

IN THE YEAR ENDED MARCH 2007, THE NIKON GROUP POSTED RECORD-HIGH NET SALES, OPERATING INCOME AND NET INCOME FOR THE SECOND YEAR RUNNING. MOST OF THE TARGETS OF THE THREE-YEAR MEDIUM-TERM MANAGEMENT PLAN ANNOUNCED IN MARCH 2006 WERE ACHIEVED IN THE FIRST YEAR, WITH OPERATING INCOME SURPASSING ¥100 BILLION. EVEN SO, THE RAPIDLY CHANGING BUSINESS CONDITIONS ALLOW US NO TIME TO REST ON OUR LAURELS.

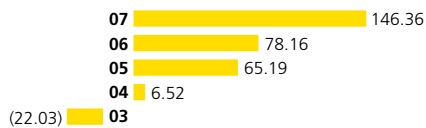


ICHIRO TERATO
REPRESENTATIVE DIRECTOR,
EXECUTIVE VICE PRESIDENT
AND CFO

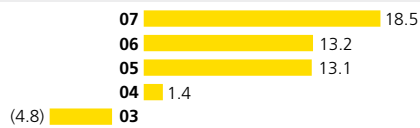
MICHIO KARIYA
REPRESENTATIVE DIRECTOR,
PRESIDENT, CEO AND COO

NET INCOME PER SHARE (LOSS) ¥

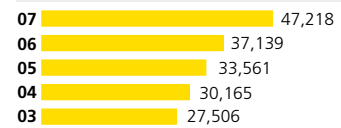
Years ended March 31

**RETURN ON EQUITY %**

Years ended March 31

**R&D COSTS MILLIONS OF YEN**

Years ended March 31

**BUSINESS ENVIRONMENT AND PERFORMANCE**

We aggressively made further progress in the key objectives identified in the medium-term management plan for the Nikon Group that we announced in March 2006. In practical terms, we made significant progress on three fronts: (1) strengthening core business competitiveness by gaining market share with state-of-the-art equipment and by developing high-value-added products; (2) bolstering cost competitiveness through the development of policies to strengthen manufacturing competitiveness; and (3) creating and fostering new businesses, notably within the Glass Division.

We also devoted efforts to CSR-oriented management through upgrading our internal control systems and other initiatives. At the same time, we focused on improving our financial structure.

In performance terms, the result of our efforts was a second straight year of record-high sales and profits. Consolidated net sales rose 12.6% compared with the previous year, reaching ¥822,813 million. Operating income rose 53.2% to ¥102,007 million and net income soared 89.4% to ¥54,825 million. Moreover, our focus on boosting manufacturing competitiveness yielded a gain in the cost of sales ratio of 4.0 percentage points—in just one year.

Turning to business segment performance, we recorded significant growth in both sales and profits across the board. The precision equipment business posted sales of ¥292,562 million, a year-on-year increase of 20.3%. Segment operating income soared 87.0% year-on-year to ¥49,321 million. This was due to various factors, including cost-reduction gains from adoption of standardized modules and promotion of simplified design as well as increased sales of LCD scanners for large LCD glass substrates. In the imaging products business, strong sales of digital single-lens reflex (SLR) cameras and interchangeable lenses helped segment sales rise 8.0% in year-on-year terms to ¥449,790 million. Operating income in this business surged 32.9% to ¥45,678 million. In the instruments business, sales climbed 11.5% to ¥61,171 million, while operating income was 25.4% higher at ¥5,123 million. Finally, sales in the other segment rose 14.9% to ¥57,244 million, generating a 9.0% year-on-year gain in operating income to ¥2,102 million. For further details of business performance, please refer to the other sections of this report under Review of Operations and Management's Discussion and Analysis of Operations.

BUSINESS PROSPECTS AND DEVELOPMENT

We have cause to feel satisfied with these results for the year ended March 2007. However, the business environment is characterized by extremely rapid change, and so we cannot afford to rest on our laurels. If anything, we need to be even more alert to the dangers of constant change than we have been in the past. With this in mind, our goal is to focus on business expansion.

Below, we outline the major issues and trends in each Nikon Group business.

Precision equipment

Our efforts to re-engineer this business have now realized clear potential for profitable growth. Nikon's operations span the two sectors of IC and LCD steppers and scanners. In IC steppers and scanners, our ArF immersion scanners now represent the mainstream of cutting-edge technology. We enjoy a dominant position due to our technical leadership in immersion lithography.

