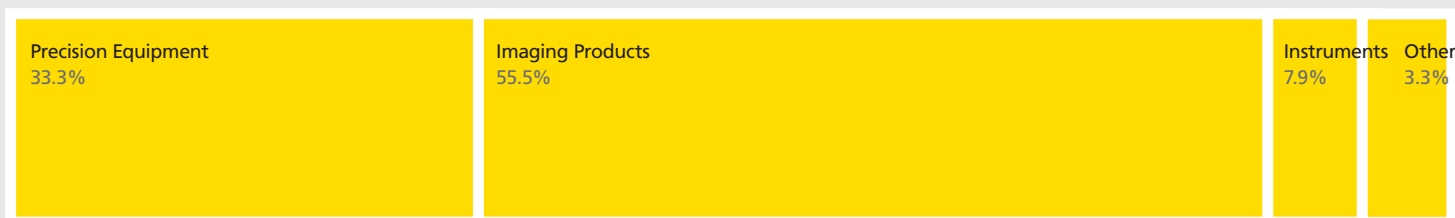


review of operations

Breakdown of Net Sales



Precision Equipment 33.3%

IC and LCD steppers



Imaging Products 55.5%

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



Instruments 7.9%

biological microscopes,
industrial microscopes,
measuring instruments,
inspection equipment



Other 3.3%

sport optics products,
surveying instruments,
ophthalmic frames and sunglasses



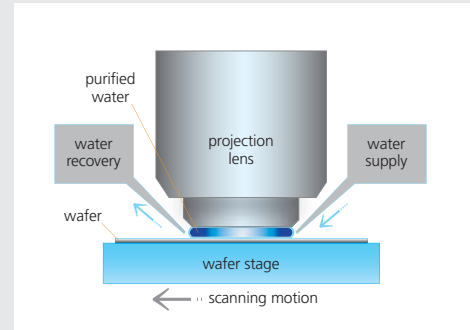
precision
equipment

accuracy+

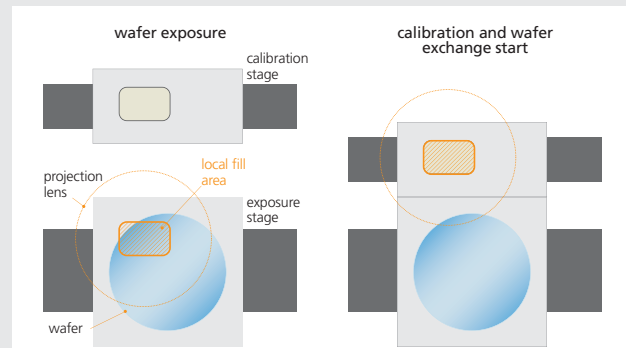


NSR-S609B

Nikon's Local Fill Technology



Tandem Stage



Immersion lithography realized with tandem stage

In our immersion scanner, the space between the projection lens and the wafer is filled with purified water, which enables ultra-high N.A. lenses with values above 1.0. This would be physically impossible using dry exposure, but is possible with immersion technology because the water has a much higher refractive index (1.44) at the wavelength used. Immersion lithography marks a major technical breakthrough since it boosts lens resolution significantly with minimal changes to other processes. Many semiconductor manufacturers have shown considerable interest in this new technology.

Immersion scanners also face various technical challenges. For instance, the design has to ensure that water is supplied continuously during wafer exchange so that the filled water is kept at a constant temperature and that the wafer can be exchanged without loss of throughput.

In order to solve this problem, Nikon has developed a new stage system to boost throughput and enhance accuracy. The new tandem-stage design includes a calibration stage positioned close to the exposure stage to enable wafer exchange without stopping the water flow. Besides boosting productivity, the tandem stage also improves alignment accuracy, since calibration is performed each time a wafer is exchanged.

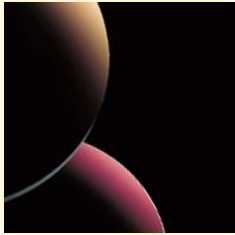
POLANO function gains an extra half-generation in resolution

The light sources conventionally used in scanners produce light rays with randomly oriented polarization. Light with s-polarization (meaning that the electric field in the wave vibrates parallel to the pattern) within the beam will raise image contrast, while light with p-polarization tends to lower contrast. The contrast degradation from p-polarized light also tends to increase as the N.A. value of scanner projection lenses increases. Selectively cutting out the p-polarized light to leave only s-polarized light typically fails to solve the problem, because it also reduces throughput due to insufficient energy density.

