



NIKON HAS CARVED OUT A PLACE AS A PIONEER OF OPTICAL TECHNOLOGY SINCE ITS INCEPTION IN 1917, BOTH IN JAPAN AND MARKETS AROUND THE WORLD. TODAY, NIKON MANUFACTURES AND SELLS A BROAD RANGE OF CONSUMER GOODS BASED ON SUCH TECHNOLOGY, INCLUDING DIGITAL CAMERAS AND RELATED PRODUCTS, BINOCULARS AND OPHTHALMIC FRAMES. WE ALSO MANUFACTURE AND SELL A DIVERSE RANGE OF INDUSTRIAL PRECISION EQUIPMENT, INCLUDING SEMICONDUCTOR PRODUCTION EQUIPMENT SUCH AS IC AND LCD STEPPERS AND SCANNERS, MICROSCOPES AND MEASURING INSTRUMENTS.

NIKON CELEBRATES ITS 90TH ANNIVERSARY IN 2007. ALONGSIDE PROMOTING STRUCTURAL REFORMS TO MAXIMIZE MANAGEMENT EFFICIENCY, WE REMAIN TRUE TO OUR BUSINESS PHILOSOPHY OF "TRUSTWORTHINESS AND CREATIVITY." WE ASPIRE TO BE A LEADING COMPANY BY VIRTUE OF PROVIDING OUR CUSTOMERS WITH ORIGINAL AND HIGHLY INNOVATIVE PRODUCTS.

MOVING FORWARD, WE REMAIN FOCUSED ON LEVERAGING THE CORE COMPETENCES OF THE NIKON GROUP TO MEET THE NEEDS OF CONSUMERS AND CUSTOMERS IN VARIOUS INDUSTRIAL SECTORS THE WORLD OVER.

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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.

NET SALES

MILLIONS OF YEN

Years ended March 31

07	822,813
06	730,944
05	638,468
04	506,378
03	468,959

NET INCOME (LOSS)

MILLIONS OF YEN

Years ended March 31

07	54,825
06	28,945
05	24,141
04	2,410
03	(8,143)

EQUITY

MILLIONS OF YEN

Years ended March 31

07	348,445
06	243,122
05	196,030
04	171,194
03	162,464

	MILLIONS OF YEN 2007	MILLIONS OF YEN 2006	MILLIONS OF U.S. DOLLARS 2007	% INCREASE
FOR THE YEAR				
NET SALES	¥ 822,813	¥ 730,944	6,970	12.6
OPERATING INCOME	102,007	66,587	864	53.2
NET INCOME	54,825	28,945	464	89.4
PER SHARE COMMON STOCK				
(YEN AND U.S. DOLLAR):				
_ BASIC NET INCOME	¥ 146.36	¥ 78.16	1.24	87.3
_ DILUTED NET INCOME	131.42	69.33	1.11	89.6
_ CASH DIVIDENDS APPLICABLE TO THE YEAR	18.00	10.00	0.15	80.0
AT YEAR END				
TOTAL ASSETS	¥ 748,939	¥ 690,920	6,344	8.4
EQUITY	348,445	243,122	2,952	43.3
(SHAREHOLDERS' EQUITY FOR 2006)				

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 ¥118.05 to U.S. \$1.00, the approximate exchange rate at March 31, 2007.

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

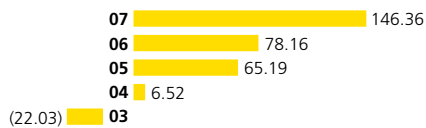


ICHIRO TERATO
REPRESENTATIVE DIRECTOR,
EXECUTIVE VICE PRESIDENT
AND CFO

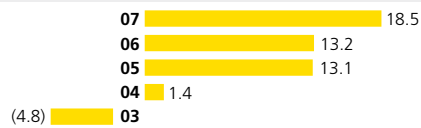
MICHIO KARIYA
REPRESENTATIVE DIRECTOR,
PRESIDENT, CEO AND COO

NET INCOME PER SHARE (LOSS) ¥

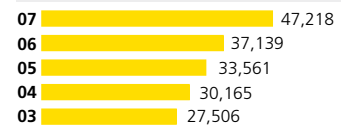
Years ended March 31

**RETURN ON EQUITY %**

Years ended March 31

**R&D COSTS MILLIONS OF YEN**

Years ended March 31

**BUSINESS ENVIRONMENT AND PERFORMANCE**

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

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

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

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

BUSINESS PROSPECTS AND DEVELOPMENT

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

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

Precision equipment

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

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

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

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

Imaging products

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

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

Instruments

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

New business development

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

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

ENHANCING CSR-ORIENTED MANAGEMENT

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

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

AIMING FOR TRUE EXCELLENCE

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

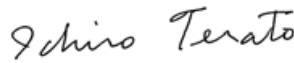
competitive products and a robust financial structure. We believe that we have made significant progress in both respects over the past year. We have taken the innovation and creativity of our younger employees and combined these with Nikon's strengths in core and elemental technologies to create original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

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

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



MICHIO KARIYA
REPRESENTATIVE DIRECTOR,
PRESIDENT, CEO AND COO



ICHIRO TERATO
REPRESENTATIVE DIRECTOR,
EXECUTIVE VICE PRESIDENT
AND CFO



NIKON ACHIEVED GOOD RESULTS IN THE MARKETS FOR IC AND LCD STEPPERS AND SCANNERS IN THE YEAR ENDED MARCH 2007. SEGMENT SALES ROSE 20.3% COMPARED WITH THE PREVIOUS YEAR TO ¥292,562 MILLION. OPERATING INCOME SOARED 87.0% TO ¥49,321 MILLION, REFLECTING THE SUCCESS OF MOVES TO PROMOTE THE USE OF STANDARDIZED MODULES AND SIMPLIFIED DESIGNS.

NSR-S610C ArF immersion scanner

THE STATE-OF-THE-ART NSR-S610C ArF IMMERSION SCANNER HAS ATTRACTED A LOT OF ATTENTION WITHIN THE INDUSTRY. THIS MODEL IS POSITIONED TO BE A MAJOR GROWTH DRIVER FOR NIKON'S IC STEPPER AND SCANNER BUSINESS GOING FORWARD.

The technical superiority of Nikon's ArF immersion scanners is based on two innovative solutions: Local Fill Technology and Tandem Stage.

Local Fill Technology

Defects are a major concern of customers when using immersion lithography. Nikon's Local Fill Technology has been proven to eliminate defects related to immersion caused by bubbles or water spots, as well as preventing nearly all problems due to backside wafer contamination. The technology also stops any evaporation of the immersion fluid, which provides a critical advantage in raising alignment accuracy by preventing immersion-related overlay problems.

Tandem Stage

Nikon developed the Tandem Stage as a way of achieving high throughput while also improving alignment accuracy. The design utilizes two separate stages with different functions. The reduced-weight Exposure Stage achieves wafer pattern exposure at higher scan speeds than previously possible. The Calibration Stage is used to calibrate various errors between each wafer exchange. The result is a system with high throughput and improved accuracy.





NSR-SF150 SCAN FIELD i-LINE STEPPER

Delivering powerful performance for non-critical layers in next-generation memory and MPU, the NSR-SF150 is based on a new platform that leverages Nikon's Skyhook Technology.



LCD SCANNER FX-83S

Supporting the world's largest 8th generation plate sizes for LCDs, the FX-83S adopts a multi-lens projection optical system to enable the exposure of up to a 57-inch wide panel in a single scan and two 48-inch wide panels in a single scan.

REVIEW OF YEAR ENDED MARCH 2007

In IC steppers and scanners, Nikon benefited from strong capital investment by chipmakers, notably in the DRAM and NAND flash memory sectors. Nikon prioritized the allocation of resources to development, production, and sale of the latest models. Besides focusing on expanding sales of the NSR-S609B ArF immersion scanner for mass production of 55 nm and smaller devices, Nikon also began shipments of the NSR-S610C ArF immersion scanner, the first scanner in the world capable of 45 nm production.

In LCD steppers and scanners, Nikon worked to exploit its technical superiority in equipment for 7th and 8th generation glass substrates. Efforts were focused on achieving higher sales and shipments of advanced systems to cater to strong market demand for high-speed machines capable of handling the larger LCD panel sizes. As well as marketing the existing FX-71S and FX-81S models, Nikon introduced the FX-73S and FX-83S systems to the large panel market, both systems offering higher throughput compared with previous models.

BUSINESS STRATEGY

Targeting growth of IC stepper and scanner business by regaining the technical lead

To achieve stable growth and adequate profitability in the IC stepper and scanner business it is essential to possess the most advanced technology for supplying industry needs related to device shrinkage. Those companies at the forefront of the technology can generate the funds needed to invest in the development of future advances and thereby achieve consistent and stable business growth. In the year ended March 2007, Nikon

sowed the seeds needed to establish immersion lithography as the future mainstream technology, in the process boosting prospects for regaining the technical lead in this area.

ArF immersion scanners are the new state of the art in IC scanner technology. In an immersion scanner, the space between the projection lens and the wafer is filled with purified water, which has a refractive index of 1.44. This enables lenses with NA values above 1.0, which is physically impossible with dry exposure (since air has a refractive index of 1.0). Higher lens resolution means that the market for immersion scanners is set to grow. Nikon is the technical leader in this field. In February 2007, Nikon made the first shipment of the latest NSR-S610C model, which has a lens NA of 1.30. This model has won customer approval, and sales will begin in earnest in the second half of the year ending March 2008. The main issue for Nikon is whether supply capacity will be sufficient to handle the volume of customer orders. Plans call for upgrading annual production capacity from 20 to 30 units during the year ending March 2008. Nikon is also considering a further expansion of capacity in the following year.

In addition to establishing a strong position in this area of cutting-edge technology, Nikon has also brought to market a new stepper based on an entirely novel concept. The NSR-SF150 high-speed i-line stepper has a design that is radically different from previous steppers. Nikon's Skyhook Technology, in which the projection lens is suspended from the body, minimizes the effect of floor vibration. Going forward, Nikon plans to expand the IC stepper and scanner business by developing a range of models, from low-

end steppers for non-critical layers to high-end scanners for critical layer exposure.

Pushing ahead with development of LCD scanners for 9th and 10th generation glass substrates

In LCD scanners, Nikon's multi-lens projection optical system is now coming into its own as the sizes of LCD panels for televisions increase to 40 inches or more. This system uses multiple projection lenses to handle the larger glass substrates. Nikon has already secured a major share of the market for LCD scanners used for 7th and 8th generation glass substrates. Although unit sales volumes are expected to decline in the year ending March 2008 due to a downturn in major capital investment by panel-makers during the year under review, the ongoing spread of LCD televisions and the trend toward larger screen sizes bode well for the future. Nikon is currently focusing on the development of LCD scanners that can handle even larger glass substrates for 9th and 10th generation production processes.

Standardized modules and simplified design key to unlocking higher profits

Nikon plans to continue promoting the adoption of standardized modules and simplified designs. Two of the most important scanner modules are those for the reticle and wafer stages. Both of these modules play a critical role in achieving excellent product reliability based on nanometer-scale accuracy. Putting considerable thought into the design of these stages, Nikon managed to develop modules that could be used in future scanner models with minimal design changes. For example, the tandem stage used in the NSR-S609B ArF immersion scanner will provide the template for the exposure stage used in future

NET SALES*

MILLIONS OF YEN

Years ended March 31

07 292,562

06 243,207

05 214,326

*The above figures include intersegment sales.

OPERATING INCOME

MILLIONS OF YEN

Years ended March 31

07 49,321

06 26,375

05 11,387

advanced IC scanner models. Promoting module standardization and the use of simplified designs not only limits the development risk and required investment levels, but also helps to reduce costs. Another benefit is shorter development lead-times, which means that Nikon can bring new models to market in a timely manner.

Active development of next-generation exposure technologies

Anticipating further device shrinkage, Nikon is working on development of the next generation of lithography from a number of angles. One of these approaches to scanner development is called double patterning. This overcomes the limitations on resolution encountered with standard techniques by dividing pattern transfer into a two-step process. Achieving this requires a significant improvement in alignment accuracy. Double patterning is expected to extend the life of ArF immersion scanning technology.

Nikon is also focusing on a different and novel technological approach called EUVL (extreme ultraviolet lithography). EUVL uses light with a wavelength 14 times shorter than the 193 nm for the excimer lasers used in ArF immersion lithography. EUVL does not use a conventional lens, instead employing an optics system made up of mirrors contained in a vacuum.

Device shrinkage is expected to continue in the future. By developing these technologies, Nikon aims to build a business with substantial growth potential and a highly profitable earnings structure.

KAZUO USHIDA

DIRECTOR, MEMBER OF THE BOARD
& SENIOR EXECUTIVE OFFICER
PRESIDENT OF PRECISION EQUIPMENT COMPANY





IN THE IMAGING PRODUCTS BUSINESS, SALES INCREASED 8.0% COMPARED WITH THE PREVIOUS YEAR TO ¥449,790 MILLION, AND OPERATING INCOME CLIMBED 32.9% TO ¥45,678 MILLION, POSTING A RECORD HIGH IN BOTH FOR THE SECOND CONSECUTIVE YEAR. THIS REFLECTED FAVORABLE SALES OF DIGITAL SLR CAMERAS AND INTERCHANGEABLE LENSES.



D40

SMALL, LIGHT, SIMPLE TO USE: THE D40 DIGITAL SLR CAMERAS ENABLE ANYBODY TO CREATE EXPRESSIVE, HIGH-QUALITY IMAGES.

