

Five-Year Summary

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen					Thousand of U.S. Dollars
	2008	2007	2006	2005	2003	2008
For the year						
Net sales	¥955,792	¥822,813	¥730,944	¥638,468	¥506,378	\$9,539,790
Cost of sales	551,551	494,663	468,944	429,143	346,898	5,505,047
SG&A expenses	269,072	226,143	195,413	178,780	155,805	2,685,613
Operating income	135,169	102,007	66,587	30,545	3,675	1,349,130
Income before income taxes and minority interests	116,704	87,813	40,925	33,443	9,490	1,164,827
Net income	75,484	54,825	28,945	24,141	2,410	753,407
Per share of common stock (Yen and U.S. dollars):						
Basic 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
Capital expenditures	¥ 39,829	¥ 30,432	¥ 25,817	¥ 22,459	¥ 22,267	\$ 397,536
Depreciation and amortization	25,678	22,625	20,760	19,705	20,213	256,298
R&D costs	58,373	47,218	37,139	33,561	30,165	582,628
At year-end						
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.

Management's Discussion and Analysis

Nikon Corporation and Consolidated Subsidiaries
For the year ended March 31, 2008

OPERATING ENVIRONMENT

During fiscal 2008 (ended March 31, 2008) the macro-economic environment for Nikon's operations remained favorable in Europe, the United States, Asia and Japan during the first half, but uncertainty increased throughout the globe during the second half with the subprime loan problem in the United States, soaring prices for crude oil and other resources, and slumping stock markets, drawing concerns about the future.

Under these conditions, Nikon Group business segments saw mixed developments. The semiconductor market was firm on strong capital investment by manufacturers to meet the growing demand for NAND flash memories and DRAMs. On the other hand, the LCD panel market turned dull in reaction to the vibrant capital investment during the prior fiscal year. The digital camera market continued to expand with increased sales of SLR cameras, interchangeable lenses, and compact cameras.

BUSINESS PERFORMANCE

During the fiscal year under review, Nikon continued to pursue the key policies as stipulated in our medium term management plan (April 1, 2007–March 31, 2010) announced in March 2007. The plan calls for strengthening the competitiveness of core businesses by securing superiority in

state-of-the-art equipment and developing high-value-added products, boosting cost-competitiveness through manufacturing innovations, and creating new businesses, beginning with the glass business. During the year, Nikon also advanced measures to strengthen internal control systems, and implemented highly transparent management emphasizing CSR in accordance with the Nikon Corporate Social Responsibility Charter enacted in April 2007.

As a result of these efforts, during fiscal 2008 (ended March 31, 2008), Nikon posted record-high net sales,

Income Analysis Years ended March 31, 2008 and 2007		
	% of Net Sales	
	2008	2007
Net sales	100.0 %	100.0 %
Cost of sales	(57.7)	(60.1)
Gross profit	42.3	39.9
SG&A expenses	(28.2)	(27.5)
Operating income	14.1	12.4
Net interest expense and dividend income	0.2	0.0
Net other expenses	(2.1)	(1.7)
Income before income taxes and minority interests	12.2	10.7
Income taxes	(4.3)	(4.0)
Minority interests		0.0
Net income	7.9	6.7

Note: All expenses and subtractive amounts are in parentheses.

operating income and net income on a consolidated basis. Net sales increased ¥132,979 million, up 16.2% from the previous year to ¥955,792 million, operating income rose ¥33,162 million, up 32.5% to ¥135,169 million, and net income gained ¥20,659 million, up 37.7% to ¥75,484 million.

PERFORMANCE BY BUSINESS SEGMENT

In Precision Equipment Business, while sales of LCD stepers and scanners dropped by half in reaction to exceptional sales the previous year, increased sales of high-end IC scanners covered most of that decline. Overall Precision Equipment Business sales were down only slightly. Nikon also worked to reduce costs for both the LCD and IC businesses by adopting simplified design and common platforms, and shortening manufacturing periods. As a result, Precision Equipment Business segment net sales dropped 0.4% year on year to ¥290,814 million, while operating income declined 12.1% to ¥43,348 million.

In Imaging Products Business, the digital camera market continued to expand. Nikon gained the top share of the Japanese domestic market for digital SLR cameras in terms of the number of units sold with the introduction of the D60 and the high-end D3 and D300 models, rounding out our product lineup. The Company also actively introduced new compact digital cameras, providing the market with models that accurately grasp customer needs. As a result, Imaging Products Business segment net sales rose 30.6% year on year to ¥586,147 million, while operating income shot up 83.8% to ¥83,974 million.

In Instruments Business, in the bioscience business Nikon introduced system products and strove to expand sales of cell culture observation equipment and other devices. In the industrial instruments business, Nikon focused on sales of the NEXIV series of CNC video measuring systems and the AMI-3400 automatic macro inspection system. Nevertheless, as a result of weak sales in the Japanese market during the second half of the fiscal year, Instruments Business segment net sales slipped 0.4% year on year to ¥59,043 million, while operating income dropped 20.3% to ¥4,081 million.

