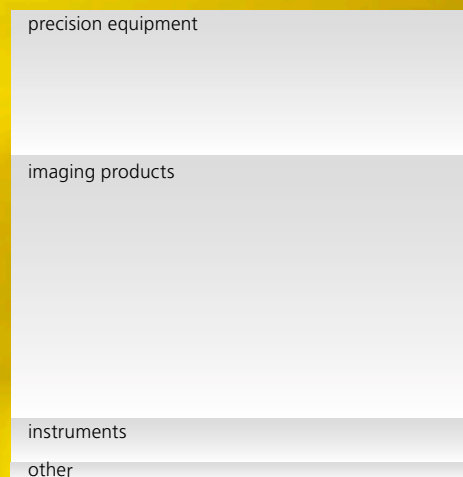


Breakdown of Net Sales



review of operations

Precision Equipment

IC and LCD steppers

30.9%

Imaging Products

digital cameras,
film cameras,
interchangeable camera lenses,
film scanners

56.0%

Instruments

biological microscopes,
industrial microscopes,
measuring instruments,
inspection equipment

9.2%

Other

sport optics products,
surveying instruments,
ophthalmic frames and sunglasses

3.9%

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



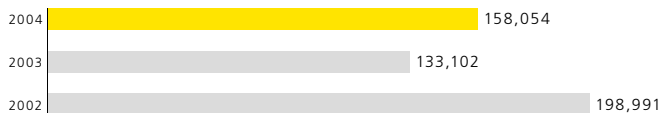
precision equipment

We made progress in the year ended March 2004 as our structural reforms began to produce results. The continued development of our profit-reaping sales strategy will drive strong growth in the year ending March 2005.

Growth in demand within all the major consumer electronics market segments, notably PCs, mobile phones, digital cameras and DVD equipment, drove the expansion of the semiconductor market in the year ended March 2004. Semiconductors started to show definite signs of recovery, having been stagnant throughout the previous year. Despite this progress, semiconductor manufacturers remained cautious about investing in steppers. We were able to post net sales of ¥158,054 million (up 18.7% year-on-year) while squeezing the operating loss to ¥20,806 million, compared with a loss of ¥24,595 million in the year ended March 2003.

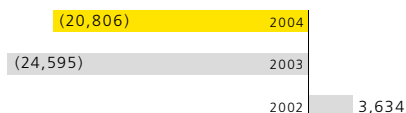
We made steady progress in the year ended March 2004 by taking the measures that I outlined in last year's annual report. First, we worked to entrench the position of Nikon in steppers based on the latest technical advances. We launched the NSR-S307E stepper with an N.A. 0.85 lens. In ArF excimer steppers we captured over half of the market and grabbed the top global share in terms of total sales units, thereby reinforcing our position as the leading manufacturer in the world. We plan to follow up these gains with the launch of the NSR-S308F model equipped with an N.A. 0.92 lens that has a resolution of less than 65nm and that improves throughput performance, with shipments scheduled to commence by the end of 2004.

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (LOSS) (MILLIONS OF YEN)





NSR-S307E
ArF excimer stepper equipped with N.A. 0.85 projection lens



NSR-S308F
ArF excimer stepper equipped with a super-high N.A. 0.92 projection lens and that has a resolution of less than 65 nm



FX-63S
LCD stepper that supports sixth-generation large plate sizes

Michio Kariya
*Executive Vice President,
Member of the Board,
President of Precision Equipment Company*



Our development programs continued to focus on keeping Nikon in the forefront of next-generation lithography. Our immersion lithography technology, which introduces purified water between the projection lens and the wafer, promises to improve lens resolution significantly. We are on course to start selling the world's first mass-produced stepper with a lens of N.A. greater than or equal to 1.0 in the latter half of 2005. In response to demand for further miniaturization of semiconductor devices, I believe we will strengthen the position of Nikon as the supplier of choice for the most advanced steppers.

We also made significant progress during the year ended March 2004 in the field of LCD steppers. We began shipments of the FX-61S/63S sixth-generation model, which can handle the largest glass substrates in the world, currently used in the production of LCD panels for large televisions. We have developed an original multi-lens scanning system in our LCD steppers that promises to come into its own as panel sizes continue to increase. We are now developing machines capable of handling even larger LCD panels.

