

# At a Glance

Nikon has carved out a place as a pioneer of optical technology in Japan and the world since its inception in 1917. Today, we command a high global standing in the manufacture and sale of camera-related products, such as digital cameras, as well as binoculars and other optical products for consumers, such as ophthalmic lenses. These items complement our diverse array of industrial precision equipment that includes semiconductor-related equipment, IC and LCD steppers and scanners, microscopes and measuring instruments.

To celebrate our 90th anniversary in 2007, remaining true to Nikon's business philosophy of "Trustworthiness and Creativity," we have formulated our new vision 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.

Going forward, the Nikon Group will leverage its core competencies to meet needs in various industries and to satisfy customers the world over.

## p2 To OUR SHAREHOLDERS AND INVESTORS

In this section Nikon's top management explains the firm's initiatives during the subject fiscal year and the changes at Nikon underpinning the positive performance, as well as CSR measures, shareholder returns, and our forecasts for the next fiscal year.

### SEGMENTS/PRODUCTS

#### PRECISION EQUIPMENT



ArF Immersion Scanner NSR-S610C



LCD Scanner FX-83S

#### IMAGING PRODUCTS



Digital SLR Camera Nikon D3



Digital Compact Camera COOLPIX S510

#### INSTRUMENTS



Automated Pattern Profile Monitoring Systems APM-3000 Series



Confocal Microscope A1

#### OTHER



Absolute Encoder MAR-MK32A



Laser Rangefinder Laser 550AS

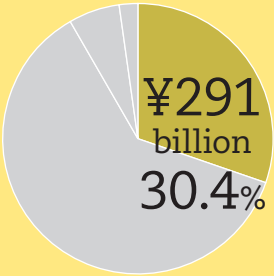
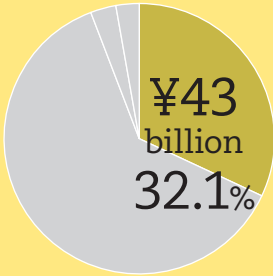
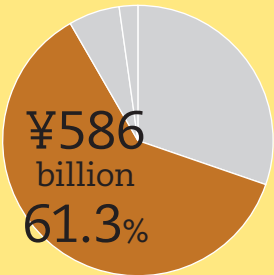
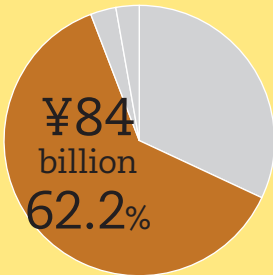
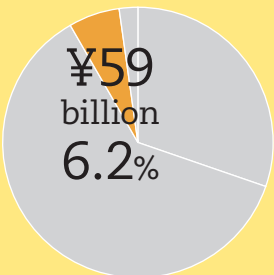
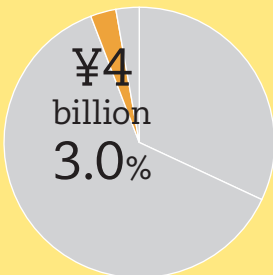
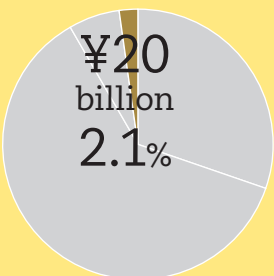
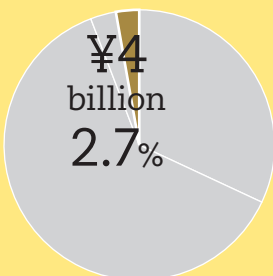
Statements contained in this report regarding the plans, projections and strategies of the Nikon Corporation and its subsidiaries and affiliates that comprise the Nikon Group (hereinafter "Nikon") that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data that are obtainable at the time of announcement in compliance with Nikon's management policies and certain premises that are deemed reasonable by Nikon. Hence, actual results may differ, in some cases significantly, from these forward-looking statements due to changes in various factors, including—but not limited to—economic conditions in principal markets, product and service demand trends, customer capital investment trends, and currency exchange rate fluctuations.

# p7 REVIEW OF OPERATIONS

This section provides an overview of activities and strategies during the subject fiscal year, along with feature analysis of the strengths, business opportunities and issues facing each of the internal companies.

# p22 CSR-ORIENTED MANAGEMENT

This section presents the CSR structure, along with various management initiatives aimed at earning the trust of society.

