

Review of Operations

A close-up photograph of a Nikon NSR-SS10C lens, showing the green and silver metallic surfaces and the lens elements.

Precision Equipment Company P.8

A photograph showing various Nikon lens components, including lens barrels and internal elements, arranged on a surface.

Imaging Company P.12

A photograph of a Nikon microscope, showing the eyepiece, objective lenses, and the base of the instrument.

Instruments Company P.16

A photograph of various Nikon equipment, including what appears to be a camera body and other optical instruments, set against a dark background.

Other P.20

Precision Equipment Company

STABLE EARNINGS WERE SECURED THROUGH INCREASED SALES OF HIGH-VALUE-ADDED IMMERSION-TYPE AND OTHER ArF SCANNERS.

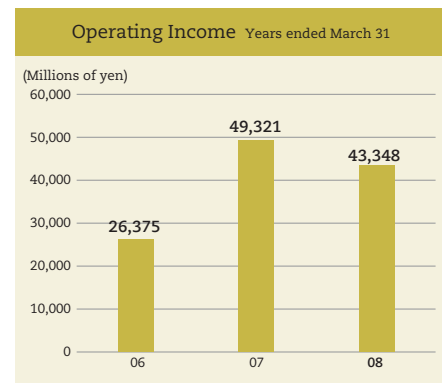
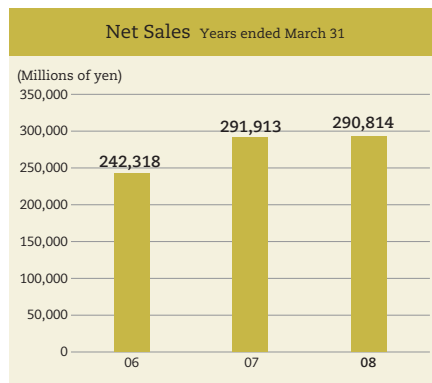
Nikon achieved stable performance as greater sales of high-end IC scanners offset the falloff in LCD steppers and scanners, a reaction to the considerable capital expenditures by LCD panel manufacturers in the previous period. Segment sales declined just 0.4% from the year ended March 2007 to ¥290,814 million, with operating income down 12.1% to ¥43,348 million.

REVIEW OF THE YEAR ENDED MARCH 2008

During the year ended March 2008, Nikon began global shipments of the NSR-S610C ArF immersion scanner, which has an NA value of 1.30 (“numerical aperture,” the brightness of the projector lens). This model is the world’s first scanner capable of mass production of semiconductors at 45 nm node and below, and has been shipped to all of the major regions of the world where leading-edge devices are manufactured. We also worked to expand sales of the NSR-S308F model of ArF scanners. Further, to strengthen product competitiveness we launched the NSR-SF150 scan field i-line stepper with vastly improved precision and throughput, as well as the NSR-SF155 model, based on the NSR-SF150 but with faster operating speed at the wafer stage. We also developed the NSR-S310F model, a cutting-edge ArF scanner capable of mass production

of semiconductors of 65 nm or less, as well as the high-productivity NSR-S210D KrF scanner. These models will be given a full-scale market launch in the year ending March 2009.

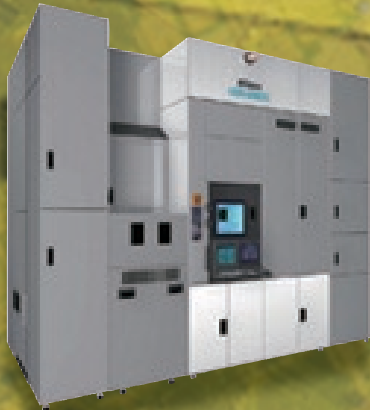
In the LCD steppers and scanners field, we took steps to increase sales of existing models, such as the FX-83S compatible with 8th generation glass plates, and began accepting orders for new models such as the FX-803M and FX-903N, which are ideal for high-definition, small to mid-sized LCD panels.



Nikon's cutting-edge scanners are recognized for their technological superiority—

we posted expanded shipments of the

NSR-S610C ArF immersion scanner worldwide,
and increased sales of the **NSR-S308F ArF scanner**.



Nikon's unit sales of ArF scanners

rose to **73 units**

for the year ended March 2008

from **40** the previous year.