The POLANO polarized illumination function developed by Nikon solves this issue, creating beams of s-polarized light without reducing illumination levels. The resulting improvement in image contrast is around 20%, the equivalent of a half-generation advance in scanner resolution technology.

The POLANO function is an optional feature on the NSR-S308F ArF excimer scanner. It will also be available on the NSR-S609B immersion scanner, which will start shipping in late 2005.

review of
operations



Kazuo Ushida
*Managing Director, Member of the Board &
Senior Executive Officer
President of Precision Equipment Company*

precision equipment

“Our leading-edge technology will drive the future growth of Nikon’s stepper business.”

Profitable at the operating level after two years of losses

A recovery in the semiconductor market and higher levels of investment in LCD manufacturing equipment created favorable conditions in the year ended March 2005. Nikon focused on an aggressive marketing campaign while seeking to cut costs and shorten production lead times. Sales rose 35.6% year-on-year to ¥214,326 million. Segment operating income improved significantly, posting a profit of ¥11,387 million, after a prior-year operating loss of ¥20,806 million.

Leading-edge technology holds key to future growth

Nikon offers a full lineup of i-line, KrF and ArF IC steppers and scanners to cater to diverse market requirements. Maintaining a technological lead as the market shifts toward higher levels of device shrinking is recognized as fundamental to Nikon’s future success, as the following strategic points illustrate.

1. Given that the IC stepper and scanner market cannot sustain explosive growth, maintenance of profitability demands a closer focus on machine unit prices and on developing high-margin models that can help IC makers push the shrinkage envelope further.
2. Customers for the most advanced scanners will frequently order i-line and KrF steppers and scanners from the same manufacturer.
3. The establishment of leading-edge technologies can provide diverse future solutions to customers.

Shipments of next-generation ArF immersion scanner due in late 2005

Laboratory tests have demonstrated the superiority of Nikon’s immersion technology, showing that it is possible to produce a lens with an N.A. value of over 1.0 using immersion technology. A commercial scanner is now in the final stages of development.

Extensive tests have been conducted by several customers on an engineering evaluation tool developed at Nikon’s Kumagaya Plant. Nikon plans to begin shipments of the NSR-S609B (N.A. 1.07) immersion scanner in the final quarter of 2005 (CY). It will be the world’s first scanner to achieve a lens in excess of 1.0 N.A..

Development of next-generation EUVL technology ongoing

Nikon sees the ArF immersion scanner as the final incarnation of excimer laser based technology. Nikon believes that EUVL (Extreme Ultraviolet Lithography) is the most promising next-generation technology beyond immersion. EUVL works at a wavelength of 13.5 nm, 14 times shorter than that of an ArF excimer laser. This means that EUVL will be able to provide IC makers with the extra resolution to support the required device shrinkage. Development of the necessary ultra-precision mirrors has been the foremost technical hurdle. Nikon has applied its wealth of proprietary expertise in optical technology to this and other EUVL development issues.

NSR-S208D

High throughput, improved alignment accuracy and the incorporation of an ultra-high N.A. projection lens enable the mass production of next-generation 110nm devices with this lens scanning KrF excimer stepper.



NSR-SF140

Providing superior cost performance, high resolution and throughput, this i-line scan field stepper is optimized for mix-and-match solutions.



FX-81S

This large-plate exposure system supports eighth-generation plate sizes for LCDs, with improved throughput and a multi-lens projection optical system for greater productivity.



Net Sales* (millions of yen)

05	214,326
04	158,054
03	133,102

*The above figures include intersegment sales.