Astonishing image quality

6.1 effective megapixel CCD image sensor and all-new image-processing engine deliver fresh, brilliant images.

Convenient high-speed functions

Featuring an advanced 3-area AF system for fast, efficient autofocus, the D40 provides near-instant response capabilities with a 0.18-second power-up. The high-speed continuous shooting function also allows the user to take up to 100 frames at 2.5 frames per second.

Myriad different expressions

Eight scene modes provide a rich array of in-camera effects and editing functions, including D-Lighting for brightening images taken in low light.

Simply a joy to use

The compact body designed for easy to grip. The large, bright viewfinder with 0.8x magnification ensures a clear view, while the 2.5-inch LCD monitor has a wide viewing angle in all directions.



**COOLPIX S500**

Incorporating advanced features like lens shift VR (Vibration Reduction) technology and light sensitivity of up to ISO 2000, this camera boasts a stainless steel body, hair-line finishing and sleek yet simple design.

**D80**

This digital SLR camera combines 10.2 megapixel resolution in a compact body with advanced speed and an in-camera retouching function for diverse expression.

REVIEW OF YEAR ENDED MARCH 2007

Sales of digital SLR cameras grew steadily as the result of lineup expansion. Including the high-end model D2XS and D200, a camera for professionals and advanced amateurs, Nikon launched D80 as a mid-range model offering excellent image quality, operability and other high-performance features. Nikon also introduced D40 as an entry-level model combining varied functions, superb operability and high-quality images in a compact body. Sales of interchangeable lenses also generated steady growth due to good sales of digital SLR camera kits. In addition, sales of high-priced lenses were also favorable.

In the COOLPIX series, Nikon targeted higher sales through an aggressive program of launches, bringing a total of 13 new products to market. These included the introduction of the COOLPIX S500 in March 2007, a model that boasts a short power-up time within 0.6 seconds; and a quick shutter release time lag of less than 0.005 seconds when the "response priority" setting is applied, all in a digital camera with a high quality, stainless steel compact body.

BUSINESS STRATEGY**Further reinforcement of position in digital SLR camera market**

The digital SLR camera market is currently growing briskly, a trend that Nikon expects to continue. Nikon's sales of digital SLR cameras are growing at a rate significantly faster than the digital SLR market, as a whole. One of the reasons for this result is due to the launch of the D40, which has created a whole new market for digital SLR cameras. By introducing the pleasure of taking photographs with a digital SLR camera at a relatively affordable

price, the D40 is positioned as an entry-level model that grabs the affections of a broad range of new customers.

In March 2007, Nikon launched D40X as the sister model of the D40. With this product, Nikon has now created a wider range of digital SLR cameras extending all the way from entry-level to high-end models. Plans call for the introduction of further high-end models in the year ending March 2008. Over the coming years, Nikon will reinforce its position in the digital SLR camera market by developing more attractive, customer-oriented product features to expand this lineup further.

Clearer brand positioning in compact digital camera market

To celebrate the ten year anniversary of the COOLPIX brand, Nikon implemented a number of measures to reinforce the brand and to increase awareness among consumers. This included a full redesign of the brand logo.

Alongside this, Nikon has reformed planning and marketing processes, including making a shift from a pure category management approach to a system that involves product managers. Nikon has divided compact digital cameras into three categories: Performance (for people wanting high performance, including superior image quality and diverse features); Style (for those with discerning taste for style and design); and Life (for users desiring simple operation at an affordable price). Under the new structure, product managers will manage the creation of products from planning to launch in an integrated fashion, based on these same categories. Nikon believes that the new system will more accurately channel the company's vision into products that reflect customer needs.

Targeting expansion of peripheral products business

Nikon also sees business opportunities in peripheral products—the items that help people get the most out of photography, aside from cameras. During the year under review, Nikon launched photo-finishing software called Capture NX. With next generation high-quality image-editing and processing capabilities, this software was developed and commercialized jointly with a US venture company in which Nikon has an equity stake. Aside from software, future plans also call for the development of online services.

Strengthening promotions in local markets

In the year ended March 2007, Nikon expanded the local in-market sales structure for imaging products with the commencement of operations at sales subsidiaries in South Korea (Nikon Imaging Korea Co., Ltd.) and Australia (NIKON Australia Pty Ltd). Results in both markets improved significantly as a result. During the year ending March 2008, Nikon plans to set up a new sales subsidiary in India, a major emerging market, and to study the establishment of further local sales subsidiaries in markets such as Russia and Eastern Europe. In China, a market with huge potential, Nikon is seeking to reinforce and solidify the position of the Nikon brand in the country's massive consumer market. Nikon also views China as a key production base.

Open and transparent corporate culture

In contrast to the age of film cameras, the digital age has brought dramatically shorter product life cycles. This rapidly changing environment demands that companies develop the ability to transform. Nikon is

NET SALES*

MILLIONS OF YEN

Years ended March 31

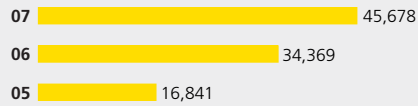


*The above figures include intersegment sales.

OPERATING INCOME

MILLIONS OF YEN

Years ended March 31



seeing the fruits of efforts to foster a more open corporate culture in terms of greater interdivisional communication and cooperation. Elsewhere, purchasing reform programs and corporate-wide manufacturing projects are benefiting from many contributions by factory staff, which have played a major part in efforts to reduce costs and rationalize designs. Nikon plans to continue with these initiatives with the aim of building an organizational structure capable of realizing innovative ideas.

Toward the next generation of cameras

Along with the effects of greater Internet use and the spread of large-screen flat-panel televisions, the shift from film to digital is leading to substantial changes in the way that people share images and photography. Besides just capturing images, the next generation of cameras will also need to offer ways of sharing and enjoying these with others. Rather than asking what the technology can do, Nikon will challenge this from the perspective of what sort of technologies will be needed to realize new lifestyle options. New product development programs have been progressing along such lines. Nikon aims to originate new lifestyle possibilities via creative, concept-based development processes, involving technical collaboration in various fields where appropriate. In this way, Nikon hopes to avoid the trap of clinging too tightly to existing paradigms or technologies developed in-house.

MAKOTO KIMURA
DIRECTOR, MEMBER OF THE BOARD
& SENIOR EXECUTIVE OFFICER
PRESIDENT OF IMAGING COMPANY



Nikon BioStation



THE BIOSCIENCE BUSINESS ACHIEVED STEADY GROWTH IN SALES BY MARKETING SYSTEMIZED PRODUCTS. AGGRESSIVE PRODUCT DEVELOPMENT ALSO HELPED THE INDUSTRIAL INSTRUMENTS BUSINESS RECORD SUBSTANTIALLY HIGHER SALES. SEGMENT SALES POSTED A RECORD HIGH OF ¥61,171 MILLION, INCREASING 11.5% OVER THE PREVIOUS YEAR. OPERATING INCOME ROSE 25.4% TO ¥5,123 MILLION.



BioStation CT

INCORPORATING A MICROSCOPE AND CAMERA INSIDE AN INCUBATOR, THE BIOSTATION CT FACILITATES STABLE TIME-SERIES OBSERVATION OF LIVING CELL CULTURES WITHOUT OUTSIDE INTERFERENCE. THE SYSTEM ALSO ENABLES THE RECORDING AND MANAGEMENT OF CELL IMAGES.

Manual transfer of cultured cells for observation under a microscope creates a number of possible problems, such as contamination, mixing up of samples or stress to the cells caused by environmental change or dish vibrations. The BioStation CT eliminates these kinds of concerns by handling all processes from culturing to observation inside the incubator, without the need for manual human intervention. Observation and image recording are done automatically based on a pre-set schedule. A system log stores all the information gathered on the culture, linked to the relevant images. This ensures the full traceability of all cell-related information for more reliable data management.





iNEXIV VMA-2520

A lightweight, compact CNC video measuring system enabling automated measurements of mechanical parts and other precision parts used in automotive and electronics industries.



MM-400/800 SERIES OF MEASURING MICROSCOPES

With application in various industries, from semiconductors and LCDs to automotive-related, these measuring microscopes include an enhanced height (Z-axis) measurement function and high-precision digital imaging metrology, while also enabling larger sample measurements.

REVIEW OF YEAR ENDED MARCH 2007

In the bioscience business, Nikon focused on expanding sales of systems optimized for the extended observation of live cells, especially products based on the Perfect Focus System. Popular products for this market included the BioStation CT (Cell Tracking) observation system and the BioStation IM (cell IMaging) system for observing cell cultures using time-lapse imaging.

In industrial instruments, Nikon launched several new industrial microscopes, including the MULTIZOOM AZ100 (Multi-purpose zoom microscope), the ECLIPSE MA100 (a small inverted metallurgical microscope) and the MM-400/800 series of measuring microscopes for digital image-based high-precision measurement of large samples. The launch of the compact, affordable iNEXIV VMA-2520 3D measuring system also contributed to solid growth in global sales of the NEXIV series of CNC video measuring systems.

BUSINESS STRATEGY

Live cells: the main growth driver in the bioscience business

In the bioscience business, the development of completely new categories of instruments is a vital part of achieving significant growth in related markets.

One area of growth is systems for the observation of live cells, a field where Nikon has devoted substantial resources in recent years. The Perfect Focus System fitted to the ECLIPSE TE2000-PFS microscope provides automatic control over focus adjustments, thus eliminating any focal drift during live cell observation that may be caused by extended observation, stage movements, reagent additions or other factors.

This ensures that not even the slightest change in the sample under observation is missed.

Nikon also finished commercial development of the BioStation series during the year under review. Shipments of the BioStation IM and BioStation CT systems commenced in February 2007 and March 2007, respectively. These products have attracted inquiries from many customers, which is expected to translate into increased sales in future.

Nikon has also started selling the BioStation ID system nationally under an exclusive agreement with GE Healthcare Biosciences (GEHB). Based on the BioStation IM, this product features special analytical software developed by GEHB for the numerical analysis of images of live cell cultures. Going forward, Nikon plans to make further use of alliances with other companies to expand sales of this series in new products categories and sales regions.

Favorable overall growth achieved in industrial instruments

The industrial instruments business achieved favorable growth overall during the year ended March 2007. This was partly the result of successful market introductions of several new products. Nikon extended the NEXIV series of CNC video measuring systems, which utilize optical measurement and computer-based image-processing technologies to realize high-speed, automatic high-precision measurement and inspection of the shape, form and dimensions of various types of precision devices and electronic components. In semiconductor inspection equipment, Nikon introduced the AMI-3300 model for automatic macro inspection of IC chips. AMI systems are replacing visual inspection processes and are thereby helping to raise the efficiency of process

management by improving accuracy and providing clear, quantifiable inspection criteria. Other new instruments launched in the year under review included the MM-400/800 series of industrial microscopes for high-precision measurement, observation and digital imaging of samples.

Going forward, the industrial instruments business is focused on creating a stronger development-led sales system around the world to facilitate greater differentiation of the product range.

Ongoing establishment of Nikon Imaging Centers

To date Nikon has established Nikon Imaging Centers in a number of the world's leading universities, including Harvard University, the University of Heidelberg, Hokkaido University and Oxford University. These facilities enable researchers to gain hands-on experience with Nikon microscopes. The year under review saw the opening in September 2006 of a new Nikon Imaging Center at the University of California San Francisco. While contributing to the advancement of campus research activities, these centers also play a useful role in development of new-concept microscopes by giving Nikon the chance to gain direct feedback from researchers. In the year ending March 2008, Nikon plans to establish more centers in the Institut Curie in France, in Singapore's Biopolis research complex, and at Northwestern University, which is based in Chicago, USA.

Consolidation of domestic sales company trio boosts customer orientation

In April 2006, Nikon reformed sales structures in Japan with the merger of three sales companies based in Kawasaki, Osaka and Fukuoka into a single firm, Nikon Instech Co., Ltd. The move

NET SALES*

MILLIONS OF YEN

Years ended March 31

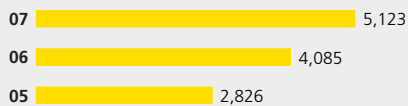


*The above figures include intersegment sales.

OPERATING INCOME

MILLIONS OF YEN

Years ended March 31



aimed to strengthen capabilities to provide customer-oriented services and to develop related solutions. Through dynamic use of direct sales activities, Nikon is working to create a system that is capable of rapid assessment of market needs.

Nikon is also focusing on developing a more skilled sales force. This reflects the fact that not only are today's microscopes entirely computer-controlled, but biological microscopes also require a greater level of specialist knowledge in bioscience. This means that salespeople require more advanced IT skills and specialist knowledge. Going forward, Nikon hopes to reinforce sales capabilities by prioritizing the cultivation of a more specialized sales force.

Building a fast-response organization to improve profit margins

The Instruments Company is undertaking a new project to raise profit margins through a combination of organizational and cultural reforms, manufacturing improvements and various initiatives to promote simplified product design. Alongside this, Nikon is also investing in an improved IT infrastructure with the aim of building a fast-response organization. By identifying new markets and creating products that exceed customer expectations, the Instruments Company is targeting the early achievement of ¥10 billion in operating income in order to make a significant contribution to the growth of the Nikon Group.

HISAO IZAWA
OPERATING OFFICER
PRESIDENT OF INSTRUMENTS COMPANY



SEGMENT SALES INCREASED 14.9% YEAR ON YEAR TO ¥57,244 MILLION, WHILE OPERATING INCOME ROSE 9.0% TO ¥2,102 MILLION.