ATTAINING THE LEADING MARKET SHARE FOR ArF IMMERSION SCANNERS

With the shift from NAND flash memory to DRAM and logic LSI, which use immersion as part of the production process, a considerable reduction in defects will be required. Nikon's ArF immersion scanners with Local Fill Nozzle have emerged as clearly superior in eliminating defects.

The Local Fill Nozzle is an advanced design that helps to eliminate immersion-induced defects caused by bubbles, water spots, or particle contamination. The prevention of evaporation of immersion fluid and accompanying generation of vaporization heat also provides greater alignment accuracy. Local Fill Nozzle is also compatible with the topcoat-less resist (photoresist) process, reducing the number of processes and cutting manufacturing costs.

Nikon's distinctive Tandem Stage improves productivity by separating the production process into two stages with different functions—Exposure and Calibration. This allows for high throughput

and alignment accuracy, the two most crucial performance aspects in scanners.

Nikon's scanners comprise highly independent modular units. This allows for stable, long-term operation, while also making maintenance significantly easier, and minimizing the downtime of the scanner.

Nikon is meeting these high level demands with superior technological capabilities that outstrip those of its competitors, and is seeking the leading market share for cutting-edge models of ArF immersion scanners.

ADAPTING TO CHANGES IN THE SEMICONDUCTOR MARKET

Attaining the leading market share for cutting-edge scanner models will demonstrate Nikon's technical capabilities. At the same time, we will enhance competitiveness for i-line steppers, KrF scanners for non-critical layers, in addition to cutting-edge ArF scanners including immersion-type in order to secure high earnings and a large market share.



KAZUO USHIDA
Director, Member of the Board &
Senior Executive Officer
President of Precision Equipment Company

Securing the leading market share for high-end models will also lessen the risk of the silicon investment cycle, the market fluctuations peculiar to the semiconductor industry. It will provide a further benefit in terms of the cutbacks in capital expenditures by semiconductor makers, since the trend toward investment in cutting-edge models is likely to continue as manufacturers place priority on investment in device shrinkage to produce high-value-added semiconductors.

MULTI-LENS PROJECTION OPTICAL SYSTEM ALLOWS LCD SCANNERS TO ADAPT TO THE 10TH GENERATION

The key to the market for LCD steppers and scanners is for the most part the trend toward larger LCD televisions. Manufacturing of panels 50 inches or larger will be more efficient using 10th generation large glass plates. As LCD panels become larger, Nikon is able to develop and manufacture equipment that easily adapts to the larger glass plates by using a multi-lens projection optical system. This system has allowed Nikon to capture a substantial share of the market for lithography equipment compatible with 7th and 8th generation plates. This competitive advantage will not change with the progress to the next generation.

LAUNCH PLANNED FOR PRODUCTS FOR THE NEW DOUBLE PATTERNING TECHNIQUE

Double patterning is a technique to enhance resolution by dividing the exposure into two separate processes, and is increasingly looked to as the technology for mass production of semiconductors at 30 nm level node. The exposure requires a higher alignment accuracy than with conventional techniques. Improvement in the throughput is also essential to maintain productivity with the double exposure.

Nikon is currently developing an ArF immersion scanner for double patterning, the improved NSR-S610C model, with significantly enhanced alignment accuracy and faster stage operating speed to raise throughput. We plan to bring this new model to market in the year ending March 2009.

As we develop this new technology we are also looking to further reduce costs by utilizing a simplified design to minimize manufacturing time and effort by reviewing the production process, and have adopted a platform in which the modules are shared among models as much as possible.

PRECISION EQUIPMENT SEGMENT ANALYSIS

STRENGTHS

The main strengths of the Precision Equipment Company are the precision and optical technologies Nikon has acquired over many years. These technologies have led to the development of such products and techniques as the NSR-S609B (NA 1.07) ArF immersion scanner, the world's first scanner to use immersion technology to overcome the physical limitation of an NA value over 1.0 (the physical

limitation with air as the imaging medium), the Local Fill Nozzle to eliminate defects caused by immersion, and the Tandem Stage that provides for both high throughput and high precision. We have been conducting research and development on completely new exposure technologies, such as EUVL (extreme ultraviolet lithography), which uses light with a wavelength 14 times shorter than the ArF lasers.