DESCRIPTION	SHARE OF NET SALES	SHARE OF OPERATING INCOME	PAGE
Nikon contributes to our increasingly sophisticated information society with its leading steppers and scanners used in semiconductor and LCD panel manufacturing worldwide.	 <p>¥291 billion 30.4%</p>	 <p>¥43 billion 32.1%</p>	p8
For a new dimension of pleasure from photography, Nikon develops and markets imaging products worldwide with various features using sophisticated digital imaging technology.	 <p>¥586 billion 61.3%</p>	 <p>¥84 billion 62.2%</p>	p12
Nikon's microscopic ultra-precision tools are used extensively in bio-science, and contribute to greater efficiency in high-precision measurements in the field of industrial instruments.	 <p>¥59 billion 6.2%</p>	 <p>¥4 billion 3.0%</p>	p16
Outside of its current core businesses, Nikon is diversifying into businesses that are expected to grow according to society's expanding needs, and will nurture these new developments into future core businesses.	 <p>¥20 billion 2.1%</p>	 <p>¥4 billion 2.7%</p>	p20

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FIVE-YEAR SUMMARY  
MANAGEMENT'S  
DISCUSSION AND ANALYSIS

# p28

FINANCIAL STATEMENTS  
INDEPENDENT AUDITORS'  
REPORT


# p51

CORPORATED DATA  
AND  
INVESTOR INFORMATION

A portrait of Michio Kariya, an older man with glasses, wearing a dark suit, white shirt, and blue patterned tie. He is looking directly at the camera with a neutral expression.

*Michio Kariya*

**MICHIO KARIYA**  
Representative Director,  
President, CEO and COO

A portrait of Ichiro Terato, a man with glasses, wearing a dark suit, white shirt, and dark tie. He is looking directly at the camera with a neutral expression.

*Ichiro Terato*

**ICHIRO TERATO**  
Representative Director,  
Executive Vice President and CFO

## To Our Shareholders and Investors

**NIKON ACHIEVED RECORD-HIGH SALES AND EARNINGS IN THE YEAR ENDED MARCH 2008. WE WILL CONTINUE TO BOLSTER OUR TECHNOLOGICAL CAPABILITIES, MANUFACTURING AND SALES TO FURTHER ESTABLISH A “STRONG NIKON.”**

We focused on two main reform measures: Rapid responses to changes in the business environment, and collaborative development of products by the design and marketing departments. We achieved record-high levels of sales for the fifth consecutive fiscal year, operating income for the third year, and net income for the fourth year.



## BUSINESS INITIATIVES AND RESULTS FOR THE YEAR ENDED MARCH 2008

We would like to begin with an overview of developments in our three main internal companies. In IC steppers and scanners, the Precision Equipment Company began full-scale shipments of the latest cutting-edge model of ArF immersion scanner in Japan and overseas, and introduced the i-line stepper with significantly improved precision and throughput. Unit sales of LCD steppers and scanners were down considerably from the year ended March 2007 as panel display manufacturers scaled back investment in reaction to the year ended March 2007. However, with the positive response to the leading-edge models of IC scanners the Precision Equipment Company posted sales on par with the year ended March 2007, and managed to hold profit decline to a minimum.

The Imaging Company strengthened its product lineup with the introduction of the D3 and D300 flagship models, and the entry-level D60 model of digital SLR (single-lens reflex) cameras, successfully

opening new markets. Sales of existing models were also positive, particularly the entry-level D40 model, allowing Nikon to capture the top market share for unit sales of digital SLR cameras in Japan for 2007. We also made a strong market introduction for new models of compact digital cameras, recording increases in sales. Camera sales exceeded market expansion as a result, and the Imaging Company posted record levels of sales and operating income.

The Instruments Company achieved growth in biological microscopes and measuring instruments, but sales of industrial instruments such as semiconductor inspection equipment and industrial microscopes were sluggish as companies restrained capital investments. Segment sales were on par with the year ended March 2007, but earnings declined.

The year ended March 2008 marked the 90th anniversary of Nikon, and was a year in which we worked toward realizing our newly formulated management vision, "Our Aspiration: Meeting needs. Exceeding expectations." Specific initiatives were the core measures of the medium term management plan:

## Financial Highlights

Nikon Corporation and Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2008	2007	2006	2005	2004	2008
<b>For the year</b>						
Net sales	¥955,792	¥822,813	¥730,944	¥638,468	¥506,378	\$9,539,790
Operating income	135,169	102,007	66,587	30,545	3,675	1,349,130
Net income	75,484	54,825	28,945	24,141	2,410	753,407
Per share of common stock (Yen and U.S. dollars) :						
Net income	¥ 189.00	¥ 146.36	¥ 78.16	¥ 65.19	¥ 6.52	\$ 1.89
Diluted net income	181.23	131.42	69.33	57.84	6.02	1.81
Cash dividends applicable to the year	25.00	18.00	10.00	8.00	4.00	0.25
<b>At year-end</b>						
Total assets	¥820,622	¥748,939	¥690,920	¥633,426	¥606,513	\$8,190,650
Total equity	393,126	348,445	243,122	196,030	171,194	3,923,797

Notes: 1. Per share of common stock is computed based on the weighted average number of shares outstanding during the year.  
2. U.S. dollar figures are translated for reference only at ¥100.19 to U.S. \$1.00, the exchange rate at March 31, 2008.

