A Nikon Group Capable of Another Century of Growth

In the fiscal year ended March 2014, consolidated net sales declined 3.0% year on year, to ¥980.6 billion, while operating income climbed to ¥62.9 billion, a year-on-year increase of 23.4%. In addition to top- and bottom-line growth in the Precision Equipment Business, this performance reflected higher earnings in the Imaging Products Business, despite lower sales due to weak market conditions.

Ahead of the 100th anniversary of the Nikon Group in 2017, in June 2014 the Group announced “Next 100 - Transform to Grow,” a three-year Medium-Term Management Plan designed to set it on the road to another 100 years in business. Guided by this plan, our goal is to realize sustainable growth by establishing a new business portfolio.

We ask for the continued support of our shareholders, investors, and other stakeholders as we move forward into our next century.

Makoto Kimura
Chairman of the Board
Representative Director

Kazuo Ushida
President
Representative Director

Junichi Itoh
Senior Executive Vice President, CFO
Representative Director
To Our Stakeholders

For 98 years, the Nikon Group has cherished “Trustworthiness and Creativity.” Trustworthiness will continue to be a pillar to support our business activity, as we strive to change our business model and create new value in contributing widely to society and the environment.

Kazuo Ushida
President
Representative Director

Basic Management Policy

Transitioning from hardware to solutions—establishing a new business model

Under the corporate philosophy of “Trustworthiness and Creativity,” the Nikon Group has always offered new value and aimed for sustainable growth. In 2017, we will celebrate our 100th anniversary, and this corporate philosophy will remain close to our hearts for as long as Nikon carries on.

As a first step into the next 100 years, we announced the Medium-Term Management Plan Next 100 - Transform to Grow (hereinafter, the Medium-Term Plan), to culminate in the fiscal year ending March 2017. Woven into this title is a determination to resolutely reform our structure to evolve our business model toward sustainable growth. Until now, Nikon was grounded in the idea of using its own technology to develop, manufacture, and market products, so it employed a hardware-oriented strategy. In this rapidly changing business climate, however, establishing distinction in hardware alone has its limits. We thus perceived a need to add application software to the hardware that has been our mainstay to evolve into a solutions-oriented business model and sustain growth in the future. Although we will continue with a strategy based on our core competencies, we must not attempt to undertake everything on our own; rather, we must steadily deliberate ideas to help solve problems faced by customers and society. If we can use both hardware and software to increase our contact with customers, a brighter picture of our new future will emerge.

As growth of our existing businesses slackens, setting up new businesses is becoming urgent. We have always met challenges head-on, and in these turbulent times we must further accelerate the commercialization of new businesses. We need to judiciously draw cash from our robust financial base and existing businesses to establish new businesses as our next pillars of revenue, while at the same time invest just enough in existing businesses to make them competitively stronger.
A Medium-Term Management Plan describing growth through a portfolio of six businesses

The markets of our core businesses—the Semiconductor Lithography Business, the FPD Lithography Business, and the Imaging Products Business—have reached degrees of maturity that have little prospect for dramatic growth in the medium-to-long term, so the time has come to enhance our operating structure. For the fledgling Medical Business that we have started, we need to create a road map that clearly places profitability on the horizon.

With these issues in mind, the Medium-Term Plan envisions our metamorphosis as a corporate entity from being driven predominantly by profits from the FPD Lithography Business and the Imaging Products Business to growth through a portfolio of six businesses: the Semiconductor Lithography Business, the FPD Lithography Business, the Imaging Products Business, the Microscope Solutions Business, the Industrial Metrology Business, and the Medical Business. Financial targets set for the entire Company for the year ending March 2017 are net sales of ¥1.2 trillion, operating income of ¥110 billion, and an operating margin of 9.2%.

In the three businesses that have presently led growth—the Semiconductor Lithography Business, the FPD Lithography Business, and the Imaging Products Business—we will generate additional cash by both expanding sales and reducing costs. In areas where we expect future growth—the Medical Business, the Microscope Solutions Business, and the Industrial Metrology Business—we will funnel a sizeable portion of our business resources to make these businesses profitable in the fastest possible timeframe. For the Medical Business, we have set a target of ¥200 billion in net sales, and the Microscope Solutions Business and the Industrial Metrology Business have a combined target of ¥100 billion in net sales by the fiscal year ending March 2017.

In the fiscal year ending March 2015, the initial year of the Medium-Term Plan, we do not expect the Medical Business to generate any sales, and consequently the other five businesses must achieve profitability to support our investment in the Medical Business as it strives to contribute to the Group’s earnings.

For additional details on the strategies of each business, please refer to the series of interviews, “Interviews with Key People on the Strategy Going Forward.”
Restructuring the organization to conform to the Medium-Term Management Plan

When our businesses were growing quickly, swift decision making was needed to keep pace with rapidly expanding markets, so our in-house company system that promoted worksite decisions was effective for each company. The brisk expansion of the Imaging Products Business over the past 10 years was particularly a boon under our in-house company system. Yet we are now relinquishing the in-house company system in favor of one that is more under the direct control of the president to more efficiently carry out top-down decisions. This move is in no way to denigrate our past achievements. To respond to diversified needs and create new value, we must recognize we have entered a stage that requires overarching control to compare and sort out various ideas. We decided it was time to change and reorganize to a flatter business structure. The Corporate Strategy Division has been established to oversee all businesses and allocate resources to benefit the entire organization rather than separate businesses.

Four programs introduced for the establishment of a new Nikon

To achieve the goals outlined in the Medium-Term Plan, four programs centered on M&A, R&D, human resources, and cost reduction have been introduced.

In M&A, funds of ¥200 billion has been budgeted over three years, primarily for the Medical Business and the Instruments Business, and ¥30 billion of corporate venture capital has been earmarked over three years for energizing the Medical Business. Another ¥220 billion has been allocated for R&D, which we believe we can obtain from funds currently on hand and funds that will be on hand; however, if necessary we will consider such debt financing as bank loans. Our intention to maintain our currently solid financial base is unchanged. Venture capital will be used in the pursuit of open innovation, so we will not limit ourselves to gathering information on cutting-edge technology from venture businesses targeted for investment. Instead, we will actively work with businesses that will have been passed over as well.

Of the ¥220 billion allocated over three years for R&D, ¥50 billion will be directed to the Medical Business and other potential new businesses. Our Core Technology Division serves as a hub for the Nikon Group’s long-term technical strategy and for undertaking tasks related to developing technology, encouraging horizontal developments, and collaborations. We also place importance on collaborating with venture businesses, which offer cutting-edge technologies that, combined with our technological strengths, can be used to turn ideas into products.

The human resources program has been set up to give increased mobility to human resources and to bring in people with special skills. The movement of people across business boundaries was limited under the in-house company system, but this program enables us to readily reassign employees according to their talents. If we are unable to locate someone in-house with a required skill, we bring in outside talent, such as someone
BUSINESS STRATEGY

CSR-Oriented Management

CSR activities that support growth

As a global enterprise, we consider it a matter of course to be mindful of the environment and human rights and to act in the global common interest. We further endeavor to respond adequately to social needs that may differ depending on the country or region.

