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Profile

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

In order to respond swiftly and flexibly to the ever-changing business environment, we promote structural

reforms aimed at maximizing management efficiency.

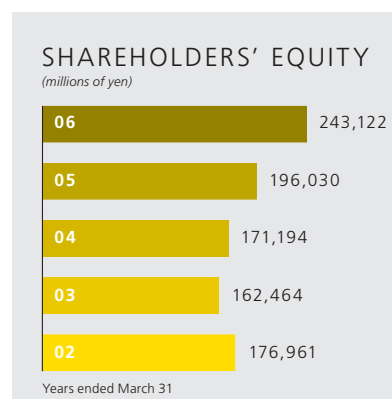
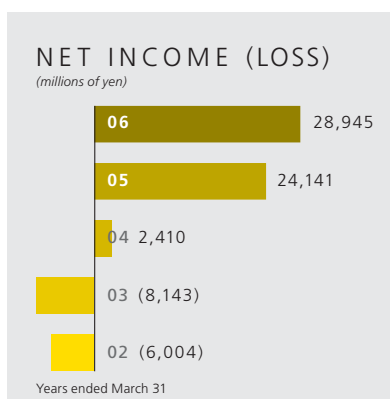
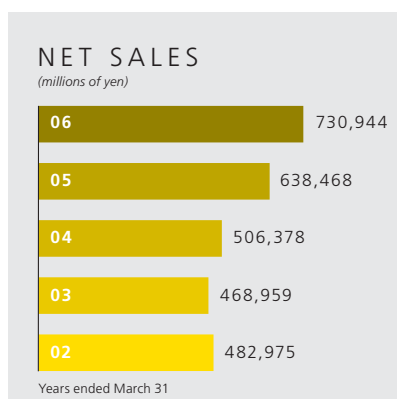
Another mission of Nikon is to always stay one step ahead of the competition, and we can achieve this by remaining true to our business philosophy of "Trustworthiness and Creativity." This enables us to provide unique products filled with innovation, thereby ensuring that we are a leading company in the modern era.

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

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.

FINANCIAL HIGHLIGHTS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005



	<i>Millions of Yen</i>		<i>Millions of U.S. Dollars</i>	<i>%</i>
	2006	2005	2006	Increase
FOR THE YEAR				
Net sales	¥ 730,944	¥ 638,468	\$ 6,222	14.5%
Operating income	66,587	30,545	567	118.0%
Net income	28,945	24,141	246	19.9%
Per share of common stock (Yen and U.S. Dollars):				
Basic net income	¥ 78.16	¥ 65.19	\$ 0.67	19.9%
Diluted net income	69.33	57.84	0.59	19.9%
Cash dividends applicable to the year	10.00	8.00	0.09	25.0%
AT YEAR-END				
Total assets	¥ 690,920	¥ 633,426	\$ 5,882	9.1%
Shareholders' equity	243,122	196,030	2,070	24.0%

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 ¥117.47 to U.S. \$1.00, the approximate exchange rate at March 31, 2006.



TO OUR SHAREHOLDERS AND INVESTORS

Translating the advanced technological expertise amassed within Nikon Group into real profits is a primary aim of Nikon management. In the year ended March 2006, we took the first step towards achieving this key objective and presented the blueprint for future growth along the way.

Set medium term goals in light of record high sales and income

Net sales for the year ended March 31, 2006 advanced 14.5% year-on-year to ¥730,944 million. Operating income was ¥66,587 million, which represented a 118.0% gain compared with the previous year. As a result, net income grew 19.9% to ¥28,945 million. All of these results marked new record highs for Nikon.

These achievements are viewed merely as a stepping stone, however, towards even higher performance, as reflected in the objectives of our three-year medium term management plan. Based on this plan, consolidated targets for the year ending March 2009 include net sales of ¥900 billion, operating income of ¥90 billion and a debt-equity ratio of less than 30%. Details of the plan are given later.

Nikon has identified two main challenges to overcome in order to accomplish these goals: (1) secure a leadership position and remain at the vanguard of the market by leveraging our technical advantages; and (2) create a highly profitable corporate structure by bolstering manufacturing competitiveness, the quintessence of a manufacturer.

Establish market-leading technology

Nikon enjoys a strong presence in each of its core markets. In the field of IC steppers and scanners, we are establishing a sound position in the market for cutting edge ArF immersion scanners. During the period, we

began shipment of the NSR-S609B ArF immersion lithography scanner, which is the world's first system to achieve a lens having an NA value above 1.0. Following this, we plan to launch the NSR-S610C with an NA value of 1.30 in the fourth quarter of 2006 (CY), which will show to the world Nikon's superiority in immersion technology.

In the field of LCD exposure systems, LCD panels continue to get larger at a pace exceeding expectations, providing us with the opportunity to exploit the advantages of our unique multi-lens projection optical system in 7th and 8th generation LCD panel production equipment. Going forward, we forecast our share in the market for large LCD exposure systems will continue to grow along with expansion in the size of LCD panels.

In digital SLR cameras, customers have great confidence in our product line that extends from professional-use to entry-level models. Our compact digital cameras not only incorporate Nikon's original technologies to enhance user-friendliness such as functions that ensure optimized pictures, but also technologies accumulated in digital SLR cameras. We will continue to deliver to market models with the unique Nikon identity.

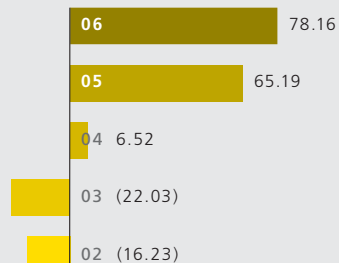
In the Instruments business, one of the most promising areas for development is in the bioscience field, and more specifically, in the market for microscopes for the observation of live cells. Nikon believes that observing live cells will become integral to the development of new medicines in the coming years. In the year ending March 2007, we plan to release the BioStation series of cell culture observation systems, which enable the cultivation

Ichiro Terato
 Executive Vice President,
 Member of the Board & Chief Financial Officer

Michio Kariya
 President, Member of the Board,
 Chief Executive Officer & Chief Operating Officer

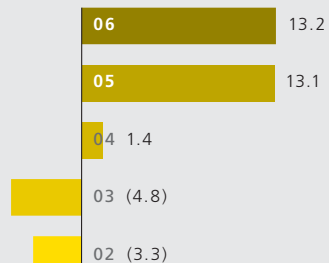


**NET INCOME (LOSS)
 PAR SHARE** (yen)



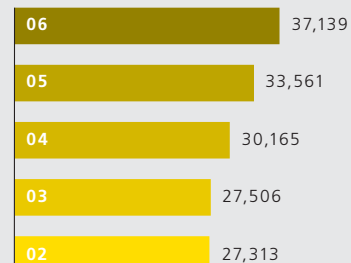
Years ended March 31

RETURN ON EQUITY
 (%)



Years ended March 31

R&D COSTS
 (millions of yen)



Years ended March 31

as well as the observation of live cells. Besides seeking to aggressively develop highly creative new products that match the needs of the market and the times, Nikon will expand business and boost profitability by further strengthening sales and marketing competencies.

Nikon is also proactive in its stance towards entering new markets in which we can apply our technical advantages. For example, we are presently planning to advance into the field of industrial consumption materials with our glass materials and component related businesses. This field is expected to contribute to higher, more stable profits for the Nikon Group.

Initiatives to shorten development lead-time and reduce manufacturing costs

One of the key factors behind greater-than-expected profitability in Precision Equipment and Imaging Products was the shortening of development lead-time. Promoting simplified design and module standardization enabled us to boost profit-earning capability in Precision Equipment, while we were successful in drastically cutting development lead-time for digital cameras in Imaging Products. As a result, we are well on the way to establishing a structure that allows swift response to fast-changing market needs.

Moving ahead, we will strive to further reduce manufacturing costs through the inauguration of a company-wide project that aims to trim both lead-time and cost. Activities such as these are expected to help expand Nikon's profitability.

Increase capital investment and R&D investment to drive future growth

One of the focus points of the medium term management plan is to increase capital investment and R&D investment. In the three-year period that the plan covers, Nikon plans to raise capital investment by 20% and R&D investment by 60% compared with the prior three years. Apart from investment in the development of next-generation steppers and scanners in Precision Equipment, and of second-generation digital cameras

in Imaging Products, we will work to strengthen competitiveness in the bioscience field in Instruments while aggressively channeling funds into R&D for new businesses and elemental technologies.

Bolster corporate governance

Amid continued globalization of the business environment, increasing management efficiency and transparency, and strengthening the monitoring and supervision of business execution are integral to achieving stable corporate growth over the medium- to long-term. At Nikon, corporate governance is viewed as a top management priority, and as such, we are working hard to create and enhance crucial organizational controls and systems. Initiatives taken to strengthen corporate governance are outlined on pages 22-23 of this Annual Report.

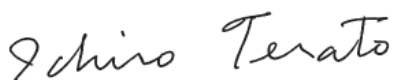
Finally, as members of top management, it is our duty to relay the fact that Nikon is now undergoing immense change. Another key objective of the medium term management plan is to foster a free and open-minded corporate culture so that motivation levels are optimum and the opinions of all employees, including young engineers, are more readily heard at the management level.

Although we achieved record profits in the year ended March 2006, this marks but one step towards our goal of new innovation. Numerous issues remain if we are to lift the bar even further, but with the collective and unified efforts of all management and employees, we are confident we can meet the expectations of shareholders and investors.

We look forward to your continued guidance and support as we strive to achieve the objectives we have set.



Michio Kariya
*President, Member of the Board,
Chief Executive Officer & Chief Operating Officer*



Ichiro Terato
*Executive Vice President,
Member of the Board & Chief Financial Officer*

NEW DIRECTION: IN PURSUIT OF A STRONGER NIKON

Nikon Medium Term Management Plan

Background

The business environment surrounding Nikon is changing at a fast rate. There has been further shrinkage of semiconductor devices and the market has expanded through diverse products that use semiconductors. Meanwhile, LCD panels continue to get larger. The digital SLR camera market keeps growing and competition intensifying, while there is continued advancement in digital networks. Expansion of the bioscience market is another key characteristic of the modern era.

To keep pace, Nikon has formulated a three-year medium term management plan that will run until the end of the year ending March 31, 2009. Building on the improvement in business performance in the years ended March 31, 2005 and 2006, the plan aims to further accelerate expansion of profit-earning capacity and to create a strong business structure that can generate sustainable growth.

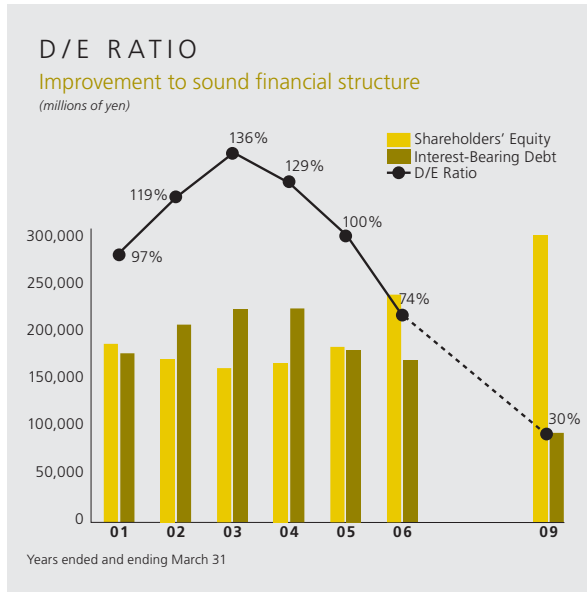
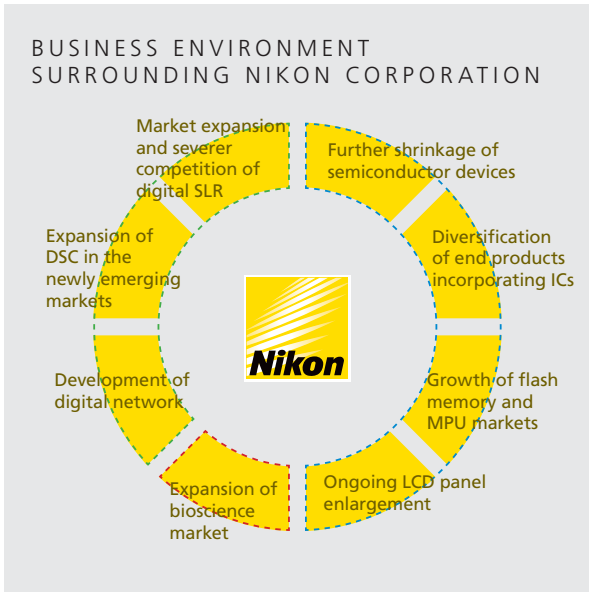
Based on the plan, consolidated targets for the year ending March 31, 2009 include net sales of ¥900 billion, operating income of ¥90 billion, an operating income ratio to net sales of 10% and a debt-equity ratio under 30%.

CONSOLIDATED FINANCIAL TARGET

Consolidated operating income ratio 2009 : 10%
(millions of yen)

	2006	2009
Net Sales	730,944	900,000
Operating Income	66,587	90,000
D/E Ratio	74%	Under 30%

Years ended and ending March 31



Management policy

The main concept is to move away from the corporate structure that has been greatly influenced by changes in the business environment and create a “Strong Nikon” that can generate sustainable growth. Nikon aims to achieve this by delivering highly competitive products that meet customer trust, building a solid financial structure that allows continuous investment to drive corporate growth and nurturing outstanding personnel with a strong will and the aspiration to achieve goals.