(1) strengthen the competitiveness of core businesses by securing superiority in state-of-the-art technologies and developing high-value-added products; (2) boost cost-competitiveness through manufacturing innovations; and (3) create new businesses, including the glass business. We also made further progress with establishing internal controls, and based on the Nikon Corporate Social Responsibility Charter formulated in April 2007, conducted highly transparent management emphasizing CSR.

As a result, we reported record-high levels for both revenue and earnings. Net sales rose 16.2% from the year ended March 2007 to ¥955,792 million, with operating income up 32.5% to ¥135,169 million, and net income increasing 37.7% to ¥75,484 million.

Nikon's financial position was also strengthened by a positive net cash position (cash and cash equivalents less interest-bearing debt) at the end of the year ended March 2008, reversing the negative position of the previous fiscal year.

## NIKON'S REFORMS:

### RAPID RESPONSES TO CHANGES IN THE BUSINESS ENVIRONMENT

Nikon had in the past posted a net loss for two consecutive years. This was due to an excessive focus on product performance that led to an inability to develop products in a timely manner that matched the speed of change in the business environment, along with a lack of cost consciousness. We followed two main avenues for improvement. The first was

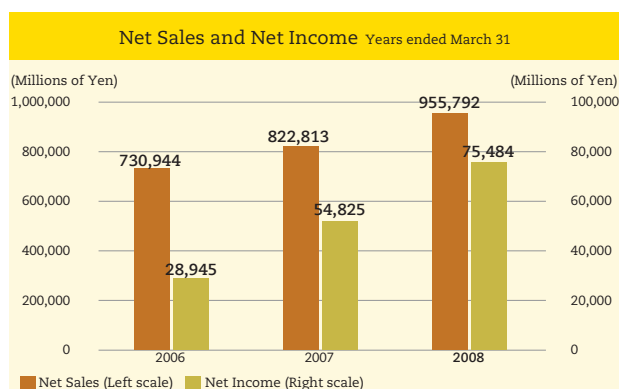
developing rapid management responses to changes in the business climate.

The business environment affecting Nikon's operations continues to change considerably with device shrinkage of semiconductors and the increasing size of LCD panels, expansion of the digital camera market and ever fiercer competition, as well as advancements in the bioscience market. One of the measures adopted to address these developments is the "weekly report system," under which all supervisory and management employees file regular reports to management, allowing for simultaneous collection of information from all points. We sort through this information and analyze it from various angles, quickly giving us a grasp of current conditions within the Company, as well as market development and needs. Top management will also issue specific directives to the person making the report as necessary. This system enhances the speed of executive decision-making, and allows us to develop and introduce products in response to market changes.

Each of the internal companies—Precision Equipment, Imaging, and Instruments—conducts business at its own discretion. When they encounter important aspects that require a company-wide resolution, however, a Management Reform Committee coordinates the overall response, and issues directives as necessary.

### COLLABORATIVE PRODUCT DEVELOPMENT BY DESIGN AND MARKETING

The other main reform was in our approach to design. Products were formerly created under the direction of the design department, but now the marketing department presents ideas to the designer based on market needs, and the design department responds with practical ideas utilizing new and existing technology. Such back-and-forth between marketing and design allows us to determine what kind of products consumers really want, what technology is to be used in creating them, and how they are presented and sold.



As part of this process we try to utilize modularized and simplified designs, as well as shared components. Simplified design is a means of providing the necessary features at the lowest cost. It includes conducting discussions that transcend the internal and external confines of the company, averting potential problems and improve reliability by utilizing as simple a structure as possible, and eliminating the adjustment and other processes.

We also feel that stressing front-loading (enhancing product quality from the initial stages) leaves ample room for further cost reductions.

#### **THE CORE TECHNOLOGY CENTER LEADS TECHNOLOGY DEVELOPMENT FOR ALL INTERNAL COMPANIES**

The source of Nikon's technological capability is the Core Technology Center, which develops advanced elemental technology and conducts basic research. Optical and precision technologies have up to now mainly been used for IC steppers and scanners, but it is increasingly possible to employ these for digital cameras, microscopes and other applications. The fruits of such research are mediated by the Core Technology Center, allowing them to be employed across each internal company. Image processing in particular is a key technology for a wide range of products, which along with optical technology acquired over Nikon's long tradition helps to enhance our leading position.