The Nikon Group obtains approximately 85% of its net sales from outside of Japan. About 60% of our employees, both Japanese and local hires, work outside Japan. We believe the Group can sustain growth if our employees around the world are able to work in conditions engendering high motivation. We are enlisting the support of every one of our employees to

We readily sow seeds in all areas to turn risks into opportunities.

One reason for the decline in demand for compact digital cameras has been the growth of smartphones. Although this may always be considered a risk, it could also be viewed as a business opportunity. With the spread of smartphones, the number of people taking pictures at every chance has increased dramatically. In addition, once pictures have been taken, sharing them on the Internet has become a simple and routine matter. Cameras were expensive in the past, and children hardly touched them. Now, everyone, including children, enjoys taking and sharing pictures. Simply put, we have ever-widening latent demand at hand. Our task is to discover how users may take advantage of our products and services.

The Imaging Products Business has sown various seeds, including product development of new concepts. At the earliest, these ideas may begin to contribute to our profits from the fiscal year ending March 2016.

Competition may be stiff for selling semiconductor lithography systems, but through R&D the performance of our products is a full notch above that of our competitors. Thanks to our distinct improvements to previous equipment, we are luring customers our way. With opportunities afforded by bringing in additional customers, inquiries from others are increasing, so we are sowing even more seeds to gain a higher market share.

In the Instruments Business, we are also moving from a business model based primarily on hardware sales to the provision of solutions. To that end, we are making a wide variety of proposals.

To Our Stakeholders

with experience in the medical industry, M&A, or venture capital or an expert with specialized knowledge.

Under the cost reduction program, we are scrutinizing design and manufacturing processes and also reexamining our production framework from the ground up in step with the redevelopment of our business portfolio. Moreover, we are searching for ways to cut indirect costs across the Company and within business units.
A Closing Word

The Nikon Group is an enterprise offering products that help people fulfill their lives, a mission we would like to uphold. A camera is an item that can be quickly identified as a representative Nikon product; however, our industrial products such as semiconductor lithography systems and FPD lithography systems are items that most of our customers may never see directly. Yet these industrial products result in IC devices, LCD panels, and organic light-emitting diode (OLED) panels used in home electronics and appliances and automobiles that people use daily, so we are supporting our customers' lives. As we go forward, especially as we move away from hardware toward solutions, Nikon products will most certainly be recognized in various types of places. Under the Medium-Term Plan, we are aiming to expand with new businesses in health and medical-related areas—ones that particularly call for trustworthiness. I hope that our commitment to “quality befitting trustworthiness” is so high that people will react with delight to discover that an unlabeled product is actually made by Nikon.

The business environment is uncertain and undergoing dramatic changes. To continue steady growth over the next 100 years, we have a strong determination to develop new businesses that will become profitable and expand our business domain by offering solutions to our customers. Although the reorganization we embarked upon may have involved some vital changes in-house, such renewal should enhance each employee's chance to manifest his or her strengths. As each employee becomes further empowered, the collective organic effect gives me confidence that the Nikon Group can progress in a direction for the better.

September 2014

Kageo Uehira
President
Representative Director
Medium-Term Management Plan

**Next 100 - Transform to Grow**

Announced in June 2014, this Medium-Term Management Plan comprises measures for solidifying and realizing our vision for the Nikon Group. The plan calls for sweeping structural reforms, among them rebuilding our business portfolio, reallocation of management resources, and organizational redeployment. As we approach our 100th anniversary in 2017, we will mark this milestone by moving to a new growth stage for our next century.

**Basic Policy**

To become a Nikon Group that constantly creates new value and continues to grow

- Expanding the Nikon brand
- Accelerating the development of new businesses
- Bolstering our leading position in existing businesses
- Achieving a robust corporate structure that acts with speed and flexibility

**Present Challenges**

1. Strengthen our maturing core businesses
2. Define and begin to execute our growth strategy in the Medical Business
3. Build an organizational structure that facilitates the rebuilding of our business portfolio

Medium-Term Management Plan **Next 100 - Transform to Grow**

**Achieve growth leveraging a portfolio of six businesses**

For our core Semiconductor Lithography, FPD Lithography, and Imaging Products businesses, the goal is to achieve additional growth by strengthening business fundamentals to improve profitability. In parallel, we will groom the Medical, Microscope Solutions, and Industrial Metrology businesses, for which market growth is projected, into major earners. Through these measures, the new plan will see the reemergence in the near future of a corporate structure under which a portfolio of six businesses drives growth.

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An Organization That Supports Structural Reforms

In June 2014, we initiated an organizational redeployment designed to develop a framework for supporting structural reforms that will enable sustainable growth and realize a more resilient corporate structure. To this end, we abolished the previous in-house company system that had been in place for nearly 15 years in favor of a divisional organization under direct control of the president of Nikon and divided by business area. For the Medical Business, we established the Medical Business Development Division, also directly overseen by the president, to promote faster business development and develop a clear organizational and leadership structure for this business.
Priority Measures

Foster new businesses and strengthen existing businesses

Strengthen business fundamentals

Growth drivers

Concentrated shift of management resources from existing businesses

Medical Business
- Aim for business with net sales on the scale of ¥200 billion
- Redirect internal and external management resources to Medical Business
- Aggressively pursue M&A and alliances

Microscope Solutions Business / Industrial Metrology Business
- Aim for business with net sales on the scale of ¥100 billion
- Switch emphasis mainly from hardware to solutions
- Aggressively pursue M&A and alliances

Medical Business
- Maintain profitability
- Solidify profitability
- Improve profitability

FPD Lithography Business

Imaging Products Business

Semiconductor Lithography Business

Four Programs to Achieve Transformation

M&A Program
- Spend ¥200 billion in M&A funds on the Medical and Instruments businesses
- Launch corporate venture capital on the scale of ¥30 billion for the Medical Business and encourage open innovation

R&D Program
- Of ¥220 billion R&D budget (March 2015 fiscal year to March 2017 fiscal year), invest ¥50 billion in the Medical Business and new business domains
- Generate synergies among technologies, setting the Core Technology Division as a hub
- Cultivate venture companies

Human Resources Program
- Enable the interdivisional flow of personnel
- Hire experienced experts
- Reform the mind-set among all employees and cultivate the next generation of leaders

Cost Reduction Program
- Reduce costs in design and manufacturing processes
- Reduce overhead at headquarters and in business units
- Fundamentally review production regime to reflect the rebuilding of the business portfolio

Management Numerical Targets

Net Sales / Operating Income / Operating Margin

(Reduced / ending March 31)