OPPORTUNITIES

New markets for digital products, including mobile phones, MP3 players, digital cameras, personal computers and high-definition televisions, are continually being created, and develop rapidly in short periods of time. Greater semiconductor shrinkage has of course contributed to this development, and will continue to produce new functions, products and industries.

Further device shrinkage means that equipment to achieve this will be necessary for market development. Responding to these needs for device shrinkage will be a large key to the success of the IC steppers and scanners business. Nikon has continued to pursue and develop technology for shorter wavelengths and higher NA values, creating i-line steppers, KrF scanners, as well as immersion-type and other ArF scanners. In the year ending March 2009 we will bring to market equipment for the double

patterning process, continuing to meet customer needs for device shrinkage.

In the LCD steppers and scanners business, a timely response to the increasing size of LCD panels is necessary. Television images are improving dramatically due to advancements in the technology and performance of both broadcasting and receiving equipment. The amount of broadcasting and other media content to take advantage of this technology is also increasing. As screen quality improves and content expands, consumer needs for larger screens will grow. The expansion of the market for large, flat-screen televisions is expected to drive demand for equipment using 10th generation large glass plates. This trend toward larger LCD panels will further enhance the competitive advantage of Nikon's LCD steppers and scanners using the multi-lens projection optical system.

CHALLENGES

The main issue in the IC steppers and scanners business is attaining a leading market share for cutting-edge ArF immersion scanners, while in the LCD steppers and scanners business the focus is on a timely response to larger LCD panels.

Capital expenditures in both markets is heavily influenced by prices and demand for memory and panels, and we consider it essential to establish a strong and flexible business foundation able to respond to changes in the market environment.

Imaging Company

SUCCESS OF THE “FULL LINEUP” STRATEGY, ADDING THE FLAGSHIP MODEL D3 AND D300 TO THE ENTRY-LEVEL MODEL D40, WHICH OPENED THE MARKET, GENERATED SIGNIFICANT INCREASES IN REVENUE AND EARNINGS.

Sales rose for new digital SLR cameras of D3, D300 and D60 and new compact digital cameras including the COOLPIX S510, as well as for existing products such as the D80, D40, and D40X.

As a result, segment sales rose 30.6% from the year ended March 2008 to ¥586,147 million, with operating income up 83.8% to ¥83,974 million.

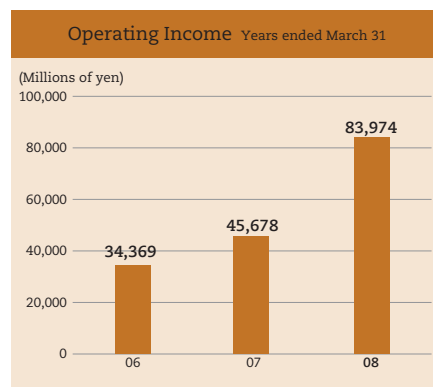
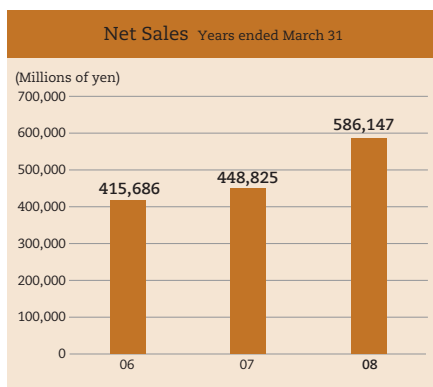
REVIEW OF THE YEAR ENDED MARCH 2008

Sales of digital SLR cameras grew steadily as the result of lineup expansion. New models included the D3, the Nikon FX-format flagship model with the in-house developed large CMOS image sensor, providing superior picture quality, wide sensitivity range and high-speed performance; the D300, the top-of-the-line Nikon DX-format model with an even more advanced features and functions; and the D60, offering plenty of features such as advanced built-in dust reduction technologies and a comprehensive set of creative options. Sales of existing products also rose considerably, including the mid-range model D80, the entry-level model D40, and its sister model D40X. Sales of interchangeable lenses were also steady with sales of digital SLR camera kits and high-priced lenses. Production figures for NIKKOR SLR

interchangeable lenses surpassed 40 million in July 2007. For the COOLPIX series, Nikon aggressively launched a total of 17 new models on the market, including the COOLPIX S510 with the world’s fastest power-up response time¹ and smallest body.²

Notes:

1. Among competing 8 effective megapixel class compact digital cameras equipped with optical vibration reduction as of August 30, 2007 (according to research conducted by Nikon Corporation), when set to “Response priority” mode.
2. Among competing models with optical vibration reduction as of August 30, 2007 (according to research conducted by Nikon Corporation).