Key objectives

Apart from striving to strengthen the competitiveness of core businesses by leveraging cutting-edge technology and product, Nikon will work to create and foster new businesses by exploiting the peripheral domains of existing businesses and effectively utilizing accumulated technologies. Elsewhere, efforts will be made to bolster manufacturing competitiveness by pursuing efficiency and rationalization and to improve the company’s financial structure with an emphasis on cash flow. In accord with the modern era, Nikon will practice highly transparent, CSR-oriented management and nurture a free and open-minded corporate culture so that employees’ motivation levels are optimum.

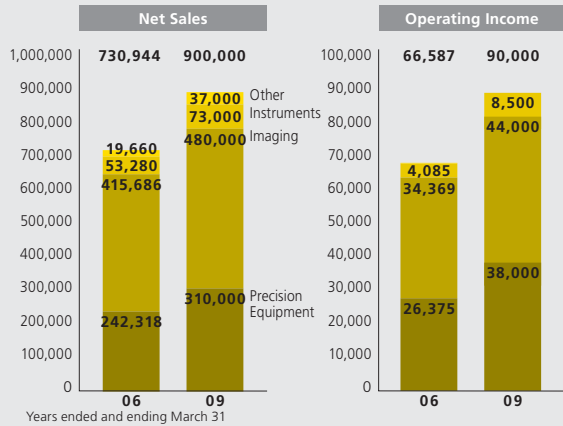
Capital investment and R&D

In the three-year period from the year ending March 31, 2007 to the year ending March 31, 2009, Nikon plans to channel funds into capital investment and R&D investment. Specifically, during this three-year period, Nikon plans to raise capital investment by 20% to ¥100 billion and R&D investment by 60% to ¥165 billion compared with the prior three years to boost competitiveness in existing businesses as well as to create and foster new businesses.

CONSOLIDATED FINANCIAL TARGET OF EACH COMPANY

Consolidated operating income ratio 2009: 10%

(millions of yen)



Years ended and ending March 31

Note: The above segment sales are based on net sales for outside customers by industry segment.

PLAN OF CAPITAL INVESTMENT AND R&D (Total amount of 3 years)

Expanding investment for future growth

CAPITAL INVESTMENT
Total amount:
100 billion yen

20% increase

FUND FOR R&D
Total amount:
165 billion yen

60% increase

Over 7% of net sales is planned



Precision Equipment

Developing next generation stepper and scanner / Improving productivity



Imaging

Concentrating on 2nd generation DSC development



Instruments

Enhancing bioscience related business



New Business

Strengthening new businesses and the development of elemental technologies

Business strategy of each company

Precision Equipment Company

Nikon expects the IC stepper and scanner market to continue growing in value, although not in unit volume, between the years ending March 31, 2007 and 2009 due to a decrease in i-line steppers and an increase in high-priced ArF dry and immersion scanners. Consequently, Nikon aims to secure top position in the market for state-of-the-art equipments, beginning with immersion lithography products, while at the same time developing the tools to enhance productivity of our customers, and boosting profitability.

Meanwhile, the LCD exposure system market is continuing to become larger as demand for larger LCD TV grows. There are also concerns about over-capacity in small to mid-sized LCD panels going forward. Amid such a business environment, Nikon aims to grab top share in the market for large LCD exposure systems by leveraging competitive advantages in the larger panel by exploiting the multi-lens projection optical system.

Imaging Company

While the digital compact camera market heads towards maturation, the digital SLR camera market is projected to continue on a growth track with competition inten-

sifying. Under these circumstances, Nikon intends to boost profitability through the provision of highly distinctive products. In addition, we seek to create new markets by developing and proposing new products. In the year ending March 31, 2009, we aim to secure over 40% share of the digital SLR camera market.

Instruments Company

In the bioscience field, Nikon aims to expand its solutions business in observation of live cells which attracts the attention of the research market. In the industrial instruments field, with a particular emphasis on semiconductor and electronic businesses as well as non-contact vision based measuring systems, we aim to embark on broader businesses including in the automotive industry. We will also try to shorten product development lead-time by 30%.

New Businesses

Nikon is striving to cultivate new businesses in the realms of glass materials, solid-state lasers, inspection/fabrication tools for 3D-IC, CMPs and optical components by leveraging from precision and optical technologies to image processing, material and software technologies accumulated throughout Nikon Group.

PRECISION EQUIPMENT

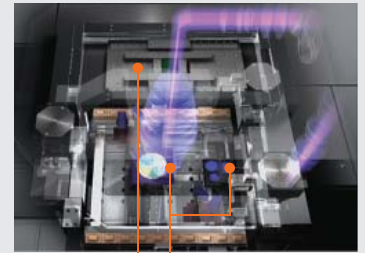


Introduction of tandem stage realizes practical application of immersion scanner

The newly developed tandem stage consists of an exposure stage and a calibration stage. As the name suggests, the exposure stage occurs when the wafer is placed on the stage for exposure, while the calibration stage is used to calibrate the tool between each wafer exchange. Previously, the calibration tool was loaded onto the apparatus after the wafer was placed on the stage (wafer stage). Thus, with frequent calibration checks, accuracy increased, but productivity declined.

With Nikon's tandem stage, the calibration stage is moved into position as exposure is completed in a closely overlapping sequence. Next, both stages move simultaneously until the immersion area is positioned above the calibration stage. Following this, only the exposure stage is moved to allow for wafer exchange, while the exposure stage on the replaced wafer closely overlaps the calibration stage, and the circuit pattern is exposed. During this time, purified water is continuously transferred. The calibration stage replaces the wafer and the space between the projection lens and the calibration stage is filled with purified water. With the tandem stage method, purified water is supplied continuously during wafer exchange, so the temperature remains stable and no time is lost.

It has traditionally been thought that immersion would reduce throughput, but the tandem stage dismisses this as myth. Calibration at every wafer exchange ensures optimum accuracy including alignment. The NSR-S609B boasts alignment accuracy far superior to conventional systems at a level of 7nm or better.



Tandem stage
Reticle stage



IC and LCD steppers

Performance Summary

In IC steppers and scanners, Nikon posted significant growth in sales of ArF scanners, while in LCD exposure systems, efforts were made to expand sales of the new FX-71S exposure system to meet demand for larger LCD panels. Segment sales therefore increased 13.5% year-on-year to ¥243,207 million. As a result of initiatives to shorten production lead-times and cut costs through simplified design and production process overhauls, operating income surged 131.6% to ¥26,375 million.

Aiming to be global leader in ArF immersion scanners

With ArF immersion scanners, the space between the projection lens and the wafer is filled with purified water with a refractive index of 1.44, rather than air, which has a refractive index of 1.0. This enables lenses with NA values above 1.0, which is physically impossible using dry exposure. At present, only immersion scanners support the mass-production of advanced 55 nm and smaller devices. And these immersion scanners will have a significant position in the IC stepper market.

In January 2006, Nikon began shipping the NSR-S609B ArF immersion scanner with a lens with an NA value of 1.07, the first in the world to break through the NA 1.0 barrier. Target unit sales volume has already been met. In the fourth quarter of 2006 (CY), Nikon plans to ship the NSR-S610C with a lens with an NA value of 1.30, thereby stamping its superiority on the market for immersion scanners.

Improved alignment accuracy and high throughput realized with tandem stage

The newly developed tandem stage employed in the NSR-S609B consists of an exposure stage and a calibration stage. With this mechanism, water is supplied continuously during wafer exchange, meaning the temperature remains constant and no time is lost. It has traditionally been thought that the introduction of immersion would reduce throughput, but with the tandem stage, Nikon has succeeded in overcoming challenges concerning both alignment accuracy and throughput in immersion systems.

Besides immersion scanners, this tandem stage can also be applied to conventional scanners. Nikon intends to exploit the outstanding advantages of the tandem stage by introducing it into other systems going forward.

LCD exposure systems manifest Nikon strengths

The size of flat-screen LCD TVs is increasing at a rapid rate. Exposure tools of the 7th and 8th generation variety play an important role in the mass-production of LCD panels of the 40-inch class and above. And the adoption of Nikon's multi-lens projection optical system in large-size exposure systems enables the effective exposure of multiple panels, making it ideal for this mass-production. Sales of both the FX-71S for 7th generation plate sizes and of the FX-81S for 8th generation plate sizes have been strong, and Nikon's share in the market for large LCD exposure systems has risen dramatically. Consequently, Nikon is confident that it has secured lasting product competitiveness in the LCD exposure system market, including for small- and medium-size panels.

EUVL – next-generation technology

Nikon sees EUVL (Extreme Ultraviolet Lithography) as the most promising next-generation technology beyond immersion. Plans are to start shipments of its first system incorporating EUVL technology in the first half of 2007 (CY), so development is currently in full swing. EUVL works at a wavelength of 13.5 nm, 14 times shorter than that of an ArF excimer laser, which means it can provide IC makers with the support required for device shrinkage.

Key objectives of the medium term management plan

1. In IC steppers and scanners:

- a) Nikon aims to gain top market share in ArF systems, including cutting-edge immersion lithography products. Nikon believes that maintaining a dominant position in state-of-the-art equipments will have positive spillover effects on its entire IC stepper and scanner business, which also includes KrF and i-line steppers and scanners.
- b) Nikon intends to increase essential R&D investment and capital investment to develop next-generation steppers and scanners and boost productivity. The ultimate goal is to develop and release competitive products in a timely manner.
- c) Nikon will create and achieve a clear roadmap for development using the most advanced technology to drive advancement in the IC stepper and scanner market.

2. In LCD exposure systems:

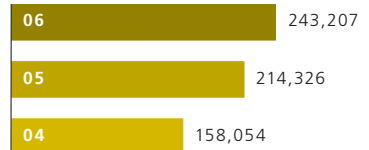
- a) Nikon aims to grab top share in the market for large LCD exposure systems via swift response to the ever-increasing size of LCD panels by leveraging competitive advantages of the multi-lens projection optical system.
- b) Through the development of LCD exposure systems that meet shrinkage demands and of high-speed systems, Nikon seeks to satisfy precise customer needs for equipment for small- and medium-size LCD panels.

3. Nikon will promote simplified design and module standardization, and establish a long-life platform aimed at reducing inventory, costs and production lead-times, including installation. By doing so, Nikon can boost trust from customers as well as secure higher profits.



NET SALES*

(millions of yen)

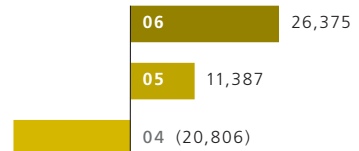


Years ended March 31

*The above figures include intersegment sales.

OPERATING INCOME (LOSS)

(millions of yen)



Years ended March 31



FX-81S

Exposure system supporting the world's largest 8th generation plate sizes for liquid crystal displays



NSR-S609B

ArF immersion scanner with the industry's first hyper NA projection lens of NA 1.07 created using immersion lithography technology



NSR-S610C

The next step up from the NSR-S609B, this ArF immersion scanner is equipped with a hyper NA projection lens of NA 1.30 (shipments scheduled to begin in the fourth quarter of CY2006)

IMAGING PRODUCTS



Nikon launches D200 digital SLR camera with superior all-round performance

During the year, Nikon released the D200 digital SLR camera boasting outstanding image quality and performance. Apart from employing a 10.2 effective megapixel Nikon DX Format CCD image sensor for exceptional imaging, the D200 has the world's fastest* power-up in a mere 0.15 seconds and a fast 5 frames per second continuous shooting. Such factors also combine with simple operability, sophisticated design and a diverse array of other advanced features that showcase Nikon's excellent camera technology and the latest in digital technology. Since its launch in December 2005, the camera has received very positive response from a wide range of enthusiasts around the world. It strengthens Nikon's line-up of high-end to mid-range cameras suited to advanced amateurs and professionals. Nikon intends to further bolster its presence in the digital SLR camera market in the future.

**As of November 1, 2005, among digital SLR cameras with interchangeable lenses.*



Applying original technology and advanced functionality in compact digital cameras

Nikon incorporates its compact digital cameras with various technologies and advanced features developed for its digital SLR cameras. One of these technologies is known as Vibration Reduction (VR), which detects camera shake via sensors, thereby driving an optical system built into the lens to provide the necessary compensation and reduce image blur. VR capability realizes a shooting experience akin to shooting at shutter speeds three stops faster to ensure shots stay breathtakingly clear. The next step up in technology for interchangeable lenses for SLR cameras, VR has been built into Nikon's COOLPIX P3 and COOLPIX P4 cameras.



