Review of Operations

Precision Equipment Company

The Precision Equipment Company faced difficult conditions during the fiscal year ended March 2009. In the IC steppers and scanners field, the market contracted sharply from initial expectations, with a widespread scaling back of capital expenditure following the downturn in global demand for semiconductor devices. In the LCD steppers and scanners field, despite brisk investment during the first half of the period, from the summer of 2008 demand for the large panels used in flat-screen televisions slowed suddenly, bringing stagnation in the market. As a result, segment sales amounted to ¥219,915 million (down 24.4% year on year), with operating income of ¥8,041 million (down 81.5%).

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

MARKET ENVIRONMENT AND BUSINESS TRENDS

Business conditions for the semiconductor-related industry will likely remain difficult, with device manufacturers showing continued caution regarding capital expenditures. The LCD panel market is also expected to lack transparency, despite some signs of rising operation rates among panel manufacturers.

Review of the Year Ended March 2009

In the IC steppers and scanners field, Nikon took steps to expand sales of cutting-edge equipment such as the NSR-S610C ArF immersion scanner (the world's first scanner capable of mass production of semiconductors at 45 nm applications and beyond), and marketed EUV lithography equipment (extreme ultraviolet system for research and development) that enables further device shrinkage.

In the LCD steppers and scanners field, Nikon worked to expand sales of the existing FX-65S model for lithographic exposure of 6th generation glass plates, as well as the FX-903N model, which is ideally suited for the manufacture of the small to medium-sized high-precision liquid crystal displays used in cell phones and automotive electronic devices. In addition, we initiated shipments of FX-101S lithography equipment, which is compatible with 10th generation glass plates.

We also continued our concerted efforts throughout the Precision Equipment Company to boost cost-competitiveness by shortening manufacturing periods, as well as adopting simplified designs and common platforms.

NSR-S620 ArF Immersion Scanner to Be Introduced in the Year Ending March 2010

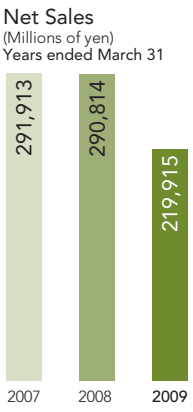
Despite the difficult business environment for IC steppers and scanners, for the year ending March 2010 Nikon is focusing on double patterning,*1 one of the most promising next-generation lithography techniques. Specifically, we are developing an ArF immersion scanner for double patterning that will allow for 32 nm device production. For successful development, two issues must be resolved.

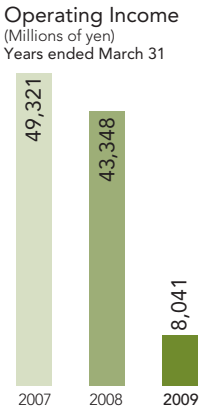
The first is improvement in alignment accuracy. Since double patterning involves the overlaying of two layers to create the pattern, alignment requires extreme precision. Currently, the alignment accuracy requirement is around 7 nm, but double patterning will require a reduction to half or even one-third of that figure.

The second issue is enhancing throughput (the number of wafers exposed in a given period). Since double patterning consists of two exposures, the throughput must be doubled to maintain the current level of productivity in the customer's manufacturing process.

The NSR-S620 ArF immersion scanner for mass production with double patterning that Nikon will introduce utilizes new concepts which will provide the necessary precision and throughput. This system will be extremely competitive not only in terms of precision alignment but also in offering an exceptional throughput level, an aspect in which our rival has been considered superior. We plan to begin shipments in the third quarter of the year ending March 2010 (October to December 2009). We have adopted a new design concept for the NSR-S620 in which the overall system is created from 13 individual modules, allowing for a considerably shorter period from shipment to operation at the customer's site.

Currently Nikon is constructing a new building at the Kumagaya Plant with a highly efficient clean room that will be used to produce the NSR-S620 and enhance its competitiveness. With the focus of effort on the NSR-S620, Nikon seeks to quickly gain a leading share of the market for high-end IC steppers and scanners.