In the Other Business segment, sales rose in the customized products, sport optics products, and glass businesses. Nikon reached a decision to withdraw from the ophthalmic frames and sunglasses business as of March 31, 2008 from the perspective of optimizing overall group management. As a result of this decision, Other Business segment

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

PERFORMANCE BY REGION

In Japan, sales of ArF immersion scanners for advanced fields expanded, and sales of digital SLR cameras and compact digital cameras continued to rise. Sales of interchangeable lenses increased as well along with favorable sales of digital SLR camera bodies. Operating income also rose as a result of efforts to strengthen cost competitiveness through manufacturing innovations and other measures. Consequently, net sales in Japan rose 12.6% year on year to ¥379,990 million, with operating income of ¥104,038 million.

In North America, revenues increased with strong contributions from growing sales of digital SLR cameras and interchangeable lenses. As a result, net sales in North America rose 11.3% year on year to ¥240,591 million, with operating income of ¥12,318 million.

In Europe, sales of digital SLR cameras and interchangeable lenses increased firmly, while sales of compact digital cameras were also favorable. As a result, net sales in Europe rose 20.8% year on year to ¥214,215 million, with operating income of ¥7,598 million.

In Asia and Oceania, sales grew driven by digital SLR cameras in China and other regions. And Nikon Australia Pty Ltd. has been added as a Nikon consolidated affiliate. As a result, net sales in Asia and Oceania rose 31.7% year on year to ¥120,996 million, with operating income of ¥15,801 million.

FINANCIAL POSITION

As of March 31, 2008, on a consolidated basis, Nikon's total assets were ¥820,622 million, up ¥71,683 million from the end of the previous fiscal year. This was mostly the result of a ¥72,920 million rise in current assets, with increases in cash and cash equivalents, notes and accounts receivable—trade, and inventories.

Total liabilities reached ¥427,496 million, rising ¥27,002 million year on year. While the balance of short-term borrowings and current portion of long-term debt declined, notes and accounts payable—trade increased.

Equity rose by ¥44,681 million from the end of the previous fiscal year to ¥393,126 million. This mostly reflected the increase in retained earnings from the posting of net income for the fiscal year.

Net Sales by Industry Segment
Years ended March 31, 2008 and 2007

	Millions of Yen, %		Thousands of
	2008	2007	U.S. Dollars 2008
Precision Equipment	¥290,814	¥291,913	\$2,902,629
Share of net sales	30.4%	35.5%	
Imaging Products	586,147	448,825	5,850,350
Share of net sales	61.3	54.5	
Instruments	59,043	59,252	589,307
Share of net sales	6.2	7.2	
Other	19,788	22,823	197,504
Share of net sales	2.1	2.8	
Total	¥955,792	¥822,813	\$9,539,790

Balance Sheet Analysis
March 31, 2008 and 2007

	% of Total Assets	
	2008	2007
Total assets	100.0%	100.0%
Total current assets	72.6	69.9
Inventories	32.3	32.9
Property, plant and equipment	14.3	15.5
Investments and other assets	13.1	14.6
Total current liabilities	43.0	41.3
Short-term borrowings	1.0	2.1
Long-term debt, less current portion	7.3	9.1
Total equity	47.9	46.5

CASH FLOW ANALYSIS

During the fiscal year under review, net cash provided by operating activities totaled ¥120,840 million. While notes and accounts receivable—trade and inventories rose and income taxes—paid increased, income before income taxes and minority interests was at a high level, and notes and accounts payable—trade increased.

Net cash used in investing activities totaled ¥49,783 million, with expenditures for the purchase of property, plant and equipment and investment securities.

Net cash used in financing activities totaled ¥38,664 million with expenditures for the repayment of short-term borrowings and the redemption of corporate bonds.

As a result of these cash flows, cash and cash equivalents totaled ¥112,958 million at the end of the fiscal year, up ¥29,109 million from a year earlier.

BASIC DIVIDEND POLICY AND FISCAL 2008 AND 2009 DIVIDENDS

Nikon is expanding investments in business and technology development for future growth (capital expenditures and research and development costs) and working to enhance competitive strengths. While adopting the stable

distribution of dividends to shareholders as a basic policy, Nikon aims to better reflect business performance in shareholder compensation, returning profits to shareholders through dividend increases and other measures.

With the increase in earnings power and strengthening of Nikon's financial foundation in recent years, the time has come to enhance the return of profits to shareholders. Specifically, while continuing to actively invest for future growth as in the past based on management emphasizing cash flow and implementing stable dividends that better reflect consolidated performance, Nikon is now also acquiring treasury stock to boost capital efficiency and flexibly execute capital policies.

For the time being, we have set a target of a total return ratio of at least 25%.

Based on the above policy, Nikon issued a fiscal 2008 year-end dividend of ¥13.50 per share. Combined with the interim dividend of ¥11.50 per share, the total fiscal 2008 dividend was ¥25.00 per share, which was an increase of ¥7.00 per share over the previous fiscal year. The Company expects to issue a total dividend of ¥25.00 per share for fiscal 2009 (ending March 31, 2009), which includes an interim dividend of ¥12.50 per share.