Besides immersion lithography technology, which will soon produce an ultra-high N.A. ArF stepper range, our highly efficient development programs are focusing on other approaches to achieving new levels of performance in next-generation lithography. The latest field is Extreme Ultraviolet Lithography (EUVL), which aims to realize even greater device miniaturization. We are engaged in the development of EUVL systems as part of a special national research project conducted by Extreme Ultraviolet Lithography System Development Association (EUVA). Full-scale product development is now under way to finish an initial system by 2006.

Our second main aim was to expand our customer base. In addition to our lineup of i-line, KrF and ArF steppers, we are working to satisfy a broad range of customer requirements by offering second-hand machines as well as rapid-response after-sales services. This approach started to deliver results in the year

ended March 2004. We are also aggressively expanding our business by developing capabilities in applications support as well as hardware. This approach allows us to monitor the operating condition of our machines remotely and use the data to propose optimized solutions to individual customers. Such peripheral services promise to provide us with another source of earnings.

Our third strategic aim was to focus our efforts on fundamental structural reform of all Precision Equipment Company operations. Our main objective was to speed up operational throughput to reduce delivery lead times, as measured from lens cutting and finishing to completion of machine installation, to a maximum of six months. We achieved this goal during the year, thereby cutting lead times in half. This not only allows us to respond to rapidly changing market conditions better but also promises to translate into lower costs, reduced inventories and stronger finances. At the same time, we are working to cut development lead times. We are using prior risk evaluation and checks to eliminate as far as possible any dead-ends in development processes. This involves adopting a new management style for development functions.

The preparatory actions we took in the year ended March 2004 put us in a good position to benefit as capital investment levels start to recover in the semiconductor market in the year ending March 2005. Our sales strategy is based on generating higher profitability as the stepper market revives. Our goal for the year ending March 2005 is to become profitable at the operating level.

In the latter half of 2005, Nikon will introduce to the market a mass-produced ArF immersion stepper that has an N.A. greater than or equal to 1.0, which is a world first.



wafer

purified water



imaging products

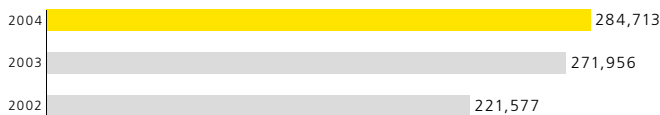
Competition continues to intensify in the digital camera market amid a shift to models with higher megapixel capabilities. Our mission at Nikon is to provide customers with the high-quality images and picture-taking enjoyment associated with the Nikon brand.

Although the global market for digital cameras continued to expand, competition intensified further, most notably in the compact camera segment. Price erosion was a marked feature of the year. Net sales rose 4.7% year-on-year to ¥284,713 million, but operating income dropped 9.1% to ¥25,222 million.

When Nikon adopted its new corporate brand symbol, we chose the branding statement "At the heart of the image" to summarize our commitment to customers. The emphasis in the digital camera market continues to shift toward models with higher megapixel CCD image sensors. Even compact digital cameras now have CCD image sensors with 3 or 4 megapixels; the time is approaching when 5 or even 8 megapixels will be the norm. I am confident that this ongoing shift will suit the strengths of Nikon, since we enjoy an advantage in advanced imaging technology. We know exactly what customers are looking for in terms of a true image. Our goal is to develop digital imaging technology to enable customers to enjoy this brave new world of digital images. To do this requires a command not just of the digital camera hardware but also of the image-processing software, as well as a wide range of peripheral devices. Nikon is a name intimately associated with photography, and so we must take up the challenge of developing products that embody the concept "at the heart of the image."

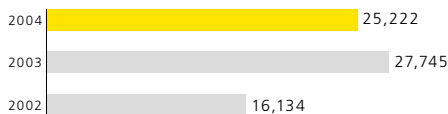
We retain a dominant position due to our pioneering development of the SLR-type digital camera. In November 2003, we launched the D2H, a professional lens-interchangeable SLR-type digital camera fitted with our original LBCAST image sensor that can take continuous images at high speed. Sales to the end of March 2004 were good. In March 2004, we launched the D70, an easy-to-use SLR-type digital camera

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (MILLIONS OF YEN)





D70
Digital SLR camera targeting a wide range of users from beginners to photographic enthusiasts



COOLPIX 8700
Digital camera that features 8.0 effective megapixels and an 8x Zoom-Nikkor lens



COOLPIX 5200
High-resolution, easy-to-use digital camera with 5.1 effective megapixels and a lightweight aluminum body



COOLPIX 4100
Features an easy-to-grasp grip style design for beginners, 4.0 effective megapixels and a 3x optical zoom lens

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



designed for amateur photography enthusiasts that combines exceptional image quality with superior continuous shooting capability. This model was extremely well received in Japan, where it was awarded the Japan Camera Grand Prix 2004 award. In Europe, the D70 garnered the Best Consumer Digital SLR Camera 2004 award from TIPA. Faced with demand that is higher than we anticipated, we are now working to increase production capacity for this model.