Nikon was also one of the earliest in the industry to realize wireless image transfer technology with wireless connectivity devices targeting professional users of digital SLR cameras. During the period, Nikon introduced the COOLPIX P1 compact digital camera, the first in the world to feature wireless LAN (Wi-Fi) capability. Offering built-in wireless LAN support (IEEE 802.11b/g), the COOLPIX P1 offers superb digital photographic freedom by allowing the wireless transfer of image data and direct printing of desired photos. This feature has been incorporated into COOLPIX P2, COOLPIX P3 and COOLPIX S6 cameras as well.



digital cameras,
film cameras,
interchangeable
camera lenses,
film scanners

Performance Summary

Steady growth in digital SLR cameras during the year ended March 2006 ensured a substantial increase in sales of these products. In line with this, sales of interchangeable lenses also expanded significantly. In the compact digital camera market, Nikon launched its "Performance (P) series" equipped with a high-precision Vibration Reduction (VR) system as well as other exceptional functions. This new line complements the "Style (S) series," which boasts a slim, stylish design. The affordable and easy-to-use "Life (L) series" was also introduced during the year as Nikon sought successfully to expand sales of compact digital cameras. Elsewhere, efforts were made to strengthen capacity at production sites and upgrade sales and service bases overseas, and to integrate logistics functions in Japan and Europe. Moreover, procurement innovation led to lower overall costs. As a result, segment sales increased 17.2% year-on-year to ¥416,607 million and operating income climbed 104.1% to ¥34,369 million.

Bolster competitive edge in the digital SLR camera market

Nikon's digital SLR cameras have proven popular with the market, ranging from the D50 combining simple operation with professional image quality even for beginners, to the D70s with enhanced ease of operation and basic functions and the D200 for professionals and advanced amateurs. Sales of the high-end D2x have also grown, while Nikon released its successor, the D2Xs, in the year ending March 2007. Through the creation of a database listing customer desires and the active provision of minute firmware improvement, Nikon aggressively seeks to improve and enhance its products and services to meet the needs of a wide spec-

trum of digital SLR camera customers from professionals to entry-level users. Going forward, Nikon will continue working to increase its competitive edge in the market.

Improve profitability of compact digital cameras

Up until recently, the world of compact digital cameras was characterized by competition to develop models with image sensors with higher pixel-counts. Now that most digital cameras incorporate such image sensors, Nikon has the chance to display its true value as a camera maker constantly in pursuit of all-round superior image quality. Going beyond mere functions and features, Nikon's COOLPIX compact digital cameras have been developed with consumer lifestyles and needs in mind, with three categories to choose from: the Performance (P) series, the Style (S) series and the Life (L) series.

Performance: For people wanting high performance, including superior image quality and diverse features

Style: For those with discerning taste for style and design

Life: For users desiring simple operation and affordable price

Categorizing the cameras like this further clarifies the attributes of the product, thereby creating a unique image for each type of COOLPIX model. In particular, the L series has been a hit in the United States and Europe evident in strong sales volume growth, resulting in a considerable improvement in overall profitability of compact digital cameras. Based on the basic concept of the COOLPIX brand to integrate contemporary fine quality with intelligence, Nikon endeavors to create high-value-added products that target specific user groups.

Expand the software business

In February 2006, Nikon unveiled a new photo finishing software called Capture NX that combines intuitive operation and rich power of expression. This software not only features cutting-edge technologies, but it helps photographers to tap the full potential of Nikon Electronic Format (NEF) image files, enabling photographers to freely edit the images while permanently retaining the original images. Through the mutual exploitation of Nikon's camera technology and the digital imaging technology of a venture company in the United States, the software is not only easy to use but comes with extensive editing functions. Nikon plans to take a multi-faceted approach to market the software using the internet, specialty camera stores and mass merchandisers.

Status of film cameras

Nikon continues to manufacture and market film cameras - the F6, positioned as the pinnacle of traditional SLR photography, and the FM10, positioned as an entry model - as well as a variety of interchangeable lenses. Although management resources will continue to be concentrated into digital cameras in accord with the times, Nikon will also remain dedicated to fans of silver-halide photography.

Efforts to develop attractive new digital products

Major innovations in technology are expected to drive evolution in digital cameras so they develop into more extensive systems, making the most of their digital characteristics. In light of this, Nikon intends to create alluring new products that not only consider the joy of taking photos and the lasting memories they bring, but also how digital cameras can be best exploited within digital networks. To this end, efforts will be made to strengthen fundamental technologies aimed at developing products for the future.

Key objectives of the medium term management plan

1. Nikon seeks to maintain its position as the leading pioneer in the digital SLR camera market. Going forward, in addition to diverse features, Nikon will incorporate other elements that win the hearts of customers and ensure long-lasting loyalty.
2. The timely introduction of new products is imperative to secure profitability in the compact digital camera market. Achieving this requires the swift development of products that directly satisfy customer needs. Besides strengthening marketing capabilities, Nikon will bolster ties between product development, production, advertising and sales to facilitate sharp response to market trends.
3. Nikon will invest heavily in fast-advancing digital technology with the aim of releasing appealing and unique products.



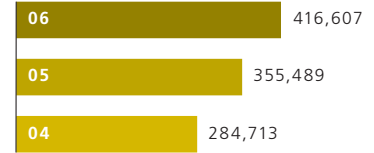
Camera Grand Prix 2006

The Nikon D200 digital SLR camera, launched in 2005, was awarded the "Camera Grand Prix 2006" award in Japan and was also named "Best D-SLR Expert in Europe 2006" by the Technical Image Press Association (TIPA). The camera was recognized for its completeness with superior operability, high value for money and outstanding performance.



NET SALES*

(millions of yen)

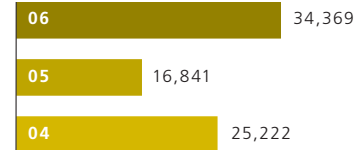


Years ended March 31

*The above figures include intersegment sales.

OPERATING INCOME

(millions of yen)



Years ended March 31



D2Xs

A camera that not only maintains the same stellar image quality and high-speed continuous shooting performance of the D2x, this model reflects user desires with fresh new features and operability ideal for professional photographers



F6

Carrying on the legacy of the F series, the F6 combines all the revolutionary features that any photography enthusiast, including professionals, could desire in the ultimate film SLR camera



COOLPIX L3

5.1 effective megapixels, a wide variety of functions with simple operation and a highly sophisticated design let anyone take better pictures with ease

INSTRUMENTS



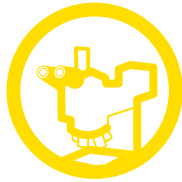
Launched Automatic Macro Inspection System AMI-3300 for 300mm wafers featuring the world's first 55 nm process

Nikon's AMI series of automatic macro inspection systems ensure high-speed detection of pattern profile variations on the entire surface of the wafer by way of the company's original optical image processing technology. This information is then fed back into the process, thereby allowing more efficient process management. Not only do these systems replace visual macro inspection with automated macro inspection, they also offer improved macro inspection accuracy as well as greater inspection quantization, making them indispensable in semiconductor mass-production process lines. Model AMI-3300 is configured with the newly developed PER (Pattern Edge Roughness) optical system, enabling inspection of pattern profile variations at a line-width of 55 nm, which is a world-first. Besides exceptional detection sensitivity, it allows high-speed, full-surface inspection of 300mm wafers at the remarkable throughput of over 150 wafers per hour.



Newly-developed BioStation series for the observation and cultivation of live cells

Leveraging its long-standing capabilities in microscopic technology, Nikon has developed the BioStation CT (Cell Tracking) and BioStation IM (cell IMaging) cell culture observation systems to meet needs in the growing market for live cell observation. The BioStation CT enables the stable and safe cultivation of cells and facilitates quality control. The BioStation IM (shown at left), which provides video images of cell activities, is suitable for time-lapse imaging of cultured cells. Nikon seeks to provide new solutions to all users in the field of cell observation.



biological microscopes,
industrial microscopes,
measuring instruments,
inspection equipment

Performance Summary

Sales in the bioscience business grew on the back of strong sales particularly of microscopes incorporating Nikon's distinctive features, including the new spectral imaging confocal microscope C1Si and the Perfect Focus System. Sales in the industrial instruments business exceeded levels posted in the prior year. Nikon expanded sales of the NEXIV series of CNC video measuring systems with the introduction of the Confocal NEXIV VMR-K3040ZC, and also enjoyed brisk sales of AMI series of automatic macro inspection systems, which contributes greatly to the miniaturization of IC patterns. Overall segment sales expanded 5.2% year-on-year to ¥54,875 million, while operating income surged 44.6% to ¥4,085 million on account of successful cost-cutting measures.

Positive effects of organizational reforms

In June 2005, Nikon conducted major organizational reforms in the Instruments Company. The new system eliminates previous functional divisions separating sales, design and production teams, replacing them with a more market-oriented structure. The revised organizational structure divides the Instruments Company broadly into biosciences and industrial instruments. These reforms have resulted in faster decision-making and a major change in employee awareness in that attitudes and behavior are now more customer-focused. Product development speed has also been greatly improved.

Shift to delivering solutions with biological microscopes

The bioscience market is forecast to continue growing over the long-term. The observation of live cells is one area of particular interest, especially with its links to regenerative medicine and bio drug discovery. Although the overall microscope market expanded minimally during the period, Nikon recorded 11% growth. This achievement was due to more than just robust sales of microscopes, it reflected efforts to provide solutions by way of systemization. Moving forward, Nikon will strengthen its sales and marketing capabilities by providing consulting to university professors and researchers through application engineers with highly specialized knowledge. Personnel with expert technical knowledge have been promoting sales in this manner in Europe already with highly successful results. Nikon plans to recruit more young sales reps in tune with the digital era to satisfy the demand for systemization.

Critically acclaimed semiconductor inspection equipment

Nikon vastly improved profitability in semiconductor inspection equipment in the year under review. This was due to favorable market response to its automatic macro inspection (AMI) systems, introduced in response to device shrinkage. With the advent of 90nm processing for 300mm wafers, the superiority of Nikon's products has become clear. During the year, almost all domestic semiconductor manufacturing facilities with 300mm wafer production lines were using Nikon's AMI systems. Plans are in motion to launch the AMI-3300 in the year ending March 2007 to provide inspection at 55nm line-width.

Focus on video measuring systems

Non-contact measuring systems featuring optical technology exploit Nikon's competitive edge in measuring equipment to maximum effect as measurements can be completed in a shorter space of time than systems that touch the inspected item. During the year, Nikon brought to market the NEXIV series of CNC video measuring systems that also measure height. Going forward, Nikon sees image processing software as a key element in this field, and is therefore channeling R&D investment into pertinent software development. Future efforts will focus on further advancing the NEXIV series with enhanced measuring capability for the third dimension of height as well as the usual two dimensions.

Aggressively establish new Nikon Imaging Centers

Nikon has been establishing Nikon Imaging Centers at the world's leading universities in order to promote the development of microscopes for professors and researchers. During the period, Nikon instituted a Nikon Imaging Center at the University of Heidelberg, Hokkaido University and Oxford University. Plans are in place to establish a similar center at the University of California, San Francisco in the year ending March 2007. Through these facilities, Nikon contributes to

research in various fields, while reflecting information gathered in the development of leading-edge microscope systems.

Key objectives of the medium term management plan

1. Nikon plans to cut development lead-time by 30% in a bid to further speed-up operations. Besides facilitating the timely launch of a wider range of new products, this will lead to lower product development costs, which in turn will contribute to expanded sales and profits.
2. In the biological microscopes field, Nikon seeks to expand business in live cell imaging systems.
3. With the cooperation of other departments, Nikon aims to expand sales and drive technical innovation. In particular, effective utilization of Nikon's core optical and image processing technologies is expected to make a major contribution towards the development of fresh new products.



NET SALES*

(millions of yen)

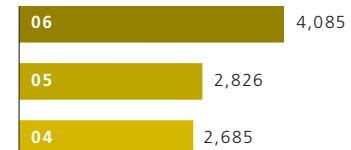


Years ended March 31

*The above figures include intersegment sales.

OPERATING INCOME

(millions of yen)



Years ended March 31



Confocal NEXIV VMR-K3040ZC

CNC video measuring system that can make accurate, high-speed inspection and 3-D measurement of particularly complex architecture, such as the latest IC packages and MEMS



Spectral imaging confocal microscope C1si

Add the ability to gather information at the maximum of a 320 nm wide wavelength range to the 4-dimensional data acquisition function of the C1 and you get 5-dimensional capability (previously impossible) with this true spectral imaging confocal laser scanning microscope system



BioStation CT

BioStation CT (Cell Tracking) cell culture observation system enabling the stable and safe cultivation of cells and facilitating quality control

OTHER



sport optics products,
surveying instruments,
ophthalmic frames,
sunglasses

Sales in Other, including intercompany elimination, increased 12.6% year-on-year to ¥49,832 million, while operating income improved significantly to ¥1,929 million compared with a loss of ¥647 million in the prior year. The leading business developments during the year were as follows.

1. Sales were strong in customized products and glass-related operations.
2. Significant sales growth was posted in the sport optics products business as a result of efforts to expand sales of new products such as in the Laser Rangefinder and Fieldscope series.
3. Sales of ophthalmic products declined owing to business structure reforms amid a continued harsh market environment. Despite this, profitability improved substantially.

