



# NIKON REPORT 2014

Year Ended March 31, 2014



## About *NIKON REPORT 2014*

Starting with reports published in the fiscal year ending March 2015, Nikon Corporation publishes its previously named *ANNUAL REPORT* as the *NIKON REPORT*. In addition to details regarding business performance and strategy, operational overviews, and other financial data previously published in the *ANNUAL REPORT*, this report comprises a broader range of non-financial data, including information on CSR activities and corporate governance.

As a corporate group that continues to pursue steady growth and create new value prefaced on harmony with society, we hope that *NIKON REPORT* will promote further understanding of the Nikon Group among our shareholders, investors, and all other stakeholders.

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## Our Philosophy

# Trustworthiness and Creativity

Our corporate philosophy of “Trustworthiness and Creativity”—simple words that are not easily put into practice. These important words represent unchanging principles to which we will always be dedicated.

## Our Aspirations

# Meeting Needs. Exceeding Expectations.

“Our aspirations” mean not only to meet the needs of customers but also to provide customers with new value that exceeds their expectations. “Meeting needs. Exceeding expectations.” is our vision for the future.

- ◆ Providing customers with new value that exceeds their expectations.
- ◆ Sustaining growth through a break with the past and a passionate commitment by one and all.
- ◆ Maximizing our understanding of light to lead the way towards transformation and a new future.
- ◆ Maintaining integrity in order to contribute to social prosperity.

Statements contained in this report regarding the plans, projections, and strategies of Nikon Corporation and its subsidiaries and affiliates that comprise the Nikon Group that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data that is obtainable at the time of announcement in compliance with the Nikon Group's management policies and certain premises that are deemed reasonable by the Nikon Group. 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 expenditure trends, and currency exchange rate fluctuations.

This report covers the activities of domestic and foreign Nikon Group companies, centered on Nikon Corporation. In principle, the terms “the Company” and “Nikon Corporation” refer to Nikon Corporation, while “the Group” and “Nikon Group” refer to Nikon Corporation and its Group companies. With respect to Non-Financial Performance (pages 6 and 7) and CSR (Social and Environmental Responsibility) (pages 34 to 43), Nikon Corporation refers to itself, while the term “Group companies” refers to its 70 consolidated subsidiaries and two equity-method affiliates, and “Nikon Group” refers to Nikon Corporation and its Group companies. The report primarily lists the status of activities for the period from April 1, 2013, to March 31, 2014. More detailed CSR information can be found on the website (<http://www.nikon.com/about/csr/>). Please refer to both sources for a wide range of information.

The financial figures in this annual report have been rounded to the nearest unit (millions, billions, etc.).

# Nikon's Growth Trajectory

Nikon has been a pioneer in optical technology markets worldwide since its inception in 1917. Anchored by outstanding technological capabilities centered on opto-electronics and precision technologies, the Company has continued to take on challenges and steadily expand in business scale. With sights on the future, Nikon is striving to constantly deliver new value and realize sustainable growth.

## Foundation to the 1970s Amassing of Basic Technologies

**1917**

Nippon Kogaku K.K. established

**1921**

MIKRON 4x and 6x ultra-small-prism binoculars marketed—first binoculars developed, designed, and manufactured by Nikon



MIKRON 6x

**1925**

JOICO Microscope marketed—first microscope designed by Nikon



**1945**

With the end of World War II, production shifts to binoculars, cameras, microscopes, surveying instruments, measuring instruments, ophthalmic lenses, and other consumer optical devices

**1948**

Nikon Model I small-sized camera marketed—first Nikon camera and first to bear the “Nikon” name



**1959**

Nikon F SLR camera—Nikon's first interchangeable-lens SLR camera—marketed with many world-first features, establishing position as a high-end SLR camera



## 1980s

### Application and Evolution of Basic Technologies

**1980**

NSR-1010G marketed as Japan's first Step-and-Repeat System (stepper) for manufacturing of VLSIs; achieved high level of integration, throughput, and yield as a next-generation ultra-LSI production device