Billions of yen

<table>
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<tr>
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<th>2014 (result)</th>
<th>2015 (target)</th>
<th>2016 (target)</th>
<th>2017 (target)</th>
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<tr>
<td>Net sales (left scale)</td>
<td>¥800.0</td>
<td>¥900.0</td>
<td>¥1,050.0</td>
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<td>Operating income (left scale)</td>
<td>¥62.0</td>
<td>¥55.0</td>
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<td>Operating margin (right scale)</td>
<td>7.8%</td>
<td>6.0%</td>
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R&D Expenses

Cumulative for March 2015 fiscal year to March 2017 fiscal year

¥220 billion

Of which, ¥50 billion to be invested in Medical Business and new businesses

Capital Expenditures

Cumulative for March 2015 fiscal year to March 2017 fiscal year

¥110 billion

Foreign Exchanges Assumptions (Yen)

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<th>2015 (forecast)</th>
<th>2016 (forecast)</th>
<th>2017 (forecast)</th>
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<tr>
<td>US$</td>
<td>100.17</td>
<td>101</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Euro</td>
<td>134.21</td>
<td>136</td>
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* Figures for the fiscal year ending March 2015 are as of August 7, 2014; figures for the fiscal year ending March 2016 and the fiscal year ending March 2017 are as of the announcement of the Medium-Term Management Plan on June 17, 2014.
Portfolio of Six Businesses

While continuing to fundamentally strengthen its core Precision Equipment and Imaging Products businesses, the Nikon Group is cultivating the Instruments and Medical businesses, which are positioned as growth fields. The Group will achieve sustainable growth through a portfolio of six businesses—Semiconductor Lithography, FPD Lithography, Imaging Products, Microscope Solutions, Industrial Metrology, and Medical.

Further Strengthening Business Fundamentals

Semiconductor Lithography Business

**Business Lines**
Development and manufacture of semiconductor lithography systems for the production of semiconductors used primarily in electronics

**Current State**
- Market growth is flat
- Competitive environment remains harsh
- Need new technology to support advances in finer patterning
- Requires massive investments
- Improvement in breakeven point needed

**Strategic Direction**
- Enhance profitability through structural reforms
- Achieve 30% market share in ArF immersion scanners

FPD Lithography Business

**Business Lines**
Development and manufacture of FPD lithography systems for the production of LCD and OLED panels

**Current State**
- Capital investment is flat in the FPD industry
- Possess strong technological capabilities and profitability

**Strategic Direction**
- Launch innovative next-generation product that delivers both high resolution and high cost performance; protect our technological superiority by accelerating development of the new method
- Promote thorough gains in efficiency and cost reductions
- Respond to fluctuations in demand with a flexible production regime

Imaging Products Business

**Business Lines**
Development and manufacture of interchangeable lens-type digital cameras, compact digital cameras, and other products

**Current State**
- Digital camera market is maturing
- Technology supporting basic functions is maturing
- Basis for evaluating products is shifting
- Room for growth in markets in emerging countries
- Low costs increasingly important

**Strategic Direction**
- Launch innovative new products
- Introduce a new marketing strategy
- Gain new depth and new exposure in emerging markets
- Cut costs from development at every stage to sales
### Management Numerical Targets by Business

#### Net Sales

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<td>Precision Equipment Business</td>
<td>205.4</td>
<td>210.0</td>
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<td>230.0</td>
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<td>Imaging Products Business</td>
<td>685.4</td>
<td>590.0</td>
<td>670.0</td>
<td>700.0</td>
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<td>Instruments Business</td>
<td>64.7</td>
<td>70.0</td>
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<td>Medical and New Businesses</td>
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<td>0</td>
<td>40.0</td>
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<tr>
<td>Others</td>
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<td>30.0</td>
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#### Operating Income

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<tr>
<td>Precision Equipment Business</td>
<td>20.0</td>
<td>19.0</td>
<td>36.0</td>
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<tr>
<td>Imaging Products Business</td>
<td>64.2</td>
<td>58.0</td>
<td>75.0</td>
<td>85.0</td>
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<tr>
<td>Instruments Business</td>
<td>(2.1)</td>
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<td>8.0</td>
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<tr>
<td>Medical and New Businesses</td>
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<td>0</td>
<td>1.0</td>
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<tr>
<td>Others</td>
<td>4.4</td>
<td>5.0</td>
<td>5.0</td>
<td>6.0</td>
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</tbody>
</table>

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### Future Growth Drivers

#### Microscope Solutions Business

**Business Lines**
- Development and manufacture of a broad lineup of microscopes, ranging from those for cutting-edge research to microscopes for clinical, educational, and practical training applications

**Current State**
- [Existing Domains]
  - Increased demand for super resolution microscopes and analytical software
- [New Domains]
  - Stem cell business is growing
  - Fusion of electronic and optical microscopes

**Strategic Direction**
- Expand business domains through M&A and alliances
- Expand and provide total solutions centered on image analysis
- Enhance and expand super resolution microscope systems
- Bolster sales force in priority regions and fields of research

#### Industrial Metrology Business

**Business Lines**
- Development and manufacture of industrial microscopes and measuring systems, and X-ray/CT inspection systems

**Current State**
- Growing market for X-ray/CT inspection systems and non-contact 3D metrology systems
- Shift in competition from equipment specifications to ability to propose systems for customers
- Application software is increasingly important

**Strategic Direction**
- Expand business domains through M&A and alliances
- Capture leading market position in X-ray/CT inspection systems and non-contact 3D metrology systems
- Propose solutions by strengthening application software

#### Medical Business

**Business Direction**
- Leverage Nikon’s core competencies to answer unmet medical needs

**Significance of Our Entry**
- Contribute to accurate diagnosis and treatment
- Relieve the physical burden and impact on patients
- Shorten times required for diagnosis, treatment, and hospitalization
- Lessen the burden of medical costs

**Fields We Will Enter**
- Prevention
- Diagnosis
- Treatment
- Prognostic management
- Drug discovery support
- Regenerative medicine

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* P. 28
* P. 26
* P. 30
Close consultation between business units is essential to well-balanced management resource allocation, but no less so than careful, and occasionally bold, decision making that considers short- through long-term perspectives.

Tomohide Hamada
Senior Vice President and Director, General Manager of Corporate Strategy Division

What is the role of the Corporate Strategy Division?

Following a change from the in-house company system we had for 15 years to a divisional organization system, we are now prepared for structural reform. Our division has three roles to fulfill to implement this reform as quickly as possible. First, under this extensive reorganization, we are arranging the work environment so that every unit will concentrate on carrying out its particular function smoothly. Second, we ensure the proper sharing of information between management and the business units so that management strategies can be quickly put into action. And third, as an important part of the Medium-Term Management Plan, we are stimulating the launch of new businesses by appropriately allocating management resources.

Allocating management resources between new and existing businesses in a balanced way to benefit the entire Company should, of course, be carried out in consultation with each unit, but, given both short-term and medium-to-long-term considerations, deciding the amounts for individual businesses and timing requires care and, occasionally, boldness.