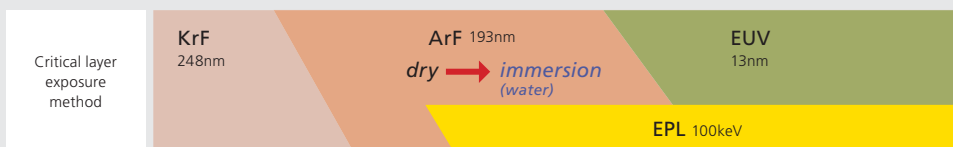
Operating Income (Loss) (millions of yen)

05	11,387
04	(20,806)
03	(24,595)

Nikon Lithography Roadmap

ITRS 2004

CY	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16
Technology Node	hp130			hp90			hp65			hp45			hp32			hp22
DRAM Half Pitch	130	115	100	90	80	70	65	57	50	45	40	35	32	28	25	22
MPU Gate in resist	90		65	53	45	40	35	32	28	25	22	20	18	17	15	13
post-etch	65		45	37	32	28	25	22	20	18	16	14	13	11	10	9



LCD exposure system business performing well as panel sizes increase

The LCD exposure system business posted excellent results in the year ended March 2005. Nikon has developed an original multi-lens scanning system for use in LCD exposure systems that is ideally suited to larger substrates. This application of parallel multi-lens units promises to result in greater benefits for LCD manufacturers as panel sizes continue to increase. In June 2005, Nikon began shipment of the latest LCD exposure systems for 7th and 8th generation production processes (FX-71S).

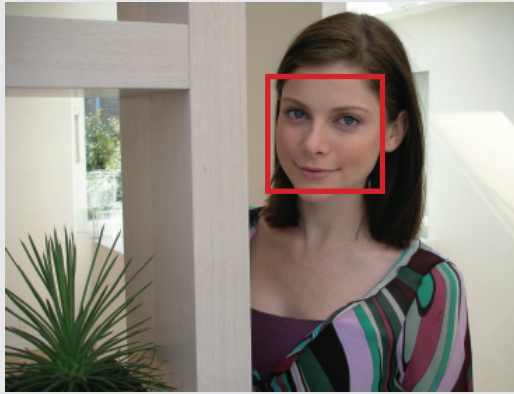
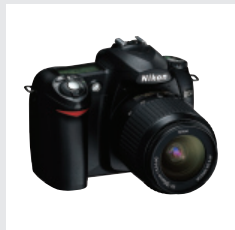
Reductions achieved in stepper lead times and costs

A major factor in the turnaround in profitability of Nikon's precision equipment operations has been a steep reduction in scanner production lead times. For leading-edge IC scanners, it now takes about six months from lens fabrication to final installation, which is roughly half the previous figure. Simplified design has played a part in this achievement, covering all processes from development and design to technical and manufacturing steps. Nikon teams have also worked with external contractors to reduce lead times

and achieve demanding performance targets. The benefits of simplified design are only just becoming apparent, and Nikon expects the new processes to generate further productivity gains going forward. Nikon has also thoroughly revised the sequence within manufacturing to eliminate any waste created by repeated processes. On the product side, Nikon has sought to improve the quality of the finished form in production to eliminate any interference between modules, thereby reducing assembly time. The reductions in lead times achieved to date have also generated substantial cost reductions.

imaging
products

imagination+



Face-priority AF automatically detects a face in the frame for well-focused portraits

COOLPIX S1 and S2

The surprisingly slim, exceptionally stylish digital camera that blends high reliability with high-quality shooting for users of all levels

D50

Extraordinary Nikon digital SLR picture quality in a camera that is smaller, lighter, easier to use, and more affordable than ever

COOLPIX S series introduces new features to digital compact camera market

Body design and additional valued functions are major factors in stimulating consumer purchases in the intensely competitive digital compact camera market. In line with this, Nikon launched the slim COOLPIX S1 and COOLPIX S2 models, which incorporate new unique high-performance functions inside slim, stylish designs.

Both models, boasting a 5.1 effective megapixel CCD, a 35–105mm (35mm equivalent) 3x Zoom-Nikkor ED (Extra-Low Dispersion) lens with a “right-angled” optics system and a large 2.5-inch LCD monitor, allow users to take high-quality images without an optical viewfinder. The original design of the COOLPIX S2 model also makes it splash proof, with water resistance equivalent to IEC 60529 IPX4.

Both models feature our pioneering Face-priority AF (Autofocus) function. Equipped with the Facelt® face-recognition technology developed by U.S.-based Identix Inc., and optimized for cameras, this feature automatically ensures optimal focus on the face of the subject to deliver a clear portrait every time. In addition to face recognition, other unique features enabling clear portrait pictures include D-Lighting, which automatically adds light and detail to underexposed and backlit images, and advanced In-Camera Red-Eye Fix, which digitally corrects the annoying phenomenon of red-eye in photos taken with a flash.