Review of year ended March 2007

The major business developments during the year were as follows.

1. Sales of customized products were on a par with the previous year, despite efforts to expand sales of space-related equipment and optical components.
2. The sport optics products business recorded significantly higher sales, reflecting favorable sales growth in markets in North America and Europe.
3. Sales increased in glass-related operations. Nikon focused on acquiring new customers to expand sales and also made a full-scale entry into the LCD photomask substrate business. This involved investing in new facilities at the Shonan branch on the site of the Sagamihara Plant.
4. Sales of ophthalmic frames and sunglasses increased amid a continued harsh market environment following successful moves to reconstruct the business and to promote higher sales.

Entry into LCD photomask substrate business

Nikon entered the LCD photomask substrate business during the year. Photomasks are used in LCD panel manufacturing processes as a negative plate for transferring circuit patterns via exposure. The photomask substrate is a material made out of silica glass whose surface is ground and polished until it is extremely smooth. Surface variation in the final product is under 20 micrometers.



NET SALES*

MILLIONS OF YEN

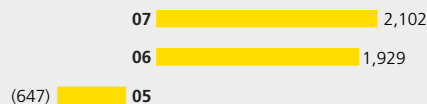
Years ended March 31



*The above figures include intersegment sales.

OPERATING INCOME (LOSS) MILLIONS OF YEN

Years ended March 31



In the year under review, Nikon established a new Shonan branch on the site of the Sagami-hara Plant to house the necessary facilities for manufacturing and supplying LCD photomask substrates. These included a clean room, a large polishing machine and inspection equipment. Currently Nikon can supply photomask substrates for 5th to 8th generation LCD panel manufacturing processes.

Mask size continues to increase as LCD panels become larger. Nikon decided to enter this business because the ability to integrate the synthesis of large, high-quality silica glass with high-precision polishing, linked to the expertise that Nikon possesses in LCD scanners, enables Nikon to supply LCD panel-makers with process-optimized substrates. This business is expected to make a steady contribution to Nikon Group profits, since it is fairly insensitive to the silicon investment cycle and should generate stable demand for consumables.

Nikon Rayfact 2.0x high-performance lens launched for line-scanning sensors

The degree of precision required in the external inspection of printed circuit boards and other electronic components is rising amid ongoing miniaturization of devices. Inspection based on image-processing technology has become the norm in the industry. The sensors used to analyze the lines in the circuitry must operate at ever increasing degrees of resolution, which in turn raises the performance requirements for the scanning lens. At the same time, concerns about environmental issues are boosting demand for eco-friendly glass that is free of substances such as lead or arsenic.

The Nikon Rayfact 2.0x lens (95mm F2.8) is made from eco-friendly glass and provides high resolution from the center to the periphery of the image. This uniformity of performance reduces image distortion, ensuring an even image across the entire device surface, even with large line-scanning sensors.

Nikon Fieldmicroscope EZ-Micro awarded prize for good design

The Fieldmicroscope EZ-Micro, which was developed by Nikon as a portable stereoscopic microscope for outdoor use, was one of the products to receive a Good Design Gold Prize at the Good Design Awards 2006 organized by the Japan Industrial Design Promotion Organization.

Demand has increased for products that allow users to observe and capture images of microscopic objects with ease outdoors. This series of products is the first to enable this by creating a field microscope with a modified light path and special bracket to hold a digital camera. The EZ-Micro is designed to work with the COOLPIX series (a camera is included in some models), thus making it simple to capture the image. Due to the ease of observation and image recording, this product has a broad range of applications, including such industrial and commercial uses as electronic component inspection or the appraisal of precious stones.

**NIKON RAYFACT 2.0X HIGH-PERFORMANCE LENS****NIKON FIELDMICROSCOPE EZ-MICRO**

IN LINE WITH THE CORPORATE OBJECTIVE OF GAINING THE TRUST OF ALL ITS STAKEHOLDERS WITH GENUINELY TRANSPARENT MANAGEMENT, THE NIKON GROUP IS CONTINUING WITH ACTIVITIES IT MUST PERFORM TO FULFILL ITS RESPONSIBILITIES AS A CORPORATE CITIZEN.

CSR PROMOTION SYSTEM

To fulfill and promote its CSR activities, the Nikon Group has established separate subcommittees under the CSR Committee to focus on different themes of importance.

In the past, CSR activities concerning environmental issues and social contribution were implemented by separate committees but a more integrated approach has been adopted with the establishment of the CSR Committee in January 2006. Under the CSR Committee, which is chaired by the President and composed of members who are Standing Directors and the heads of CSR-related departments, the Business Conduct Committee, Risk Management Committee, Environmental Committee, Social Contribution Committee, Export Control Committee and Health and Safety Committee are in charge of implementing CSR activities.

In consideration of current social conditions, in April 2007 the preexisting Nikon Charter of Corporate Behavior was amended and the Nikon Corporate Social Responsibility (CSR) Charter was newly established. This was done in order to have the basic policy stance regarding the social responsibility of the Nikon Group be more readily understood and permeated among all Group employees. Each and every one of our employees will abide by the "Nikon Corporate Social Responsibility (CSR) Charter" during their every day business activities.

**CSR COMMITTEE
(SECRETARIAT: CSR SECTION)**

BUSINESS CONDUCT COMMITTEE

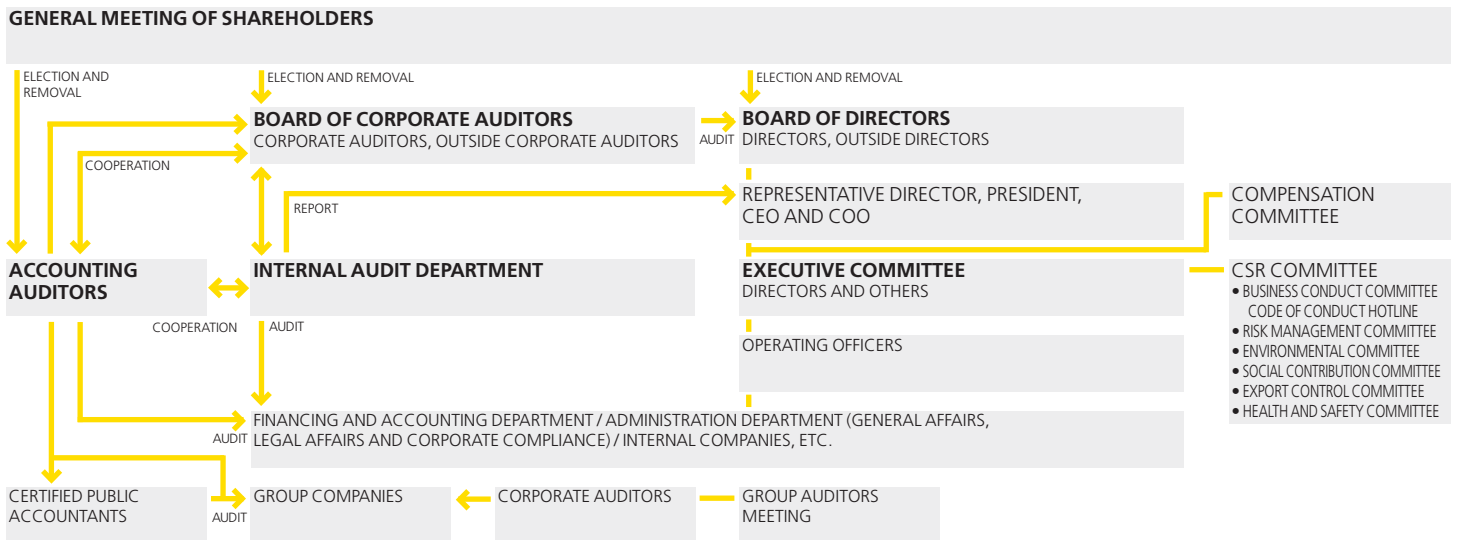
RISK MANAGEMENT COMMITTEE

ENVIRONMENTAL COMMITTEE

SOCIAL CONTRIBUTION SECTION

EXPORT CONTROL COMMITTEE

HEALTH AND SAFETY COMMITTEE



THE FIVE FUNDAMENTAL PRINCIPLES
Business Conduct (Compliance)

The “Nikon Business Conduct Committee” was established to perform appropriate education and nurturing of business ethics to assure fair and sound business conduct by Group companies based on a law-abiding spirit that respects international regulations, and is actively engaged in such initiatives.

Examples include the creation of the “Nikon Code of Conduct” which serves as general standards of behavior for Group employees, the establishment of the “Compliance Section” for the full-time promotion of activities pertaining to business ethics, and the introduction of the “Code of Conduct Coordinator System” to promote corporate ethics at all Group companies.

In 2007 the Nikon Code of Conduct was amended in response to changing times, with the aim of further permeating awareness of corporate ethics among all of our employees as well as thorough enforcement of ethics.

Risk Management

In the pursuit of sustained growth of the Nikon Group, the Risk Management Committee was established to comprehensively manage and precisely respond to risks encountered by the Group.

The Committee ascertains and assesses risks within the Group and implements measures to counteract those that can influence operation. It also conducts education and training to minimize damage in the event of a risk arising.

Furthermore, through regular risk monitoring, the Committee implements a risk management PDCA cycle in a system that can respond precisely even to newly occurring risks.

Specific examples of the major activities of the Committee include the establishment of a BCM system for possible disasters such as earthquakes, and initiatives regarding information security countermeasures, among others.

Environment

Since it issued the “Nikon Basic Environmental Management Policy” in 1992, Nikon Group has continued with environmental preservation efforts based on the concepts of “recycling” and “coexistence.” The “Nikon Corporate Social Responsibility (CSR) Charter” formulated in 2007 further declares the Group’s commitment to conservation of the natural environment and the promotion of environment-friendly activities.

Numerous goals have been achieved through the vigorous promotion of the “Nikon Environmental Action Plan” for fiscal 2006 which defined the medium and long term environmental targets. With the establishment of the “Nikon Green Procurement Standards” in October 2005, we have also strengthened environment-friendly activities at the procurement stage for raw materials and other items through cooperation with business partners.

In fiscal 2007, the “Nikon Environmental Action Plan” for fiscal 2006 was reviewed and expanded, with one amendment to strengthen efforts to prevent global

warming, a serious global environmental problem. To expedite the “Nikon Environmental Action Plan” and more efficient business operations, progress is also being made in the Nikon Group-wide integration of ISO14001 certification.

Social Contribution

As a corporate citizen, the Nikon Group is taking responsibility for the future of its home nation, local area communities and the global society at large. From a basic stance of contributing to the sound growth of society as a whole, we are conducting wide-ranging social contribution activities not only directly through our business endeavors but also through other external, non-corporate efforts.

One example is the establishment of the Nikon “Social Contribution Committee.” Contribution is made by supporting various global environment conservation activities and participating in local environment conservation activities, and by supporting activities in developing areas worldwide. Meanwhile, in order to more proactively promote social action programs both domestically and overseas we created the Social Contribution Section in April 2007.

In the business-related field, in addition to providing research aid to universities and government research institutions for the development of cutting-edge technologies, Nikon also runs the “Nikon Salon,” which provides permanent photography exhibition spaces to promote the development of photographic culture, and also supports other various photograph exhibitions and events.

Respect for Human Beings

In international society efforts and endeavors directly pertaining to human individuals, such as the respect for human rights, are of vital importance. Accordingly, a special working group has been organized in the Secretariat for the six subcommittees under the CSR Committee, and is promoting inter-organizational initiatives in this area.

ENHANCING CORPORATE GOVERNANCE

To enhance the relationship of trust it enjoys with its stakeholders amid continued globalization of the business environment, the Nikon Group aims to “increase management efficiency and transparency” by bolstering corporate governance and improving its internal control system. The following summarizes activities undertaken during the period to strengthen the internal control system.

Strengthened Deliberation, Resolution, Communication and Reporting System

In 2005, Nikon further overhauled the structure of the Executive Committee engaged in the deliberation, resolution, communication and reporting of business matters and recreated rules related to the delegation of authority in divisions in order to further enhance the Group's internal controls.

Conducting Internal Auditing

The Internal Audit Department, which operates independent of other sections,

was established in October 2005 with the primary objectives of monitoring the Nikon Group internal controls in line with established regulations and guidelines, and making recommendations for improvement. Furthermore, to enhance the Nikon internal control system, the scope of auditing will be expanded in the future to cover other firms and subsidiaries within the Group.

Information Resource Control

Guidelines on classifying confidential information were instituted in 2006 to thoroughly specify and clarify different types of restricted data. Nikon continues striving to increase the effectiveness of its information management.

Moreover, access control and security pertaining to the Group's internal network has been further solidified as of April 2007 to fully prevent data from being compromised, tampered with or destroyed.

Nikon's Committees (pertaining to CSR activities)

The Nikon Group has established various committees and subcommittees throughout the corporation to address issues and themes of organization-wide importance.

Please refer to the “Nikon CSR Report” for further details on our CSR activities (<http://www.nikon.co.jp/main/eng/portfolio/csr/index.htm>).