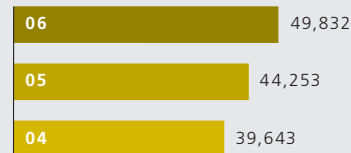
Aggressive development of new businesses

Nikon continued working to foster new business areas leveraging its core technologies such as precision technology, optical technology and image processing technology. One example is the field of Chemical Mechanical Polishing (CMP) systems designed to make LSI chip surfaces even. Despite a delay in the use of ultra low-k insulation materials, which are the main target application, Nikon continued to attract more interest from chipmakers. Nikon intends to proceed with future developments in this area while keeping a close eye on market trends. In glass-related operations, Nikon is concentrating on expanding external sales including ultra-high-grade silica glass, a field in which

it has a competitive advantage. In solid-state lasers, Nikon continues to promote the development of high-reliability deep UV laser light sources and their applications as a means to expanding into new areas.

NET SALES*

(millions of yen)

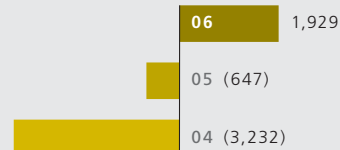


Years ended March 31

*The above figures include intersegment sales.

OPERATING INCOME (LOSS)

(millions of yen)



Years ended March 31

Other highlights

Introduced compact, light Fieldscope ED50 series models

Fieldsopes make activities such as bird- and animal-watching more enjoyable while also incorporating ultra-telescopic photographic capabilities. The Fieldscope ED50 series models released during the period feature a small 50mm objective lens diameter to accommodate demands for more compact, light, portable and affordable models. The ED glass used for their objective lenses compensates for chromatic aberrations and realizes bright, clear viewing. Waterproof construction with nitrogen gas filling makes these models difficult to fog up when subjected to wet weather and sudden temperature changes.

Marketed Laser Rangefinder LASER 1200S with superior measurement accuracy over long distances

Laser Rangefinders enable measurement over extended distances with simple one-touch operation in which an infrared laser beam is emitted to the target and reflected pulses are sent back. The devices are widely adopted for leisure applications such as golf to simple field and construction site surveys. Among these activi-

ties, future growth is expected in the golf market as a result of revisions to the official golf rules introduced in January 2006, which enable a committee to introduce a local rule permitting golfers to obtain distance information by using a device that measures distance only.

The LASER 1200S is the new flagship model of Nikon's Laser Rangefinder lineup, featuring two measurement modes depending on the particular target situation. First Target Priority mode is suitable for measuring the distance to the pin for approach shots or short holes. Distant Target Priority mode is useful for simple surveys at construction sites or in a forest.

Released a compact stereoscopic microscope, EZ-Micro, to be connected with digital camera to enjoy both observation and photography

In recent times, demand has been increasing for a system that allows users to both observe and take pictures of microscopic images easily. The Fieldmicroscope EZ-Micro was developed to do just that by incorporating a COOLPIX digital camera (limited to certain models) equipped with a special bracket and a light path, thereby making it easy to capture the image.



Fieldscope ED50 series

This series offers superior portability via compact, lightweight design



LASER 1200S

Handheld Laser Rangefinder enabling superior measurement accuracy over extended distances with simple one-touch operation



Fieldmicroscope EZ-Micro

Nikon's EZ-Micro to be connected with a COOLPIX digital camera combines the fun of photo-taking with observation



ENHANCING CSR ACTIVITIES

At Nikon, fulfilling our corporate social responsibility (CSR) is one of our greatest priorities and we implement various activities aimed at achieving this group-wide.

Strengthening corporate governance

Nikon views corporate governance as a crucial management issue. As a means to continually boost corporate value amid an increasingly global business environment, we recognize the importance of increasing efficiency and transparency in management while bolstering the management and auditing functions of business execution. We seek to create the systems and structure required to ensure this occurs.

Implementation of policies concerning corporate governance

In October 1999, Nikon introduced an in-house company system featuring decentralized management, with an integrated system and responsibilities established for each product sector, including subsidiaries. A results-based evaluation system was also brought in so as to strengthen the relationship between performance and remuneration. In June 2001, we installed an executive officer system and reduced the number of directors, while shortening the term of directors from two to one year in order to create a management system that can respond swiftly to changes in the business environment.

Nikon formulated the Rules of Organization and Authority to clearly define the scope of authority and responsibility for each post as well as each organization. Additionally, each group company exhaustively implements control and guidance based on the Authorization Standards for Subsidiaries, which includes those in Japan and overseas. This ensures organized and efficient business execution across-the-board. The Board of Directors makes prompt decisions on matters of importance to the group and monitors the exercise of duties by

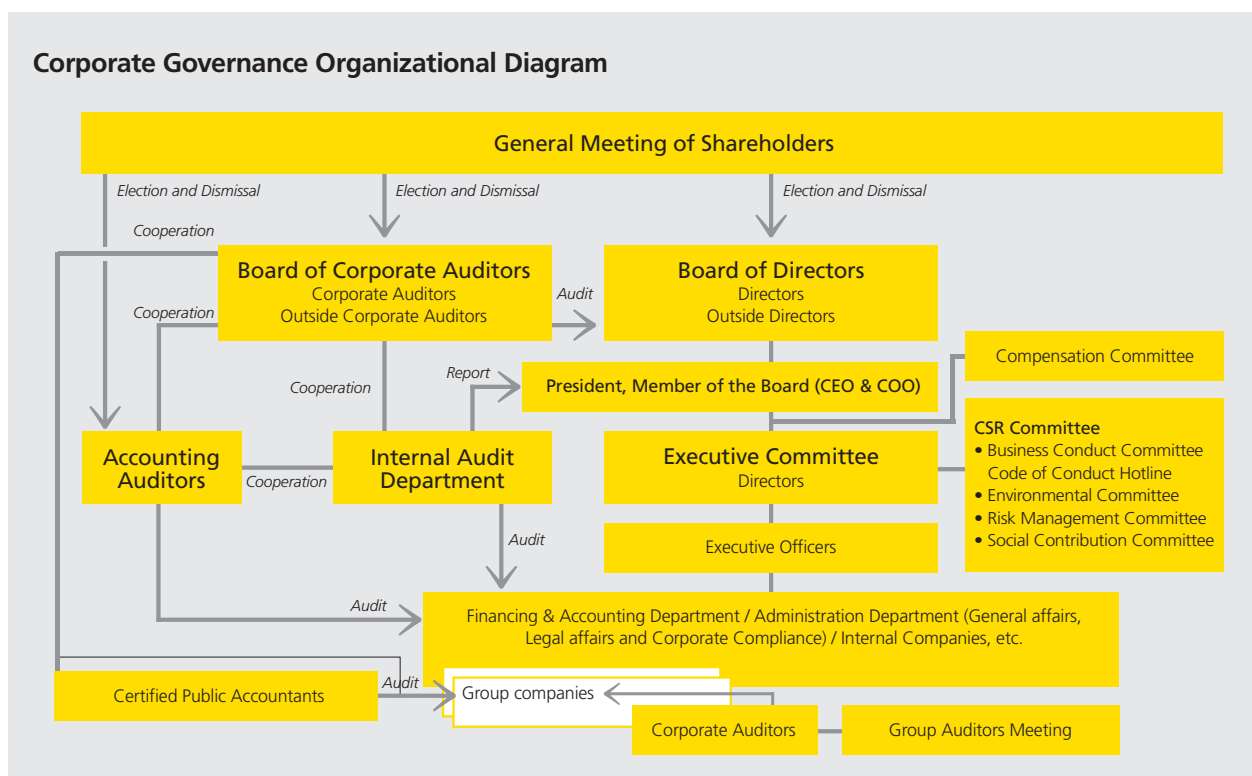
directors. The Executive Committee deliberates on and resolves major issues regarding management, general internal control, and guidelines about the general operation of company business, in accordance with the basic direction of management as determined by the Board of Directors. This body also receives reports from each department regarding critical matters.

Important inter-organizational matters are dealt with by various committees. A Compensation Committee has been set up to raise the objectivity and transparency of matters related to directors' compensation. The obligations of this committee include examining and proposing appropriate compensation systems and other related systems.

In April 2004, we established the Nikon Charter of Corporate Behavior, which provides Nikon Group's basic stance on corporate ethics. The Nikon Code of Conduct defines the standards of behavior to ensure sensible conduct by Nikon Group directors and employees based on a high level of morality. The CSR Committee formulates action plans and aims to nurture, educate and disseminate CSR awareness. Established as its sub-committee, the Business Conduct Committee regularly conducts activities to ensure legitimate, fair and sound corporate behaviour. The CSR and Compliance Section promotes activities pertaining to CSR and corporate compliance. In order to prevent or rectify behaviours that violate social norms or corporate ethics, we have set up a Code of Conduct Hotline. In these and other ways, we work to create and enhance our corporate compliance framework.

Information pertaining to resolutions, approvals and reports on directors' performance of duties is retained in document format for a period of time as set forth in internal regulations. An information control system has been put in place to provide directors, corporate auditors and accounting auditors access to the data when required. In terms of information security, we have clearly elucidated

Corporate Governance Organizational Diagram



who has the right to view information depending on the class of confidentiality and the degree of importance. Elsewhere, measures have been created to prevent leaks, manipulation and destruction of proprietary information. An information management system has been established to protect all of Nikon's information resources and to promote fair and effective business execution. Based on this framework, we can enhance the preservation and control of information by directors and employees.

We also have a management system to prevent loss. Numerous regulations and manuals have been created in diverse fields, including corporate ethics, personal information protection, environmental management, quality control, export control and accident prevention. The Risk Management Committee formulates risk management policies that incorporate business continuity plans and internal controls in these fields. This organ conducts education and training on risk management and supervises associated activities.

Progress of recent efforts to improve corporate governance

To permeate and entrench awareness of corporate ethics, Nikon has appointed a coordinator in each division and Group company. Action plans have already been drafted and educational activities implemented.

Nikon overhauled the structure of the Management Committee engaged in deliberating and reporting on business matters and recreated regulations related to the

delegation of authority in divisions in order to further enhance the Group's internal controls.

An internal audit department was established in October 2005 with the primary objectives of creating and monitoring the operation of Nikon Group internal controls, and making recommendations for improvement, and of identifying risks in Nikon Group business and proposing appropriate response mechanisms.

A CSR Committee was set up in January 2006 to formulate action plans and conduct education to boost CSR awareness and to affirm results of CSR activities.

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

The Risk Management Committee was created in April 2006 to formulate risk management policies that incorporate business continuity plans and internal controls in numerous fields, including corporate ethics, environmental management, quality control, export control and accident prevention. This body also conducts education and training on risk management and supervises associated activities.

Aimed at increasing the transparency of operating information, Nikon aggressively promotes IR activities for investors and shareholders. Besides seeking to further improve the speed and accuracy of information disclosure, we hold financial results meetings twice yearly and constantly upgrade our website.

Environmental preservation efforts

Nikon inaugurated and initiated activities under the Nikon CSR Committee in January 2006 aimed at realizing sincere and transparent management to gain trust from stakeholders. In terms of environmental management, Nikon's Basic Environmental Policy was formulated in 1992, and since then, efforts have focused on environmental protection based on the central ideals of "recycling" and "coexistence." Specifically, an Environmental Committee has been set up to encourage eco-conscious activities group-wide. It is also in charge of producing the Nikon Environmental Report each year, which discloses information on the environmental impact of each of Nikon's business sites and products as well as the measures taken to curb this burden.

Nikon environmental action plan for the year ending March 31, 2007

In Vision Nikon 21, the corporate policy statement for group activities set forth in March 2000, we specified mid-term environmental targets for the years ended March 2001 through 2003 under our Nikon Environmental Action Plan for the year ended March 2001. We have created the Nikon Environmental Action Plan for the year ending March 2007, a new three-year plan (part of which pertains to long-term plans), to succeed our previous plan.

Product Environment

Theme	Mid to Long-Term Environmental Targets
1. Energy conservation / prevention of global warming	<i>Energy consumption efficiency</i> Greater than 30% improvement in overall energy efficiency for new products released between the years ending March 2007 and 2009, compared with figures for existing products.
2. Reduction in use of harmful chemical substances	<i>Eco-glass usage</i> Use of Eco-glass in 100% of new optical designs for consumer products, and at least 98% for industrial products by the year ending March 2008, and at least 97% for materials shipped of optical glass products by the year ending March 2009. <i>Lead-free solder</i> Use of new lead-free printed circuit boards for electronic components in 100% of consumer products by the year ending March 2007 and at least 95% for industrial products by the year ending March 2009. <i>Hexavalent chrome, lead, cadmium, mercury, PBB, PBDE & PVC</i> Ongoing compliance with RoHS directive, with management system in place within the year ended March 2006. Major reduction in the use of hexavalent chrome for surface treatment process. <i>Ozone layer-damaging substances</i> Total elimination of HCFC as a refrigerant in IC and LCD steppers shipped by the year ending March 2009.
3. Green procurement	<i>Reduction in use of harmful chemical substances</i> Completion of green procurement for all products, including industrial products.
4. Packaging and distribution	<i>Greenhouse gas emissions</i> 3% reduction in CO ₂ emissions for Japanese domestic distribution, compared with the year ending March 2007.