Nikon D50 further expands market for digital SLR

The new Nikon D50 digital SLR camera provides an entry-level model for a wide range of people. Besides affordable price, the development goals for the Nikon D50 included outstanding ease of use and a compact, lightweight body.

The D50 features a 6.1 effective megapixel Nikon DX Format CCD image sensor and a highly advanced image processing engine. These guarantee vivid color reproduction based on a rich gradation of hues, ensuring fantastic images every time. The camera also comes with a new “Child” mode which is designed to take more natural-looking photos of children by vividly rendering clothing and background details while keeping skin tones soft and natural.

The large, easy-to-view LCD monitor, easy-to-use controls and easy-to-understand menu design make taking pictures simple for the first-time users of SLR cameras. It can be purchased as a kit with compact zoom lenses exclusively designed for the digital SLR.

With an abundance of interchangeable lenses and accessories, we aim to introduce more people to the joy of taking superb pictures with a digital SLR camera.

review of
operations



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

imaging products

“Our creativity is a critical success factor—for differentiating product strategy and for increasing profits.”

A leap forward in digital SLR cameras

The year ended March 2005 began with the worldwide launch of the D70 digital SLR camera to widespread acclaim. At the end of the year, launches of new products included the D2x, which has 12.4 effective megapixels to satisfy the picture-quality needs of professional photographers, and the D2Hs, which can manage high-speed shooting at eight frames per second. Strong sales of digital SLR cameras and interchangeable lenses helped segment sales rise 24.9% year-on-year to ¥355,489 million. Despite steep price erosion in the digital compact camera market, operating income amounted to ¥16,841 million, which was roughly in line with targets.

Further strengthening position in digital SLR camera market

Since releasing the professional-use D1 in 1999, Nikon has reinforced its position as a pioneer in the digital SLR market. Launched in March 2004, the D70 allows amateur enthusiasts to enjoy taking pictures with digital SLR cameras that boast technology actually amassed for professional-use cameras. The model was a hit, with cumulative unit shipments reaching one million within a year. We aim to stimulate the growth of this fast-expanding market segment, which was formed initially from high-end users, by broadening the user base to include beginners as well as amateur enthusiasts. Launched in June 2005, the D50 was the first model designed with this aim in mind, combining simple operability with professional image quality. This camera has received high praise from many first-time digital SLR customers and continues to sell well. Going forward, we will expand sales by augmenting our lineup to meet the needs of a wide range of customers, from general users to professionals, with the aim of reinforcing its position as leader of the digital SLR market.

Revised product lineups for digital compact cameras

Amid increasing popularity of digital compact cameras and a shift in demand to digital SLR cameras, the key to winning in the market lies in launching attractive, high-value-added products that can be differentiated from the competition.

In response, we have conducted a detailed and multi-faceted review and analysis of target users for digital compact cameras and are promoting product planning in accord with this.

We have created a Customer Relationship Management (CRM) system and have already accumulated a variety of data on users in each segment. Plans are in place to make full use of this data in our marketing efforts, developing products that target different customers with varying lifestyles and needs, rather than segmenting the market according to price and pixels.

Cultivating a highly responsive and creative corporate culture

The digital compact camera market has expanded at astonishing speed. New entrants, including several computer manufacturers and consumer electronics firms, have joined the ranks of camera manufacturers. Model life cycles have shrunk, and price competition has become especially fierce. Further, as proliferation of digital cameras progresses, customers are becoming more discerning about the kind of product they want. In this fiercely competitive market, we believe that the critical success factors are as follows:

1. Development of new products with the Nikon stamp of creativity to carve out new segments by appealing to the imagination of consumers
2. Shift to more accelerated product development programs
3. Comprehensive cost-reduction measures to raise profitability

Realizing these objectives involves major process reforms to ensure maximal delegation of authority and enable swift decision-making at all stages of product development. We will quickly create a system that enables new models to be released to the market in the fastest time frame possible by shortening all processes, from product planning to development, design, production and sales. Improving corporate structure and reinventing corporate culture are critical to expand future business with cutting-edge digital technology. We created a mechanism that transcends traditional business divisions to spark greater cross-fertilization of ideas from all people, beginning with those in our product planning and development departments. This is but one example of how we are striving to cultivate a more creative corporate culture in order to develop highly innovative camera products tailored to the digital age.