Note:
1. Double patterning is a lithography technique in which a single, dense circuit pattern is split into two coarser patterns that can be exposed separately. The two patterns can then be overlaid on the wafer, providing a final, dense circuit pattern.

Superiority in LCD Steppers and Scanners

The ability to adapt to ever-larger sizes has become one of the main points of focus for LCD steppers and scanners. The latest FX-101S lithography system, which Nikon began shipping in the year ended March 2009, is compatible with 10th generation glass plates that measure approximately 3 meters on a side. It was designed to allow for efficient manufacturing of large-scale panels 50 inches in size or larger.

Along with the latent demand for large-screen televisions, LCD lithography equipment compatible with 10th generation glass plates is expected to lower the price of televisions by reducing costs of LCD panels. This combination of factors will likely drive more widespread adoption of LCD televisions.

As the trend toward increasingly larger glass plates continues, Nikon's LCD steppers and scanners utilizing multi-lens projection optical systems will allow us to quickly meet the needs that arise, securing our leading position in the market.

Structural Reform for Future Growth

The Precision Equipment Company sees the year ending March 2010 as an essential period for structural reform. We will identify the issues we face, find the solutions, and thereby strengthen our corporate structure. In May 2009, we decided to implement sweeping measures to reduce fixed costs. Specifically, we will reorganize and consolidate our four production subsidiaries in Japan into two companies by October 2009, while unifying and streamlining as much as possible the marketing and servicing operations of our two overseas subsidiaries in the United States and Europe. Furthermore, in Japan and Asia we are pursuing a more efficient business by scaling back operations in line with the business scale. We anticipate that these measures will cut fixed costs by approximately ¥8 billion.

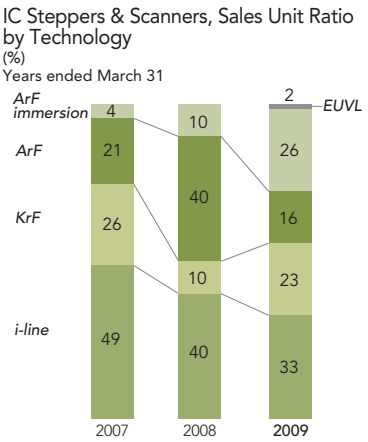
The markets for IC steppers and scanners and LCD steppers and scanners are cyclical. For IC steppers and scanners, despite sales of 296 units in 2008 (calendar year, new systems only), we forecast that the market will shrink considerably to around 90 units in 2009, reflecting the slump in worldwide demand. We anticipate that the market will recover thereafter, reaching 170 units in 2011. Similarly for LCD steppers and scanners, after sales of 110 units in 2008 (calendar year, TFT array use only), we anticipate a market for 70 units in 2009, and 80 units in 2011.

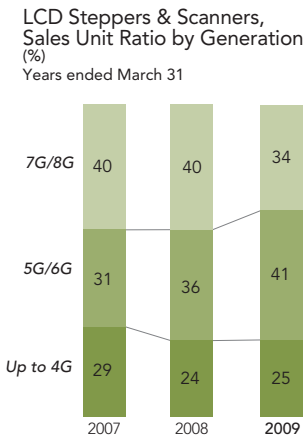
The Precision Equipment Company recognizes the year ending March 2010 as the period in which we will lower our break-even point through aggressive efforts to reorganize and revise our corporate structure to make a profit even at the bottom of a predicted market cycle.

Strengthening R&D and Product Competitiveness

In IC steppers and scanners, for the immediate future we will focus all efforts on double patterning. For next-generation EUV lithography equipment, rather than developing pre-production lithography tools for which light sources, photomasks and other aspects of the infrastructure have yet to be fully established, for now we will concentrate on developing the basic technology in preparation for the eventual progression to mass production. For LCD steppers and scanners, we will continue to adapt to ever-larger panels and develop systems that enable further cost reduction in panels.