**1986**

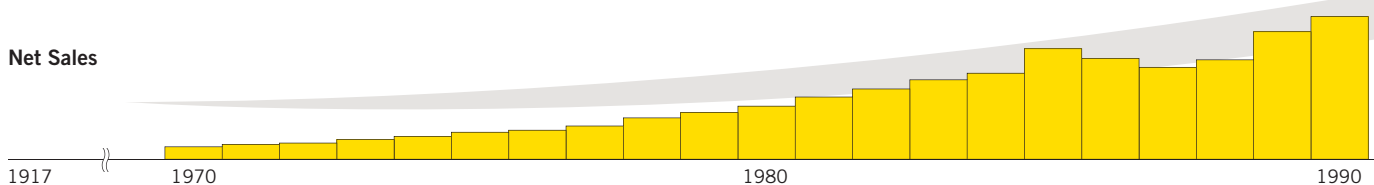
NSR-L7501G large substrate exposure system marketed as Nikon's first LCD steppers and scanners; product launch was quick to meet increasing demand for liquid crystal displays



**1988**

Corporate name changed to Nikon Corporation

### Net Sales



# 1990s

## Establishing Business Foundation

### 1990

Nikon (Thailand) Co., Ltd., established in Thailand as Nikon's first full-scale overseas production base



### 1997

COOLPIX 100 and 300 digital cameras marketed as Nikon's first compact digital camera



COOLPIX 100

### 1999

D1 digital SLR camera marketed, offering overall picture quality and high-speed performance; priced with general users in mind, it contributed to the popularity of digital SLR cameras



# 2000s to Today

## Aiming for the Next Growth Stage

### 2000

Corporate philosophy defined as "Trustworthiness and Creativity"

### 2006

NSR-S609B ArF immersion scanner marketed—first to incorporate immersion lithography technology



### 2007

BioStation CT cell culture observation system marketed; equipped with a microscope in the incubator, it has expanded the possibilities of live cell observation

### 2009

FX-101S FPD scanner supporting 10th-generation mother glass (about three square meters) marketed