In the compact digital camera market, competition has become extremely fierce as many manufacturers vie for the attention of consumers. Nikon's brand in this segment of the market is COOLPIX. In the year ended March 2004, we launched seven new models under this brand: the 5.1 effective megapixel COOLPIX 5400 featuring a 4x wide angle Zoom-Nikkor lens; COOLPIX SQ of innovative design; three stylish compact cameras, the COOLPIX 3700, the COOLPIX 3200, and the COOLPIX 2200; and the COOLPIX 8700, which has an 8.0 effective megapixel CCD and a newly developed 8x Zoom-ED Nikkor lens. We plan to launch more models in the coming year to maintain our competitive edge within this segment.

We also made further progress in reinforcing our cost competitiveness by raising the proportion of key components and finished products manufactured in-house, and in building extra production capacity to supply an expanding market. We have enhanced our new production capacity outside Japan so that we can lower production costs while also maintaining stable supplies. We established Nikon Imaging (China) Co., Ltd. in Wuxi, Jiangsu Province, China as a manufacturing subsidiary for compact digital cameras, and production has commenced. We have also extended the floor area at this plant to raise capacity and enable a greater degree of in-house production of components. Annual output is scheduled to rise substantially in the year ending March 2006. At Nikon (Thailand) Co., Ltd., which manufactures the D70, we are invest-

ing to expand aspherical lens processing and in-house production of high-value-added lens units for compact digital cameras.

To cultivate our image-processing software development capabilities, we have set up an initiative called "PictureProject." This is a communications channel devoted to digital image-processing software that we hope will evolve into a network that connects Nikon to customers, while also allowing us to market software that we have developed. This year we also announced to launch COOLWALKER, a products that allows people to share digital images that they have taken pretty easily. Equipped with a 2.5-inch color TFT LCD and a 30GB hard disk drive, this is the modern digital equivalent of a portable photograph album that can be used anytime, anywhere. Unlike its analog predecessor, however, COOLWALKER has the advantage that it can also be used to share video clips as well as still images.

Elsewhere, the ongoing contraction of the traditional film camera market unexpectedly accelerated during the year, with sales of both SLR-type and compact cameras falling. Although this is a shrinking market, many fans of film photography and Nikon film cameras still remain. We continue to offer new products with Nikon features to this market segment so that they can enjoy traditional photography to get the most out of their hobby.

While there are still many keen disciples of traditional film, which retains its unique appeal, many have been converted to the relative fun and simplicity of digital cameras. Digital pictures will allow users to adjust color, 3-D information and focus after shooting in the future. We are also looking at collaborative ventures with various other companies, including one in the United States. Nikon remains one of the world's most instantly recognized names associated with taking images. We continue to take a leading role to maintain a strong brand image amid the ongoing digital revolution in photography.



Nikon Imaging (China) Co., Ltd. is manufacturing compact digital cameras in Wuxi, China.



Our D70 SLR-type digital camera received the Japan Camera Grand Prix 2004 award.



instruments

Our two key growth themes are life sciences and digitalization. Our goal is to transform the Instruments Company into a development-oriented enterprise dedicated to the launch of products that match customer requirements precisely.

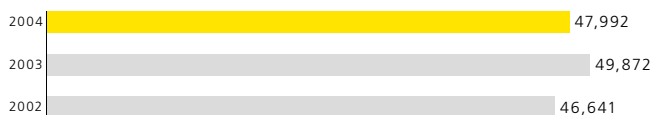
Although sales of measuring instruments rose compared with the previous year, the transfer of overseas sales operations for surveying instruments to Nikon-Trimble Co., Ltd. inevitably had a slightly negative impact on sales. We posted operating income of ¥2,685 million (up 45.8% year-on-year) on net sales of ¥47,992 million (down 3.8% year-on-year).