FIVE-YEAR SUMMARY

Nikon Corporation and Consolidated Subsidiaries Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2007	2006	2005	2004	2003	2007
For the year						
Net sales	¥ 822,813	¥ 730,944	¥ 638,468	¥ 506,378	¥ 468,959	\$ 6,970,042
Cost of sales	494,663	468,944	429,143	346,898	307,503	4,190,287
SG&A expenses	226,143	195,413	178,780	155,805	157,269	1,915,658
Operating income	102,007	66,587	30,545	3,675	4,187	864,097
Income (loss) before income taxes and minority interest	87,813	40,925	33,443	9,490	(11,128)	743,860
Net income (loss)	54,825	28,945	24,141	2,410	(8,143)	464,421
Per share of common stock (Yen and U.S. Dollars):						
Net income (loss)	¥ 146.36	¥ 78.16	¥ 65.19	¥ 6.52	¥ (22.03)	\$ 1.24
Diluted net income	131.42	69.33	57.84	6.02		1.11
Cash dividends applicable to the year	18.00	10.00	8.00	4.00		0.15
Capital expenditures	¥ 30,432	¥ 25,817	¥ 22,459	¥ 22,267	¥ 20,226	\$ 257,786
Depreciation and amortization	22,625	20,760	19,705	20,213	20,435	191,657
R&D costs	47,218	37,139	33,561	30,165	27,506	399,981
At year-end						
Total assets	¥ 748,939	¥ 690,920	¥ 633,426	¥ 606,513	¥ 576,912	\$ 6,344,253
Equity	348,445	243,122	196,030	171,194	162,464	2,951,671

- 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 ¥118.05 to U.S. \$1.00, the exchange rate at March 31, 2007.
3. Diluted net income per share for the year ended March 31, 2003 is not disclosed because of the Company's net loss position.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

OPERATING ENVIRONMENT

In the fiscal year ended March 31, 2007, growth in the U.S. economy remained on par with the previous year due to robust consumer spending and capital investment, offsetting a decline in housing investment. The European economy continued to expand moderately owing to an increase in domestic demand, while high growth persisted in the Asian economy, led by China and India.

With regard to Nikon Group business segments, vigorous capital investment in the semiconductor and LCD markets resulted in steady performance in Precision Equipment and Instruments. In Imaging Products, the digital camera market continued to expand.

Net Sales by Industry Segment

Years ended March 31, 2007 and 2006

	Millions of Yen, %		Thousands of U.S. Dollars
	2007	2006	2007
Precision Equipment	¥ 292,562	¥ 243,207	\$ 2,478,291
Share of net sales	35.6%	33.3%	
Imaging Products	449,790	416,607	3,810,165
Share of net sales	54.7	57.0	
Instruments	61,171	54,875	518,178
Share of net sales	7.4	7.5	
Other	57,244	49,832	484,917
Share of net sales	7.0	6.8	
Total	¥ 860,767	¥ 764,521	\$ 7,291,551
(Elimination)	(37,954)	(33,577)	(321,509)
	(4.7)	(4.6)	
Consolidated	¥ 822,813	¥ 730,944	\$ 6,970,042

OPERATIONAL REVIEW AND ANALYSIS

During the year, the Nikon Group worked aggressively to implement key strategies in its three-year medium term management plan announced in March 2006 that will run until March 31, 2009. Specific initiatives included: strengthening competitiveness in core businesses, particularly by securing market share in cutting-edge models and developing high-value-added products; boosting cost competitiveness through hard-hitting measures to bolster manufacturing; and creating and fostering new businesses, beginning with the glass business. Attention was also given to promoting CSR-oriented management, such as enhancing the internal auditing system, and to further improving financial structure. As a result of these efforts, consolidated net sales totaled ¥822,813 million, up ¥91,869 million, or 12.6%, relative to the previous year, and consolidated net income amounted to ¥54,825 million. Both of these results marked new record highs for the Group.

Breaking down the results by business segment, the Precision Equipment Business posted ¥291,913 million in net sales, a year-on-year increase of 20.5%, and considerable growth in operating income to ¥49,321 million. In IC steppers, the Group not only strove to expand sales of existing products, but sales of state-of-the-art immersion lithography products were strong. Sales of 7th and 8th generation LCD steppers increased as Nikon made effective use of its outstanding technological expertise.

The Imaging Products Business recorded net sales of ¥448,825 million, up 8.0%, and a substantial increase in operating income to ¥45,678 million. Sales of digital SLR cameras were brisk, due in part to the release of the D80, which realizes excellent image quality as a mid-range camera, compact design and ease-of-use. Amid intensifying competition in the compact digital camera market, Nikon strove to expand sales through the proactive launch of new products in its COOLPIX line.

The Instruments Business registered net sales of ¥59,252 million, up 11.2%, and operating income of ¥5,123 million. These results were due to efforts to raise sales of new products and to strong sales in the NEXIV line of CNC video measuring systems.

Breaking down results by geographic segment, sales increased in Japan due to overall sales growth of LCD exposure systems in Precision Equipment, despite a year-on-year decline in IC steppers, while the proportion of state-of-the-art systems was increased. Additionally, in Imaging Products, sales of digital SLR cameras and replacement lenses were robust. Overall sales in Japan were up 22.8% relative to the previous year to ¥337,455 million and operating income totaled ¥84,786 million.

Overseas, sales in North America dipped by 0.3% to ¥216,113 million and operating income was ¥6,688 million. Sales in Precision Equipment were down due to a decline in sales volume of IC steppers compared with the previous year. In Imaging Products, sales of digital SLR cameras were firm.

In Europe, sales of digital SLR cameras grew, while results were buoyed by the strong Euro. The region recorded net sales of ¥177,386 million, up 6.4%, and operating income of ¥5,261 million.

In Asia, sales increased in Precision Equipment due to higher component sales as well as in Imaging Products due to solid performances in digital SLR cameras and digital compact cameras. Regional sales climbed 26.8% to ¥91,859 million and operating income amounted to ¥4,691 million.

Income Analysis

Years ended March 31, 2007 and 2006

	(% of Net Sales)	
	2007	2006
Net sales	100.0%	100.0%
Cost of sales	(60.1)	(64.2)
Gross profit	39.9	35.8
SG&A expenses	(27.5)	(26.7)
Operating income	12.4	9.1
Net interest expense and dividend income	0.0	0.0
Net other expenses	(1.7)	(3.5)
Income before income taxes and minority interest	10.7	5.6
Income taxes	(4.0)	(1.6)
Minority interest	0.0	0.0
Net income	<u>6.7</u>	<u>4.0</u>

Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis

March 31, 2007 and 2006

	(% of Total Assets)	
	2007	2006
Total assets	100.0%	100.0%
Total current assets	69.9	67.9
Inventories	32.9	34.6
Property, plant and equipment	15.5	16.0
Investments and other assets	14.6	16.1
Total current liabilities	41.3	48.5
Short-term borrowings	2.1	1.8
Long-term debt, less current portion	9.1	12.8
Equity	46.5	35.2

FINANCIAL REVIEW AND ANALYSIS

At fiscal year-end, total assets stood at ¥748,939 million, up ¥58,019 million, or 8.4%, relative to the previous fiscal year-end. This increase primarily reflected higher levels of cash and cash equivalents and accounts receivable. Current assets totaled ¥523,198 million, up 11.5%.

Liabilities decreased by ¥47,122 million owing primarily to a decline in corporate bonds with redemption due within one year in line with the exercise of stock acquisition rights.

Net income at year-end stood at ¥54,825 million and equity posted a net increase of ¥105,323 million.

In terms of cash flows, cash and cash equivalents at year-end amounted to ¥83,849 million. Net cash provided by operating activities totaled ¥83,201 million, mainly on account of a high level of income before income taxes, which outweighed a decrease in notes and accounts payable. Net cash used in investing activities amounted to ¥21,898 million, reflecting primarily an increase in payments for purchases of tangible fixed assets. Net cash used in financing activities totaled ¥23,673 million due mainly to payments for the redemption of corporate bonds.

Net Sales	¥ Million
07	822,813
06	730,944
05	638,468
04	506,378
03	468,959

Operating Income	¥ Million
07	102,007
06	66,587
05	30,545
04	3,675
03	4,187

Net Income (Loss)	¥ Million
07	54,825
06	28,945
05	24,141
04	2,410
03	(8,143)

Net Income (Loss) Per Share	¥
07	146.36
06	78.16
05	65.19
04	6.52
03	(22.03)

Diluted Net Income Per Share	¥
07	131.42
06	69.33
05	57.84
04	6.02
03	

Capital Expenditures	¥ Million
07	30,432
06	25,817
05	22,459
04	22,267
03	20,226

R&D Costs	¥ Million
07	47,218
06	37,139
05	33,561
04	30,165
03	27,506

Equity	¥ Million
07	348,445
06	243,122
05	196,030
04	171,194
03	162,464

Return on Equity	%
07	18.5
06	13.2
05	13.1
04	1.4
03	(4.8)

CONSOLIDATED BALANCE SHEETS

Nikon Corporation and Consolidated Subsidiaries March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets			
Cash and cash equivalents	¥ 83,849	¥ 44,472	\$ 710,281
Notes and accounts receivable — trade:			
Customers	145,987	134,009	1,236,658
Unconsolidated subsidiaries and associated companies	2,927	3,626	24,798
Allowance for doubtful receivables	(3,073)	(2,832)	(26,028)
Inventories (Note 4)	246,401	238,846	2,087,259
Deferred tax assets (Note 11)	33,053	29,876	279,995
Other current assets	14,054	21,108	119,039
Total current assets	<u>523,198</u>	<u>469,105</u>	<u>4,432,002</u>
Property, plant and equipment			
Land	15,965	15,917	135,239
Buildings and structures	102,792	99,650	870,748
Machinery and equipment	148,994	137,565	1,262,131
Furniture and fixtures	55,338	50,077	468,765
Construction in progress	4,947	5,432	41,904
Total	<u>328,036</u>	<u>308,641</u>	<u>2,778,787</u>
Accumulated depreciation	(211,362)	(198,316)	(1,790,445)
Net property, plant and equipment	<u>116,674</u>	<u>110,325</u>	<u>988,342</u>
Investments and other assets			
Investment securities (Notes 3 and 6)	75,890	79,864	642,860
Investments in and advances to unconsolidated subsidiaries and associated companies	10,214	9,469	86,524
Long-term loans to employees and other	101	99	852
Allowance for doubtful receivables	(96)	(105)	(811)
Software	9,352	8,245	79,223
Goodwill	163	143	1,384
Security deposit	3,045	4,983	25,797
Deferred tax assets (Note 11)	3,457	1,458	29,285
Other	6,941	7,334	58,795
Total investments and other assets	<u>109,067</u>	<u>111,490</u>	<u>923,909</u>
Total	<u>¥ 748,939</u>	<u>¥ 690,920</u>	<u>\$ 6,344,253</u>

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings (Note 6)	¥ 15,514	¥ 12,632	\$ 131,417
Current portion of long-term debt (Note 6)	21,942	77,556	185,874
Notes and accounts payable — trade:			
Suppliers	145,339	150,883	1,231,166
Unconsolidated subsidiaries and associated companies	573	622	4,850
Income taxes payable	27,561	8,231	233,466
Accrued expenses	55,457	47,527	469,777
Other current liabilities (Note 11)	42,570	37,494	360,615
Total current liabilities	<u>308,956</u>	<u>334,945</u>	<u>2,617,165</u>
Long-term liabilities			
Long-term debt (Notes 6)	67,870	88,643	574,925
Liability for employees' retirement benefits (Note 7)	15,164	16,967	128,451
Retirement allowances for directors and corporate auditors (Note 2(h))	456	339	3,861
Other long-term liabilities (Note 11)	8,048	6,722	68,180
Total long-term liabilities	<u>91,538</u>	<u>112,671</u>	<u>775,417</u>
Minority interests	<u>—</u>	<u>182</u>	<u>—</u>
Commitments and Contingent liabilities (Notes 14, 15 and 16)			
Equity			
Common stock (Note 8) :			
Authorized — 1,000,000,000 shares;			
issued, 400,101,468 shares in 2007 and 369,945,332 shares in 2006	64,676	36,661	547,869
Capital surplus (Note 8)	79,912	51,933	676,929
Stock acquisition rights	83	—	704
Retained earnings (Notes 8)	179,019	130,405	1,516,469
Unrealized gain on available-for-sale securities	22,105	24,534	187,251
Deferred loss on derivatives under hedge accounting	(199)	—	(1,683)
Foreign currency translation adjustments	3,672	286	31,108
Treasury stock — at cost; 674,372 shares in 2007 and 585,198 shares in 2006	(1,018)	(697)	(8,624)
Total	<u>348,250</u>	<u>243,122</u>	<u>2,950,023</u>
Minority interests	195	—	1,648
Total equity	<u>348,445</u>	<u>243,122</u>	<u>2,951,671</u>
Total	<u>¥ 748,939</u>	<u>¥ 690,920</u>	<u>\$ 6,344,253</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
	¥ 822,813	¥ 730,944	\$ 6,970,042
Net sales	¥ 822,813	¥ 730,944	\$ 6,970,042
Cost of sales	494,663	468,944	4,190,287
Gross profit	328,150	262,000	2,779,755
 Selling, general and administrative expenses (Note 10)	226,143	195,413	1,915,658
Operating income	102,007	66,587	864,097
Other income (expenses)			
Interest and dividend income	1,724	1,138	14,601
Interest expense	(1,633)	(1,501)	(13,833)
Cash discount	(3,840)	(5,243)	(32,533)
Royalty income	418	391	3,541
Write-down of inventories	(1,747)	(6,495)	(14,800)
Loss on disposals of inventories	(6,998)	(9,910)	(59,279)
Loss on disposals of property, plant and equipment	(804)	(1,770)	(6,810)
Loss on impairment of fixed assets		(245)	
Gain on sales of property, plant and equipment	825	116	6,990
Gain on sales of investment securities	24	1,896	202
Gain on transfer of investments in affiliate	67		568
Proceeds from patents and know-how licenses		1,236	
Loss on Patent settlement		(2,890)	
Loss on restructuring of business (Note 13)	(1,847)		(15,643)
Equity in earnings of unconsolidated subsidiaries and associated companies	1,541	1,101	13,050
Other-net	(1,924)	(3,486)	(16,291)
Other expenses-net	(14,194)	(25,662)	(120,237)
Income before income taxes and minority interests	87,813	40,925	743,860
Income taxes (Note 11)			
Current	34,128	14,282	289,096
Deferred	(1,153)	(2,304)	(9,763)
Total income taxes	32,975	11,978	279,333
 Minority interests	13	2	106
Net income	¥ 54,825	¥ 28,945	\$ 464,421
	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 2 (s)) :			
Basic net income	¥ 146.36	¥ 78.16	\$ 1.24
Diluted net income	131.42	69.33	1.11
Cash dividends applicable to the year	18.00	10.00	0.15