Reinforcing our profit structure through comprehensive cost-reduction measures

The in-house manufacture of lens units, which are key components of digital cameras, is a strong driver of Nikon to boost margins for digital compact models. We will expand the factory in Wuxi, China, to enable greater production of lens units (the year saw the completion of Nikon's third building in China). In an effort to further strengthen our cost competitiveness, we will create a highly efficient integrated production line from lens element press and processing to lens unit production and camera assembly. At our Thai facility, we will expand production of digital SLR cameras and interchangeable lenses and promote cost-cutting measures to raise productivity in response to burgeoning demand. Nikon is undertaking a comprehensive series of measures to reduce costs from the development and design stage. We are working to reduce

D2x

This high-end professional digital SLR camera delivers 12.4 effective megapixels for high-precision, high-speed performance.



D2Hs

This professional digital SLR for action and sports, features ultra-high speed, high image quality, and maximum efficiency.



D70

Combining a new level of high performance with efficient handling, this model brings the full excitement of Nikon digital SLR photography and unrivaled Nikon quality to a wider audience.



F6

This flagship film SLR camera seamlessly blends cutting-edge technologies and uncompromising craftsmanship.



development costs by applying basic development technologies to a variety of models, while also designing to share the same parts and components to increase supply-chain efficiencies and revamping our procurement system.

Strengthening sales system throughout the Nikon Group

Nikon is pressing ahead with the development of a groupwide sales system to facilitate a flexible response to market trends. Apart from integrating product warehouses to improve logistics systems, we will enhance overall inventory management through the utilization of an IT-based sales system. These and other moves will enable us to cope quickly with demand shifts.

Furthermore, we will enhance our four marketing centers around the world by integrating the marketing functions in each region to boost effectiveness and efficiency.

We are also enhancing our sales and service network in emerging markets, such as China. Nikon Imaging (China) Sales Co., Ltd., has been established as a sales and service subsidiary in China. Operations commenced in June 2005. Moving ahead, we will seek to expand our business in China in earnest through this company and further boost our presence there.

Boosting product values through brand enhancement

The fact that Nikon enjoys the largest market shares in those regions where its brand awareness is highest confirms the fact that brand power is critical in the highly competitive digital camera market. While the current Nikon brand perception is expensive and high quality, it is necessary to position the COOLPIX brand in the digital compact camera market as providing state-of-the-art technologies and products, while also capturing user affinity and trust. By strengthening brand power and creating added value, we can increase product appeal. This is critical to outstrip the competition. Building on the branding statement "At the heart of the image," we aim to further clarify our brand vision and more appropriately reflect concepts in products.

Focusing on expansion of digital camera peripheral business

Besides empowering consumers to take great pictures, Nikon aims to establish the complete imaging business by extending the fun involved in photography to include such activities as creating and viewing the final images. During the year ended March 2005, we launched the COOL WALKER MSV-01, a photo storage viewer fitted

Net Sales* (millions of yen)

05	355,489
04	284,713
03	271,956

*The above figures include intersegment sales.

Operating Income (millions of yen)

05	16,841
04	25,222
03	27,745



Integrated production line from lens units to final assembly at the core factory for compact digital cameras at Nikon Imaging (China) Co., Ltd.

with a 30GB hard disk and a 2.5-inch TFT-LCD color monitor for sharing favorite images. We are also striving to enhance our software products, such as Nikon Capture, a post-production tool to boost image quality for more beautiful pictures, and PictureProject for image management, editing, and slide show creation.

We will continue to create new unique products – not only cameras, but anything in the field of imaging that gives customers the opportunity to enjoy a new imaging world through digital pictures. We are also looking into a number of collaborative ventures in various countries to broaden the horizons of digital imaging.