Nikon's policy calls for narrowing the focus of its R&D program, clarifying research priorities, and making the necessary investments to ensure superiority in product competitiveness.





Product Spotlight

Precision Equipment Company

ArF Immersion Scanner NSR-S610C

IC Scanner capable of mass production of cutting-edge semiconductors at 45 nm applications and beyond

ArF Immersion Scanner NSR-S610C (First shipment in February 2007)

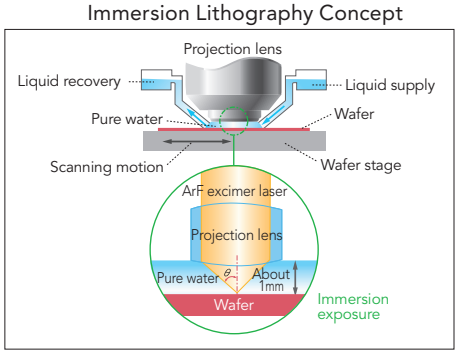
The NSR-S610C, with a high projection lens NA of 1.30, is the world's first immersion scanner for mass production of 40 to 45 nm devices.

Nikon's proprietary Local Fill Technology based on immersion expertise helps to eliminate immersion defects such as bubbles, water spots, and immersion-induced particle contamination, as well as to suppress evaporation of the immersion liquid, and to prevent immersion-induced problems that affect the alignment accuracy. Also, the Tandem Stage utilizes two stages with different functions—Exposure and Calibration—to achieve high throughput and precision, and ensure a stable exposure process.

Introduction to Immersion Photolithography

The performance of a lens used in a stepper is indicated by its NA (numerical aperture) figure. The larger the NA figure, the higher the resolution. In air, an NA of around 0.9 is considered the physical limit. However, by immersing the space between the lens and wafer in pure water or other liquid with a higher refractive index than air, it is possible to increase the NA to 1.0 or higher, resulting in extremely high resolution. This technique is called" immersion lithography."

Immersion Lithography Concept



Enhanced productivity to meet growing demand for 10th generation glass plates

LCD Scanner FX-101S (First shipment in the year ended March 2009)

The FX-101S, incorporating Nikon's proprietary multi-lens projection optical system, is an LCD exposure system for production of 10th generation large glass plates.

LCD televisions have spread rapidly in recently years, and screen sizes have become larger. Digital signage, one of the most prominent examples of large-scale information displays, has also been the focus of much attention. The manufacturing systems for large-scale LCD panels require greater production efficiency than ever before. The FX-101S offers high productivity through its lithography of 10th generation glass plates, which can yield six to eight panels, in sizes ranging around 60 inches.

LCD Scanner FX-101S

Review of Operations

Imaging Company

The Imaging Company enhanced its digital SLR camera line-up and achieved an increase in unit sales during the fiscal year ended March 2009, but faced difficult conditions in the latter half of the period due to the significantly stronger yen in the exchange markets, and the slump in personal consumption caused by the rapidly deteriorating economy. As a result, segment sales amounted to ¥596,468 million (up 1.8% year on year), with operating income of ¥40,039 million (down 52.3%).

MAKOTO KIMURA
Representative Director, Member of the Board,
Executive Vice President
President of Imaging Company

MARKET ENVIRONMENT AND BUSINESS TRENDS

Over the medium term, we expect sales of digital SLR cameras to continue to grow on both a volume and value basis, on the back of functional enhancement, diversification in product concepts, and expansion in newly emerging markets. For compact digital cameras, sales in developed countries are centered on replacement demand, while we anticipate that sales volume will increase as newly emerging markets expand, but that sales will remain flat on a value basis.

Review of the Year Ended March 2009

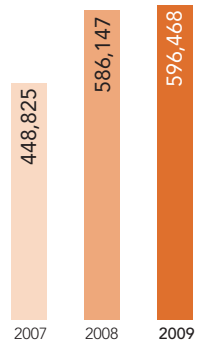
In digital SLR cameras, in September 2008 Nikon launched its mid-range model D90, the world's first*1 digital SLR camera with the "D-Movie" movie function. We further enhanced the product lineup in December with the flagship model D3X, which offers high-definition, superior-quality images with 24.5 effective megapixels.