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Nikon Corporation and Consolidated Subsidiaries Years ended March 31, 2007 and 2006

	Thousands			Millions of Yen								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, April 1, 2005	369,461	¥ 36,661	¥ 51,931		¥ 104,478	¥ 7,297		¥ (3,813)	¥ (524)	¥ 196,030		¥ 196,030
Excess arising from retirement of treasury stock			2							2		2
Net Income					28,945					28,945		28,945
Cash dividends, ¥8.0 per share					(2,955)					(2,955)		(2,955)
Bonuses to directors and corporate auditors					(63)					(63)		(63)
Net increase in unrealized gain on available-for-sale securities						17,237				17,237		17,237
Net increase in foreign currency translation adjustments								4,099		4,099		4,099
Purchase of treasury stock	(101)								(173)	(173)		(173)
BALANCE, March 31, 2006	369,360	¥ 36,661	¥ 51,933		¥ 130,405	¥ 24,534		¥ 286	¥ (697)	¥ 243,122		¥ 243,122
Reclassified balance as of April 1, 2006 (Note 2.)											¥ 182	¥ 182
Conversion of convertible bonds	30,156	28,015	27,985							56,000		56,000
Net Income					54,825					54,825		54,825
Cash dividends, ¥12.5 per share					(4,621)					(4,621)		(4,621)
Bonuses to directors and corporate auditors					(72)					(72)		(72)
Purchase of treasury stock	(181)								(445)	(445)		(445)
Disposal of treasury stock	92		(10)						124	114		114
Loss on disposal of treasury stock			4		(4)							
Adjustment of retained earnings for newly consolidated subsidiaries					(23)					(23)		(23)
Adjustment of pension obligation for foreign consolidated subsidiaries					(1,491)					(1,491)		(1,491)
Net change in the term				¥ 83		(2,429) ¥	(199) ¥	3,386 ¥		841 ¥	13 ¥	854 ¥
BALANCE, March 31, 2007	399,427	¥ 64,676	¥ 79,912	¥ 83	¥ 179,019	¥ 22,105	¥ (199)	¥ 3,672	¥ (1,018)	¥ 348,250	¥ 195	¥ 348,445

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, April 1, 2006	\$ 310,554	\$ 439,921		\$ 1,104,656	\$ 207,834		\$ 2,427	\$ (5,906)	\$ 2,059,486		\$ 2,059,486
Reclassified balance as of April 1, 2006 (Note 2.)										\$ 1,546	\$ 1,546
Conversion of convertible bonds	237,315	237,060							474,375		474,375
Net Income				464,421					464,421		464,421
Cash dividends, U.S.\$0.11 per share				(39,144)					(39,144)		(39,144)
Bonuses to directors and corporate auditors				(610)					(610)		(610)
Purchase of treasury stock								(3,769)	(3,769)		(3,769)
Disposal of treasury stock		(89)						1,051	962		962
Loss on disposal of treasury stock		37		(37)							
Adjustment of retained earnings for newly consolidated subsidiaries				(187)					(187)		(187)
Adjustment of pension obligation for foreign consolidated subsidiaries				(12,630)					(12,630)		(12,630)
Net change in the term			\$ 704		(20,583) \$	(1,683) \$	28,681 \$		7,119 \$	102 \$	7,221 \$
BALANCE, March 31, 2007	\$ 547,869	\$ 676,929	\$ 704	\$ 1,516,469	\$ 187,251	\$ (1,683)	\$ 31,108	\$ (8,624)	\$ 2,950,023	\$ 1,648	\$ 2,951,671

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nikon Corporation and Consolidated Subsidiaries Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥ 87,813	¥ 40,925	\$ 743,860
Adjustments for:			
Income taxes-paid	(15,066)	(20,512)	(127,628)
Loss on impairment of fixed assets	589	245	4,988
Depreciation and amortization	22,536	20,670	190,899
Provision for employees' retirement benefits	(4,190)	(1,696)	(35,491)
Provision for retirement allowance for directors and corporate auditors	117	(696)	988
Loss on sales or disposal of property, plant and equipment	808	1,932	6,842
Gain on sales of property, plant and equipment	(825)	(116)	(6,990)
Gain on sales of investment securities	(24)	(1,896)	(202)
Other-net	320	841	2,709
Change in assets and liabilities:			
Increase in notes and accounts receivable-trade	(6,298)	(8,838)	(53,348)
Decrease (increase) in inventories	(1,491)	12,299	(12,631)
Increase (decrease) in notes and accounts payable-trade	(10,543)	15,651	(89,309)
Other-net	9,455	4,935	80,107
Total adjustments	(4,612)	22,819	(39,066)
Net cash provided by operating activities	<u>83,201</u>	<u>63,744</u>	<u>704,794</u>
Investing activities:			
Purchases of property, plant and equipment	(21,516)	(19,977)	(182,265)
Proceeds from sales of property, plant and equipment	1,818	2,446	15,402
Purchases of investment securities	(914)	(839)	(7,743)
Proceeds from sales of investment securities	3,599	1,589	30,486
Net decrease (increase) in loans receivable	(27)	151	(225)
Other-net	(4,858)	(5,797)	(41,157)
Net cash used in investing activities	<u>(21,898)</u>	<u>(22,427)</u>	<u>(185,502)</u>
Financing activities:			
Net increase (decrease) in short-term borrowings	2,219	(26,033)	18,799
Proceeds from long-term debt	4,896	16,689	41,476
Repayments of long-term debt	(25,842)	(8,050)	(218,910)
Dividends paid	(4,613)	(2,944)	(39,074)
Other-net	(333)	(177)	(2,826)
Net cash used in financing activities	<u>(23,673)</u>	<u>(20,515)</u>	<u>(200,535)</u>
Foreign currency translation adjustments on cash and cash equivalents	1,234	2,163	10,458
Net increase in cash and cash equivalents	38,864	22,965	329,215
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	513		4,347
Cash and cash equivalents, beginning of year	44,472	21,507	376,719
Cash and cash equivalents, end of year	<u>¥ 83,849</u>	<u>¥ 44,472</u>	<u>\$ 710,281</u>
Non-cash investing and financing activities:			
Convertible bonds converted into common stock	¥ 28,015	¥	\$ 237,315
Convertible bonds converted into capital surplus	27,985		237,060

See Notes to Consolidated Financial Statements.

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006**1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standard Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in 2006 financial statements to conform to classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikon Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the approximate rate of ¥118.05 to U.S.\$1, the rate of exchange at March 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Consolidation**

The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 49 significant (47 in 2006) subsidiaries (collectively, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 associated companies (2 associated companies in 2006) are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition ("Goodwill") are charged to income when incurred, if they are small amounts in sum, and the others are being amortized on a straight-line basis over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(c) Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as follows:

- i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and
- ii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost as determined principally using the average method. Inventories of foreign subsidiaries are stated at the lower of cost or market as determined principally using the average method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities incidental to buildings), and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is principally from 30 to 40 years for buildings and from 5 to 10 years for machinery.

(f) Long-lived Assets

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(g) Retirement and Pension Plans

The Company has a defined benefit corporate pension plan (cash balance plan) and its consolidated domestic subsidiaries have non-contributory funded pension plans. Certain foreign subsidiaries also have contributory pension plans.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Retirement allowances for officers are recorded to state the liability at the amount that would be required if all officers retired at each balance sheet date.

Certain foreign subsidiaries (about the United States etc.) record unrecognized actuarial gains and losses to which cost is not processed to balance sheet in this fiscal year.

(h) Retirement Allowances for Directors and Corporate Auditors

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(i) Stock Options

On December 27, 2005, the ASBJ issued ASBJ Standard No.8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adoption of this accounting standard for the year ended March 31, 2007 was to decrease income before income taxes and minority interests by ¥83 million (\$704 thousand).

(j) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(k) Research and Development Costs

The Group is active in research and development, and such costs are charged to income as incurred.

(l) Leases

All leases are accounted for as operating leases by the Company and its domestic subsidiaries. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(m) Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥90 million (\$762 thousand).

(n) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(o) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

(p) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

(q) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

(r) Derivatives and Hedging Activities

The Group enters into derivative financial instruments ("derivatives"), including contracts of foreign exchange forward, currency option, foreign currency swap and interest rate swap to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized principally as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income and (b) for derivatives used for hedging purpose, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts and currency option contracts employed to hedge foreign exchange exposures for export sales and purchases are measured at fair value and the related unrealized gains or losses are recognized in income. Forward contracts entered into for forecasted transactions are also measured at fair value, but the unrealized gains or losses on qualifying hedges are deferred until the underlying transactions are completed. The foreign currency swaps used to hedge the foreign currency fluctuations of long-term debt denominated in foreign currencies are measured at fair value and the unrealized gains or losses are included in the carrying amounts of the debt. The interest rate swaps which qualify for hedge accounting are measured at market value at the balance sheet date, and the unrealized gains or losses are deferred until maturity. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

(s) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(t) New Accounting Pronouncements

Measurement of Inventories— Under generally accepted accounting principles in Japan (“Japanese GAAP”), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting— On March 31, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements— Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-Current :			
Equity securities	¥ 75,887	¥ 79,862	\$ 642,841
Debt securities	3	2	19
Total	¥ 75,890	¥ 79,864	\$ 642,860

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006 were as follows:

March 31, 2007	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 38,120	¥ 37,273	¥ 94	¥ 75,299
Debt securities	1	0	0	1
Total	¥ 38,121	¥ 37,273	¥ 94	¥ 75,300

March 31, 2006	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 38,115	¥ 41,228	¥ 15	¥ 79,328
Debt securities	1	0	0	1
Total	¥ 38,116	¥ 41,228	¥ 15	¥ 79,329

March 31, 2007	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 322,916	\$ 315,740	\$ 799	\$ 637,857
Debt securities	6	0	0	6
Total	\$ 322,922	\$ 315,740	\$ 799	\$ 637,863

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale:			
Equity securities	¥ 588	¥ 533	\$ 4,984
Other securities		2	
Total	¥ 588	¥ 535	\$ 4,984

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2007 and 2006 were ¥28 million (\$239 thousand) and ¥5,147 million, respectively. Gross realized gains on these sales for the fiscal year ended March 31, 2007 and 2006 were ¥24 million (\$202 thousand) and ¥1,896 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2007 and 2006 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due in one year or less	¥ 1	¥ 0	\$ 9
Due after one year through five years	1		4
Total	¥ 2	¥ 0	\$ 13

4. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished and semi-finished products	¥ 86,201	¥ 100,499	\$ 730,211
Work in process	130,674	113,767	1,106,938
Raw materials and supplies	29,526	24,580	250,110
Total	¥ 246,401	¥ 238,846	\$2,087,259

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the period ended March 31, 2006 and, as a result, recognized an impairment loss of ¥245 million as other expenses for the idle buildings and machines of the plants in Shinagawa, Tokyo and Ohtawara, Tochigi due to no possibility of using them and the carrying amount of the relevant machinery was written down to the recoverable amount for the year ended March 31, 2006.

The Group reviewed its long-lived assets for impairment as of the period ended March 31, 2007 and, as a result, recognized an impairment loss of ¥589 million (\$4,988 thousand) for certain assets of CMP division, which include buildings and structures, machinery and equipment, and other assets, because a deterioration of the business environment eroded its profitability for the year ended March 31, 2007. The carrying amount of the relevant assets was written down to the recoverable amount. The impairment loss was included in loss on restructuring of business of other expenses.

The recoverable amount of the assets was measured at net selling price. Those assets which have no possibility of using or difficult to sell is measured at memorandum price.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Short-term loans, principally from banks:			
2007: 0.85250%-5.05000%			
2006: 0.39230%-8.60000%	¥ 15,514	¥ 12,632	\$ 131,417
Total	¥ 15,514	¥ 12,632	\$ 131,417

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans, principally from banks and insurance companies:			
2007: 0.5900%-4.3600% due 2008-2013			
2006: 0.33188%-5.5100% due 2007-2013	¥ 20,312	¥ 20,699	\$ 172,065
Bonds	69,500	145,500	588,734
Total	89,812	166,199	760,799
Less: Current portion	(21,942)	(77,556)	(185,874)
Long-term debt, less current portion	¥ 67,870	¥ 88,643	\$ 574,925

The following was a summary of the terms of bonds which the Company may at any time purchase at any price in the open market or otherwise. The bonds purchased or otherwise acquired by the Company may be held or resold or, at the discretion of the Company, may be canceled (together with any unmatured coupons attached thereto or purchased therewith).