### 2011

Nikon 1 J1 and V1 advanced cameras with interchangeable lenses marketed



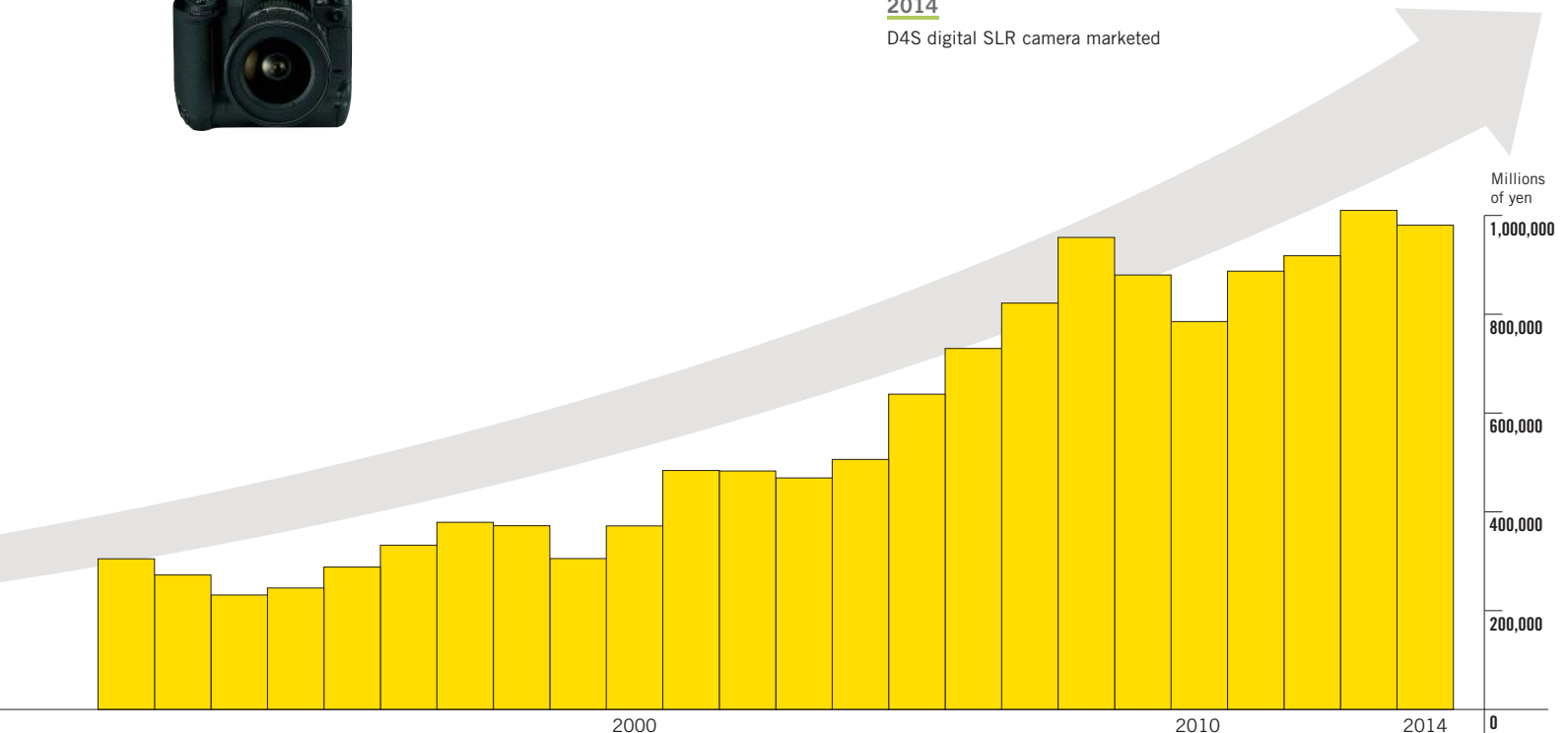
Nikon 1 J1

### 2013

Identified the field of health and medicine as a target for new business; began exploring options to develop fundamentals in the business

### 2014

D4S digital SLR camera marketed



# Financial Performance

Nikon Corporation and Consolidated Subsidiaries  
Years ended March 31

	2005	2006	2007	2008
<b>For the year:</b>				
Net sales	¥ 638,468	¥ 730,944	¥ 822,813	¥ 955,792
Precision Equipment	212,470	242,318	291,913	290,814
Imaging Products	354,181	415,686	448,825	586,147
Instruments	50,657	53,280	59,252	59,043
Cost of sales	429,143	468,944	494,663	551,551
Selling, general and administrative expenses	178,780	195,413	226,143	269,072
Operating income (loss)	30,545	66,587	102,007	135,169
Precision Equipment	11,387	26,375	49,321	43,348
Imaging Products	16,841	34,369	45,678	83,974
Instruments	2,826	4,085	5,123	4,081
EBITDA* <sup>3</sup>	50,250	87,347	124,632	160,847
Income (loss) before income taxes and minority interests	33,443	40,925	87,813	116,704
Net income (loss)	24,141	28,945	54,825	75,484
<b>Per share of common stock (yen and U.S. dollars)*<sup>1</sup>:</b>				
Basic net income (loss)	¥ 65.19	¥ 78.16	¥ 146.36	¥ 189.00
Diluted net income	57.84	69.33	131.42	181.23
Cash dividends applicable to the year	8.00	10.00	18.00	25.00
Capital expenditures	¥ 22,459	¥ 25,817	¥ 30,432	¥ 39,829
Depreciation and amortization	19,705	20,760	22,625	25,678
R&D costs	33,561	37,139	47,218	58,373
<b>At year-end:</b>				
Total assets	¥ 633,426	¥ 690,920	¥ 748,939	¥ 820,622
Total equity	196,030	243,122	348,445	393,126
Interest-bearing debt	195,351	178,841	105,338	76,544
<b>Financial ratios:</b>				
Equity ratio (%)	30.9	35.2	46.5	47.9
Debt equity (D/E) ratio* <sup>3</sup> (times)	1.00	0.74	0.30	0.19
ROE* <sup>3</sup> (%)	13.1	13.2	18.5	20.4
ROA* <sup>3</sup> (%)	3.9	4.4	7.6	9.6
Number of subsidiaries	46	47	49	48
Number of employees	16,758	18,725	22,705	25,342

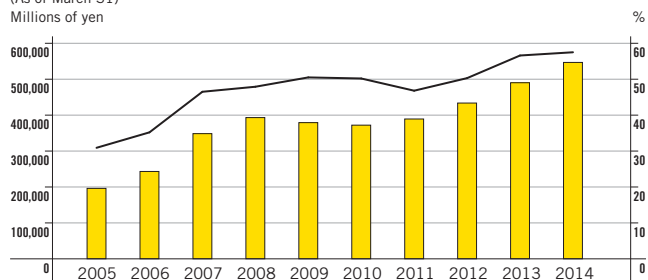
\*1. Per share of common stock information is computed based on the weighted average number of shares outstanding during the year.