Workplace Environment

Theme	Mid to Long-Term Environmental Targets
1. Energy conservation / prevention of global warming	<i>Greenhouse gas emissions</i> Reduction in annual CO ₂ emissions per net sales of 35% by the year ending March 2011, and at least 30% by the year ending March 2009, both compared to levels for the year ended March 2002, at all Nikon plants and major Japanese manufacturing subsidiaries.
2. Waste reduction	<i>Waste generation</i> Reduction in amount of waste generated by at least 20% compared with figures for the year ended March 2001 at all Nikon plants and major Japanese manufacturing subsidiaries.
3. Green procurement	<i>Eco-procurement products</i> Compliance with guidelines for at least 90% of all products by the year ending March 2007.
4. ISO14001	<i>Integration of environmental management system</i> Completion of system at major foreign manufacturing subsidiaries by the year ending March 2008, and at major Nikon Group offices by the year ending March 2009.

Note: The fiscal year ending March 31, 2008 targets unless otherwise stated.

Please refer to the Nikon Environmental Report for further details on Nikon's environmental protection activities.

FIVE-YEAR SUMMARY

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2006	2005	2004	2003	2002	2006
For the year						
Net sales	¥ 730,944	¥ 638,468	¥ 506,378	¥ 468,959	¥ 482,975	\$ 6,222,387
Cost of sales	468,944	429,143	346,898	307,503	306,793	3,992,030
SG&A expenses	195,413	178,780	155,805	157,269	153,943	1,663,514
Operating income	66,587	30,545	3,675	4,187	22,239	566,843
Income (loss) before income taxes and minority interest	40,925	33,443	9,490	(11,128)	2,755	348,389
Net income (loss)	28,945	24,141	2,410	(8,143)	(6,004)	246,400
Per share of common stock (Yen and U.S. Dollars):						
Net income (loss)	¥ 78.16	¥ 65.19	¥ 6.52	¥ (22.03)	¥ (16.23)	\$ 0.67
Diluted net income	69.33	57.84	6.02			0.59
Cash dividends applicable to the year	10.00	8.00	4.00		4.00	0.09
Capital expenditures	¥ 25,817	¥ 22,459	¥ 22,267	¥ 20,226	¥ 33,546	\$ 219,776
Depreciation and amortization	20,760	19,705	20,213	20,435	17,917	176,726
R&D costs	37,139	33,561	30,165	27,506	27,313	316,159
At year-end						
Total assets	¥ 690,920	¥ 633,426	¥ 606,513	¥ 576,912	¥ 561,276	\$ 5,881,668
Shareholders' equity	243,122	196,030	171,194	162,464	176,961	2,069,654

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 ¥117.47 to U.S. \$1.00, the approximate exchange rate at March 31, 2006.

3. Diluted net income per share for the year ended March 31, 2003 and 2002 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, 2006, the U.S. economy progressed steadily as a result of increased consumer spending and capital investment combined with a continued favorable employment environment. The European economy was on a recovery trend on the whole due primarily to rising exports, while the Asian economy continued to grow steadily, particularly China.

With regard to Nikon Group business segments, in Precision Equipment and Instruments, growth in the semiconductor and LCD markets led to strong capital investment. In Imaging Products, the digital camera market continued moderate expansion.

Net Sales by Industry Segment

Years ended March 31, 2006 and 2005

	Millions of Yen, %		Thousands of U.S. Dollars
	2006	2005	2006
Precision Equipment	¥ 243,207	¥ 214,326	\$ 2,070,376
Share of net sales	33.3%	33.6%	
Imaging Products	416,607	355,489	3,546,489
Share of net sales	57.0	55.7	
Instruments	54,875	52,184	467,141
Share of net sales	7.5	8.2	
Other	49,832	44,253	424,214
Share of net sales	6.8	6.9	
Total	¥ 764,521	¥ 666,252	\$ 6,508,220
(Elimination)	(33,577)	(27,784)	(285,833)
	(4.6)	(4.4)	
Consolidated	¥ 730,944	¥ 638,468	\$ 6,222,387

OPERATIONAL REVIEW AND ANALYSIS

During the year, the Nikon Group worked to expand sales through the speedy introduction of products that clearly match market needs, and to develop high-growth-potential markets. Elsewhere, management resources were channeled into creating and fostering promising new business areas. To enhance financial standing, the Group devoted energy to shortening processing time and cutting costs by further boosting efficiency in core businesses, and to reducing inventories and interest-bearing debt. Efforts were also made to create a management system focused on cash flow. As a result of these initiatives, consolidated net sales totaled ¥730,944 million, up ¥92,476 million, or 14.5%, relative to the previous year, while consolidated net income amounted to ¥28,945 million. Both of these results marked new record highs for the Group.

Breaking down the results by business segment, the Precision Equipment Business posted ¥242,318 million in net sales, a year-on-year increase of 14.0%, and operating income of ¥26,375 million. In IC steppers, the Group not only strove to expand sales of existing products, it began shipments of immersion lithography products using advanced lithography technology ahead of the competition. Sales of LCD steppers grew considerably thanks to aggressive efforts to increase sales to meet demand from LCD panel makers.

The Imaging Products Business recorded net sales of ¥415,686 million, a 17.4% gain, and operating income of ¥34,369 million. Nikon was successful in significantly expanding sales in this segment through the release of new digital SLR cameras, including the D70s with enhanced basic functions and ease-of-use, which was well-received by markets, and by augmenting the COOLPIX line and the range of digital SLR cameras.

The Instruments Business registered net sales of ¥53,280 million, up 5.2%, and operating income of ¥4,085 million. This result was due to aggressive efforts to raise sales of new products and the CNC video measuring system NEXIV.

Breaking down results by geographic segment, sales increased in Japan due to sales growth in Instruments on the back of increased demand for equipment to measure asbestos and increased production of microscopes, which offset declining sales in Precision Equipment due to lower sales volume relative to the previous year. Meanwhile, in Imaging Products, sales of digital SLR cameras were strong. Overall sales in Japan dipped by 0.4% to ¥274,907 million and operating income totaled ¥45,204 million.

Overseas, sales in North America surged by 31.4% to ¥216,849 million and operating income was ¥8,391 million due to brisk sales of digital SLR cameras.

In Europe, although sales of digital SLR cameras remained flat year-on-year, appreciation of the Euro led to overall sales growth. The region recorded sales of ¥166,734 million, up 17.3%, and operating income of ¥4,827 million.

In Asia, sales of service components increased as customers' capacity utilization rose, while sales of digital SLR cameras performed well, leading to overall sales expansion. Regional sales climbed 31.1% to ¥72,454 million and operating income totaled ¥8,474 million.

Income Analysis

Years ended March 31, 2006 and 2005

	(% of Net Sales)	
	<u>2006</u>	<u>2005</u>
Net sales	100.0%	100.0%
Cost of sales	(64.2)	(67.2)
Gross profit	35.8	32.8
SG&A expenses	(26.7)	(28.0)
Operating income	9.1	4.8
Net interest expense and dividend income	0.0	(0.2)
Net other income	3.5	0.6
Income before income taxes and minority interest	5.6	5.2
Income taxes	1.6	1.4
Minority interest	0.0	0.0
Net income	<u>4.0</u>	<u>3.8</u>

Note: All expenses and subtractive amounts are in parentheses.

Balance Sheet Analysis

March 31, 2006 and 2005

	(% of Total Assets)	
	2006	2005
Total assets	100.0%	100.0%
Total current assets	67.9	68.1
Inventories	34.6	38.8
Property, plant and equipment	16.0	17.3
Investments and other assets	16.1	14.6
Total current liabilities	48.5	42.0
Short-term borrowings	1.8	6.0
Long-term debt, less current portion	12.8	23.7
Shareholders' equity	35.2	30.9

FINANCIAL REVIEW AND ANALYSIS

At fiscal year-end, total assets amounted to ¥690,920 million, up ¥57,494 million, or 9.1%, relative to the previous fiscal year-end. This increase primarily reflected higher levels of cash and cash equivalents and accounts receivable. Current assets totaled ¥469,105 million, up 8.8%.

Liabilities increased by ¥10,405 million as the Company reclassified certain outstanding bonds to corporate bonds with redemption due within one year.

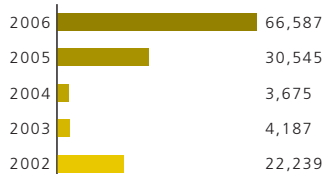
Total cash dividends for the year amounted to ¥2,955 million. Meanwhile, net income of ¥28,945 million and an increase in retained earnings resulted in a net increase in total shareholders' equity of ¥47,092 million.

In terms of cash flows, cash and cash equivalents at year-end amounted to ¥44,472 million. Net cash provided by operating activities totaled ¥63,744 million, mainly owing to a relatively high level of income before income taxes, a substantial decrease in inventories and an increase in notes and accounts payable. Net cash used in investing activities amounted to ¥22,427 million, reflecting a decrease in proceeds from sales of property, plant and equipment and an increase in payments for purchases of tangible fixed assets. Net cash used in financing activities totaled ¥20,515 million, due to an increase in proceeds from long-term debt, despite a significant decrease in short-term borrowings, and to the absence of payments for the redemption of corporate bonds, which occurred in the previous year.

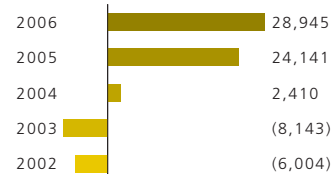
Net Sales (¥ Million)



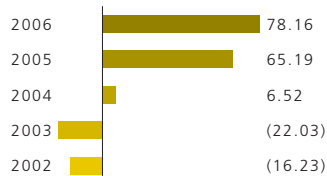
Operating Income (¥ Million)



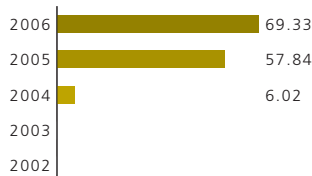
Net Income (Loss) (¥ Million)



Net Income (Loss) per Share (¥)



Diluted Net Income Per Share (¥)



Capital Expenditures (¥ Million)



R&D Costs (¥ Million)



Shareholders' Equity (¥ Million)



Return on Equity (%)



CONSOLIDATED BALANCE SHEETS

Nikon Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets			
Cash and cash equivalents	¥ 44,472	¥ 21,507	\$ 378,579
Notes and accounts receivable — trade:			
Customers	134,009	121,622	1,140,795
Unconsolidated subsidiaries and associated companies	3,626	3,485	30,867
Allowance for doubtful receivables	(2,832)	(2,735)	(24,111)
Inventories (Note 4)	238,846	245,623	2,033,253
Deferred tax assets (Note 10)	29,876	25,629	254,332
Other current assets	21,108	15,995	179,684
Total current assets	<u>469,105</u>	<u>431,126</u>	<u>3,993,399</u>
Property, plant and equipment			
Land	15,917	16,289	135,494
Buildings and structures	99,650	97,352	848,298
Machinery and equipment	137,565	130,101	1,171,069
Furniture and fixtures	50,077	54,140	426,295
Construction in progress	5,432	7,711	46,239
Total	<u>308,641</u>	<u>305,593</u>	<u>2,627,395</u>
Accumulated depreciation	(198,316)	(195,803)	(1,688,216)
Net property, plant and equipment	<u>110,325</u>	<u>109,790</u>	<u>939,179</u>
Investments and other assets			
Investment securities (Notes 3 and 6)	79,864	54,773	679,872
Investments in and advances to unconsolidated subsidiaries and associated companies	9,469	8,217	80,608
Long-term loans to employees and other	99	128	842
Allowance for doubtful receivables	(105)	(110)	(897)
Software	8,245	7,104	70,185
Goodwill	143	233	1,218
Security deposit	4,983	6,315	42,422
Deferred tax assets (Note 10)	1,458	9,792	12,409
Other	7,334	6,058	62,432
Total investments and other assets	<u>111,490</u>	<u>92,510</u>	<u>949,091</u>
Total	<u>¥ 690,920</u>	<u>¥ 633,426</u>	<u>\$ 5,881,669</u>

See Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings (Note 6)	¥ 12,632	¥ 38,115	\$ 107,534
Current portion of long-term debt (Note 6)	77,556	7,090	660,218
Notes and accounts payable — trade:			
Suppliers	150,883	135,638	1,284,440
Unconsolidated subsidiaries and associated companies	622	242	5,294
Income taxes payable	8,231	14,706	70,067
Accrued expenses	47,527	39,657	404,587
Other current liabilities (Note 10)	37,494	30,655	319,174
Total current liabilities	<u>334,945</u>	<u>266,103</u>	<u>2,851,314</u>
Long-term liabilities			
Long-term debt (Note 6)	88,643	150,133	754,606
Liability for employees' retirement benefits (Note 7)	16,967	18,691	144,436
Retirement allowances for directors and corporate auditors (Note 2(i))	339	1,035	2,887
Other long-term liabilities (Note 10)	6,722	1,249	57,219
Total long-term liabilities	<u>112,671</u>	<u>171,108</u>	<u>959,148</u>
Minority interests	<u>182</u>	<u>185</u>	<u>1,553</u>
Commitments and Contingent liabilities (Notes 12, 13 and 14)			
Shareholders' equity			
Common stock (Note 8):			
Authorized — 1,000,000,000 shares			
Issued — 369,945,332 shares in 2006 and 2005	36,661	36,661	312,087
Capital surplus (Note 8)	51,933	51,931	442,093
Retained earnings (Note 8)	130,405	104,478	1,110,110
Unrealized gain on available-for-sale securities	24,534	7,297	208,860
Foreign currency translation adjustments	286	(3,813)	2,439
Treasury stock, at cost:			
585,198 shares in 2006 and 484,180 shares in 2005	(697)	(524)	(5,935)
Total shareholders' equity	<u>243,122</u>	<u>196,030</u>	<u>2,069,654</u>
Total	<u>¥ 690,920</u>	<u>¥ 633,426</u>	<u>\$ 5,881,669</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Net sales	¥ 730,944	¥ 638,468	\$ 6,222,387
Cost of sales	468,944	429,143	3,992,030
Gross profit	262,000	209,325	2,230,357
Selling, general and administrative expenses (Note 9)	195,413	178,780	1,663,514
Operating income	66,587	30,545	566,843
Other income (expenses)			
Interest and dividend income	1,138	963	9,691
Interest expense	(1,501)	(2,161)	(12,780)
Cash discount	(5,243)	(4,211)	(44,630)
Royalty income	391	384	3,327
Write-down of inventories	(6,495)	(3,816)	(55,294)
Loss on disposals of inventories	(9,910)	(6,190)	(84,360)
Loss on sales of investment securities		(11)	
Loss on disposals of property, plant and equipment	(1,770)	(2,218)	(15,068)
Loss on impairment of fixed assets	(245)		(2,090)
Gain on sales of property, plant and equipment	116	6,063	985
Gain on sales of investment securities	1,896	438	16,139
Proceeds from settlement of legal proceedings against patent		15,879	
Proceeds from patents and know-how licenses	1,236		10,523
Loss on patent settlement	(2,890)		(24,600)
Cumulative effect of accounting change for the retirement benefits to directors, corporate auditors and officers		(983)	
Equity in earnings of unconsolidated subsidiaries and associated companies	1,101	1,059	9,374
Other-net	(3,486)	(2,298)	(29,671)
Other income (expenses)-net	(25,662)	2,898	(218,454)
Income before income taxes and minority interest	40,925	33,443	348,389
Income taxes (Note 10)			
Current	14,282	15,995	121,580
Deferred	(2,304)	(6,707)	(19,610)
Total income taxes	11,978	9,288	101,970
Minority interests	2	14	19
Net income	¥ 28,945	¥ 24,141	\$ 246,400

Per share of common stock (Note 2(q)):	Yen		U.S. Dollars (Note 1)
Basic net income	¥ 78.16	¥ 65.19	\$ 0.67
Diluted net income	69.33	57.84	0.59
Cash dividends applicable to the year	10.00	8.00	0.09

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT APRIL 1, 2004	369,319	¥ 36,661	¥ 51,927	¥ 83,035	¥ 6,109	¥ (5,885)	¥ (653)
Excess arising from retirement of treasury stock			4				
Net income				24,141			
Cash dividends, ¥8.0 per share				(2,954)			
Adjustment of retained earnings for elimination of consolidated subsidiary				256			
Net increase in unrealized gain on available-for-sale securities					1,188		
Net increase in foreign currency translation adjustments						2,072	
Decrease in treasury stock (142,416 shares)	142						129
BALANCE AT MARCH 31, 2005	369,461	¥ 36,661	¥ 51,931	¥ 104,478	¥ 7,297	¥ (3,813)	¥ (524)
Excess arising from retirement of treasury stock			2				
Net income				28,945			
Cash dividends, ¥8.0 per share				(2,955)			
Bonuses to directors and corporate auditors				(63)			
Net increase in unrealized gain on available-for-sale securities					17,237		
Net increase in foreign currency translation adjustments						4,099	
Increase in treasury stock (101,018 shares)	(101)						(173)
BALANCE AT MARCH 31, 2006	369,360	¥ 36,661	¥ 51,933	¥ 130,405	¥ 24,534	¥ 286	¥ (697)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2005	\$312,087	\$442,077	\$889,402	\$62,121	\$(32,457)	\$(4,462)
Excess arising from retirement of treasury stock			16			
Net income			246,400			
Cash dividends, ¥8.0 per share			(25,160)			
Bonuses to directors and corporate auditors			(532)			
Net increase in unrealized gain on available-for-sale securities				146,739		
Net increase in foreign currency translation adjustments					34,896	
Increase in treasury stock (101,018 shares)						(1,473)
BALANCE AT MARCH 31, 2006	\$312,087	\$442,093	\$1,110,110	\$208,860	\$2,439	\$(5,935)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interest	¥ 40,925	¥ 33,443	\$ 348,389
Adjustments for:			
Income taxes-paid	(20,512)	(5,321)	(174,614)
Loss on impairment of fixed assets	245		2,090
Depreciation and amortization	20,670	19,626	175,964
Provision for employees' retirement benefits	(1,696)	(2,359)	(14,437)
Provision for retirement allowance for directors and corporate auditors	(696)	1,035	(5,928)
Loss on sales or disposal of property, plant and equipment	1,932	2,235	16,443
Gain on sales of property, plant and equipment	(116)	(6,063)	(985)
Loss on sales of investment securities		11	
Gain on sales of investment securities	(1,896)	(438)	(16,139)
Other-net	841	1,830	7,156
Change in assets and liabilities:			
Increase in notes and accounts receivable-trade	(8,838)	(1,382)	(75,240)
Decrease (increase) in inventories	12,299	(3,664)	104,697
Increase (decrease) in notes and accounts payable-trade	15,651	(7,137)	133,234
Other-net	4,935	15,313	42,011
Total adjustments	22,819	13,686	194,252
Net cash provided by operating activities	63,744	47,129	542,641
Investing activities:			
Capital expenditures	(19,977)	(19,102)	(170,060)
Proceeds from sales of property, plant and equipment	2,446	6,375	20,824
Purchases of investment securities	(839)	(518)	(7,139)
Proceeds from sales of investment securities	1,589	2,368	13,528
Net decrease in loans receivable	151	358	1,284
Other-net	(5,797)	(24)	(49,357)
Net cash used in investing activities	(22,427)	(10,543)	(190,920)
Financing activities:			
Net decrease in short-term borrowings	(26,033)	(6,723)	(221,614)
Proceeds from long-term debt	16,689	2,448	142,073
Repayments of long-term debt	(8,050)	(24,400)	(68,529)
Dividends paid	(2,944)	(2,951)	(25,065)
Other-net	(177)	(160)	(1,510)
Net cash used in financing activities	(20,515)	(31,786)	(174,645)
Foreign currency translation adjustments on cash and cash equivalents	2,163	498	18,414
Net increase in cash and cash equivalents	22,965	5,298	195,490
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		196	
Cash and cash equivalents of eliminated consolidated subsidiary, beginning of year		(86)	
Cash and cash equivalents, beginning of year	21,507	16,099	183,089
Cash and cash equivalents, end of year	¥ 44,472	¥ 21,507	\$ 378,579

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nikon Corporation and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

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.

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 2005 financial statements to conform to the classification used in 2006.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to U.S.\$1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation 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, 2006 include the accounts of the Company and its 47 (46 in 2005) significant 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 2005) 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 differences between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies accounted for by the equity method at 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, certificates of deposit, 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) Marketable and Investment Securities

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

- i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings,
- ii) 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
- iii) 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 shareholders' equity. Non-marketable available-for-sale securities are stated principally at moving-average cost. 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, except for work in process which is determined by the specific identification 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 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 structures, and from 5 to 10 years for machinery and equipment.

(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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥245 million (\$ 2,090 thousand).

(g) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(h) Retirement and Pension Plans

The Company and major subsidiaries have non-contributory funded pension plans covering substantially all of its employees. 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.

(i) 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.

(j) Research and Development Costs

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

(k) 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.

(l) 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. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(m) Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements in the following year upon shareholder's approval.

(n) Foreign Currency Transactions

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

(o) 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 rates except for shareholders' 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 Shareholders' equity.

(p) 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 as other liability or asset. 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.

(q) 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.

(r) New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the Accounting Standards Board of Japan (ASBJ) issued, "Accounting Standard for Business Separations," and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Separation." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued, "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 shareholders' 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.

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.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-Current :			
Equity securities	¥ 79,862	¥ 54,771	\$ 679,853
Trust bonds, debentures and other	2	2	19
Total	¥ 79,864	¥ 54,773	\$ 679,872

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

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, 2005	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 40,131	¥ 12,477	¥ 232	¥ 52,376
Debt securities	1	0	0	1
Total	¥ 40,132	¥ 12,477	¥ 232	¥ 52,377

March 31, 2006	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 324,466	\$ 350,964	\$ 127	\$ 675,303
Debt securities	5	0	0	5
Total	\$ 324,471	\$ 350,964	\$ 127	\$ 675,308

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥ 533	¥ 2,394	\$ 4,550
Other securities	2	2	14
Total	¥ 535	¥ 2,396	\$ 4,564

Proceeds from sales of available-for-sale securities for the fiscal years ended March 31, 2006 and 2005 were ¥5,147 million (\$43,812 thousand) and ¥2,356 million, respectively. Gross realized gains on these sales for the fiscal years ended March 31, 2006 and 2005 were ¥1,896 million (\$16,139 thousand) and ¥438 million, respectively. There was no realized loss on this sale for the fiscal year ended March 31, 2006, while it was ¥11 million for the fiscal year ended March 31, 2005.

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished and semi-finished products	¥ 100,499	¥114,725	\$ 855,528
Work in process	113,767	111,042	968,476
Raw materials and supplies	24,580	19,856	209,249
Total	¥ 238,846	¥245,623	\$2,033,253

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 (\$2,090 thousand) 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. 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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Short-term loans, principally from banks:			
2006: 0.3923%-8.60000%			
2005: 0.3694%-4.0000%	¥ 12,632	¥ 38,115	\$ 107,534
Total	¥ 12,632	¥ 38,115	\$ 107,534

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Loans, principally from banks and insurance companies:			
2006: 0.33188%-5.510% due 2007-2013			
2005: 0.50%-5.510% due 2006-2013	¥ 20,699	¥ 11,723	\$ 176,210
Bonds	145,500	145,500	1,238,614
Total	166,199	157,223	1,414,824
Less: Current portion	(77,556)	(7,090)	(660,218)
Long-term debt, less current portion	¥ 88,643	¥150,133	\$ 754,606

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
			2006	2005	2006
2.5% Yen Unsecured Bonds	November, 1997	November, 2007	¥ 10,000	¥ 10,000	\$ 85,128
1.0% Yen Unsecured Bonds	April, 2001	April, 2006	10,000	10,000	85,128
1.3% Yen Unsecured Bonds	December, 2001	December, 2006	10,000	10,000	85,128
1.7% Yen Unsecured Bonds	December, 2001	December, 2008	5,000	5,000	42,564
1.15% Yen Unsecured Bonds	February, 2003	February, 2008	10,000	10,000	85,128
1.4% Yen Unsecured Bonds	February, 2003	February, 2010	10,000	10,000	85,128
Yen Zero Coupon Convertible Bond	June, 2002	March, 2007	56,000	56,000	476,718
Yen Zero Coupon Convertible Bond	March, 2004	March, 2011	34,500	34,500	293,692
Total			¥ 145,500	¥145,500	\$1,238,614

The aggregate annual maturities of long-term debt for the years following March 31, 2006 are as follows:

Year Ending	Millions of Yen	Thousands of U.S. Dollars
March 31		
2007	¥ 77,556	\$ 660,218
2008	21,686	184,610
2009	7,576	64,496
2010	10,381	88,372
2011	44,500	378,820
Thereafter	4,500	38,308
Total	¥ 166,199	\$1,414,824

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 16, 2007 at ¥1,857 per share. The stock acquisition rights outstanding at March 31, 2006 entitled the holders to subscribe for 30,156,165 shares which was computed using the above-mentioned exercise price.

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, 2006 entitled the holders to subscribe for 16,763,848 shares which was computed using the above-mentioned exercise price.

At March 31, 2006, the following assets were pledged as collateral for long-term debt.

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Investment securities	¥ 8,934	\$ 76,054
Total	¥ 8,934	\$ 76,054

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Long-term debt, including current portion	¥ 3,744	\$ 31,872
Total	¥ 3,744	\$ 31,872

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 and major subsidiaries have non-contributory funded defined benefit pension plans covering substantially all of its employees. Certain foreign subsidiaries also have contributory defined benefit pension plans. Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension benefits determined by reference to basic rates of pay at the time of termination, length of service and certain other factors.

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.

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 (\$12,813 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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 102,767	¥100,138	\$ 874,832
Fair value of plan assets	(100,951)	(78,359)	(859,380)
Unrecognized actuarial loss	886	(18,867)	7,545
Unrecognized prior service cost	13,936	15,666	118,639
	16,638	18,578	141,636
Prepayment of service cost	329	113	2,800
Net Liability	¥ 16,967	¥ 18,691	\$ 144,436

The components of net periodic benefit costs for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 3,207	¥ 3,353	\$ 27,301
Interest cost	2,747	2,628	23,382
Expected return on plan assets	(1,941)	(1,752)	(16,521)
Recognized actuarial loss	2,995	3,049	25,493
Amortization of prior service cost	(1,718)	(1,718)	(14,622)
Net periodic benefit costs	¥ 5,290	¥ 5,560	\$ 45,033

Assumptions used for the fiscal years ended March 31, 2006 and 2005 were principally set forth as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plans assets	2.0%	2.0%
Recognition period of actuarial gain (loss)	10 years	10 years
Amortization period of prior service cost	10 years	10 years

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥73,124 million (\$ 624,086 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the general shareholders' meeting held on June 27, 2003, June 29, 2004, and June 29, 2005, the Company's shareholders approved a stock option for the Company's directors and administrative directors and appropriation of retained earnings.