What is the basic outline behind your financial base as you set up an aggressive investment strategy?

Considering the amount of time required for a new business to turn a profit, we need to make our business base leaner and stronger, including in terms of cost competitiveness, so that our established operations are solidly generating cash. With this in place, we will be able to funnel much of the cash and reserves from existing businesses into our longer-term areas. For M&A funds, present and prospective cash reserves should be adequate, but if necessary we can make use of such debt financing as bank loans.

What are your thoughts on Nikon’s branding as you head forward?

We would like the technology, ideas, and solutions of Nikon to continue to be regarded as the opportunity to give new value to society and people. We also want to build the ideas of innovation and fun into our brand based on our aspirations, “Meeting needs. Exceeding expectations.”

To promote branding is more problematic with B-to-B products than with cameras, which are readily available to consumers. We think, for example, the strategy for us may be to connect our businesses to one another, beginning with cameras where the brand is already established, to microscopes, and followed by semiconductor lithography systems and FPD lithography systems.
Q In your overall view of the Nikon Group, what do you see as important for achieving the goals of the Medium-Term Management Plan?

Making the Medium-Term Plan a reality means more than merely having the business units get along with one another. We must have a collective effort to make the plan work. If we simply decided the content of the Medium-Term Plan and left it to the business units to carry out, there would be no need for a Corporate Strategy Division. Our job is to work together with the business units on various challenging issues. There are instances when, for the sake of the entire Company, we have to request a business unit to simply scale back investment or to make other sacrifices. We must exhibit unswerving leadership in carefully explaining to the unit the background and aim of this decision as well as the reason why such a move may be essential for the medium-to-long-term growth of the Nikon Group as a whole.

We have also made it known that we are ready to engage in M&A or business alliances or use corporate venture capital to quickly start up new businesses. In this business environment of rapid change, we may come up with a great technology or idea, and we must immediately determine how to effectively utilize it. We have made use of the expertise of a third party to accelerate the growth of a business. In developing new businesses, our divisions gather information and make decisions together with the relevant department. In this process, the Corporate Strategy Division further develops its knowledge and ability to make judgments. Thus if a gap emerges between what a business unit and management decide is of value, we would want to be in a position to present an objective and appropriate resolution for both sides.

Q How do you view the initial fiscal year, ending March 2015, of the Medium-Term Management Plan?

Through changes from this reorganization brought about by our command structure and business process transformation, we are working to make the fiscal year ending March 2015 a year in which every employee can feel Nikon moving further toward steady growth. We will also take on the challenge of providing the accurate guidance required to implement the Medium-Term Plan.

As an engineer, I have spent a considerable amount of time designing control devices used for lithography systems. Designing control devices and managing have some common elements, I believe. For example, a control device can be made more precise through the use of feedback from data obtained after operating the device. In a similar way, the disparity between budgeted figures and those that subsequently show up on the balance sheet and statement of income can be used as feedback when preparing the budget for the following year. Adjusting control after obtaining results, however, gives rise to a time lag, so in our most recent control devices the concept of “feed forward” has been introduced. Feed forward is a way to optimize commands to the control device before the results come out, so it can be used to make the device even more precise and productive. It is a great method, but its success requires not only knowing the device inside out but also fully understanding the conditions that may affect the device, including the entire production line. I am now looking into how to apply the feed forward method to management to determine if it can accurately lead us to the position Nikon needs to reach.

Such success, as I mentioned, would require thorough knowledge of each business unit. If utilizing this engineering experience could assist in managing more accurately, I believe our business activity could speed up and we may be able to seize more business opportunities.
How would you sum up the fiscal year ended March 2014?

Even though the semiconductor market exceeded US$300 billion in 2013, investment in this area declined over the past two years, and the market scale of semiconductor lithography systems we manufactured decreased again during this difficult year.

In this environment, we promoted sales of our NSR-S621D (launched in 2012) and NSR-S622D (launched in 2013) ArF immersion scanners, which have been designed to meet semiconductor manufacturers’ demands for miniaturization, and we also focused on acquiring new customers. During the fiscal year ended March 2014, we made a delivery of an ArF immersion scanner to a sixth company. Looking back at an earlier time, we admit that our products may not have been as attractive as those of our competitors in terms of performance or productivity, but the capacities of our more recent NSR-S621D and NSR-S622D scanners and their productivity have boosted our presence in the market.

Since April 2014, we have begun taking orders for the successor to the NSR-S622D, our most up-to-date NSR-S630D ArF immersion scanner. With its high overlay accuracy, this scanner improves the yield, making us a strong competitor. Semiconductor manufacturers are pleased with its performance, so we believe we are now poised to increase our market share.

Where are you headed in the fiscal year ending March 2015?

Ever-shrinking investment in semiconductors may turn in a positive direction in 2014, as semiconductor manufacturers appear to be directing resources to increased miniaturization. We thus expect to sell more units in the fiscal year ending March 2015 than in the previous year.
Though customers are expressing more interest now that our products are competitive, we will focus on how new customers can utilize our products thoroughly. If our customers can generate great results with better capability and favorable cost performance, that information will spread throughout the industry. This will lead to sales growth and help our business discussions go more smoothly. Laying the groundwork first will lead to great strides later on, we believe. This is how we aim to increase our customer base: by giving customers solutions of greater precision in the entire production process and making it easier for them to use our products.

Also, in the Medium-Term Management Plan we have set a goal of at least a 30% market share for ArF immersion scanners, featuring our newly developed NSR-S630D.

**Q** What business opportunities do you see in the semiconductor market?

If a novel device appeared that diverted attention away from smartphones and tablets, a new market could develop that would prompt semiconductor manufacturers to increase investments.

Also, it is clear that in developing countries, with their growing economies, demand for semiconductors will continue to rise. Since we have worked to enhance the performance and productivity of our semiconductor lithography systems and improve their cost performance, we certainly will capture these business opportunities.

**Q** What is the plan regarding how to enhance cost performance?

The need to miniaturize continues on, year after year. But a considerable amount of capital is needed to develop methods for further miniaturization, and we have to clear more in profits to obtain the amount of capital that is needed. We are thus forced to revise our breakeven point and improve our breakeven point. Laying the groundwork first will lead to great strides later on, we believe. This is how we aim to increase our customer base: by giving customers solutions of greater precision in the entire production process and making it easier for them to use our products.

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What are the competitive priorities for the FPD Lithography Business Unit?

In our unit, several senior staff and I have central control over the technical development, manufacture, quality control, and sales of flat panel display (FPD) lithography systems so we can make decisions swiftly. We are also close to our customers and can thus easily ascertain their issues and needs, and we regard the ability to make quick and accurate judgments as one of the unit’s strengths.