Nikon's share of worldwide shipments of digital SLR cameras

rose to **40%**

for the year ended March 2008

from **35%** the previous year.



Sales of both new and existing products increased as we expanded our lineup with the launch of

the flagship **D3** and **D300** models, and the **D60** compact body camera.

MAINTAINING OUR POSITION AS THE LEADING COMPANY FOR DIGITAL SLR CAMERAS

Nikon had a 40% share worldwide of shipments of digital SLR cameras during the year ended March 2008. We recognize that this is the result of our efforts to meet customer expectations with a wide variety of products, from high-end to entry-level models.

The entry-level model D40, launched in December 2006, was the trigger for Nikon's gain in momentum, as it provides more people to enjoy photography with digital SLR cameras. The D40, with its affordable price, has helped expand the market due to its popularity among those who use digital SLR cameras for the first time. In November 2007, Nikon launched the D3, the flagship model of the Nikon FX-format camera, and D300, the flagship model of the Nikon DX-format camera. The "full lineup" product strategy is to strengthen the Nikon brand with flagship models, while also broadening

the market and new customers with greater sales of entry-level models. Nikon is expanding in both directions, maintaining its position as the leading imaging company. We plan to continue developing more attractive products, and further strengthen our lineup.

ESTABLISHING A BRAND IMAGE FOR COOLPIX COMPACT DIGITAL CAMERAS

Brand awareness for COOLPIX still lags behind that for digital SLR cameras. One of the issues involved in increasing this awareness is generating a premium for the COOLPIX brand. To accomplish this requires novel and innovative ideas for each product category, and the development of unique features. Nikon will continue to develop new products with advanced basic performance and original functions, such as models equipped with a wireless LAN (Wi-Fi) feature to link the camera to the Internet.

ACCELERATING PRODUCT DEVELOPMENT

Nikon creates project teams for digital camera planning and development that cut across the design, marketing and production departments. We categorize customers throughout the world into detailed segments, drawing on sales data and customer surveys from around the world to develop products for each segment, or to quickly determine the segment for which a product is best suited and commercialize it.

HELPING PEOPLE ENJOY PICTURES MORE

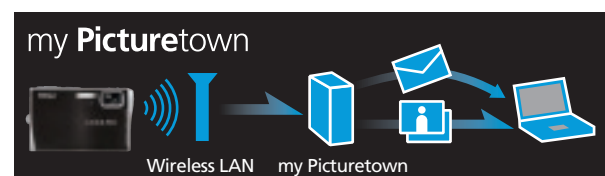
The way people enjoy images and photography has changed radically with the transition from film to digital, technological advancements such as the Internet and large-screen flat-panel televisions, and shifts in lifestyles. Nikon has continued to develop products aimed at allowing more people to easily take beautiful photos.

In August 2007 Nikon launched “my Pictown,” an image storage and sharing site that allows users to enjoy digital images anytime and anywhere. The platform integrates storage, viewing and transmission of user photographs, and provides for greater enjoyment. We intend to utilize both current and future technology to design cameras based on new and innovative concepts.

my Pictown

Nikon began exploring the possibility of deploying a new global service that would organically link digital cameras, computers, and mobile phones. Developed through the use of Wi-Fi technology improved by a number of original Nikon refinements, my Pictown enables the direct transfer of pictures to the Internet and supports picture transfer to various imaging devices as well as Internet services. Photos taken with a digital camera can now be stored by connecting directly to the Internet without using a computer, and uploaded pictures can be viewed with mobile phones and

shown by posting them to blogs or social networking services (SNS). Nikon thus proposes a service that allows users to enjoy photos “anytime, anywhere” through the simple and stress-free use of these functions.





