made from shape-memory plastic