	Issued in	Maturity	Millions of Yen		Thousands of U.S. Dollars
			2007	2006	2007
2.5% Yen Unsecured Bonds	November, 1997	November, 2007	¥ 10,000	¥ 10,000	\$ 84,710
1.0% Yen Unsecured Bonds	April, 2001	April, 2006		10,000	
1.3% Yen Unsecured Bonds	December, 2001	December, 2006		10,000	
1.7% Yen Unsecured Bonds	December, 2001	December, 2008	5,000	5,000	42,355
1.15% Yen Unsecured Bonds	February, 2003	February, 2008	10,000	10,000	84,710
1.4% Yen Unsecured Bonds	February, 2003	February, 2010	10,000	10,000	84,710
Yen Zero Coupon Convertible Bond	June, 2002	March, 2007		56,000	
Yen Zero Coupon Convertible Bond	March, 2004	March, 2011	34,500	34,500	292,249
Total			¥ 69,500	¥ 145,500	\$ 588,734

The aggregate annual maturities of long-term debt for the years following March 31, 2007 are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 21,942	\$ 185,874
2009	7,867	66,645
2010	10,702	90,660
2011	44,740	378,992
2012	60	508
Thereafter	4,501	38,120
Total	¥ 89,812	\$ 760,799

The yen zero coupon convertible bonds were issued with stock acquisition rights to subscribe for shares of common stock of the Company.

The stock acquisition rights are exercisable through March 14, 2011 at ¥2,058 per share. The stock acquisition rights outstanding at March 31, 2007 entitled the holders to subscribe for 16,763,848 shares which was computed using the above-mentioned exercise price.

At March 31, 2007, the following assets were pledged as collateral for long-term debt.

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Investment securities	¥ 8,437	\$ 71,466

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Long-term debt, including current portion	¥ 4,620	\$ 39,136

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debts payable to the banks. The Group has never been requested to provide any additional collateral.

7. RETIREMENT AND PENSION PLANS

The Company has a defined benefit corporate pension plan (cash balance plan) and its consolidated domestic subsidiaries have non-contributory funded pension plans. Certain foreign subsidiaries also have contributory pension plans.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Retirement allowances for officers are recorded to state the liability at the amount that would be required if all officers retired at each balance sheet date.

Certain foreign subsidiaries (about the United States etc.) record unrecognized actuarial gains and losses to which cost is not processed to balance sheet in this fiscal year.

The projected benefit obligation includes retirement allowance for officers of ¥189 million (\$1,598 thousand).

On April 1, 2006, the Company revised the pension plan and implemented a defined contribution pension plan for a part of future amount.

As a result, the projected benefit obligation is to be decreased by ¥1,505 million (\$12,750 thousand) and the amount is being amortized as prior service cost over 10 years from the time of accrual.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 104,086	¥ 102,767	\$ 881,712
Fair value of plan assets	(107,783)	(100,951)	(913,029)
Unrecognized actuarial loss	4,555	886	38,584
Unrecognized prior service cost	13,670	13,936	115,800
	14,528	16,638	123,067
Prepayment of service cost	636	329	5,384
Net Liability	¥ 15,164	¥ 16,967	\$ 128,451

The components of net periodic benefit costs for the fiscal years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 3,282	¥ 3,207	\$ 27,800
Interest cost	2,791	2,747	23,644
Expected return on plan assets	(2,512)	(1,941)	(21,279)
Recognized actuarial loss	1,224	2,995	10,372
Amortization of prior service cost	(1,793)	(1,718)	(15,194)
Net periodic retirement benefit costs	¥ 2,992	¥ 5,290	\$ 25,343

Assumptions used for the fiscal years ended March 31, 2007 and 2006 were principally set forth as follows:

	2007	2006
Discount rate	2.50%	2.50%
Expected rate of return on plans assets	2.00%	2.00%
Recognition period of actuarial gain (loss)	10 years	10 years
Amortization period of prior service cost	10 years	10 years

8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Stock acquisition rights of the convertible bonds were exercised for the fiscal year ended March 31, 2007.

As a result, Common stock was increased by ¥28,015 million (\$237,315 thousand) and Capital surplus was increased by ¥27,985 million (\$237,060 thousand).

9. STOCK OPTION

The stock option outstanding as of March 31, 2007 is as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Options Granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Exercise Period</u>
2001 Stock Option	9 directors 13 officers	99,000 shares	2001.6.28	1,321	From June 19, 2003 To June 28, 2011
2003 Stock Option	11 directors 11 officers	203,000 shares	2003.6.27	1,048	From June 28, 2005 To June 27, 2013
2004 Stock Option	12 directors 10 officers	210,000 shares	2004.6.29	1,225	From June 30, 2006 To June 29, 2014
2005 Stock Option	11 directors 10 officers	178,000 shares	2005.6.29	1,273	From June 30, 2007 To June 29, 2015
2006 Stock Option	12 directors 12 officers	99,000 shares	2007.3.14	2,902	From February 28, 2009 To February 27, 2017

The stock option activity is as follows:

	<u>2001 Stock Option</u>	<u>2003 Stock Option</u>	<u>2004 Stock Option</u> (Shares)	<u>2005 Stock Option</u>	<u>2006 Stock Option</u>
<u>For the year ended March 31, 2007</u>					
<u>Non-vested</u>					
March 31, 2006-Outstanding			210,000	178,000	
Granted					99,000
Canceled					
Vested			(210,000)		
March 31, 2007-Outstanding				178,000	99,000
<u>Vested</u>					
March 31, 2006-Outstanding	93,000	186,000			
Vested			210,000		
Exercised	24,000	45,000	17,000		
Canceled					
March 31, 2007-Outstanding	69,000	141,000	193,000		
Exercise price	1,321	1,048	1,225	1,273	2,902
Average stock price at exercise	2,294	2,343	2,411		
Fair value price at grant date					840

The assumptions used to measure fair value of 2006 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.841%
Estimate remaining outstanding period:	six years
Estimate dividend:	¥12.50 per share
Interest rate with risk free:	1.215%

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2007 and 2006 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Advertising expenses	¥ 57,730	¥ 46,585	\$ 489,028
Provision of warranty costs	4,904	7,130	41,546
Employees' salaries	33,258	30,503	281,727
Net periodic retirement benefit cost	2,742	4,024	23,231
Employees' bonuses and others	16,730	15,012	141,719
Research and development costs	47,218	37,139	399,981

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the fiscal years ended March 31, 2006 and 2007.

The tax effects of significant temporary differences and loss carry-forwards which result in deferred tax assets and liabilities at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Write-down of inventories	¥ 17,869	¥ 17,647	\$ 151,371
Warranty reserve	2,572	2,253	21,785
Liability for employees' retirement benefits	8,432	9,326	71,427
Depreciation and amortization	14,141	14,296	119,789
Net operating loss carryforwards	9	143	79
Accrued bonus	4,505	4,076	38,160
Other	9,986	6,242	84,593
Total	¥ 57,514	¥ 53,983	\$ 487,204
Deferred tax liabilities:			
Deferred gains on sales of property to be replaced	5,599	6,137	47,433
Unrealized gain on available-for-sale securities	15,095	16,679	127,872
Undistributed earnings of foreign subsidiaries	6,264	4,525	53,066
Other	652	583	5,519
Total	¥ 27,610	¥ 27,924	\$ 233,890
Net deferred tax assets	¥ 29,904	¥ 26,059	\$ 253,314

A valuation allowance of ¥1,859 million (\$15,746 thousand) in 2007 and ¥2,715 million in 2006 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2007 and 2006, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Years ended March 31	
	2007	2006
Normal statutory tax rate	40.6%	40.6%
Tax credit for research and development costs	(2.7)	(2.6)
Tax difference of consolidated subsidiaries	(2.1)	(3.8)
Tax exemption for foreign subsidiaries		(3.2)
Consolidated adjustment on unrealizable profits in inventories		(4.9)
Tax effect on retained earnings for foreign subsidiaries	2.0	4.5
Other-net	(0.2)	(1.3)
Actual effective tax rate	37.6%	29.3%

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥47,218 million (\$399,981 thousand) and ¥37,139 million for the fiscal years ended March 31, 2007 and 2006, respectively.

13. LOSS ON RESTRUCTURING OF BUSINESS

CMP division decided to restructure the business because it did not expect improvement in earnings due to the deterioration of the business environment. So the Company recorded a loss on restructuring of a business of ¥1,847 million (\$15,643 thousand) for the fiscal year ended March 31, 2007.

Loss on restructuring of business consisted of loss on disposals of inventories, write-down of inventories and loss on impairment of fixed assets. The amount of the loss on impairment of fixed assets was ¥589 million (\$4,988 thousand).

14. LEASE PAYMENTS

Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥2,480 million (\$21,006 thousand) and ¥2,461 million for the fiscal years ended March 31, 2007 and 2006, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 3,867	¥ 2,425	\$ 32,756
Due after one year	4,744	5,090	40,188
Total	¥ 8,611	¥ 7,515	\$ 72,944

Pro forma information of leased property carried by finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of and for the fiscal years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2007			2007		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,614	¥ 6,255	¥ 12,869	\$ 56,026	\$ 52,984	\$ 109,010
Accumulated depreciation	3,975	2,904	6,879	33,671	24,599	58,270
Net leased property	¥ 2,639	¥ 3,351	¥ 5,990	\$ 22,355	\$ 28,385	\$ 50,740

	Millions of Yen		
	2006		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,173	¥ 5,495	¥ 11,668
Accumulated depreciation	3,416	2,520	5,936
Net leased property	¥ 2,757	¥ 2,975	¥ 5,732

Obligations under finance leases at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 2,397	¥ 2,154	\$ 20,305
Due after one year	3,593	3,578	30,435
Total	¥ 5,990	¥ 5,732	\$ 50,740

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥2,480 million (\$21,006 thousand) and ¥2,461 million for the fiscal years ended March 31, 2007 and 2006, respectively.

15. DERIVATIVES

The Group enters into derivative contracts, including foreign exchange forward contracts, currency option contracts, foreign currency swap contracts and interest rate swap contracts to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading purposes. Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including in changes in interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Because the counterparties to those derivative contracts are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative contracts outstanding at March 31, 2007 and 2006, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2007			2007		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign exchange forward contracts :						
Selling USD	¥ 41,935	¥ 41,824	¥ 111	\$ 355,232	\$ 354,286	\$ 946
Selling EUR	21,176	21,414	(238)	179,379	181,398	(2,019)
Buying JPY	634	632	(2)	5,373	5,354	(19)
Buying USD	4,245	4,248	3	35,957	35,982	25
Buying EUR	77	79	2	650	666	16
Buying GBP	46	46	(0)	393	393	—
Total			(124)			(1,051)
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 134	¥ 134	\$ 169,420	\$ 1,139	1,139
(fixed rate payment, floating rate receipt)	10,000	(112)	(112)	84,710	(945)	(945)
Total	¥ 30,000	¥ 22	¥ 22	\$ 254,130	\$ 194	\$ 194
	Millions of Yen			Thousands of U.S. Dollars		
	2006			2006		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Foreign exchange forward contracts :						
Selling USD	¥ 42,910	¥ 43,400	¥ (490)			
Selling EUR	13,713	14,001	(288)			
Buying JPY	102	100	(2)			
Buying USD	2,578	2,576	(2)			
Buying EUR						
Total			(782)			
Currency option contracts :						
Selling put EUR	¥ 249	¥	¥			
Option premiums	11	17	(6)			
Buying call EUR	249					
Option premiums	9	14	5			
Total			(1)			
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 271	¥ 271			
(fixed rate payment, floating rate receipt)	10,000	(242)	(242)			
Total	¥ 30,000	¥ 29	¥ 29			

Derivatives which qualified for hedge accounting and related amounts are included with the associated assets and liabilities, and were excluded from disclosure of market value information in the preceding table.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2007</u>	<u>2007</u>
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	¥ 4,766	\$ 40,369
Total	¥ 4,766	\$ 40,369

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2007 and 2006 were as follows:

	Yen in Millions	Thousands of Shares Weighted Average Shares	Yen	U.S. Dollars
	Net Income		EPS	
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	¥ 54,825	374,585	¥ 146.36	\$ 1.24
Effect of Dilutive Securities				
Warrants		305		
Convertible bonds		42,290		
Diluted EPS				
Net income for computation	¥ 54,825	417,180	¥ 131.42	\$ 1.11
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥ 28,873	369,412	¥ 78.16	\$ 0.67
Effect of Dilutive Securities				
Warrants		147		
Convertible bonds		46,920		
Diluted EPS				
Net income for computation	¥ 28,873	416,479	¥ 69.33	\$ 0.59

18. SUBSEQUENT EVENTS

The company's shareholders meeting held on June 28, 2007 approved as follows:

Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥11.50 (\$0.10) per share	¥ 4,593	\$ 38,911

19. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2007 and 2006, was as follows:

(a) Industry Segments

	Millions of Yen					(Eliminations) or Corporate	Consolidated
	Precision Equipment	Imaging Products	Instruments	Other	Total		
For the year ended March 31, 2007							
Net sales							
Outside customers	¥ 291,913	¥ 448,825	¥ 59,252	¥ 22,823	¥ 822,813	¥	¥ 822,813
Intersegment sales/transfer	649	965	1,919	34,421	37,954	(37,954)	
Total	292,562	449,790	61,171	57,244	860,767	(37,954)	822,813
Operating expenses	243,241	404,112	56,048	55,142	758,543	(37,737)	720,806
Operating income	¥ 49,321	¥ 45,678	¥ 5,123	¥ 2,102	¥ 102,224	¥ (217)	¥ 102,007
Assets	¥ 278,634	¥ 191,400	¥ 40,792	¥ 46,646	¥ 557,472	¥ 191,467	¥ 748,939
Depreciation and amortization	8,515	8,142	1,078	4,890	22,625		22,625
Capital expenditures	9,339	13,873	1,381	5,839	30,432		30,432