\*2. U.S. dollar figures are translated for reference only at ¥102.92 to US\$1, the exchange rate at March 31, 2014.

\*3. Throughout this annual report, EBITDA is calculated as operating income (loss) plus depreciation and amortization expenses, ROE is calculated as net income (loss) divided by average shareholders' equity, ROA is calculated as net income (loss) divided by average total assets, and D/E ratio is calculated as interest-bearing debt divided by total equity.

## Total Equity and Equity Ratio

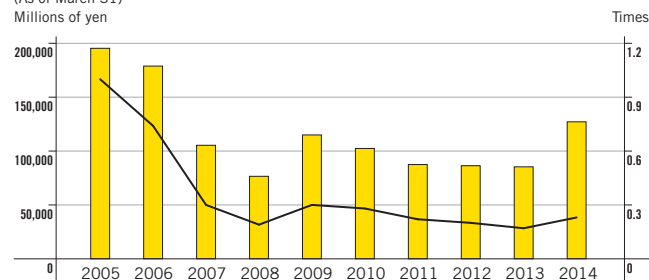
(As of March 31)  
Millions of yen



■ Total equity (left scale) — Equity ratio (right scale)

## Interest-Bearing Debt and D/E Ratio\*<sup>3</sup>

(As of March 31)  
Millions of yen



■ Interest-bearing debt (left scale) — D/E ratio (right scale)

2009	2010	2011	2012	2013	Millions of yen 2014	Thousands of U.S. dollars*2 2014
¥ 879,719	¥ 785,499	¥ 887,513	¥ 918,652	¥ 1,010,494	¥ 980,556	\$ 9,527,362
219,915	150,101	208,614	248,145	179,013	205,447	1,996,178
596,468	569,465	596,376	587,127	751,241	685,446	6,659,991
44,642	45,051	57,452	56,000	53,877	64,709	628,730
561,642	552,409	575,536	567,000	663,509	630,568	6,126,783
269,892	246,944	257,924	271,571	295,983	287,046	2,789,021
48,185	(13,854)	54,053	80,081	51,002	62,942	611,558
8,041	(58,557)	2,712	42,724	13,090	20,079	195,095
40,039	52,117	52,332	53,972	60,711	64,284	624,606
(2,724)	(9,331)	(5,248)	(3,166)	(4,978)	(2,156)	(20,953)
81,095	22,102	88,087	112,651	87,227	105,419	1,024,281
39,180	(17,672)	46,506	86,168	61,857	74,692	725,728
28,056	(12,615)	27,313	59,306	42,459	46,825	454,963
¥ 70.76	¥ (31.82)	¥ 68.90	¥ 149.57	¥ 107.07	¥ 118.06	\$ 1.15
67.91	—	68.83	149.41	106.92	117.88	1.15
18.00	8.00	19.00	38.00	31.00	32.00	0.31
¥ 43,467	¥ 37,525	¥ 29,776	¥ 55,915	¥ 60,158	¥ 45,472	\$ 441,819
32,910	35,956	34,034	32,570	36,226	42,477	412,722
61,489	60,261	60,767	68,701	76,497	74,552	724,369
¥ 749,805	¥ 740,632	¥ 829,909	¥ 860,230	¥ 864,668	¥ 949,515	\$ 9,225,763
379,087	372,070	389,220	433,617	490,218	546,813	5,312,991
114,940	102,388	87,476	86,367	85,348	127,132	1,235,254
50.5	50.2	46.8	50.3	56.6	57.5	
0.30	0.28	0.22	0.20	0.17	0.23	
7.3	(3.4)	7.2	14.4	9.2	9.0	
3.6	(1.7)	3.5	7.0	4.9	5.2	
48	69	68	68	71	70	
23,759	26,125	24,409	24,348	24,047	23,859	