In compact digital cameras, sales were positive, mainly in the North America region. Sales volume exceeded 10 million units for the period, following the launch in March 2009 of COOLPIX P90, offering a 24x optical zoom function, and the new S series products that combine functionality with stylish design, such as the COOLPIX S620 featuring the fastest start-up time in its class.*2 These new products helped to bolster Nikon's brand appeal in the compact digital camera market.

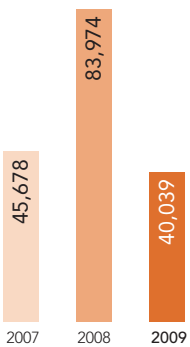
Interchangeable lens sales rose as the NIKKOR lens celebrated its 75th anniversary. Lenses sold in kit with digital SLR cameras performed strongly, with solid sales of high-value-added, high-priced lenses following enhancement to the lineup of digital SLR cameras for professionals and advanced amateurs.

Notes:
1. As of August 27, 2008, according to research conducted by Nikon Corporation.
2. Among compact cameras equipped with 28 mm (35 mm format equivalent) zoom lens and optical vibration reduction; as of February 3, 2009 (according to research conducted by Nikon Corporation).

Net Sales
(Millions of yen)
Years ended March 31



Operating Income
(Millions of yen)
Years ended March 31



Speed and Strategy behind Strong Sales of Digital Cameras

Nikon's quick response to user needs was one of the reasons that sales of compact digital cameras grew significantly faster than the market during the subject fiscal year. Specifically, we were quick to detect shifts in the market and changing lifestyles, and were able to plan and develop products to meet the needs of customers, then produce and market them in an extremely short period of time. Nikon is working consistently to shorten the period from planning to product launch, and this speed that allows us to offer in a timely manner the products customers seek is what led to the jump in sales for compact digital cameras.

Nikon has also consistently been one of the leaders in market share for digital SLR cameras. We had a scenario in which we create a market where there was none before, expand that market, and ensure that Nikon digital SLR cameras have a commanding presence. Put another way, "speed" and "strategy" have been the keywords that underpin our growth.

Expanding into Overseas Markets and Dealing with the Strong Yen

More than 80% of the Imaging Company's sales are in overseas markets, a natural proportion that reflects the relative scale of markets around the world. Expansion into newly emerging markets is extremely important for Nikon's continued growth, and we focus particularly on those markets with significant growth potential. These include China, which we expect will be on a par with the Japanese market in terms of sales volume, and Russia and India, where we have established a sales and service subsidiary, as well as the countries of Central and South America.

As the proportion of overseas sales rises, measures to deal with the strong yen take on increasing importance. Two of our main measures involve shifting more production to places like Thailand and China, and greater procurement of local components. We are developing excellent local staff, and are capable of the same quality control available in Japan, which allows us to manufacture products overseas at a level of quality comparable to that in Japan. We already design production tools overseas, and as technical standards rise the trend toward local procurement of components will strengthen. We will retain our Japanese factories, which will play a larger role as bases for technological advancement and improved manufacturing.

Nikon's Collective Strength

Over the past decade Nikon has continued to improve its corporate makeup, with a balanced increase to high dimensions for all corporate functions, including marketing, development and design, production, and sales. We currently employ a structure that allows us to modify production on a weekly basis to reflect the latest market data. When market conditions began to deteriorate in the fall of 2008, we decided quickly to adjust production at the end of 2008—making us the first in the industry to do so—and were one of the first to complete those adjustments. All of Nikon's corporate functions operating simultaneously at high levels provide a true collective strength that can be leveraged in a short period of time.