	Millions of Yen					(Eliminations) or Corporate	Consolidated
	Precision Equipment	Imaging Products	Instruments	Other	Total		
For the year ended March 31, 2006							
Net sales							
Outside customers	¥ 242,318	¥ 415,686	¥ 53,280	¥ 19,660	¥ 730,944	¥	¥ 730,944
Intersegment sales/transfer	889	921	1,595	30,172	33,577	(33,577)	
Total	243,207	416,607	54,875	49,832	764,521	(33,577)	730,944
Operating expenses	216,832	382,238	50,790	47,903	697,763	(33,406)	664,357
Operating income	¥ 26,375	¥ 34,369	¥ 4,085	¥ 1,929	¥ 66,758	¥ (171)	¥ 66,587
Assets	¥ 272,700	¥ 190,031	¥ 34,708	¥ 42,444	¥ 539,883	¥ 151,037	¥ 690,920
Depreciation and amortization	8,511	6,889	1,022	4,338	20,760		20,760
Capital expenditures	9,895	11,905	921	3,096	25,817		25,817

	Thousands of U.S. Dollars					(Eliminations) or Corporate	Consolidated
	Precision Equipment	Imaging Products	Instruments	Other	Total		
For the year ended March 31, 2007							
Net sales							
Outside customers	\$2,472,790	\$3,801,992	\$ 501,922	\$ 193,338	\$6,970,042	\$	\$6,970,042
Intersegment sales/transfer	5,501	8,173	16,256	291,579	321,509	(321,509)	
Total	2,478,291	3,810,165	518,178	484,917	7,291,551	(321,509)	6,970,042
Operating expenses	2,060,493	3,423,226	474,783	467,109	6,425,611	(319,666)	6,105,945
Operating income	\$ 417,798	\$ 386,939	\$ 43,395	\$ 17,808	\$ 865,940	\$ (1,843)	\$ 864,097
Assets	\$2,360,307	\$1,621,348	\$ 345,548	\$ 395,137	\$4,722,340	\$1,621,913	\$6,344,253
Depreciation and amortization	72,132	68,972	9,129	41,425	191,658		191,658
Capital expenditures	79,113	117,517	11,698	49,458	257,786		257,786

Major products of each Industry:

Precision Equipment : IC steppers, LCD steppers
 Imaging Products : Digital cameras, Film cameras, Interchangeable camera lenses
 Instruments : Microscopes, Measuring instruments, Inspection equipment
 Other : Sport optics products, Ophthalmic frames, Surveying instruments

Notes: 1. Amortization of Goodwill is included in "Depreciation and amortization" for the years ended March 31, 2007 and 2006.

2. As described in Note 2 (m), Directors' Bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the period ended March 31, 2007, the Company and its subsidiaries in Japan adopted Accounting Standards Board of Japan Statement No.4 "Accounting standard for

Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005, and directors' bonuses are accounted for as an expense of the period during which the payments had occurred. The effect of this change was to decrease operating income in Other segment for the period ended March 31, 2007 by ¥90 million (\$762 thousand), as compared with the amounts calculated by the previous method.

3. As described in Note 2 (i), Stock Options had been formerly accounted for as a decrease of retained earnings. Effective from the period ended March 31, 2007, the Company and its subsidiaries in Japan adopted Accounting Standards Board of Japan Statement No.8 "Accounting for subscription rights to shares and for bonds with subscription rights to shares" issued by the Accounting Standards Board of Japan on December 27, 2005, and Accounting Standards of Japan Guidance No.11 "Implementation guidance for accounting standards for share-based payment" issued by the Accounting Standards Board of Japan on May 31, 2006. The effect of this change was to decrease operating income in Other segment for the period ended March 31, 2007 by ¥83 million (\$704 thousand), as compared with the amounts calculated by the previous method.

(b) Geographic Segments

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2007							
Net sales							
Outside customers	¥ 337,455	¥ 216,113	¥ 177,386	¥ 91,859	¥ 822,813	¥	¥ 822,813
Intersegment sales	347,651	2,512	119	124,092	474,374	(474,374)	
Total	685,106	218,625	177,505	215,951	1,297,187	(474,374)	822,813
Operating expenses	600,320	211,937	172,244	211,260	1,195,761	(474,955)	720,806
Operating income	¥ 84,786	¥ 6,688	¥ 5,261	¥ 4,691	¥ 101,426	¥ 581	¥ 102,007
Assets	¥ 492,693	¥ 67,275	¥ 51,555	¥ 66,416	¥ 677,939	¥ 71,000	¥ 748,939

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2006							
Net sales							
Outside customers	¥ 274,907	¥ 216,849	¥ 166,734	¥ 72,454	¥ 730,944	¥	¥ 730,944
Intersegment sales	328,526	2,132	154	92,650	423,462	(423,462)	
Total	603,433	218,981	166,888	165,104	1,154,406	(423,462)	730,944
Operating expenses	558,229	210,590	162,061	156,630	1,087,510	(423,153)	664,357
Operating income	¥ 45,204	¥ 8,391	¥ 4,827	¥ 8,474	¥ 66,896	¥ (309)	¥ 66,587
Assets	¥ 483,865	¥ 72,766	¥ 54,634	¥ 54,658	¥ 665,923	¥ 24,997	¥ 690,920

	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	(Eliminations) or Corporate	Consolidated
For the year ended March 31, 2007							
Net sales							
Outside customers	\$ 2,858,575	\$ 1,830,690	\$ 1,502,641	\$ 778,136	\$ 6,970,042	\$	\$ 6,970,042
Intersegment sales	2,944,952	21,280	1,011	1,051,174	4,018,417	(4,018,417)	
Total	5,803,527	1,851,970	1,503,652	1,829,310	10,988,459	(4,018,417)	6,970,042
Operating expenses	5,085,304	1,795,319	1,459,087	1,789,574	10,129,284	(4,023,339)	6,105,945
Operating income	\$ 718,223	\$ 56,651	\$ 44,565	\$ 39,736	\$ 859,175	\$ 4,922	\$ 864,097
Assets	\$ 4,173,598	\$ 569,886	\$ 436,717	\$ 562,610	\$ 5,742,811	\$ 601,442	\$ 6,344,253

North America U.S.A., Canada
 Europe The Netherlands, Germany, United Kingdom, etc.
 Asia China, South Korea, Taiwan, Thailand, etc.

Notes: 1. As described in Note 2 (m), Directors' Bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the period ended March 31, 2007, the Company and its subsidiaries in Japan adopted Accounting Standards Board of Japan Statement No.4 "Accounting standard for Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005, and director's bonuses are accounted for as an expense of the period during which the payments had occurred. The effect of this change was to decrease operating income in Japan for the period ended March 31, 2007 by ¥90 million (\$762 thousand), as compared with the amounts calculated by the previous method.

2. As described in Note 2 (i), Stock Options had been formerly accounted for as a decrease of retained earnings. Effective from the period ended March 31, 2007, the Company and its subsidiaries in Japan adopted Accounting Standards Board of Japan Statement No.8 "Accounting for subscription rights to

shares and for bonds with subscription rights to shares” issued by the Accounting Standards Board of Japan on December 27, 2005, and Accounting Standards of Japan Guidance No.11 “Implementation guidance for accounting standards for share-based payment” issued by the Accounting Standards Board of Japan on May 31, 2006. The effect of this change was to decrease operating income in Japan for the period ended March 31, 2007 by 83 million yen (\$704 thousand), as compared with the amounts calculated by the previous method.

(c) Export Sales

For the years ended March 31, 2007 and 2006

	Millions of Yen, %				Thousands of U.S. Dollars
	<u>2007</u>	<u>(A)/(B)</u>	<u>2006</u>	<u>(A)/(B)</u>	<u>2007</u>
Export sales (A)					
North America	¥ 207,845	25.3%	¥ 209,676	28.7%	\$1,760,655
Europe	176,261	21.4	166,127	22.7	1,493,106
Asia	217,940	26.5	173,308	23.7	1,846,166
Other Area	13,068	1.6	8,689	1.2	110,703
Total	615,114	74.8%	¥ 557,800	76.3%	\$5,210,630
Net sales (B)	¥ 822,813		¥ 730,944		\$6,970,042

Note: “Other Area” consists principally of South and Central America and Oceania.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NIKON CORPORATION:

We have audited the accompanying consolidated balance sheets of NIKON CORPORATION (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

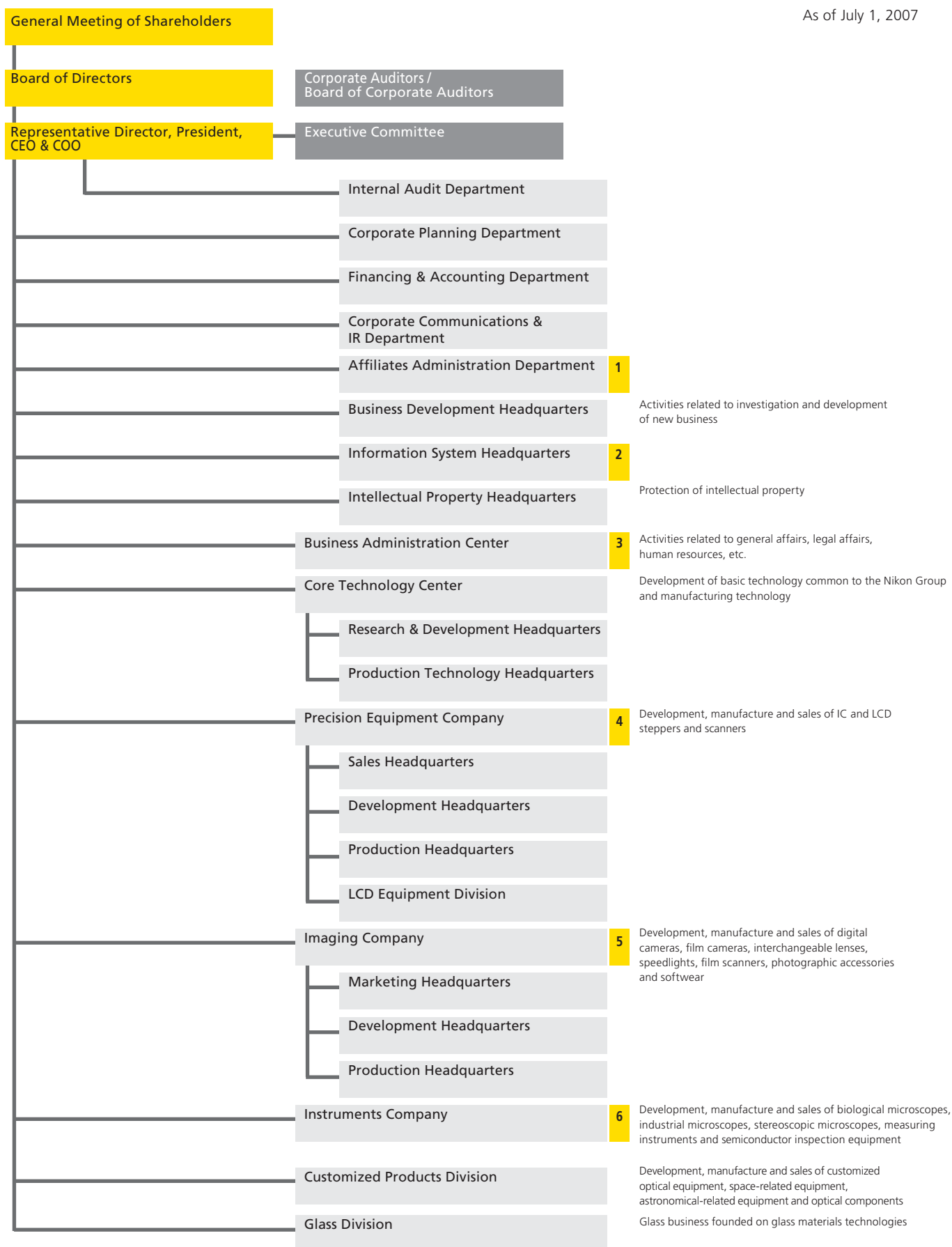
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIKON CORPORATION and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2007

As of July 1, 2007



MAJOR DOMESTIC COMPANIES

As of July 1, 2007

	Name	Business
1	Hikari Glass Co., Ltd.	* Manufacture and sales of optical glass and molded optical glass
	Nikon Optical Shop Co., Ltd.	Retail sales of ophthalmic frames and lenses
	Nikon Eyewear Co., Ltd.	* Development, manufacture, sales and servicing of ophthalmic frames and sunglasses
	Nikon Vision Co., Ltd.	* Development, manufacture, sales and servicing of sport optics products
	Nikon Engineering Co., Ltd.	* Design, manufacture, and sales of microprocessing systems and customized microscopes
	Nikon-Essilor Co., Ltd. ⁴	Development, manufacture, sales and servicing of ophthalmic lenses
	Nikon-Trimble Co., Ltd. ⁴	Development, manufacture, sales and servicing of surveying instruments
2	Nikon Systems Inc.	* Development and support of computer software
3	Nikon Business Service Co., Ltd. ¹	* Employee welfare activities, procurement, patent investigation, insurance, logistics, transportation and management of buildings and equipment
	Nikon Tsubasa Inc.	Processing, assembly and packing of parts for optical instruments
4	Mito Nikon Precision Corporation ²	* Manufacture of devices for IC/LCD steppers and scanners
	Zao Nikon Co., Ltd. ³	* Manufacture of devices for IC/LCD steppers and scanners, and surveying instruments
	Tochigi Nikon Precision Co., Ltd.	Manufacture of IC/LCD steppers and scanners, and lenses for IC/LCD steppers and scanners
	Nikon Tec Corporation	* Maintenance and servicing of IC/LCD steppers and scanners, sales of used steppers and scanners
5	Tochigi Nikon Corporation	* Manufacture of interchangeable lenses and optical lenses
	Sendai Nikon Corporation	* Manufacture of cameras, LCD steppers and scanners, and devices for IC steppers and scanners
	Nikon Photo Products Inc.	* Sales and servicing of cameras
6	Kurobane Nikon Co., Ltd.	* Manufacture of objective lenses for microscopes/measuring instruments/semiconductor inspection equipment, and optical components
	Nikon Instech Co., Ltd.	* Sales, maintenance and servicing of microscopes and measuring instruments

Notes: 1. Nikon Life Co., Ltd., Nikon Logistics Corporation and Nikon Technologies, Inc., which were consolidated subsidiaries for the year ended March 2007, were merged to form Nikon Business Service Co., Ltd. as of April 1, 2007.