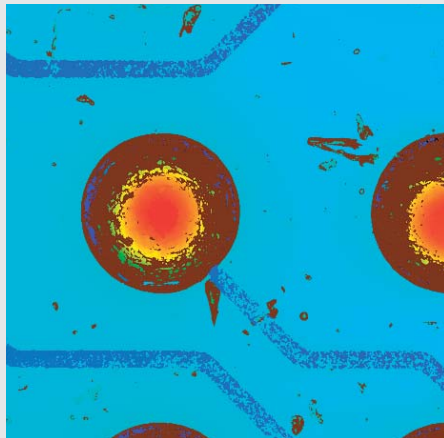
Launch of F6 to target dedicated film camera fan base

Although the market for film cameras continues to shrink dramatically, there is still a dedicated core of fans of silver-halide photography. Many remain firmly committed to Nikon products. In October 2004, we released the F6 for this user base. Positioned as the pinnacle of traditional SLR photography, the F6 features a host of modern refinements to delight all the senses. We aim to make it a long-selling and popular product.

The F6 has already garnered a number of awards such as "The Best 35mm SLR Camera in Europe 2005" from TIPA in Europe, and the "Camera Grand Prix 2005 Special Prize" from Camera Press Club in Japan.

instruments

curiosity+



VMR-K3040ZC measuring example (solder bumps on printed circuit board)
Height and direction measurement results are shown in order from low position to high position in blue, green, yellow and red, respectively



DIGITAL ECLIPSE C1si
Spectral imaging
confocal laser scanning
microscope system



NEXIV VMR-K3040ZC

New series of biological microscopes make 5-D analysis a reality

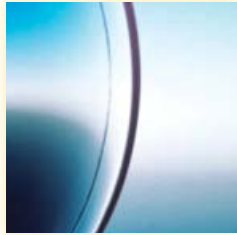
Fluorescence microscopy is a widely used laboratory technique to observe living cells. But identification of neural or protein-protein interactions has been limited because the technique requires staining with multiple fluorescent marker proteins whose fluorescence spectra can overlap. This problem often makes it difficult to achieve proper separation of signals using conventional optical filters.

Nikon's new C1si series of biological microscopes have a real spectral imaging confocal laser scanning system that can gather information on wavelength (λ) in addition to the usual four-dimensional data specifying position (x , y , z) and time (t). Computational analysis of this data allows precise separation of the different fluorescent spectral wavelengths. Simultaneous spectral image acquisition on up to 32 channels also helps minimize damage to cells. This product positions Nikon at the forefront of advances in biological instruments, maintaining its reputation for developing products that place the main emphasis on living cell observation.

New CNC video measuring system opens up the third dimension

Nikon's NEXIV series of CNC video measuring systems combine technologies for optical measurement and computational image processing to allow automatic inspection of many different types of precision-made parts and electronic components (by measuring the shapes and dimensions of individual items). The latest addition to the series, the NEXIV VMR-K3040ZC, is a new type of machine that extends video measurements into the third dimension of height. Besides the usual two dimensions, the new system can also make high-speed measurements of heights from all angles without touching the inspected item. To achieve this feat, Nikon applied its expertise in confocal optics to the challenge of examining intricate shapes on a miniature scale with high speed and precision. Moreover, by putting the confocal optics system as well as the conventional 2-D measuring system on the same multi-use detector head, Nikon developed a system that can supply either 2-D or 3-D measurements from the same perspective. Applications for this instrument include QC inspection of miniaturized parts with particularly complex architecture, such as the latest IC packages and MEMS. Nikon expects the NEXIV VMR-K3040ZC to establish a strong reputation in this growing field.

review of
operations



Hidetoshi Mori
*Director, Member of the Board & Executive Officer
President of Instruments Company*

instruments

“The main objective is to boost earnings power through greater scale so that we can contribute to higher Nikon Group growth.”

Solid growth in sales and operating income

In biological microscopes, Nikon introduced the ECLIPSE 90i as an advanced research instrument with outstanding digital imaging capabilities and system scalability. Sales of microscopes also grew in the year ended March 2005 due to the promotion of digital cameras and other accessory items. Although sales were stagnant in Japan and the United States, Asian markets generated compensating growth. In industrial microscopes, Nikon posted growth due to the launch of the ECLIPSE L300/L300D models for 300mm wafer inspection, combined with higher sales in Asian markets. Overall, sales expanded 8.7% year-on-year to ¥52,184 million, while operating income rose 5.3% to ¥2,826 million.