#### **THINGS THAT WILL NEVER CHANGE, AND THOSE WE WILL NOT CHANGE**

There are things that Nikon will never change. The most fundamental of these is reliability, and at the same time the integrity not to betray the expectations of customers with regard to technology. For example, in our long tradition of camera creation we have carefully maintained those ineffable sensations that do not appear in product specifications. We have preserved those traditions that allow us to be recognized as a camera maker of distinction, such as the feel of the camera in the

hands, its texture, and the sound of the shutter. We believe it is important to respect the idea that customers have certain expectations when they purchase a Nikon, and that we meet them. We will also maintain the world-class level of Nikon's core optical and precision technologies. A flexible response to change while holding steady those things that must not be changed—that is the Nikon style.

#### **MEETING NEEDS AND EXCEEDING EXPECTATIONS IN CSR AS WELL**

Nikon made "CSR-oriented management" one of its priority measures in the medium term management plan announced in March 2006, and developed a variety of measures based on it. We consider our business activities themselves to be the essence of CSR, and have adopted as the basic principle of our CSR philosophy "Earnestly create good products to benefit society and customers, foster a workplace that allows the diverse people who work there to have a sense of motivation and purpose, and give the results back to shareholders." One manifestation of this ideal is that should a production line stop due to some sort of disaster, we are willing to take whatever steps possible, and have conducted regular drills and training, so as to minimize as much as possible any interruption to the supply of products. We seek to be worthy of the trust placed in us by customers, society and all stakeholders, and will continue to conduct business with integrity and soundness, and create value that exceeds expectations. Adhering to this conviction, we will continue to face new challenges.

Nikon formulated the "Nikon Basic Environmental Management Policy" in 1992, and under the guidance of the Environmental Committee has pursued environmental conservation measures based on the principles of recycling and coexistence with nature. In October 2007, we established a Global Warming Prevention Project Team to directly address issues

related to global warming, setting specific numerical targets for energy conservation, reductions in CO<sub>2</sub> emissions and other environmental indices, and actively implementing these throughout the Group.

## SHAREHOLDER RETURNS POLICY AND DIVIDENDS

Nikon has increased its shareholder returns in recent years in response to the strengthening of its financial structure. More specifically, our present goal is to provide a total return ratio of 25% or more. To achieve this, we make proactive investments for future growth, while also paying a stable dividend that increasingly reflects consolidated performance. At the same time, we acquire treasury stock to improve capital efficiency and allow for the conduct of a flexible capital policy. In accordance with a decision by the Board of Directors meeting on May 12, 2008, we acquired 3,713 thousand shares of stock with a total value of ¥11,997 million. Year-end dividends for the year ended March 2008 were ¥13.50 per share, which combined with the interim dividend of ¥11.50 per share is a full-year dividend of ¥25 per share. This represents an increase of ¥7 per share over the previous year-end.

## FORECAST FOR THE YEAR ENDING MARCH 2009, AND PROGRESS OF THE MEDIUM TERM MANAGE- MENT PLAN

We expect conditions for IC steppers and scanners to be difficult during the year ending March 2009 due

to restraints on capital investment, but anticipate a recovery for LCD steppers and scanners due to growth in the market for LCD televisions. We expect the digital camera market to continue to expand, but remained concerned over economic slowdown and lagging consumption due to the impact of the sub-prime loan crisis in the United States and the earthquake in China, and so anticipate sluggish market growth and increasingly fierce competition. Business conditions are becoming harsher in the year ending March 2009, but we are seeking to realize further increases in revenue and earnings through greater product competitiveness and cost reductions. Nikon will retain a sense of alertness in its business and organizational operations, seeking quick and accurate responses to the drastically changing business environment, as it works to establish a “Strong Nikon” able to produce sustainable growth.

Specifically, we will move forward with the principles of the medium term management plan:

- Strengthen the competitiveness of core businesses by securing superiority in state-of-the-art technologies and developing high-value-added products.
- Create and foster new businesses becoming new pillars that support our group through appropriate investment of our resources.
- Innovate manufacturing and strengthen sales capabilities.
- Increase cash flow through improvement of asset efficiency.

In the three years through the year ending March 2011, we plan to carry out capital investments totaling ¥160 billion and R&D spending totaling ¥220 billion to produce next-generation products, develop core and basic technologies, and improve productivity.

Thank you for your continued support of Nikon.