In the year ending March 2008, we will launch the first of the SF150 high-speed i-line IC steppers for exposure of non-critical layers. This represents a new concept in IC steppers. Going forward, we plan to expand this business across all domains by developing steppers and scanners for non-

critical layers, in addition to the high-end scanners that we market for critical layer exposure. The main issue for us is making sure that we anticipate market trends accurately. We are studying plans to increase our production capacity for state-of-the-art IC scanners.

In LCD steppers and scanners, our multi-lens projection optical system is proving its mettle in large LCD panel manufacturing processes as makers shift to 7th and 8th generation glass substrates to accommodate demand for larger screen sizes in LCD televisions. We have monopolized the market in these sectors. In the year ended March 2007 we booked sales of a large number of LCD steppers and scanners, which means that we expect the number of units sold to decline in the coming year. The key to future prospects in this business is the extent to which large-panel LCD televisions become a regular household fixture.

Imaging products

The D40 and D80 digital SLR camera models that we launched during the year sold extremely well, driving overall sales growth. The design concept behind the D40 was to make it easy for a wider consumer base to enjoy creating high-quality images with a digital SLR camera. With this product we succeeded to carve out a new segment in the SLR camera market. The main issues for us going

forward in this business are to raise margins by generating further gains in manufacturing cost competitiveness and to strengthen Nikon's brand positioning within the compact digital camera market. We are also focusing our efforts on developing the next generation of digital cameras to help people find new ways of deriving pleasure from images.

Instruments

Customers are steadily adopting our latest live cell imaging systems. Our cutting-edge confocal CNC video measuring systems and automatic macro inspection (AMI) systems for semiconductors are also being well received. We are still in the process of implementing reforms in this business. To reduce development lead-times we are working to forge stronger cooperative links with the Core Technology Center, which leads Nikon's technical development programs. We are also striving to improve the overall operational efficiency of this business. We aim to raise segment operating income to ¥10 billion in the year ending March 2010.

New business development

During the year under review, we began selling LCD photomask substrates. These products count as industrial consumables, and we expect to generate stable profits from supplying them. We can also take advantage of the various specialized knowledge that we have in this field by virtue

of supplying the exposure systems for LCD panel manufacture. This business has made a smooth start. We expect sales to reach ¥3.5 billion in the year ending March 2008.

ENHANCING CSR-ORIENTED MANAGEMENT

We established the CSR Committee in January 2006 to oversee and reinforce CSR-related activities across Nikon, including issues such as corporate governance and compliance. During the year under review, we set up the Risk Management Committee under the CSR Committee to strengthen risk management. This body has been focusing initially on formulating business continuity plans, which describe various contingency measures in the event of an earthquake or other natural disaster. Such plans would enable us to honor commitments to maintain stable supplies of products to customers.

In April 2007, we unveiled the Nikon Corporate Social Responsibility Charter. Going forward we plan to make further progress in enhancing CSR-oriented management, reflecting the importance that we place on CSR activities.

AIMING FOR TRUE EXCELLENCE

What we are striving to create is a "Strong Nikon." By this, we mean creating a company that possesses both strongly

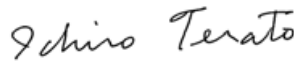
competitive products and a robust financial structure. We believe that we have made significant progress in both respects over the past year. We have taken the innovation and creativity of our younger employees and combined these with Nikon's strengths in core and elemental technologies to create original new products. In future we aim to listen more closely to customer feedback to help us find ways of meeting and anticipating customer needs, which in turn will enable us to create new markets. We also believe that only a "Strong Nikon" that has developed better CSR-oriented management practices, which cover issues such as corporate governance and compliance, can lay claim to attaining "true excellence."

Nikon's business philosophy is "Trustworthiness and Creativity." What value can we offer the world as long as we remain true to this core philosophy? To celebrate our 90th anniversary in 2007, we have summarized our vision for creating a new Nikon in the following words: "Our Aspiration: Meeting needs. Exceeding expectations." We aspire to be a company that meets the needs and exceeds the expectations of customers and society in general. In our view, realizing this vision requires us to embrace four commitments: to be proactive, so that we can act quickly and decisively; to seek new knowledge, driven by our curiosity; to communicate well; and to display integrity. By combining

the spirit and potential engendered by trying to work in this way, we can rise to the challenge of achieving the targets that we have set. We hope that you will give us the benefit of your continued support and understanding as we move forward.



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