MAKOTO KIMURA
Director, Member of the Board &
Senior Executive Officer
President of Imaging Company

IMAGING PRODUCTS SEGMENT ANALYSIS

STRENGTHS

The main strengths of the Imaging Company are optical technologies, best represented by the high-quality lenses forged in history and backed by tradition; expertise in camera development; image processing technology; and employees with an intimate knowledge of all things related

to cameras. Nikon draws on these strengths to create products that provide a kind of “camera-ness,” that ineffable feeling—distinct from the technological capabilities and advanced feature—that users sense when holding a Nikon.

OPPORTUNITIES

The market for digital SLR cameras during the year ended March 2008 reached the same level as the peak for film SLR cameras. There is still the potential for further growth for digital SLR cameras, however, due to the ease of use afforded by digitalization, diversity in product concepts, and growth in emerging markets. Film cameras functions were limited to picture-shooting, but the shift to digital has broadened the field for development to post-photography image processing and viewing. This allows for camera

concepts with greater appeal and a broader range of functions. New products are also constantly being introduced due to the acceleration of technological innovation inherent in digital products, significantly shortening the product replacement cycle compared to film SLR cameras.

Moreover, during the market peak for film SLR cameras most sales were in developed countries. Sales regions will widen considerably with the growth in markets following economic development in emerging countries.

CHALLENGES

Nikon had a 40% share worldwide of shipments of digital SLR cameras during the year ended March 2008, while the growth rate for shipments of compact digital cameras and interchangeable lenses exceeded the market average. However, we are not content with this short-term success. Market share is just one part of our goal, and there is still

ample room for improvement in sales, profitability and other performance factors. We are seeking to advance to the next level, establishing a corporate culture that consistently takes on new challenges and produces products that exceed market expectations.

Instruments Company

BIOLOGICAL MICROSCOPES AND MEASURING INSTRUMENTS: A STEPPING STONE TO FURTHER GROWTH.

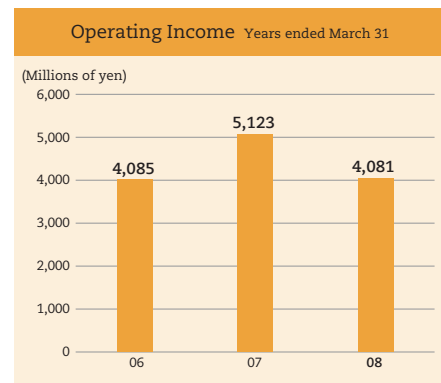
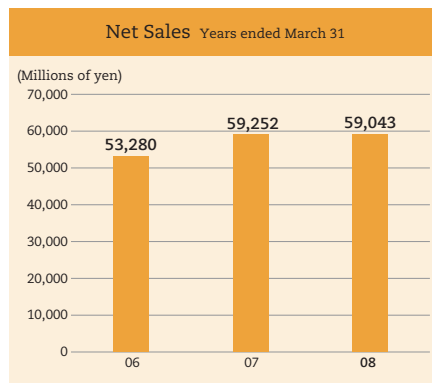
The Instruments Company posted growth in biological microscopes and measuring instruments, but this was insufficient to compensate for the slowdown in semiconductor inspection equipment in the industrial instruments business. As a result, segment sales declined 0.4% from the previous fiscal year to ¥59,043 million, while operating income fell 20.3% to ¥4,081 million.

REVIEW OF THE YEAR ENDED MARCH 2008

In the bioscience business, for fields working with live cells Nikon introduced system products including the inverted research microscope ECLIPSE Ti, and the high-speed, high-resolution imaging confocal microscope A1. We also worked to expand sales of the BioStation series of integrated cell culture observation systems. In the industrial instruments business, we concentrated on marketing of the NEXIV series of CNC video measuring systems and the new AMI-3400 model of automatic macro inspection systems, and announced the APM-3000 series of automated pattern profile monitoring systems.

