



TO OUR SHAREHOLDERS AND INVESTORS

Translating the advanced technological expertise amassed within Nikon Group into real profits is a primary aim of Nikon management. In the year ended March 2006, we took the first step towards achieving this key objective and presented the blueprint for future growth along the way.

Set medium term goals in light of record high sales and income

Net sales for the year ended March 31, 2006 advanced 14.5% year-on-year to ¥730,944 million. Operating income was ¥66,587 million, which represented a 118.0% gain compared with the previous year. As a result, net income grew 19.9% to ¥28,945 million. All of these results marked new record highs for Nikon.

These achievements are viewed merely as a stepping stone, however, towards even higher performance, as reflected in the objectives of our three-year medium term management plan. Based on this plan, consolidated targets for the year ending March 2009 include net sales of ¥900 billion, operating income of ¥90 billion and a debt-equity ratio of less than 30%. Details of the plan are given later.

Nikon has identified two main challenges to overcome in order to accomplish these goals: (1) secure a leadership position and remain at the vanguard of the market by leveraging our technical advantages; and (2) create a highly profitable corporate structure by bolstering manufacturing competitiveness, the quintessence of a manufacturer.

Establish market-leading technology

Nikon enjoys a strong presence in each of its core markets. In the field of IC steppers and scanners, we are establishing a sound position in the market for cutting edge ArF immersion scanners. During the period, we

began shipment of the NSR-S609B ArF immersion lithography scanner, which is the world's first system to achieve a lens having an NA value above 1.0. Following this, we plan to launch the NSR-S610C with an NA value of 1.30 in the fourth quarter of 2006 (CY), which will show to the world Nikon's superiority in immersion technology.

In the field of LCD exposure systems, LCD panels continue to get larger at a pace exceeding expectations, providing us with the opportunity to exploit the advantages of our unique multi-lens projection optical system in 7th and 8th generation LCD panel production equipment. Going forward, we forecast our share in the market for large LCD exposure systems will continue to grow along with expansion in the size of LCD panels.

In digital SLR cameras, customers have great confidence in our product line that extends from professional-use to entry-level models. Our compact digital cameras not only incorporate Nikon's original technologies to enhance user-friendliness such as functions that ensure optimized pictures, but also technologies accumulated in digital SLR cameras. We will continue to deliver to market models with the unique Nikon identity.

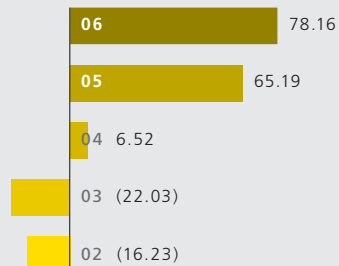
In the Instruments business, one of the most promising areas for development is in the bioscience field, and more specifically, in the market for microscopes for the observation of live cells. Nikon believes that observing live cells will become integral to the development of new medicines in the coming years. In the year ending March 2007, we plan to release the BioStation series of cell culture observation systems, which enable the cultivation

Ichiro Terato
 Executive Vice President,
 Member of the Board & Chief Financial Officer

Michio Kariya
 President, Member of the Board,
 Chief Executive Officer & Chief Operating Officer

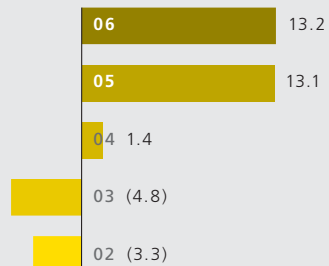


NET INCOME (LOSS) PAR SHARE (yen)



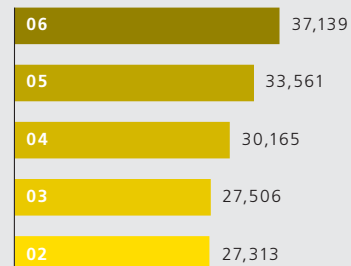
Years ended March 31

RETURN ON EQUITY (%)



Years ended March 31

R&D COSTS (millions of yen)



Years ended March 31

as well as the observation of live cells. Besides seeking to aggressively develop highly creative new products that match the needs of the market and the times, Nikon will expand business and boost profitability by further strengthening sales and marketing competencies.

Nikon is also proactive in its stance towards entering new markets in which we can apply our technical advantages. For example, we are presently planning to advance into the field of industrial consumption materials with our glass materials and component related businesses. This field is expected to contribute to higher, more stable profits for the Nikon Group.

Initiatives to shorten development lead-time and reduce manufacturing costs

One of the key factors behind greater-than-expected profitability in Precision Equipment and Imaging Products was the shortening of development lead-time. Promoting simplified design and module standardization enabled us to boost profit-earning capability in Precision Equipment, while we were successful in drastically cutting development lead-time for digital cameras in Imaging Products. As a result, we are well on the way to establishing a structure that allows swift response to fast-changing market needs.

Moving ahead, we will strive to further reduce manufacturing costs through the inauguration of a company-wide project that aims to trim both lead-time and cost. Activities such as these are expected to help expand Nikon's profitability.

Increase capital investment and R&D investment to drive future growth

One of the focus points of the medium term management plan is to increase capital investment and R&D investment. In the three-year period that the plan covers, Nikon plans to raise capital investment by 20% and R&D investment by 60% compared with the prior three years. Apart from investment in the development of next-generation steppers and scanners in Precision Equipment, and of second-generation digital cameras

in Imaging Products, we will work to strengthen competitiveness in the bioscience field in Instruments while aggressively channeling funds into R&D for new businesses and elemental technologies.

Bolster corporate governance

Amid continued globalization of the business environment, increasing management efficiency and transparency, and strengthening the monitoring and supervision of business execution are integral to achieving stable corporate growth over the medium- to long-term. At Nikon, corporate governance is viewed as a top management priority, and as such, we are working hard to create and enhance crucial organizational controls and systems. Initiatives taken to strengthen corporate governance are outlined on pages 22-23 of this Annual Report.

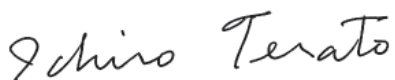
Finally, as members of top management, it is our duty to relay the fact that Nikon is now undergoing immense change. Another key objective of the medium term management plan is to foster a free and open-minded corporate culture so that motivation levels are optimum and the opinions of all employees, including young engineers, are more readily heard at the management level.

Although we achieved record profits in the year ended March 2006, this marks but one step towards our goal of new innovation. Numerous issues remain if we are to lift the bar even further, but with the collective and unified efforts of all management and employees, we are confident we can meet the expectations of shareholders and investors.

We look forward to your continued guidance and support as we strive to achieve the objectives we have set.



Michio Kariya
*President, Member of the Board,
Chief Executive Officer & Chief Operating Officer*



Ichiro Terato
*Executive Vice President,
Member of the Board & Chief Financial Officer*