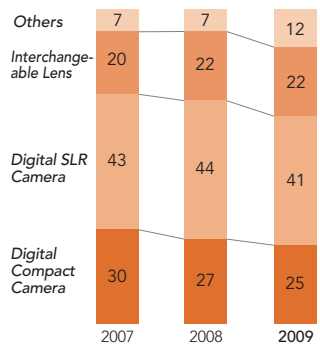
Cameras as a Communication Tool

Nikon enjoys a long history as a camera manufacturer, and has established a powerful corporate brand. We believe that as cameras enter the digital age, they should not be merely machines for capturing images, but communication tools that broaden the connections between people, including the way images are enjoyed after they are taken. By providing support for all aspects of photography from the taking of a picture to its appreciation, including uploading pictures to websites and allowing them to be viewed on distinctive output devices, Nikon is creating a future for itself as a provider of a unique "imaging world."

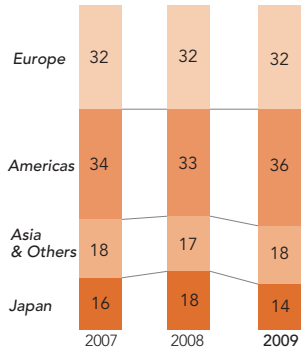
Nikon has taken some of the first steps toward realization of a distinctive imaging world with unique new products such as the image storage and sharing site "my Picturetown," and the Media Port UP*1 (with "UP" read as individual letters), a multimedia playback headset device. Our goal for the future calls for realizing this vision, and gaining increasing prominence as a company that provides both the camera hardware and the imaging services.

Note: 1. Available in Japan only.

Sales Value Ratio by Product
(%)
Years ended March 31



Sales Value Ratio by Region
(%)
Years ended March 31



Note: The sales value for 2007 and 2008 is on a non-consolidated basis and for 2009 is on a consolidated basis.

Product Spotlight

Imaging Company

Digital SLR Camera Nikon D90

The world's first[1] *digital SLR camera with "D-Movie" movie function: Powerful features and high image quality in a compact body*

Digital SLR Camera Nikon D90 (Launched in September 2008)

The Nikon D90 offers in a compact body the high image quality and exceptional performance inherited from Nikon's DX-format flagship model D300. It was designed to allow everyone, from digital SLR novices to photo enthusiasts, to enjoy taking high-quality photographs with minimal hassle. The D90 model retains the same operability and ease of use found in all Nikon digital SLR cameras, with additional features to enhance convenience, such as new Live View button, and a one-touch information display button for camera settings. The movie function—the first for a digital SLR camera—also provides users with a broad range of imaging enjoyment.

Note: 1. As of August 27, 2008, according to research conducted by Nikon Corporation.

The new COOLPIX flagship model features a high-quality 13.5 megapixel image sensor, GPS system and LAN port

Digital Compact Camera Nikon COOLPIX P6000
(Launched in September 2008)

The COOLPIX P6000 was developed to be the new flagship model of the COOLPIX series, and to offer photographers a broader range of creative freedom. It enables superb image quality and a variety of shooting functions by incorporating an image sensor with 13.5 effective megapixels and a NIKKOR lens delivering clarity and precision with ED (Extra-low Dispersion) lens elements, as well as Nikon's original EXPEED digital image-processing concept.

The built-in GPS (Global Positioning System) unit can attach "geotags" to each image file, with information about the latitude and longitude where the image was recorded. The LAN port allows images to be uploaded to Nikon's image storage and sharing site *my Picturetown*. Users can also use the geotag information to link the images to maps, offering new ways to enjoy viewing, organizing, and storing pictures.

Digital Compact Camera Nikon COOLPIX P6000

Review of Operations

Instruments Company

The Instruments Company's performance was severely affected by the state of the economy during the fiscal year ended March 2009. Despite positive performance in the bioscience field, mainly for areas concerned with live cells, the industrial instruments field suffered from continued stagnation in the markets for semiconductors, electronics components and automotive products, along with the curbs placed on capital expenditure. As a result, segment sales amounted to ¥44,643 million (down 24.4% year on year), with the segment posting an operating loss of ¥2,724 million (compared to operating income of ¥4,081 million in the previous fiscal year).