Another one of our FPD lithography systems’ strengths is the unique Multi-lens Projection Optical System, consisting of high-precision projection lenses arranged to cover a wide range of exposure. With an increased number of lenses, this innovative system can be used with larger glass plates. Installed in our FX-101S FPD scanner, these multiple lenses perform the function that one giant lens would, making it amenable to use with a large 10th-generation 2,880 mm × 3,130 mm glass plate, efficiently giving exposure to panels in the upper 50 to 60 inch range. The only company selling FPD lithography systems for 10th-generation large glass plates is Nikon.

At first, we were focused entirely on larger FPDs, drawing a road map to our progress to 11th- and 12th-generation large glass plates. Then a few years ago, we saw the need for higher definition outstripping the need for larger displays, so we switched our direction to high-definition panels. Using the Multi-lens Projection Optical System as it was, we managed to make the projection lens and equipment higher in definition and performance. As a result, I think we came out on top in FPD lithography systems for small and medium-sized high-definition panels in an expanding market for smartphones and tablets.

This is an example of where we were experienced enough to take advantage of a new business opportunity by leveraging our existing technology and other strengths.

**FPD Lithography Systems, Unit Sales by Generation**

(Years ended March 31)

<table>
<thead>
<tr>
<th>Units</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>7G and above</td>
<td>86</td>
<td>32</td>
<td>56</td>
</tr>
<tr>
<td>5G / 6G</td>
<td>43</td>
<td>43</td>
<td>45</td>
</tr>
<tr>
<td>4G</td>
<td>4</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>
What are your thoughts on the fiscal year ended March 2014?

We focused on three areas in the fiscal year ended in March 2014. The first was further enhancing high definition in our FPD lithography systems for small and medium-sized panels. With steadily increasing demand for FPD lithography systems for small and medium-sized panels, we sold seven more systems than in the previous year, and as customers called for additional advances in high definition, we applied ourselves to developing equipment to meet their needs. The second area was making our FPD lithography systems for 8th-generation large glass plates more competitive. This system is involved stiff competition, so to establish clear technical superiority we brought in technology we had cultivated in our systems for 10th-generation large glass plates and systems for 6th-generation high-definition panels to realize marked advances in tact time,* overlay accuracy, and resolution for our FPD lithography systems for 8th-generation glass plates. The third area was to reduce costs in our business processes. We thoroughly reduced costs and shortened the lead time from development to sales and the system’s installation. These efforts unequivocally bore fruit for us.

* This is the time needed to process one glass plate.

What will be the thrust of the strategy in the FPD Lithography Business Unit going forward?

Investment in the 6th-generation glass plates has run its course, and demand for this equipment is declining. Demand for 8th-generation glass plates for large-screen televisions is likewise waning. Reasons behind this include a continuing drop in the price of FPDs throughout the world and hesitancy among panel manufacturers to make additional investments. The FPD lithography systems market as a whole is expected to be flat for some time.

Even in such a challenging environment, Nikon could record solid growth through the adoption of three steps. The first and most important step is the competitive potential of the products. Our basic direction must lean more toward making the technology outstanding than lowering prices, so we will enhance performance and establish ourselves as the top manufacturer in high-definition equipment. The second step is deepening relationships with our customers. While we, of course, duly inform potential customers about the first-rate performance of our FPD lithography systems, we continuously cull information directly from our existing customers, respond quickly to their most demanding concerns, and promptly incorporate customer feedback into our development and manufacturing. The third step is setting up a flexible manufacturing base. The idea is not to undertake everything in-house, but rather to create a system to link us with the appropriate external resources to enable us to respond promptly to sharp changes in demand.

What do you envision in the medium-to-long term for the FPD Lithography Business Unit?

We have made it our goal to be an operation that supports the advances of the display industry. To achieve this goal means becoming a catalyst to activate the display market, foreseeing future needs, and launching the right products. Needs, however, are quite varied, so we receive various types of requests from our customers. We would have difficulty tending to all of our customers’ requests with our finite resources, so someone must correctly decide the requests to act on, which I see as my responsibility. Investing, likewise, requires difficult choices about where to expect sure profitability and how to efficiently allocate funds.

We will also be placing emphasis on the business after sales. Buying the latest equipment is an easy way to secure high performance, but we realize that not every customer can afford to simply install the newest equipment in a new plant. This problem has prompted us to reflect on a new business opportunity. The latest equipment is not really necessary, for example, to expose the displays of cheap smartphones that have become so popular. Often, this can be done by updating older equipment. Since this type of demand has begun to appear, we are seeking business from equipment that has been previously at customers’ sites.

We are also venturing into fields outside of FPD lithography systems to stimulate the display industry. By applying Nikon’s existing technology and dovetailing it with great technologies of other firms, the possibilities for creating new forms of value seem limitless.
Interviews with Key People on the Strategy Going Forward

Imaging Products Business

In this challenging market environment, we find it is important to use flexible judgment and quick action to build up a string of successes. We will add new value by merging user enjoyment with the reliability of our technology and quality.

Nobuyoshi Gokyu
Senior Vice President
General Manager of Imaging Business Unit

Could you give us an overview of the fiscal year that ended in March 2014?

In the fiscal year ended March 2014, the market for digital cameras was sluggish and difficult, particularly in China and Europe.

With economic recovery still lagging, the market for interchangeable lens-type digital cameras struggled to gain a foothold, and as a result sales of cameras were lower than in the previous year.

Sales of compact digital cameras were down as well, but since the decrease was less than that of the market as a whole, our market share actually increased. I believe this was thanks to our strategy of rolling out a full line of cameras, from entry models to high-end products, which set the Nikon brand apart from other brands, and to retailers that wanted to stock their shelves with our brand of attractive products.

During the fiscal year, we placed more emphasis on revenue than on volume sold and thus, centering on the digital SLR camera, we took a fresh approach regarding sales channels. We also managed to aggressively slash expenses, streamline development, design, and manufacturing, and lower supply costs so that in spite of the sluggish market, profits increased.

What do you predict for the future market environment?

As technology has matured, our products themselves can no longer be as distinct. Consequently, price wars are becoming fiercer, making it essential to continuously and thoroughly reduce costs to maintain a profit.

Looking at different regions, Europe, particularly Russia, has demonstrated a slow financial recovery. North America is bullish, whereas South America is struggling. In Asia, developing countries, notably China, still have promising growth prospects, so a gradual recovery has been made from the slump in the fiscal year ended March 2013.

What initiatives lie ahead for the Imaging Business Unit?

We are working on three strategies to boost profits in the medium-to-long term.

The first strategy is to generate market activity by introducing innovative products. This may involve working with other companies. The second strategy is to exploit new marketing techniques to stimulate demand. One such technique is
strengthening customer relationship management (CRM), a main point of CLM,* which focuses on the relationship between the customer and the product. With customer data accumulated over the past 10 years on the approximately 200 million items we have sold, we are setting up a system to effectively use this large amount of data to make timely suggestions to customers in purchasing either new products or replacements or adding lenses. We plan to come up with novel products based on an analysis of this data in the hopes of bringing in new customers. The third strategy is to entrench ourselves and to exploit our advantage in developing markets, which we view as strategic markets for business development. Along with China, our most important market, we are pursuing activities in the markets of India, ASEAN countries, Central and South America, and Africa. Our plan for China is to focus on its third- and fourth-tier cities, which are home to 500 million people, thus increasing our presence to win a larger share of the growing Chinese market.