2. Mito Nikon Corporation was renamed to Mito Nikon Precision Corporation as of July 1, 2007.

3. Surveying instruments of Zao Nikon Co., Ltd. will be sold to Nikon-Trimble Co., Ltd. as of August 1, 2007.

4. Nikon-Trimble Co., Ltd. and Nikon-Essilor Co., Ltd. are equity-method companies.

MAJOR OVERSEAS COMPANIES

As of July 1, 2007

	Name	Business
1	Nikon Americas Inc.	* Centralized supply, administration and management of funds of affiliates in the U.S.
	Nikon Holdings Europe B.V.	* Centralized supply, administration and management of funds of affiliates in Europe
4	Nikon Precision Inc.	* Import, sales, maintenance and servicing of IC steppers and scanners
	Nikon Research Corporation of America	* R&D for IC-related equipment
	Nikon Precision Europe GmbH	* Import, sales, maintenance and servicing of IC steppers and scanners
	Nikon Precision Korea Ltd.	* Maintenance and servicing of IC/LCD steppers and scanners
	Nikon Precision Taiwan Ltd.	* Maintenance and servicing of IC/LCD steppers and scanners
	Nikon Precision Singapore Pte Ltd	* Maintenance and servicing of IC/LCD steppers and scanners
	Nikon Precision Shanghai Co., Ltd.	* Maintenance and servicing of IC/LCD steppers and scanners
5	Nikon Inc.	* Import, sales and servicing of cameras
	Nikon Canada Inc.	* Import, sales and servicing of cameras, microscopes, and measuring instruments
	Nikon Europe B.V.	* Import, sales and servicing of cameras
	Nikon AG	* Import, sales and servicing of cameras, microscopes, and measuring instruments
	Nikon GmbH	* Import, sales and servicing of cameras, microscopes, and measuring instruments
	Nikon U.K. Ltd.	* Import, sales and servicing of cameras, microscopes, and measuring instruments
	Nikon France S.A.S.	* Import, sales and servicing of cameras, microscopes, and measuring instruments
	Nikon Nordic AB	* Import, sales and servicing of cameras
	Nikon Kft.	* Import, sales and servicing of cameras
	Nikon s.r.o.	* Import, sales and servicing of cameras
	Nikon Polska Sp.z o.o.	* Import, sales and servicing of cameras
	Nikon Hong Kong Ltd.	* Import, sales and servicing of cameras
	Nikon Singapore Pte Ltd	* Import, sales and servicing of cameras microscopes, and measuring instruments
	Nikon (Malaysia) Sdn. Bhd.	* Support for sales and servicing of cameras, microscopes, and measuring instruments
	Nikon Imaging (China) Sales Co., Ltd.	* Import, sales and servicing of cameras
	Nikon Australia Pty Ltd	Import, sales and servicing of cameras
	Nikon India Private Limited	Import, sales and servicing of cameras, servicing of measuring instruments
	Nikon Imaging Korea Co., Ltd.	* Import, sales and servicing of cameras
	Nikon (Thailand) Co., Ltd.	* Manufacture of cameras, interchangeable lenses and digital camera components
	Nikon Imaging (China) Co., Ltd.	* Manufacture of digital cameras and digital camera components
Nikon International Trading (Shenzhen) Co., Ltd.	Procurement of parts for digital cameras	
Guang Dong Nikon Camera Co., Ltd.	Manufacture of digital camera components	
Hang Zhou Nikon Camera Co., Ltd.	Manufacture of digital camera components	
6	Nikon Instruments Inc.	* Import, sales, maintenance and servicing of microscopes, measuring instruments and semiconductor inspection equipment
	Nikon Instruments Europe B.V.	* Import, sales, maintenance and servicing of microscopes and measuring instruments
	Nikon Instruments S.p.A.	* Import, sales, maintenance and servicing of microscopes and measuring instruments
	Nikon Instruments (Shanghai) Co., Ltd.	Marketing, maintenance and servicing of microscopes, measuring instruments, and semiconductor inspection equipment
	Nikon Instruments Korea Co., Ltd.	Sales, maintenance and servicing of microscopes and measuring instruments
	Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.	Manufacture of microscopes and objective lenses for microscopes

* Consolidated as of March 31, 2007

As of July 1, 2007

BOARD OF DIRECTORS		
Representative Director, President, CEO and COO	Michio Kariya	Companys oper ations
Representative Director, Executive Vice President and CFO	Ichiro Terato	Assistant of President, in charge of overseeing Information System Headquarters, Intellectual Property Headquarters and Internal Audit Department
Director, Member of the Board & Senior Executive Officer	Makoto Kimura	President of Imaging Company
Director, Member of the Board & Senior Executive Officer	Kyoichi Suwa	President of Core Technology Center & General Manager of Glass Division, in charge of overseeing the Instruments Company and the Customized Products Division
Director, Member of the Board & Senior Executive Officer	Kazuo Ushida	President of Precision Equipment Company
Director, Member of the Board & Executive Officer	Mamoru Kajiwara	In charge of Corporate Planning Department, Affiliates Administration Department and Corporate Communications & IR Department
Director, Member of the Board & Executive Officer	Naoki Tomino	General Manager of Intellectual Property Headquarters, in charge of Business Development Headquarters
Director, Member of the Board & Executive Officer	Yoshimichi Kawai	President of Business Administration Center, in charge of Financing & Accounting Department
Director, Member of the Board	Shunji Kono	Counselor, Tokio Marine & Nichido fire Insurance Co., Ltd.
Director, Member of the Board	Kenji Matsuo	President, Meiji Yasuda Life Insurance Company
CORPORATE AUDITORS		
Standing Corporate Auditor	Masami Kurosawa	
Standing Corporate Auditor	Hisayuki Shimizu	
Corporate Auditor	Toyoshi Nakano	Senior Advisor, Mitsubishi UFJ Trust and Banking Corporation
Corporate Auditor	Susumu Kani	Corporate Advisor, Mitsubishi Corporation
Corporate Auditor	Masatoshi Kamijo	Certified Public Accountant
OFFICERS		
Executive Officer	Yutaka Ichihara	Vice President of Core Technology Center & General Manager of Research & Development Headquarters, Core Technology Center
Executive Officer	Masami Kumazawa	General Manager of Information System Headquarters, in charge of risk management and group consolidated management project
Operating Officer	Tetsuro Goto	Vice President of Imaging Company
Operating Officer	Koji Morishita	General Manager of Business Development Headquarters
Operating Officer	Toshiyuki Masai	President & CEO, Nikon Inc. & Chairman, Nikon Instruments Inc.
Operating Officer	Norio Hashizume	General Manager of Financing & Accounting Department
Operating Officer	Yasuyuki Okamoto	General Manager of Marketing Headquarters, Imaging Company
Operating Officer	Toshikazu Umatate	General Manager of Development Headquarters, Precision Equipment Company
Operating Officer	Hisao Izawa	President of Instruments Company
Operating Officer	Teruo Hashimoto	General Manager of Production Headquarters, Precision Equipment Company
Operating Officer	Masaaki Okajima	In charge of manufacturing reform project, Chairman, Tochigi Nikon Corporation & Chairman, Tochigi Nikon Precision Co., Ltd. & Chairman, Sendai Nikon Corporation & Chairman, Nikon (Thailand) Co., Ltd.
Operating Officer	Geoffrey Wild	Vice President of Precision Equipment Company & President & CEO & COO, Nikon Precision Inc.
Operating Officer	Kunio Kawabata	General Manager of LCD Equipment Division, Precision Equipment Company & General Manager of Sales Department of LCD Equipment Division, Precision Equipment Company
Operating Officer	Tsuneo Kosaka	General Manager of Production Headquarters, Imaging Company
Operating Officer	Yoshiyuki Nagai	General Manager of Administration Department, Business Administration Center
Operating Officer	Kazuyuki Kazami	General Manager of Development Headquarters, Imaging Company

Nikon Corporation

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Chiyoda-ku, Tokyo 100-8331, Japan

Tel : +81-3-3214-5311

Fax : +81-3-3216-1454

Date of Establishment

July 25, 1917

Number of Employees

22,705 (Consolidated)

Common Stock

Authorized:

1,000,000,000 shares

Issued:

400,101,468 shares

¥64,676 million

Number of Shareholders

21,450

Stock Exchange Listings

Tokyo, Osaka, Fukuoka, Sapporo

Share Registrar

The Mitsubishi UFJ Trust and Banking
Corporation

Corporate Agency Division

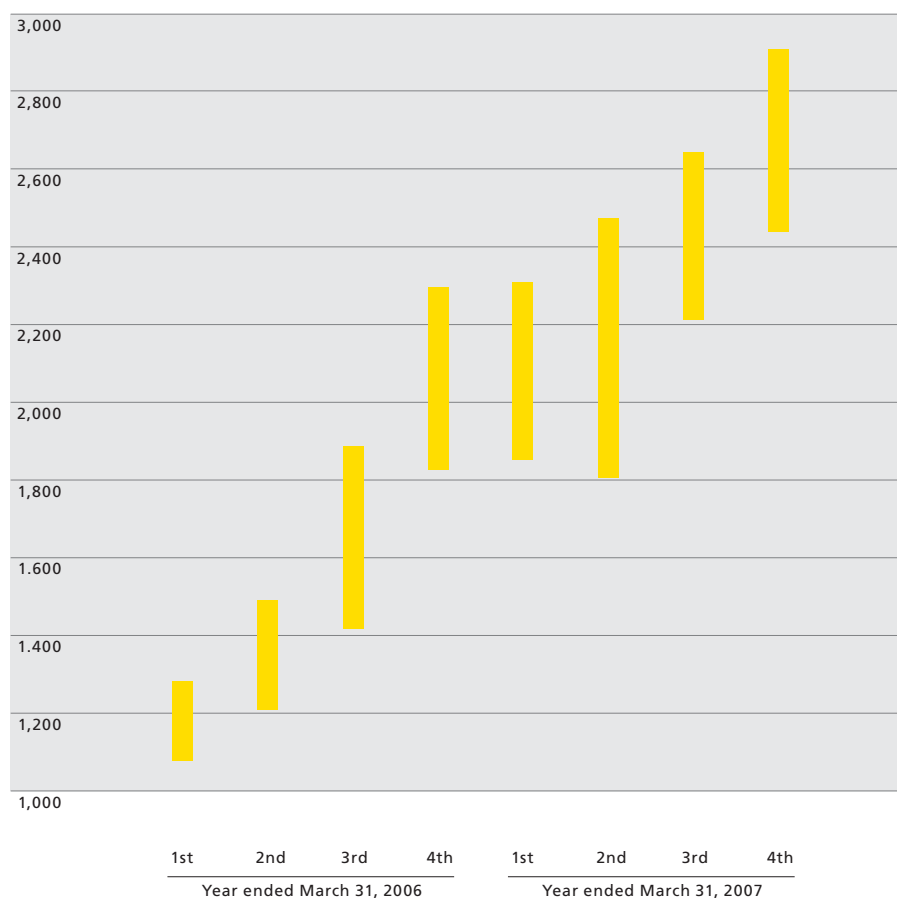
4-5, Marunouchi 1-chome,

Chiyoda-ku, Tokyo 100-8212, Japan

(As of March 31, 2007)

Major Shareholders	Number of shares held (thousands)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd., Trust Account	38,583	9.6
Japan Trustee Services Bank, Ltd., Trust Account	22,049	5.5
Meiji Yasuda Life Insurance Company	20,565	5.1
State Street Bank and Trust Company	13,011	3.3
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,297	3.1
The Chase Manhattan Bank NA London	11,371	2.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,067	2.5
The Mitsubishi UFJ Trust and Banking Corporation	9,134	2.3
Nippon Life Insurance Company	7,893	2.0
The Joyo Bank, Ltd.	6,801	1.7

Price Range of Common Stock (¥)



For further information or additional copies of this annual report, please contact the Corporate Communications & IR Department.

Homepage: Nikon has created a Web site specifically for investors containing released financial reports, fact books and other information.
<http://www.nikon.co.jp/main/eng/portfolio/ir/index.htm>



NIKON CORPORATION

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