FOCUS ON SALES OF HIGH-END MICROSCOPES

Nikon offers microscopes for a wide range of uses, including educational, medical and industrial applications. In the bioscience field, live cell observation is a high-visibility area of research, for which Nikon has developed several high-end products. We are focused particularly on expanding sales of the inverted research microscope ECLIPSE Ti and the confocal microscope A1, enhancing the value of our microscope brand. Recognition of Nikon as a premium brand is rising rapidly, and we are



Nikon is increasingly recognized
as a premium brand in cutting-edge research fields
dealing with live cells.

Sales of biological microscopes

rose at a rate that
outstripped the market,

including the inverted research microscope ECLIPSE Ti,
and the BioStation series.



looking to increase our share of high-end products in major markets throughout the world. We will also develop systems that combine various high-end devices to provide substantial added value, and enhance profitability.

Nikon's technology for the high-profile field of live cell observation is unrivaled. Our products combine superior operability with short image data acquisition times, and the ability to stably acquire data over long periods. We also offer the Perfect Focus System to automatically correct the focus drift of a sample during extended observation, freeing researchers from previously unavoidable long hours of data acquisition.

RISING DEMAND ANTICIPATED FOR THE HIGHLY RELIABLE BIOSTATION SERIES

Nikon offers the BioStation CT (Cell Tracking), cell culture observation systems that simplifies stable cultivation and quality control for live cells, as well as the BioStation IM (cell IMaging), a time-lapse imaging system that takes images of live cells at

fixed intervals, and combines them to allow for observation of the cell as a moving image. Both of these systems facilitate highly reliable data management. Up to now, cultivated cells could be damaged when removed from the incubator for observation, due to the change in the environment at the observation stage. The BioStation CT, because it allows for observation for cultivation of numerous samples without altering the environment, makes possible efficient data acquisition over extended periods. It also has a remote observation feature, allowing for operation and observation via a networked computer. Nikon will focus on expanding business fields for the promising BioStation series.

INTENSE DEVELOPMENT OF INDUSTRIAL PRODUCTS TO OPEN NEW MARKETS

In the industrial instruments business, Nikon has a large proportion of sales to the semiconductor industry, so scaling back of investment has a significant impact. We are also focusing efforts



HISAO IZAWA
Operating Officer
President of Instruments Company

on the automotive industry in order to strengthen our earnings base and broaden our business scale, and striving to expand sales of the NEXIV series of CNC video measuring systems for use in various inspection processes in automotive industry. Nikon's measuring systems are non-contact, and are distinctive in their ability to measure height as well as surface area. We are currently developing instruments to measure automotive and other components in short periods of time. These devices utilize optical sensor and image processing technology to determine whether components have been produced to the exact precision of the design. Such high speed and precision in component inspection will allow Nikon to make strong entries into fields other than automotive, and achieve significant earnings growth.

Semiconductor inspection equipment is mainly for examining wafers after exposure, but with increasing device shrinkage the industry has begun pattern inspection of cutting-edge semiconductors at 40 nm node. Surveying of the entire wafer allows for a high capture rate of problem areas and close examination with scanning electron microscopes (SEMs) is increasingly becoming the standard method. Nikon's automatic macro inspection systems (AMI series) and automated pattern profile monitoring systems (APM series) shorten the time

required to find problem areas, and help improve semiconductor manufacturer yields.

SHARPENING SKILLS WITH SALES TRAINING

Microscopes today are controlled by computer, while biological microscopes required specialized knowledge in bioscience and familiarity with IT. Nikon hires persons with professional backgrounds, and trains sales specialists by creating skill maps that show the level of proficiency of sales personnel, and provides them with the appropriate training.

STABLE GROWTH AND BUSINESS EXPANSION OPERATING IN TANDEM

The Instruments Company will further develop and expand sales in the major markets of bioscience and industrial instruments. In bioscience we will focus on products with new functions like the BioStation series while seeking stable growth, while in industrial instruments we will add to our lineup of products to expand our business fields.



INSTRUMENTS SEGMENT ANALYSIS

STRENGTHS

The main strengths of the Instruments Company are the control, image processing and optical technologies Nikon has acquired over many years. Building on a foundation of more than eight decades of microscope production, the Instruments Company applies the technology developed by

Nikon, such as precision control that brings the high-speed, moving stage to a standstill with exceptional precision to produce the products as IC steppers and scanners, and image processing derived from digital cameras.