TOSHIYUKI MASAI
Director, Member of the Board and Executive Officer
President of Instruments Company

MARKET ENVIRONMENT AND BUSINESS TRENDS

In the bioscience field, we anticipate stable growth in the microscope market, but as the performance requirements for instruments expand year by year, we expect competition for product technology development to become increasingly fierce. In the industrial instruments field, we anticipate that conditions will remain harsh as a result of such factors as the curbs on capital expenditures that have followed the deterioration of conditions in the semiconductor-related market.

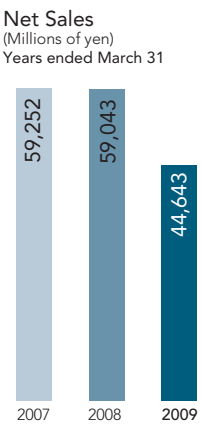
Review of the Year Ended March 2009

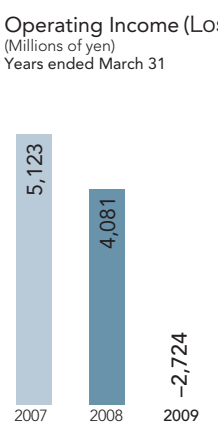
In the bioscience field, Nikon concentrated on increasing sales of high-end system products launched in the fiscal year ended March 2008, such as the inverted research microscope ECLIPSE Ti, as well as products such as the confocal microscope A1. We also revised the sales organization at sales subsidiaries. In the industrial instruments field, we worked to promote sales in a variety of areas, including the launch in October 2008 of the inverted metallurgical microscope ECLIPSE MA200 for visual inspection of metals, ceramics and other materials.

Establishing a Premium Brand in the Bioscience Field

Research using live cells is the focus of development for biological microscopes. The ECLIPSE Ti and A1 series have been recognized in particular for their high speed, high resolution, and stability. The dedicated NIS-Elements imaging software accentuates the hardware's capabilities, earning these system products a strong reputation for their all-around system performance. As applications also have become increasingly important, Nikon is further expanding its lineup of related applications by drawing on its many years of experience with technologies such as precision control and image processing. Through these efforts, we are establishing Nikon as a premium brand in the bioscience field and seeking to gain a commanding lead over our competitors for high-end products.

The BioStation series includes the BioStation CT (Cell Tracking), a cell culture observation system that simplifies stable cultivation and quality control for live cells, as well as the BioStation IM (cell IMaging), a time-lapse imaging system that captures 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 provide for highly reliable data management and we have worked to promote sales since the fiscal year ended March 2008. The BioStation CT in particular, due to its ability to observe the cultivation of numerous samples without a change in environment, enjoys high expectations for use in such cutting-edge fields as iPS cell (induced pluripotent stem cell) research, and pharmaceutical development.





Expansion in Measuring Instruments to Broaden Business Domains

Of the three main product groups in the industrial instruments field (industrial microscopes, semiconductor inspection equipment, and measuring instruments), Nikon is focusing particularly on expanding sales of measuring instruments. Nikon's measuring instruments for electronic components and similar products already enjoy a large share of the market in Japan and other areas of Asia. Looking ahead, we aim to broaden our business domain and earnings base through expansion into measuring instruments for a variety of industries. As one part of this strategy, in June 2009 we announced a plan for a friendly

tender offer for Metris NV, a Belgian measurement equipment manufacturer. Metris possesses advanced technology and products in the market for non-contact, three-dimensional measurement systems, and its business lines will neatly complement those of Nikon. Along with the broadening of product lines, Metris's close relationship with the automotive and aerospace industries will also reinforce our customer base. Through this action, we will focus on expanding sales activities to increase the market share for Metris products in the measuring instruments field.