Although net sales for the year ended March 2004 dipped slightly relative to the previous year, we generated significantly higher operating income. Considering the weakness of markets for biological microscopes in Europe and the U.S., where Nikon has a strong position, I believe these results were creditable. Still, we cannot be satisfied yet. Here I outline the challenges we must undertake to achieve our goals.

The most important issue we face remains to boost profitability. To do this, we must first expand levels of sales to the point where we can achieve the reductions in manufacturing costs that will result in higher profits. However, I do not believe we can achieve this goal by trying to grab increased market share. Instead, we need to focus on developing products that are highly attractive to customers, and then selling these at competitive prices. In this context, "attractiveness" means creating products customers will want to use because they fulfill requirements exactly. The substantial degree of value-added in the process of achieving this feat will make our products competitive, and thereby raise sales and profits. I believe this is the path we must take toward growth.

For instance, in the biological microscopes field we are working to assess what sort of advanced technology the market wants by creating partnerships with researchers at leading Western bio research institutions. We have also dispatched our personnel to our U.S. base to incorporate feedback from customers into our technical development program for biological micro-

NET SALES* (MILLIONS OF YEN)



*The above figures include intersegment sales.

OPERATING INCOME (MILLIONS OF YEN)





COOLSCOPE

Digital microscope with numerous user-friendly operational features



ECLIPSE 90i

Advanced research microscope perfect for the life sciences with enhanced performance, the facilitation of digital image observation and recording, and system expandability



NEXIV VMR-H3030 Z120X

CNC video measuring system for high-magnification, high-speed, high-precision measurements (NEXIV VMR-H3030TZ in Japan)



NRM-3100

Overlay measuring system that supports a 90 nm lithography process with 300 mm IC wafers

Hidetoshi Mori
Executive Officer,
President of Instruments Company



scopes. In Japan, we are working alongside researchers from leading public universities to ascertain which future avenues of research will be the most important. Information on such trends can then be incorporated in our product development programs. In essence, we have changed the entire emphasis of our product development at Nikon. Before, it was technology-oriented; now, it is customer-oriented. I believe this change in focus will translate into products that add more value for customers. The new systematic approach to creating attractiveness in our product range will help us to raise profitability.

One of the first products to emerge from this new development process was the COOLSCOPE digital microscope, which went on sale in the year ended March 2004. Rather than the traditional eyepiece lens system, the COOLSCOPE uses digital images displayed on a monitor. The advantages of this innovation are that teams of people can view the images in the laboratory. In addition, since they are digitally created, the images can also be transmitted over a network, which is particularly useful for applications such as remote consultations or online tuition. The COOLSCOPE was the result of our designers and other development staff working directly with customers to discover their needs. It also marked a successful collaborative effort with Nikon Imaging Company. The result is an attractive product at a competitive price. COOLSCOPE achieved more than double the initial annual sales target in a mere nine months.

During the year we also completely revised and updated our leading ranges of biological microscopes. With the ECLIPSE i-series, we upgraded basic functions and boosted operability while also converting them to digital. This resulted in a major improvement in peripheral areas of the field of vision in terms of image smoothness. This was also the result of the application of Nikon's competitive strengths in digital imaging technology.

Turning to industrial microscopes, in June 2004 we launched the ECLIPSE L300 and L300D models,

which are designed to handle the inspection of 300 mm IC wafers and LCD panels. In this field, the market is moving toward digitalization and increased panel sizes. Our product development programs are focused on these trends, and I believe this is an area with good earnings growth potential. In both semiconductor inspection equipment and our NEXIV CNC video measuring systems, the key is to achieve high measurement precision together with improved image-processing technology. In this area, we are in a solutions business. By continuing to refine our image-processing technology, we can provide solutions that the market will want.

Indicators point to a market recovery in inspection equipment for semiconductors and LCDs, and I see the industrial segment leading our sales growth in the short term. To reduce costs further, we plan to raise production capacity at our microscope production facility in China (Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.). We also plan to upgrade our marketing and after-sales customer service capabilities in the potentially huge Chinese market through a local subsidiary that we established in August 2003 (Nikon Instruments (Shanghai) Co., Ltd.).

In biological microscopes, all the signs are that capital investment in bioscience is on a rising trend in major markets, in both the public and private sectors. We are actively engaged in R&D to create a new market for products that enable researchers to study living cells in detail. Overall, our objective is to increase sales and profitability by transforming the Instruments Company into an aggressively development-oriented enterprise.