OPPORTUNITIES

In the bioscience business Nikon is focusing on sales of high-end microscopes and the BioStation series, targeting global markets. Sales are rising centered on the United States and Europe. In Asia as well, countries such as China and South Korea have a particularly large number of organizations conducting advanced research in a variety of fields,

and we will work to further expand sales in these markets. In the industrial instruments business, we will develop measuring devices highly suited for general-purpose use, expanding our scope of business from the semiconductor industry to a variety of fields.

CHALLENGES

Broadening of business fields and bolstering internal structures is necessary to accelerate business growth. To achieve this, the Instruments Company will monitor market trends, strengthening marketing capabilities to allow for proactive product development, and establishing a

flexible development capability that does not focus exclusively on existing products and processes. We will foster the creation of an internal structure that not only responds to market changes, but generates demand.

Other

STARTED SALES OF OWN MANUFACTURING PHOTOMASK SUBSTRATES FOR LCD IN GLASS BUSINESS.

Segment sales declined 13.3% year on year to ¥19,788 million, but operating income rose 73.0% to ¥3,636 million.

REVIEW OF THE YEAR ENDED MARCH 2008

Developments in the main businesses comprising this segment were as follows.

1. The customized products business achieved an increase in sales through expanded marketing of solid-state lasers, optical components and special order items.
2. The sport optics products business recorded higher sales from growth in the North American market.
3. The glass-related business, despite stagnation in the market, managed to increase sales by acquiring new customers for LCD photomask substrates, and improving quality.
4. The ophthalmic frames and sunglasses business continued to face a harsh market environment. Nikon decided to withdraw from this business to optimize Group management, and sales activities ceased on March 31, 2008.

ABSOLUTE ENCODER MAR-MK32A

(LAUNCHED IN APRIL 2007)

Encoders are measuring instruments used to determine the angle of shaft rotation and number of rotations as a digital quantity, and are increasingly being utilized as a sensor to detect the position and speed of a motor, and transmit that information to control components. They are widely used in a range of production machinery, including industrial robots on automobile assembly lines.

The MAR-MK32A was developed to meet customer needs for an encoder able to withstand the vibration and other stresses of a punishing usage environment, in a modular design (bearingless) that allows the encoder to be replaced on the factory floor. Nikon's unique optical technology and innovative design eliminated the need for signal coordination (alignment using an oscilloscope) required for previous models of modular encoders.



Laser Rangefinder
Laser 550AS



Nikon Rayfact IL Series of
Low-Magnification Industrial Lenses

Absolute Encoder
MAR-MK32A



NIKON RAYFACT IL SERIES OF LOW-MAGNIFICATION INDUSTRIAL LENSES IDEALLY SUITED FOR EXTERNAL AND OTHER TYPES OF INSPECTIONS (LAUNCHED IN APRIL 2007)

The Nikon Rayfact IL Series is a lineup of low-magnification lenses of 0.1 to 0.5 times, specially designed for external inspection equipment. Low-magnification lenses allow a single image to be taken of a wide area for inspection. Because such lenses improve inspection throughput, they are ideally suited for external inspection of printed sheets and other surfaces, printed circuit boards, and other broad, flat items.

The series incorporates a number of features requested by users of industrial lenses, including the use of metal lens tubes to enhance durability and rigidity, and a lock mechanism that allows the aperture to be set to a fixed value.

LASER RANGEFINDER LASER 550AS ABLE TO MEASURE HORIZONTAL DISTANCE AND VERTICAL SEPARATION AS WELL AS LINEAR DISTANCE (LAUNCHED IN OCTOBER 2007)

Portable laser rangefinders emit an infrared laser toward a target object, using the time taken for the beam to reflect back to instantaneously measure the distance to the target.

The Laser 550AS was developed to meet the needs of golfers who want to determine the vertical separation (difference in height between two points) on a sloped course. It incorporates a highly stable angle detection system that enables it to measure horizontal distance and vertical separation in addition to actual distance. The Laser 550AS allows users to select between two measurement modes according to the type of measurement and conditions. The First Target Priority is used for a golf approach or on a short hole where the user is aiming directly for the flagstick, while the Distant Target Priority mode is used during summary surveys at construction sites or in woods to determine the distance to a target object at the farthest point.