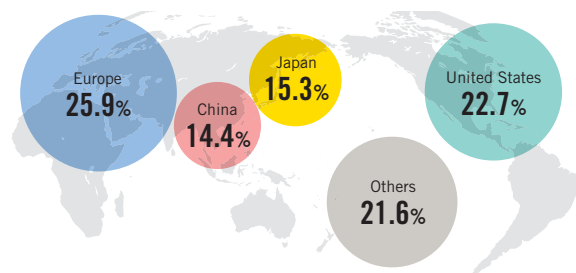
ROE\*3 and ROA\*3

(Years ended March 31)  
%



Geographic Sales

(Year ended March 31, 2014)



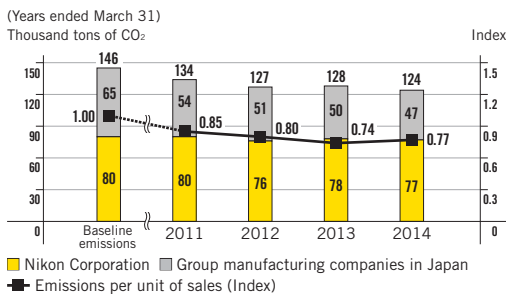
— ROE — ROA

# Non-Financial Performance

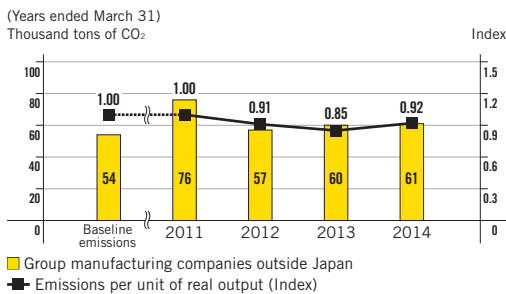
★: Includes quantitative data covered by independent practitioner's assurance. (See page 85 for details.)

## 1 CO<sub>2</sub> Emissions from Nikon Corporation and Group Manufacturing Companies in Japan ★

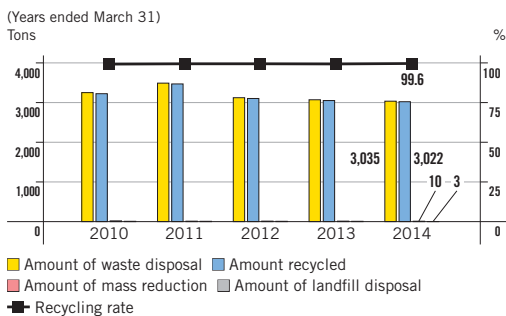
(Calculated by fixing the CO<sub>2</sub> emission factors for the use in the Action Plan)



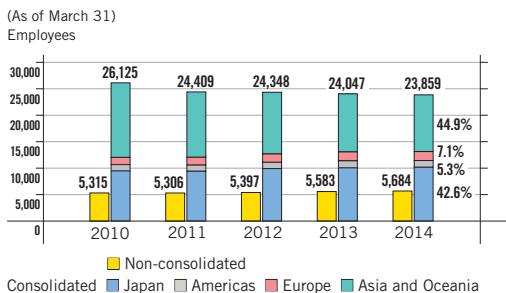
## 3 CO<sub>2</sub> Emissions from Group Manufacturing Companies outside Japan ★



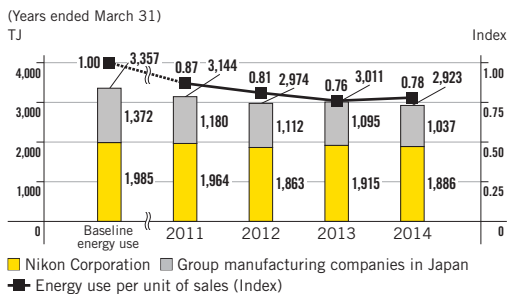
## 5 Disposal, Landfill, and Recycling of Waste Including Valuable Resources at Nikon Corporation



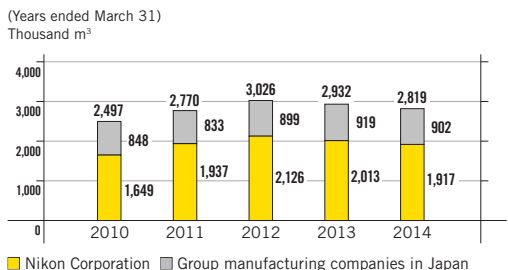
## 7 Employee Numbers (Non-Consolidated, Consolidated)