We are reducing costs by scrutinizing the entire supply chain, probing the developments, procurements, and manufacturing of every section while building on the measures each has taken to date. Our ability to enhance profits has two wheels: expanding sales and improving cost competitiveness.*

* CLM: Customer Lifecycle Management
An approach using vast amounts of data and information technology to ascertain the “lifecycle” events of customers, such as new purchases, repairs, upgrading, or adding lenses, to prompt the timing of cross-sales or to make fuller contact through support services, for example, thereby enhancing purchases of Nikon products.

Q What can you tell us about Nikon’s basic thinking on supply chain management?

The main issue is how to best manage inventory. Although we need to have enough items in stock for growing markets, we are basically aiming to keep our inventories down. To this end, we are moving to weekly planning of manufacturing and sales, which means quantifying trends in worldwide manufacturing and sales based on projected demand and shortening lead times between manufacturing and sales. Reducing inventory even further requires more finely tuned forecasts. By meticulously identifying locally embedded information and being sensitive as we collect it, we can deliver products better tailored to regional needs in a timely way with nothing wasted.

Q What is your medium-to-long-term vision for the Imaging Business Unit?

The imaging industry has the potential to change considerably, becoming more diverse and employing technologies that we cannot yet imagine. For us, such change in the market could translate to promising business opportunities. We have high-level technologies in optics and image processing, and we want to combine these technological strengths with the joy of sharing video and images once they have been taken to provide new value. Regarding the hardware itself, of course, we can still further adjust the basics of taking a picture, but we must focus on making the compact digital camera more distinct from the smartphone with such features as an ultra telephoto function or a waterproof design. Taking a photo is the first step, but how can we make it more fun after the picture has been snapped? How would I more fully enjoy photography? This is what we must think about at all times, incorporating trial and error to offer added value and meet diverse needs.

I think the Nikon brand represents reliability and, even more so, quality. Our goal is to determine how to raise awareness among many more customers of our reliability and to build a lasting appreciation of it over time. Though market conditions may be quite difficult, we are positive and enthusiastically want to offer a variety of products to satisfy our customers. I firmly believe that the road to our great success will be by communicating openly throughout the organization and using flexible judgment and quick action to build up a string of successes.
What direction do you foresee for this business unit?

We have divided the strategy for our business unit into existing areas and new areas. Our basic direction is to strengthen the existing business base and apply our technology to new areas, moving the entire business ahead.

Our existing areas of focus are in the field of biological microscopes. We believe that super resolution microscopes incorporating our latest technology, coupled with analytical software that our customers have requested, will enhance profits in the microscope market. This market as a whole has reached maturity, however, so we understand it will be difficult to achieve high growth from existing areas alone.

We see potential market growth, on the other hand, in such new areas as the stem cell business, an area in which we can assist in regenerative medicine and drug discovery support. We regard one of our strengths as live cell imaging technologies for induced pluripotent stem (iPS) cells and embryonic stem (ES) cells, and we hope to accelerate this from one of our strengths into a full business. We are also giving attention to amalgamating electron and optical microscopes to effectively analyze areas such as brain structure, a new field that is expected to grow and a market worthy of the launch of new products.
What was your impression of the fiscal year ended March 2014?

Net sales improved substantially from the previous year as a result of such external factors as increased public spending in Japan and the weakening yen and our gain of market share in biological microscopes.

Our market share in biological microscopes improved for two reasons. One was our development and introduction of competitive products in our line of super resolution microscopes, which drew a considerable amount of attention in the market. The other was that we reassessed our sales strategy. Our business unit set out to determine reasons for lackluster sales in certain regions and pinpointed China as one of the areas in which we were clearly behind the competition. Specifically, we needed to develop an effective network of key people at universities and other research organizations to promote sales of our systems, including super resolution microscopes and confocal microscopes. We managed to find out our customers’ needs in detail and devise optimal solutions in software as well as hardware.

Progress in our new areas was favorable. We entered the regenerative medicine business in August 2013 through an investment in Healios K.K. (formerly Retina Institute Japan), which works on regenerating the retina with iPS cells. The company is using our optical and imaging technology to optimize the generation of retinal cells from iPS cells and in developing products. In February 2014, we invested in JEOL Ltd., the largest manufacturer of electron microscopes, and formed a capital and business alliance with them. In combining the powerful technological resources of Nikon and JEOL, we are working to find and develop new markets.

What issues do you foresee in the fiscal year ending March 2015?

In Japan, there will be a rebound from the increase in public spending that occurred in the year under review, which will likely lead to a relatively depressed market in the fiscal year ending March 2015. Steadily increasing demand in other countries may compensate for that and keep the market as a whole flat overall year on year. Our objective in Japan is to enhance our sales potential and envision how to close the gap between Nikon and the company with the top market share.

Outside of Japan, we are paying particular attention to China and Central and South America. As we have already established sales channels in China’s largest cities, we are now setting up market networks in more provincial municipalities. In Central and South America, we are planning to strengthen and increase our bases in Mexico and Brazil, which we hope to see make a solid impact on net sales in the fiscal year ending March 2015.

Our new areas will require time before they fully become businesses with positive results. Even longer amounts of time would be necessary if we attempted to pursue these areas all on our own, and the investment risk would be great. So we must bear in mind exactly where our strengths lie and draw on them as a basis for expanding into partnerships. We need to form cooperative relationships not just with the cutting-edge research community but also with expert stakeholders in equipment, culture media, culture fluid, reagents, and lab ware.

What is the outlook for your Medium-Term Management Plan?

The Instruments Business, which comprises our business unit and the Industrial Metrology Business Unit, has set a goal of ¥100 billion in net sales for the fiscal year ending March 2017. To achieve this goal, expansion into new areas will be essential. Considering time constraints, we are not able to accomplish this all on our own, so we must accelerate our efforts in M&A and in forming alliances.

As a general manager of this business unit, I will take the initiative, stand at the front, and lead our way through various challenges. For sustained growth, we must secure steady profits from our existing businesses and move ahead with plans for new businesses. United with my fellow workers in this business unit, we are determined to forge a path to achieve our goals.
What is the role of the Industrial Metrology Business Unit, and how did it perform in the fiscal year ended March 2014?

We have a line of advanced systems for inspection and metrology, such as computer numerical controlled (CNC) video measuring systems, 3D measurement systems, and non-contact metrology, X-ray, and computerized tomography (CT) inspection systems. Until now, we have targeted customers in electronic component and semiconductor businesses, but we are currently expanding to include new fields for us, such as automobiles and airplanes. At the same time, the emphasis of our development investment is moving from 2D measurement systems to instrumentation that makes high-precision 3D measurement possible. The needs for non-contact, non-destructive measurement and inspection have increased, and we plan to be ready to meet such needs.