The plan provides for granting options to directors and administrative directors to purchase up to 203,000, 210,000 and 178,000 shares

of the Company's common stock in the period from June 28, 2005 to June 27, 2013, from June 30, 2006, to June 29, 2014, and from June 30, 2007 to June 29, 2015 respectively. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the prior month of the date of option grant.

17,000 shares of the stock option approved by the Company's shareholders on June 27, 2003 were exercised for the year ended March 31, 2006.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be 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. For companies that 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 may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also 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 Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. 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 shareholders' 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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, 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.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2006 and 2005 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Advertising expenses	¥ 46,585	¥ 42,551	\$ 396,565
Provision of warranty costs	7,130	5,305	60,700
Employees' salaries	30,503	27,963	259,666
Employees' retirement benefit plan	4,024	3,256	34,256
Employees' bonuses and others	15,012	11,926	127,794
Research and development costs	37,139	33,561	316,159

10. 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 2005.

The tax effects of significant temporary differences and loss carry-forwards which result in deferred tax assets and liabilities at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets :			
Write-down of inventories	¥ 17,647	¥ 14,345	\$ 150,226
Warranty reserve	2,253	1,863	19,178
Liability for employees' retirement benefits	9,326	9,830	79,393
Depreciation and amortization	14,296	14,225	121,699
Net operating loss carryforwards	143	914	1,220
Accrued bonus	4,076	3,588	34,701
Other	6,242	5,921	53,136
Total	¥ 53,983	¥ 50,686	\$ 459,553
Deferred tax liabilities :			
Deferred gains on sales of property to be replaced	6,137	7,388	52,240
Unrealized gain on available-for-sale securities	16,679	4,872	141,984
Undistributed earnings of foreign subsidiaries	4,525	2,693	38,519
Other	583	600	4,967
Total	¥ 27,924	¥ 15,553	\$ 237,710
Net deferred tax assets	¥ 26,059	¥ 35,133	\$ 221,843

A valuation allowance of ¥2,715 million (\$23,110 thousand) in 2006 and ¥3,012 million in 2005 were deducted from the amounts calculated above, respectively.

A reconciliation between the normal effective statutory tax rate for the fiscal years ended March 31, 2006 and 2005, and the actual effective tax rates reflected in the consolidated statements of income were as follows:

	Year ended March 31,	
	2006	2005
Normal statutory tax rate	40.6%	40.6%
Tax credit for research and development costs	(2.6)	(5.7)
Tax difference of consolidated subsidiaries	(3.8)	
Tax exemption for foreign subsidiaries	(3.2)	
Consolidated adjustment on unrealizable profits in inventories	(4.9)	(11.1)
Dividends from foreign subsidiaries not applicable to foreign tax credits		5.2
Increase in valuation allowance		3.0
Tax effect on retained earnings for foreign subsidiaries	4.5	
Other-net	(1.3)	(4.2)
Actual effective tax rate	29.3%	27.8%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred were ¥37,139 million (\$316,159 thousand) and ¥33,561 million for the fiscal years ended March 31, 2006 and 2005, respectively.

12. 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 ¥2,461 million (\$20,951 thousand) and ¥2,596 million for the fiscal years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 2,425	¥ 1,965	\$ 20,639
Due after one year	5,090	3,915	43,332
Total	¥ 7,515	¥ 5,880	\$ 63,971

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, 2006 and 2005 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006			2006		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 6,173	¥ 5,495	¥ 11,668	\$ 52,556	\$ 46,774	\$ 99,330
Accumulated depreciation	3,416	2,520	5,936	29,083	21,451	50,534
Net leased property	¥ 2,757	¥ 2,975	¥ 5,732	\$ 23,473	\$ 25,323	\$ 48,796

	Millions of Yen		
	2005		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 7,312	¥ 5,489	¥ 12,801
Accumulated depreciation	3,568	2,898	6,466
Net leased property	¥ 3,744	¥ 2,591	¥ 6,335

Obligations under finance leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 2,154	¥ 2,141	\$ 18,339
Due after one year	3,578	4,194	30,457
Total	¥ 5,732	¥ 6,335	\$ 48,796

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 ¥2,461 million (\$20,951 thousand) and ¥2,596 million for the fiscal years ended March 31, 2006 and 2005, respectively.

13. 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, 2006 and 2005, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006		Net Unrealized Gain (Loss)	2006		Net Unrealized Gain (Loss)
Contract or Notional Amount	Fair Value	Contract or Notional Amount		Fair Value		
Foreign exchange forward contracts :						
Selling USD	¥ 42,910	¥ 43,400	¥ (490)	\$ 365,286	\$ 369,452	\$ (4,166)
Selling EUR	13,713	14,001	(288)	116,736	119,191	(2,455)
Buying JPY	102	100	(2)	869	854	(15)
Buying USD	2,578	2,576	(2)	21,942	21,927	(15)
Buying EUR						
Total			(782)			(6,651)
Currency option contracts :						
Selling put EUR	¥ 249	¥	¥	\$ 2,120	\$	\$
Option premiums	11	17	(6)	92	142	(50)
Buying call EUR	249			2,120		
Option premiums	9	14	5	76	116	40
Total			(1)			(10)
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 271	¥ 271	\$ 170,256	\$ 2,307	\$ 2,307
(fixed rate payment, floating rate receipt)	10,000	(242)	(242)	85,128	(2,062)	(2,062)
Total	¥ 30,000	¥ 29	¥ 29	\$ 255,384	\$ 245	\$ 245
Millions of Yen						
2005						
Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)				
Foreign exchange forward contracts :						
Selling USD	¥ 44,637	¥ 45,638	¥ (1,001)			
Selling EUR	14,482	14,715	(233)			
Buying JPY	26	26	0			
Buying USD	2,928	3,003	75			
Buying EUR	2,870	2,861	(9)			
Total			(1,168)			
Currency option contracts :						
Selling put EUR	¥ 2,250	¥	¥			
Option premiums	12	21	(9)			
Buying call EUR	2,250					
Option premiums	10	15	5			
Total			(4)			
Interest rate swaps :						
(fixed rate receipt, floating rate payment)	¥ 20,000	¥ 517	¥ 517			
(fixed rate payment, floating rate receipt)	10,000	(462)	(462)			
Total	¥ 30,000	¥ 55	¥ 55			

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.

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2006</u>	<u>2006</u>
As the endorser of trade notes receivable discounted with banks	¥ 22	\$ 190
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	5,285	44,986
Total	<u>¥ 5,307</u>	<u>\$ 45,176</u>

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Yen in millions	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted average Shares	EPS	
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
	Yen in millions	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted average Shares	EPS	
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥ 24,079	369,352	¥65.19	\$ 0.61
Effect of Dilutive Securities				
Warrants		22		
Convertible bonds		46,920		
Diluted EPS				
Net income for computation	¥ 24,079	416,294	¥57.84	\$ 0.54

16. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.00 (\$0.05) per share	¥ 2,216	\$ 18,866
Bonuses to directors and corporate auditors	72	613

17. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2006 and 2005, was as follows:

(a) Industry Segments

	Millions of Yen					
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate Consolidated
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

	Millions of Yen					
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate Consolidated
For the year ended March 31, 2005						
Net sales						
Outside customers	¥ 212,471	¥ 354,181	¥ 50,657	¥ 21,159	¥ 638,468	¥ 638,468
Intersegment sales/transfer	1,855	1,308	1,527	23,094	27,784	(27,784)
Total	214,326	355,489	52,184	44,253	666,252	(27,784) 638,468
Operating expenses	202,939	338,648	49,358	44,900	635,845	(27,922) 607,923
Operating income (loss)	¥ 11,387	¥ 16,841	¥ 2,826	¥ (647)	¥ 30,407	¥ 138 ¥ 30,545
Assets	¥ 249,904	¥ 182,772	¥ 36,386	¥ 57,573	¥ 526,635	¥ 106,791 ¥ 633,426
Depreciation and amortization	8,897	5,833	969	4,006	19,705	19,705
Capital expenditures	8,679	11,184	751	1,845	22,459	22,459

	Thousands of U.S. Dollars					
	Precision Equipment	Imaging Products	Instruments	Other	Total	(Eliminations) or corporate Consolidated
For the year ended March 31, 2006						
Net sales						
Outside customers	\$2,062,804	\$3,538,654	\$ 453,567	\$ 167,362	\$6,222,387	\$ 6,222,387
Intersegment sales/transfer	7,572	7,835	13,574	256,852	285,833	(285,833)
Total	2,070,376	3,546,489	467,141	424,214	6,508,220	(285,833) 6,222,387
Operating expenses	1,845,847	3,253,916	432,362	407,793	5,939,918	(284,374) 5,655,544
Operating income	\$ 224,529	\$ 292,573	\$ 34,779	\$ 16,421	\$ 568,302	\$ (1,459) \$ 566,843
Assets	\$2,321,447	\$1,617,696	\$ 295,459	\$ 361,319	\$4,595,921	\$1,285,748 \$5,881,669
Depreciation and amortization	72,452	58,645	8,697	36,932	176,726	176,726
Capital expenditures	84,227	101,348	7,844	26,357	219,776	219,776

Major products of each Industry;

Precision Equipment : IC steppers, LCD steppers

Imaging Products : Digital cameras, Cameras, Interchangeable camera lenses

Instruments : Microscopes, Measuring instruments, Inspection equipment

Other : Sport optics products, Ophthalmic frames, Surveying instruments

Note: Amortization of Goodwill is included in "Depreciation and amortization" for the years ended March 31, 2006 and 2005.

(b) Geographic Segments

	Millions of Yen					(Eliminations) or corporate	Consolidated
	Japan	North America	Europe	Asia	Total		
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

	Millions of Yen					(Eliminations) or corporate	Consolidated
	Japan	North America	Europe	Asia	Total		
For the year ended March 31, 2005							
Net sales							
Outside customers	¥ 275,992	¥ 165,085	¥ 142,143	¥ 55,248	¥ 638,468	¥	¥ 638,468
Intersegment sales	282,026	2,895	111	78,779	363,811	(363,811)	
Total	558,018	167,980	142,254	134,027	1,002,279	(363,811)	638,468
Operating expenses	540,180	162,372	139,392	128,902	970,846	(362,923)	607,923
Operating income	¥ 17,838	¥ 5,608	¥ 2,862	¥ 5,125	¥ 31,433	¥ (888)	¥ 30,545
Assets	¥ 478,739	¥ 70,328	¥ 57,865	¥ 45,776	¥ 652,708	¥ (19,282)	¥ 633,426

	Thousands of U.S. Dollars					(Eliminations) or corporate	Consolidated
	Japan	North America	Europe	Asia	Total		
For the year ended March 31, 2006							
Net sales							
Outside customers	\$ 2,340,234	\$ 1,845,993	\$ 1,419,369	\$ 616,791	\$ 6,222,387	\$	\$ 6,222,387
Intersegment sales	2,796,677	18,152	1,315	788,704	3,604,848	(3,604,848)	
Total	5,136,911	1,864,145	1,420,684	1,405,495	9,827,235	(3,604,848)	6,222,387
Operating expenses	4,752,099	1,792,711	1,379,597	1,333,362	9,257,769	(3,602,225)	5,655,544
Operating income	\$ 384,812	\$ 71,434	\$ 41,087	\$ 72,133	\$ 569,466	\$ (2,623)	\$ 566,843
Assets	\$ 4,119,055	\$ 619,447	\$ 465,086	\$ 465,290	\$ 5,668,878	\$ 212,791	\$ 5,881,669

(c) Export Sales**For the years ended March 31, 2006 and 2005**

	Millions of Yen, %				Thousands of U.S. Dollars
	2006	(A)/(B)	2005	(A)/(B)	2006
Export sales (A)					
North America	¥ 209,676	28.7%	¥160,840	25.2%	\$1,784,929
Europe	166,127	22.7	138,793	21.7	1,414,211
Asia	173,308	23.7	175,193	27.5	1,475,336
Other Area	8,689	1.2	6,929	1.1	73,968
Total	¥ 557,800	76.3%	¥481,755	75.5%	\$4,748,444
Net sales (B)	¥ 730,944		¥638,468		\$6,222,387

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



INDEPENDENT AUDITORS' REPORT

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 (together, the "Group") as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' 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, 2006 and 2005, 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.