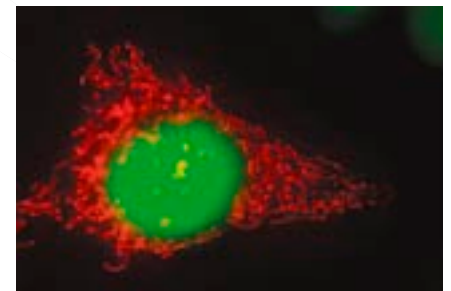


Image of living cell: the mitochondria and nucleus of HeLa cell stained with fluorescent protein taken with a fluorescent deconvolution microscope
(Image courtesy of Associate Professor Seiji Yamamoto, Hamamatsu University School of Medicine Photon Medical Research Center)



NPS3301
CMP system capable of high-precision polishing



Action Series
Binoculars made for the outdoors with a wide range of uses, including bird- and nature-watching



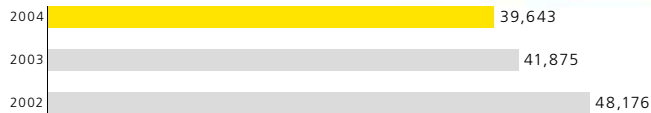
PROGUE NEXIA
World's first ophthalmic frames using photocatalyst responsive to visible light



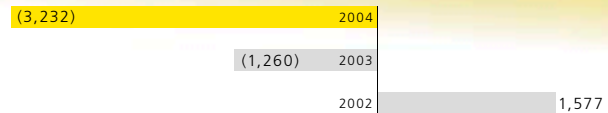
Optics Engine
Optics engines for LCOS-type projection TVs.

other

NET SALES* (MILLIONS OF YEN)



OPERATING INCOME (LOSS) (MILLIONS OF YEN)



*The above figures include intersegment sales.

Operating Results for the Year Ended March 2004

Net sales declined 5.3% year-on-year to ¥39,643 million, resulting in an operating loss of ¥3,232 million (compared with a loss of ¥1,260 million in the previous year).

The Customized Products Business posted higher sales due to special orders for aerospace-related products and other factors.

Sales of sport optics products increased in Japan as newly introduced models of binoculars and field scopes supplemented solid sales of existing products. Lower sales in the United States, however, caused overall sales in this sector to decline.

In surveying instruments, strong growth in China and other overseas markets helped to offset sluggish sales in Japan. We established Nikon-Trimble Co., Ltd., a Japan-based 50:50 joint venture with Trimble Navigation Ltd. of the United States, one of the world's leading makers of surveying instruments. Supplying a broad range of high-performance products for the surveying industry, Nikon-Trimble aims to expand their presence in this sector. Operations commenced on July 1, 2003.

In ophthalmic products, sales of ophthalmic lenses increased in overseas markets, while sales of frames and sunglasses declined amid sluggish sales in Japan.

Business Strategy

Three new businesses are set to drive future growth in this segment.

1. Chemical mechanical polishing (CMP) systems:
We established a separate business unit in November 2002 to guide the development of our business in CMP systems, which are used to make LSI chip surfaces even. Although the introduction to the industry of CMP systems for ultra low-k materials was delayed, business negotiations for use of copper interconnect of DRAM were successful. We expect to sell 10 machines in the year ending March 2005.
2. We established a business unit for glass-related operations in October 2003. Nikon is a specialist supplier of ultrahigh-quality glass materials such as silica glass. This unit is engaged in expanding sales of glass materials.
3. In June 2003, we initiated a full-scale company-wide commercial project to develop business related to optics engines. As digital broadcasting rolls out, many consumers are upgrading to digital televisions. HDTV-capable micro-display (MD) projection TVs are expected to increase in popularity as replacements for CRT-type PTVs, which have become popular in the United States. Optics engines are a critical component of LCOS-type MD PTV, which produces extremely high-quality images using highly reflective liquid crystal on silicon (LCOS). We began manufacturing and selling optics engines based on Nikon's wealth of expertise in optical technology in the year ended March 2003. The market for LCOS-type MD PTVs is forecast to grow as digital HDTV broadcasting becomes more widely available. Sales of optics engines are set to rise sharply from the year ending March 2005 up to and including the year ending March 2006.