Although net sales dropped in the first half of the fiscal year ended March 2014 compared with the previous year, capital investment in semiconductors and electronic components recorded a recovery during the second half, especially in Japan, to the extent that net sales for the full year increased from the previous year. Our business unit worked to raise sales mainly in 3D measurement and X-ray and CT inspection systems for automobiles and airplanes. We are steadily moving along with development investment, with greater success than ever in achieving 3D measurement in terms of high precision, output, and resolution for measurement equipment using X-rays, where the market is expected to expand. We have begun to reorganize our domestic sales channels and have been working on bolstering sales support for the Asia region, particularly China.

What business opportunities and risks do you see in the medium-to-long term?

Measurement was once primarily a matter of finding the dimensions of an object, but through 3D CT images generated by X-rays we can measure and inspect not only the outer surface but also the inner structure. In view of the high expectations for non-contact technology, it would be simple to measure a very large structure, such as an automobile or an airplane on the manufacturing line. We take such new trends to be business opportunities.

We would also like to go beyond simply measurement and contribute to automating inspection processes, so we are focusing attention on technology for automatic analysis and breakdown of measurement results. Most factories have already automated their production processes but still require a “human brain” for inspection and “human eyes” for checking, so these processes have not yet been automated. We are working on a concrete experiment to introduce our non-contact inspection system into the production line of Nikon digital cameras in the hopes of using the data we obtain to enable us to propose solutions to our customers. We have already begun to work on analytic technologies by consulting with the Microscope Solutions Business Unit.

These efforts show how we can add value to measurement as we study trends in production. Maintaining this viewpoint is the key to the evolution of our business model.

A risk would be a late entrance in following a trend, which would make it more difficult to sow seeds that could develop into future business. To avoid such a risk, we need to anticipate market needs early on and continue to explore new fields.
What direction is your business unit headed under the Medium-Term Management Plan?

We previously focused all our competitive effort on improving the performance of our equipment, but now there is demand for us to propose systems oriented to our customers’ needs and find solutions through software enhancements. As I mentioned, as we increase offerings in X-ray inspection and non-contact 3D measurement systems—areas in which we anticipate growing demand—we use software and other means to offer solutions to enhance productivity and quality and to reduce costs. If we lack certain technology, knowledge, or know-how, we obtain what we need through M&A or by creating some type of business alliance.

The Instruments Business, which comprises our business unit and the Microscope Solutions Business Unit, has a target of ¥100 billion in net sales for the fiscal year ending March 2017 according to the Medium-Term Plan. Considering future market trends and the size of the present business, to reach this target we believe we will need to expand our business scope through M&A.

What is your strategic policy going forward?

First, cost reduction is a must. In development, this means aggressively trying to lower upstream costs. Our development section must listen carefully to those involved in manufacturing, sales, and services, then analyze the entire supply chain to design optimal processes.

We may further increase output by deepening collaborations between worksites in Japan and those in Europe and the United States. As a concrete example, the markets for X-ray and CT inspection systems and 3D metrology are large in Europe and the United States, so our knowledge and know-how in these areas are naturally concentrated in these locations. Japan and Asia, on the other hand, still show more interest in 2D metrology and other more conventional products. Bearing this in mind, we think that sharing the knowledge and know-how concentrated in one area with the other will enable us to have a decisively competitive edge. This type of transfer must be made easier, so we are planning to readily move staff back and forth between Japan, Europe, and the United States.

Q As a new general manager, what do you feel most enthusiastic about?

In our business unit, with customers calling for faster developments, we are focusing on many products for which expectations are high. Take our X-ray inspection systems, for example—high in precision and output, these systems allow deep inspection inside an object. Image processing of data obtained with non-destructive measurement makes it possible to view complex inner structures in 3D, which attracts more customers, including those who inspect engines or other complex equipment in automobiles, airplanes, or ships.

Some products will require additional time before they can truly be profitable for us, but with great expectations from the market, our future as a business appears positive. For the moment, we will aim to move into the black in the fiscal year ending March 2015 with as many products as possible to create a more solid base for profitability.

CNC video measuring system NEXIV VMZ-R6555
What is the basic strategy for the Medical Business Development Division?

The Medical Business Development Division aims to answer unmet medical needs using Nikon’s high-precision technology. Even though there are many other companies that have already ventured into the medical field, we believe we are able to provide leading-edge solutions in areas they have not entered by applying our core competences such as optics, precision control, image processing, semiconductor lithography, and high-precision measurement. We see a wide variety of business prospects emerging in prevention, diagnosis, treatment and prognostic management, drug discovery support, and regenerative medicine.

Nikon’s entrance into the medical field is somewhat late, so what will set you apart from your competitors?

We will simply put our core competences to work. If we are the only company that is capable of answering certain unmet medical needs, plenty of opportunities should arise. One such example may be the production of high-precision biomicroarrays, which we can produce with our semiconductor lithography technology. With the miniaturized processing that our semiconductor lithography affords, the degree of information that can be obtained from a clinical test would be incomparable with current methods. We will launch products in the market that will be unprecedented by virtue of our unique technologies.

Speed will be important for us to close the gap with our competitors, so we will need to be able to make decisions on the spot. Moreover, we will use business alliances, M&A, and corporate venture capital to place our business on the fast track.

What are the main projects you have been working on so far?

In April 2014, we entered into a basic alliance agreement with LSI Medience Corporation, which involves testing- and analysis-related business in the healthcare field. In combining the resources of both companies, we are working on the development and manufacturing of portable point-of-care testing (POCT) devices that can be used promptly and easily in a clinical setting. We are also involved in developing a business for fast and high-sensitivity testing systems to aid in the diagnosis of a wide range of disorders, such as cancer, infections, allergies, and autoimmune diseases.

What is the role of the Medical Business Development Division in the Medium-Term Management Plan?

As I said previously, we are researching methods of applying our core competences to offer products and services for medical prevention, diagnosis, treatment and prognostic management, drug discovery support, and regenerative medicine. Our job is to develop a comprehensive business model to fully ascertain the value chain we have for offering testing and diagnostic systems, health laboratory services based on semiconductor lithography, minimally invasive pathological diagnosis and monitoring devices, and other possibilities. To this end, we will first solidify a strong foundation through collaborations including M&A, business alliances, and cooperative partnerships.

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*1. Exposure technology used in LSI manufacturing that employs light to miniaturize circuit patterns etched on a photo mask onto semiconductor wafers.
*2. Devices used in the biotechnology field to comprehensively test DNA, proteins, sugar chains, and other molecules simultaneously.
*3. Testing that can be performed quickly in examination rooms or at bedsides in hospitals as well as in private homes and clinics.
*4. Refers to imposing the smallest physical load possible on a patient during testing or treatment. With minimal stress on the patient, recovery is relatively fast.
What is the role of the Business Development Division?