As discussed in Note 2.(f) to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

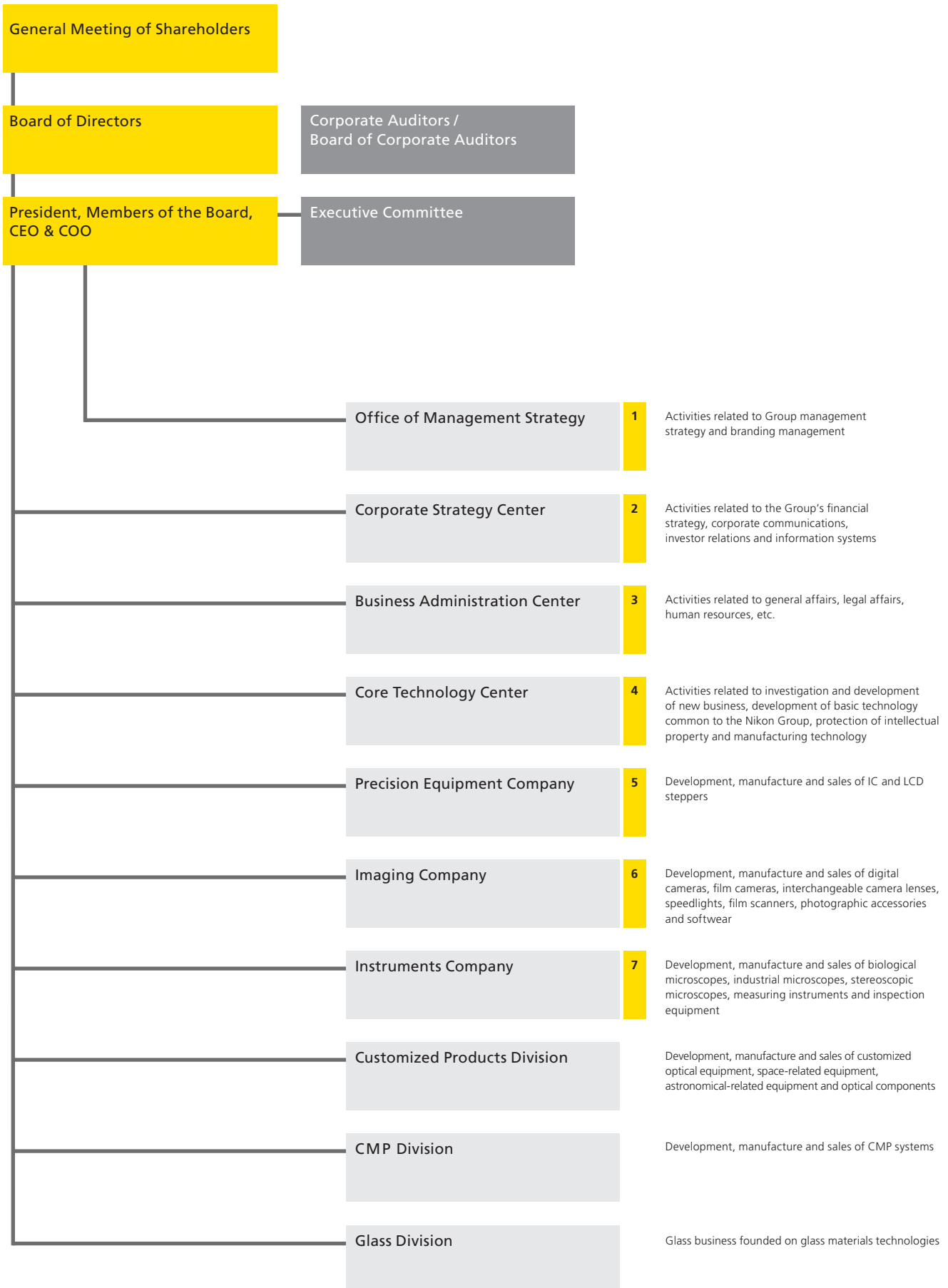
Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

ORGANIZATION OF NIKON GROUP

As of July 1, 2006



NIKON GROUP COMPANIES

DOMESTIC COMPANIES

As of July 1, 2006

	Name	Business
1	Tochigi Nikon Corporation	* Manufacture of IC/LCD steppers and optical lenses
	Setagaya Industry Co., Ltd.	* Processing and assembly of parts for interchangeable camera lenses
	Nikon Optical Shop Co., Ltd.	Retail sales of ophthalmic frames and lenses
	Hikari Glass Co., Ltd.	* Manufacture and sales of optical glass and molded optical glass
	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-Trimble Co., Ltd.	Development, manufacture, sales and servicing of surveying instruments
	Nikon-Essilor Co., Ltd.	Development, manufacture, sales and servicing of ophthalmic lenses
2	Nikon Systems Inc.	* Development and support of computer software
3	Nikon Logistics Corporation	* Logistics
	Nikon Life Co., Ltd.	* Employee welfare activities
	Nikon Tsubasa Inc.	Processing, assembly and packing of parts for optical instruments
4	Nikon Technologies, Inc.	* Chemical analysis and measurement, patent investigation, and translation
5	Mito Nikon Corporation	* Manufacture of devices for IC/LCD steppers
	Zao Nikon Co., Ltd.	* Manufacture of devices for IC/LCD steppers and surveying instruments
	Nikon Tec Corporation	* Maintenance and servicing of IC/LCD steppers, sales of used steppers
6	Sendai Nikon Corporation	* Manufacture of cameras, LCD steppers, and devices for IC steppers
	Nikon Photo Products Inc.	* Sales and servicing of cameras
7	Kurobane Nikon Co., Ltd.	* Manufacture of objectives lenses for microscopes/measuring instruments/inspection equipment, and optical components
	Nikon Instech Co., Ltd.	* Sales, maintenance and servicing of microscopes, measuring instruments, and inspection equipment

OVERSEAS COMPANIES

As of July 1, 2006

	Name	Business
1	Beijing Nikon Ophthalmic Products Co., Ltd.	Sales, processing and repair of ophthalmic products
2	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
5	Nikon Precision Inc.	* Import, sales, maintenance and servicing of IC steppers
	Nikon Research Corporation of America	* R&D for IC-related equipment
	Nikon Precision Europe GmbH	* Import, sales, maintenance and servicing of IC steppers
	Nikon Precision Korea Ltd.	* Maintenance and servicing of IC/LCD steppers
	Nikon Precision Taiwan Ltd.	* Maintenance and servicing of IC/LCD steppers
	Nikon Precision Singapore Pte Ltd	* Maintenance and servicing of IC/LCD steppers
	Nikon Precision Shanghai Co., Ltd.	* Consulting for maintenance and servicing of IC/LCD steppers
	6	Nikon Inc.
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 (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 Imaging (China) Sales Co., Ltd.	* Import, sales and servicing of cameras	
Nikon Imaging Korea Co., Ltd.	Import, sales and servicing of cameras	
Guang Dong Nikon Camera Co., Ltd.	Manufacture of digital camera components	
Hang Zhou Nikon Camera Co., Ltd.	Manufacture of digital camera components	
7	Nikon Instruments Inc.	* Import, sales, maintenance and servicing of microscopes, measuring instruments and 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 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 objectives for microscopes

* Consolidated as of March 31, 2006

DIRECTORS, AUDITORS AND OFFICERS

As of July 1, 2006

BOARD OF DIRECTORS		
President, Member of the Board, Chief Executive Officer & Chief Operating Officer*	Michio Kariya	In charge of items related to Group's management policies and Company's operations
Executive Vice President, Member of the Board & Chief Financial Officer*	Ichiro Terato	Assistant of President, Member of the Board, group-wide financial and IR strategies
Senior Managing Director, Member of the Board & Senior Executive Officer	Makoto Kimura	President of Imaging Company
Senior Managing 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 Customized Products Division and the CMP Division
Managing Director, Member of the Board & Senior Executive Officer	Mamoru Kajiwara	President of Corporate Strategy Center & President of Business Administration Center
Managing Director, Member of the Board & Senior Executive Officer	Norio Miyauchi	Divisional President of Office of Management Strategy, in charge of overseeing the Internal Audit Department
Managing Director, Member of the Board & Senior Executive Officer	Naoki Tomino	Vice President of Imaging Company
Managing Director, Member of the Board & Senior Executive Officer	Kazuo Ushida	President of Precision Equipment Company
Managing Director, Member of the Board & Senior Executive Officer	Yoshimichi Kawai	Vice President of Precision Equipment Company & General Manager of LCD Equipment Division, Precision Equipment Company
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
Director, Member of the Board & Executive Officer	Hidetoshi Mori	President of Instruments Company
Director, Member of the Board & Executive Officer	Yutaka Ichihara	Vice President of Core Technology Center & General Manager of Optical Technology Headquarters, Core Technology Center
Director, Member of the Board & Executive Officer	Masami Kumazawa	Divisional Vice President of Office of Management Strategy
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
EXECUTIVE OFFICERS		
Executive Officer	Takao Watanabe	Vice President of Core Technology Center & General Manager of Intellectual Property Headquarters, Core Technology Center
Executive Officer	Hideshi Hirai	Vice President of Corporate Strategy Center & General Manager of Corporate Communications & IR Department, Corporate Strategy Center
Executive Officer	Tetsuro Goto	General Manager of Development Management Department, Imaging Company
Executive Officer	Koji Morishita	Vice President of Business Administration Center
Executive Officer	Jun Iwasaki	General Manager of Production Technology Headquarters, Core Technology Center
Executive Officer	Toshiyuki Masai	President & CEO, Nikon Inc.
Executive Officer	Norio Hashizume	Vice President of Corporate Strategy Center & General Manager of Financing & Accounting Department, Corporate Strategy Center
Executive Officer	Yasuyuki Okamoto	General Manager of Marketing Management Department, Imaging Company
Executive Officer	Toshikazu Umatate	General Manager of Development Headquarters, Precision Equipment Company
Executive Officer	Hisao Izawa	General Manager of Customized Products Division & General Manager of Sales Department, Customized Products Division
Executive Officer	Teruo Hashimoto	General Manager of Production Headquarters, Precision Equipment Company
Executive Officer	Masaaki Okajima	President, Tochigi Nikon Corporation
Executive Officer	Geoffrey Wild	Vice President of Precision Equipment Company & President & CEO & COO, Nikon Precision Inc.

*Indicates Representative Director of the Board

INVESTOR INFORMATION

Nikon Corporation

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Fax : +81-3-3216-1454

Date of Establishment

July 25, 1917

Number of Employees

18,725

Common Stock

Authorized:

1,000,000,000 shares

Issued:

369,945,332 shares

¥36,661 million

Number of Shareholders

24,822

Stock Exchange Listings

Tokyo, Osaka, Fukuoka, Sapporo

Share Registrar

The Mitsubishi UFJ Trust and Banking
Corporation

Corporate Agency Division

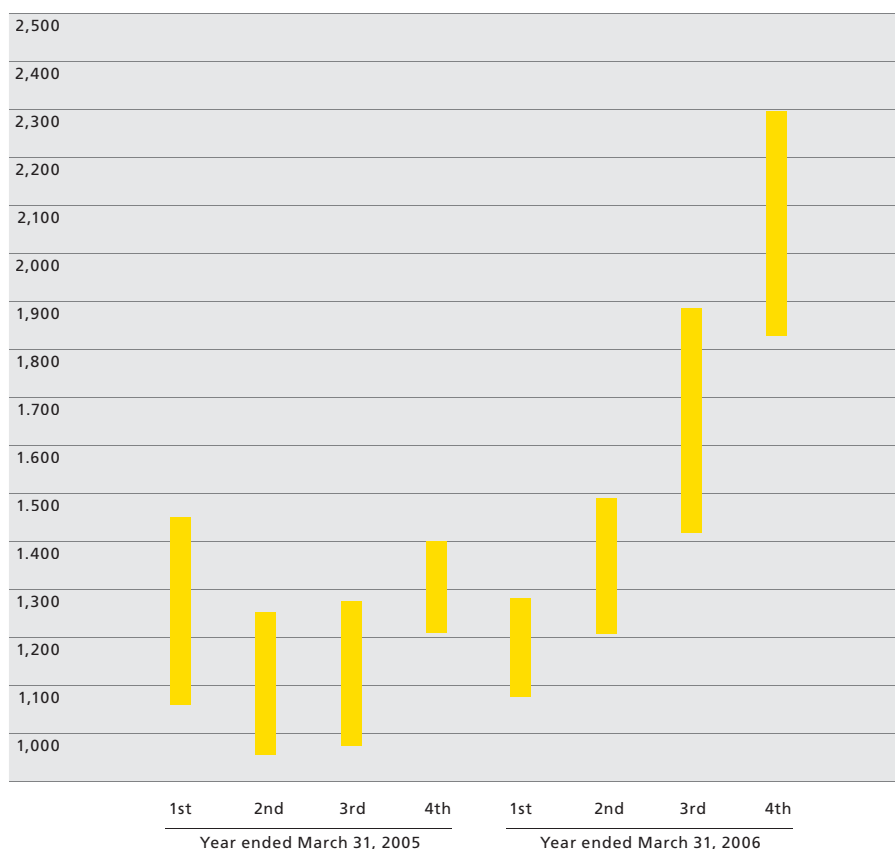
4-5, Marunouchi 1-chome,

Chiyoda-ku, Tokyo 100-8212, Japan

(As of March 31, 2006)

Major Shareholders	Number of shares held (thousands)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd., Trust Account	25,702	6.9
State Street Bank and Trust Company	22,601	6.1
Meiji Yasuda Life Insurance Company	20,565	5.6
Japan Trustee Services Bank, Ltd., Trust Account	18,736	5.1
The Chase Manhattan Bank NA London	17,472	4.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,297	3.3
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,067	2.7
The Mitsubishi UFJ Trust and Banking Corporation	9,134	2.5
Nippon Life Insurance Company	8,769	2.4
The Joyo Bank, Ltd.	6,801	1.8

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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