Trademark Nikon creativity to drive establishment of new market segments

Nikon recognizes that simply extending the existing lineup of biological and industrial microscopes is insufficient to expand the total scale of operations. The field of biological microscopes reliably delivers stable if non-explosive growth due to a customer base composed of universities, hospitals and research institutions. The industrial microscopes business is by its nature more cyclical, since demand is linked to production levels of semiconductors and electronic components. This earnings structure means that Nikon must create new market segments in order to boost growth. Nikon is investing heavily to create the necessary technological breakthroughs with the aim of applying core technical skills in microscopes to new fields. Nikon is confident that its trademark creativity can spark the development of entirely new markets, thereby enhancing growth.

Reforms to corporate culture and organization

The primary challenge in creating products for entirely new markets is one of changing the internal ethos of the Instruments Company. This involves a major change in mindset toward a market-oriented, global focus with speedy decision-making and action, in which the customer rather than Nikon sets the pace of product development. With this goal in mind, Nikon implemented major organizational reforms in June 2005. The new system eliminates previous functional divisions separating sales, design and production teams, replacing them with a more market-oriented structure with vertically linked teams focused on different market segments. The revised organizational structure divides the Instruments Company broadly into biosciences and industrial instruments. Authority is delegated extensively to product development teams in each half. Nikon hopes that this new system will promote a more open exchange of views worldwide and foster greater creativity.

Bioscience offers huge potential

Governments worldwide are investing in the biosciences, which makes it a field with unique potential. However, although biological microscopes are expected to deliver stable growth going forward, this is insufficient to generate significant gains. Nikon is working to develop new markets by focusing on the general theme of the observation and measurement of living cells. Linked to this core idea is some emerging areas with significant potential, such as cell culture and regenerative medicine. Nikon also aims to combine original digital technologies with bio-application software to expand current markets. For instance, there is the possibility of

ECLIPSE L300/L300D

Boasting ergonomic design for comfortable viewing, the incorporation of acclaimed CF160 optics achieves new levels of brightness, contrast and operability, providing support to advanced inspection of large-size LCDs and wafers.



ECLIPSE LV150A

Capable of inspecting a more diverse array of samples, this unique industrial-use microscope incorporates superior operability and a revamped objective lens, while achieving a smooth moving image display via LCD monitor.



NEXIV VMR-1515

The speed and accuracy of video measurement is now within everyone's reach with this CNC video measuring system that offers enhanced throughput, resolution and edge detection.



generating images at resolutions exceeding those produced by current microscopes. By combining hardware and software, Nikon aims to create new businesses by engineering innovative solutions to customer needs.

Shift in focus within industrial measuring equipment sector

Nikon has built its industrial measuring equipment business to date by focusing on semiconductors and electronic components. New development initiatives seek to apply expertise to other promising fields, such as automated machinery. In geographical terms, the areas with the most potential are markets in China and other parts of Asia. In the year ended March 2005, Nikon established a new base in Beijing (a local company was set up in Shanghai in 2003). Plans call for the development of a larger sales network in China. Nikon Instruments Korea Co., Ltd. also opened an office in Seoul in April 2005 as a base of operations for a new subsidiary in Korea. Nikon is considering expansion into India and Thailand in due course.

Large delivery of Nikon microscopes to pathology institute in Germany

Nikon has not achieved as high a share of the biological microscopes market in Europe as it has

in Japan and the United States. In the year ended March 2005, Nikon completed a large delivery of i-series biological microscopes to International Association of Pathology German Section (Köln), that is regarded as a global leader in the field. This success helps boost Nikon's reputation in the fiercely competitive German market, improving sales prospects throughout Europe.

Establishment of Nikon Imaging Centers at world-famous universities

Nikon has been establishing Nikon Imaging Centers at the world's leading universities in order to promote the development of biological microscopes. Through these facilities, we contribute to research in the field of bioscience. In 2001, Nikon instituted a Nikon Imaging Center at Harvard Medical School. Nikon staff dispatched there coach the researchers and students in microscope usage techniques, which can play an important role in advancing cutting-edge research into bioscience. Nikon gathers the latest research information from the interaction with Harvard University and reflects it in the development of leading-edge microscope systems. Nikon also plans to establish similar facilities at Oxford University in the U.K., at the University of Heidelberg in Germany, and at Hokkaido University in Japan.

Net Sales* (millions of yen)

05	52,184
04	47,992
03	49,872

*The above figures include intersegment sales.