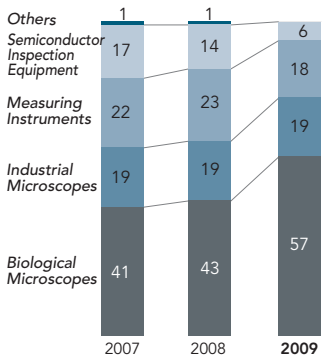
The Instruments Company as the Third Pillar of the Nikon Group

In June 2008 Nikon established the Sales Division to strengthen its sales structure, and formulated a strategy to systematically address customer needs.

At the same time, we upgraded our training structure. Both sales skills and product knowledge are essential to sell biological microscopes, a field in which a hundred researchers will use the product in a hundred different ways. We therefore established a program to enhance sales skills and product knowledge in six months or one-year stages. We also have a similar program for sales representatives in the industrial instruments field. The Instruments Company is making a concerted effort to train personnel able to address the complex and sophisticated needs of its customers.

Nikon also creates opportunities for employees to talk and discuss work issues at all levels of the organization, including development, production and sales. We believe that the exchange of opinions and better sharing of information will help foster an open and lively corporate culture, continually generate products that exceed customer expectations, and place the Instruments Company alongside the Precision Equipment Company and Imaging Company as the third pillar of the Nikon Group.

Sales Value Ratio by Product
(%)
Years ended March 31



Product Spotlight

Instruments Company

Confocal Microscope A1

High-quality imaging of intracellular biological processes, for cutting-edge research Confocal Microscope A1 Series

Confocal Microscope A1 Series (Launched in February 2008)

The A1 series is a confocal microscope system capable of capturing high-speed, high-resolution images of cells and molecular events. As demonstrated by the recent and widely publicized success in development of a method of creating induced pluripotent stem (iPS) cells, applications for cell manipulation are expanding rapidly in regenerative medicine and other fields. Consequently, there is a growing need to easily examine and analyze the morphology and alteration of cells, as well as the interactions among molecules within cells.

Nikon's top-end confocal microscope A1 Series allows for accurate capturing of the high-speed, long-term changes occurring within cells and producing high-quality images. Offering enhanced basic functions, full automation and a variety of optional functions, the A1 Series meets a wide range of needs for the cutting-edge research in biological and biomedical fields conducted at research institutions and university facilities.

Refined cube-shape design for space-saving and a durable body for high vibration resistance

Inverted Metallurgical Microscope ECLIPSE MA200 (Launched in October 2008)

The ECLIPSE MA200 is an industrial microscope used for microstructural observation, evaluation and analysis of industrial materials such as metals, ceramics and polymers, as well as for visual inspection of such components as IC chips and magnetic heads. It is used in a wide range of fields, including R&D and inspection and quality assurance divisions in the automotive and materials-related industries.

The innovative design of the ECLIPSE MA200 has radically altered the image of an inverted microscope. Together with space-saving and a durable construction, Nikon's system has a stage located on the front and right-hand side of the body for enhanced visibility of the objective lens and sample location. The infinity corrected optical system CF160 provides for advanced examination by offering a clear, high-contrast brightfield image, along with a darkfield image three times brighter than previous models. In addition to ordinary observation, the system enables integrated handling of digitized images, such as creation of an image with a wider field by using the stitching function in the NIS-Elements imaging software to link image data from adjoining sectors.

Inverted Metallurgical Microscope
ECLIPSE MA200

Review of Operations

Other

Sales decreased 5.5% from the previous fiscal year to ¥18,693 million, with operating income down 20.9% to ¥2,876 million.

4 X10DCF

The customized products business suffered a decrease in sales of special order items and solid-state lasers, due in part to the deterioration of market conditions, though sales of optical components and space-related products were on a par with the previous fiscal year.

The glass-related business increased sales owing to the commencement of shipments of LCD photomask substrates for 10th generation equipment.

The sport optics products business enjoyed solid sales in the European and Asian markets.

MONARCH X 8.5×45DCF

EZ-Micro EX (Available in Japan only)