Our mission is to generate and nurture new businesses; however, we support new developments in existing businesses as well.

To generate new ventures, we look for business seeds, considering such megatrends as global warming or the supply of energy and food for a growing population. From these possibilities, we then pick and choose ideas that fall within the range of our expertise in optical and precision technologies and that complement our brand with the aim to develop these ideas into useful businesses.

If an idea is particularly attractive, we do not insist on our brand familiarity, and if our own technology is not broad enough, we resort to open innovation and do our part to develop the idea into a business.

Can you give an example of one of your developments?

From March 2014, we started experiments with Tohoku University toward the practical development of magnesium smelting using solar heat.

Although magnesium is light, strong, and an abundant material on earth, its high flammability makes it difficult to handle. Until now, the usual heat source for smelting has been coal, which emits a considerable amount of CO₂. Thus, to conduct experimental tests we constructed a solar furnace. We concentrated sunlight directly on magnesium compounds, with the solar furnace reaching temperatures between 1,200°C and 1,500°C to reduce the compounds, which eliminated the CO₂ emissions problem. Our technical staff has been placed in the area to follow this concept through to a practical end.

What can you tell us about the future direction of the business?

The watchwords at the Business Development Division are “speedy,” “steady,” and “strategic.” Although speed is important for developing business in a rapidly changing world, steadiness and strategic effort are indispensable, as fledgling ventures are known to have a low rate of success.

Developing a project into a business takes at least two or three years, and five years may be necessary if the project starts from fundamental development. To maintain such a schedule requires gatekeeping to check progress at every step toward previously set goals. The gatekeeper’s criteria depend on the project, but the basis of judgment should at least include the elements of meeting technical requirements and business appeal. Even when a project is disbanded, this does not mean that the entire effort has been wasted. More than a few technical applications have resulted from projects such as these, so we are always searching for lateral spread.

Given that each project director concentrates on one project to the point of being oblivious to other fields of application, I see my role as objectively overseeing the efforts of project directors, connecting points together into lines, and joining lines together into a surface. In finding additional seeds to sow while constantly managing multiple projects, I work to develop projects into full-scale businesses.
BUSINESS STRATEGY

The intellectual property initiatives undertaken by Nikon Corporation include protecting its leading-edge technologies produced through its R&D efforts and designs as well as upholding the brand value of Nikon’s products in markets worldwide.

Basic Approach

In close cooperation with its intellectual property divisions, operations divisions, and R&D divisions, Nikon Corporation is formulating an intellectual property strategy designed to generate growth in existing operations and to create new business. The Company is continuously moving forward with its intellectual property initiatives in accordance with this strategy.

For many years, efforts by Nikon Corporation to protect its intellectual property have been a high priority. These cumulative efforts have served as the driving force that has underpinned the ability of the Company to continue its operations in an enduring and stable fashion and has helped it create the value of the Nikon brand that its customers trust. Our past intellectual property initiatives have been a support for our current operations, and our current activities are laying the foundations for our future business. Through these intellectual property initiatives, Nikon has accumulated a wealth of important intellectual property rights, which it safeguards to uphold the sustainable growth of the Nikon Group.

Details of Nikon Corporation’s Major Intellectual Property Activities

Intellectual property divisions pursue intellectual property initiatives through cooperation with the operations divisions and R&D divisions in an effort to establish a competitive advantage for Nikon products in the marketplace.

These divisions safeguard intellectual property, such as technologies, designs, and brands created in-house, as well as patents and trademarks. With an eye to future business opportunities, the divisions focus on creating and acquiring rights to new intellectual property.

◆ Invention Generation Activities to Increase Patents

Intellectual property divisions carry out “invention generation activities,” which produce inventions that will be the source of competitiveness in Nikon Group businesses. The process is divided into four phases, ranging from “theme determination,” which begins the moment a new product is conceived, to the “patent portfolio building” phase, which seeks to protect the Company’s competitive advantage. The divisions are actively engaged in each phase of these activities in line with the intellectual property strategy of the Company.

Visual Image of Intellectual Property Initiatives

Past intellectual property initiatives support present operations; present initiatives pave the way for the future.

Accumulating important intellectual property rights

Intellectual Property Strategy
**Design Creation and Protection**

Intellectual property divisions strive to produce designs that can be differentiated from other companies’ products as well as to strongly deter the imitation of Nikon’s designs. Design applications are filed worldwide, including in developing nations, on any and all designs identified as unique to Nikon, enabling the Company to build up wide-ranging design portfolios. From the standpoint of operability and functionality, the divisions identify products designed with a high degree of usability and acquire design rights to such products to safeguard Nikon’s competitiveness.

Nikon Corporation has won numerous prominent design prizes—including Good Design Awards and Red Dot Design Awards—for models from its various product lines, such as cameras and microscopes.

**Measures to Safeguard and Enhance the Value of the Nikon Brand**

Intellectual property divisions protect the Company’s highly trusted marks and logos on a global basis, including those that have been accumulated during Nikon’s long history, and implements strategic measures to enhance the value of those marks and logos.

As of April 2014, Nikon had applied for trademark registrations in 195 countries—every country (including emerging nations) that provides trademark protection—to further protect the Nikon brand. To safeguard the highly recognized status of its brand, Nikon is utilizing the trademark registration systems of various countries, such as defensive mark*1 registrations and well-known trademark registrations. In China, “Nikon” and “尼康” were certified as “well-known trademarks”*2 in 2009.

Also, Nikon is reinforcing countermeasures against counterfeit and infringing products by deterring sales of infringing products and implementing border control measures in cooperation with customs authorities to create a safe shopping environment for its customers.

*1. Even if the owner does not use or intend to use a mark, registering it as a defensive mark prevents other companies from taking advantage of it by registering the mark for unrelated goods or services. However, marks cannot be registered unless they are examined by the Japan Patent Office and acknowledged to be widely recognized.

*2. Trademarks that are recognized as widely known or famous in China. These trademarks are certified by such authorities as the State Administration for Industry & Commerce of China.

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**Flow of Invention Generation Activities**

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<th>Theme determination</th>
<th>Identifying inventions with potential</th>
<th>Applications</th>
<th>Patent portfolio building</th>
<th>Establishment of a competitive advantage</th>
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<td>Begins the moment a new product is conceived. In this phase, new functions that produce commercial value and new technology realizing these functions are the key theme for invention generation.</td>
<td>By analyzing the key theme from technological, business, and other perspectives, Nikon comprehensively generates inventions that realize new functions and increase commercial value.</td>
<td>Nikon applies for strategic patents for comprehensive inventions.</td>
<td>Nikon builds a broad portfolio of patents to establish a competitive advantage, taking into account trends in customer needs and the developments of competitors.</td>
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