Operating Income (millions of yen)

05	2,826
04	2,685
03	1,842

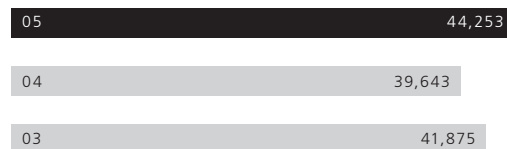


Sixty ECLIPSE 80i biological microscopes delivered to International Association of Pathology German Section (Köln)

other

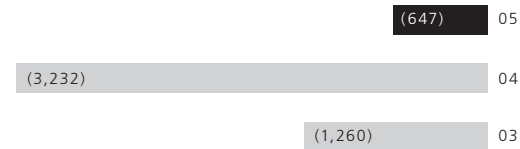
Strong sales rebound contributes to smaller operating loss

Net Sales* (millions of yen)



*The below figures include intersegment sales.

Operating Loss (millions of yen)



Strong sales rebound contributes to smaller operating loss

Segment sales rose 11.6% year-on-year to ¥44,253 million. The operating loss shrank significantly to ¥647 million, an improvement of ¥2,585 million compared with the previous year. The leading business developments were as follows.

1. Customized products posted higher sales due to increased orders for aerospace-related items and products used in semiconductor fabrication.
2. In new businesses, Nikon's glass-related operations posted higher sales from optical components and optics-related materials.
3. Although sales of sport optics products were flat in Japan, increased sales of binoculars and laser rangefinders in the U.S. market contributed to its overall growth.
4. Sales of ophthalmic products declined amid depressed demand and fiercer competition in the markets for frames and sunglasses.

Aggressive development of new businesses

Nikon continued to pursue the development of new business areas aggressively. In CMP systems (chemical mechanical polishing systems designed to make LSI chip surfaces even), Nikon attracted more interest from chipmakers despite a delay

in the use of ultra low-k insulation materials, which are the main target application. Nikon is continuing to develop products for this market while keeping a close eye on sector developments. In glass materials, Nikon is focusing on expanding external sales including ultra-high-grade silica glass, a field in which it can exploit its competitive edge. Elsewhere, Nikon has commenced full-scale production of optics engines for LCOS-type rear-projection televisions, which produce extremely high-quality images using highly reflective liquid crystal on silicon (LCOS). Such televisions are gaining in popularity with the increasing availability of digital full HD broadcasts, and sales of these optics engines are expected to grow going forward.

Other highlights

New laser rangefinder with target priority switch function

In September 2003, Nikon Vision Co., Ltd. launched the Laser 500G rangefinder. Laser rangefinders are portable devices that provide a quick and accurate readout of the distance to an object by measuring the time taken for an infrared laser beam to be reflected off it. Besides leisure applications in golf and marine sports, laser rangefinders are also convenient tools for surveyors and civil engineers

for providing quick, easy measurements.

In the year ended March 2005, Nikon Vision launched the Laser 800S. This model has a Target Priority Switch System that allows users to switch easily between two target-prioritization modes to focus either on objects close to the viewer or ones farther away. This function is useful in various settings.

Launch of industrial lenses for high-resolution CCD cameras

Accuracy requirements for circuit board inspection equipment are becoming more exacting as printed circuits become increasingly complex and intricate. Image-processing technology is now the mainstream option for detecting defective items in QC processes. Increasing complexity in turn requires higher performance from the cameras used in industrial circuit board inspection equipment, producing demand for CCDs with ultra-high resolution. Tochigi Nikon Corporation manufactures and sells such high-performance industrial lenses. Over the past year, the firm has released a number of advanced lenses offering high-resolution performance for the latest CCD cameras. These include the Nikon Rayfact 80mm F4 lens, the Nikon Rayfact 3.5x lens and the Nikon Rayfact 7x lens (in June 2005).

Rayfact 7x

Reducing distortion and aberration, this cutting-edge lens is ideal for high-resolution CCD cameras, achieving superior image quality even in peripheral areas.



Laser 800S

This device provides quick and accurate distance measurement up to 730 meters (800 yards), and features a Target Priority Switch System that allows users to select from two measurement modes.



HG L series binoculars

Designed for a broad range of outdoor applications, these new HG L series binoculars feature the outstanding optical standards of their predecessors while substantially reducing the weight of 42mm objective diameter models.