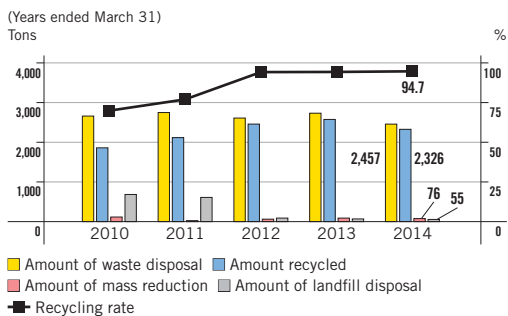
## 2 Energy Use by Nikon Corporation and Group Manufacturing Companies in Japan ★



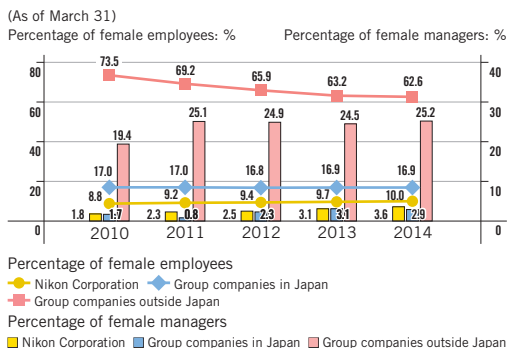
## 4 Water Use by Nikon Corporation and Group Manufacturing Companies in Japan ★



## 6 Disposal, Landfill, and Recycling of Waste Including Valuable Resources at Group Manufacturing Companies in Japan



## 8 Percentages of Female Employees and Managers at the Nikon Group ★



Notes to the graph are as follows.

Notes 1 through 6 apply to seven Group manufacturing companies in Japan and two Group manufacturing companies outside Japan. Refer to "The Nikon Group's Environmental Management Systems and Environmental Performance Data Boundary" on the Nikon Group website for more details.

<http://www.nikon.com/about/csr/environment/promote/management/>

### 1 CO<sub>2</sub> Emissions from Nikon Corporation and Group Manufacturing Companies in Japan

The values above are the aggregated results of CO<sub>2</sub> emissions from energy use. The baseline emissions are the average value between the year ended March 31, 2006, and the year ended March 31, 2008. The CO<sub>2</sub> emission factors are the weighted average values of the actual emission factors between the year ended March 31, 2006, and the year ended March 31, 2008 (fixed for all periods).

The CO<sub>2</sub> emissions are calculated using the following unit heating values: City gas: Specific value of each gas company

Other fuels: Values contained in the Manual for Calculating and Reporting Greenhouse Gas Emissions for the baseline emission calculation

### 2 Energy Use by Nikon Corporation and Group Manufacturing Companies in Japan

The baseline is the average value between the year ended March 31, 2006, and the year ended March 31, 2008. The energy use is calculated using the following unit heating values: Electricity: 0.00976 GJ/kWh (fixed for all periods)

City gas: Specific value of each gas company

Other fuels: Values contained in the Manual for Calculating and Reporting Greenhouse Gas Emissions for the use calculation of each year

### 3 CO<sub>2</sub> Emissions from Group Manufacturing Companies outside Japan

The baseline emissions are the average value between the year ended March 31, 2006, and the year ended March 31, 2008. The CO<sub>2</sub> emission factors are the weighted average values of International Energy Agency (IEA) factors by country between 2005 and 2007 (fixed for the whole period).

The baseline year for emissions per unit of real output (index) is set at the year ended March 31, 2007 (year ended March 31, 2007 = 1).

For the year ended March 31, 2012, the calculation of CO<sub>2</sub> emissions from Nikon (Thailand) Co., Ltd., was limited to the period from April through September due to the temporary shutdown of the company's plants as a result of the flood in Thailand.

### 7 Employee Numbers (Non-Consolidated, Consolidated)

Consolidated figures include permanent and non-regular staff of the Nikon Group and directors of Group companies. For regional percentages, employees of Nikon Corporation who are temporarily dispatched to Group companies are included in the region to which they are assigned, while employees dispatched to non-consolidated companies are not included. Employees of Nikon Metrology NV and its subsidiary Group companies are included in the European figures.

### 8 Percentages of Female Employees and Managers at the Nikon Group

Permanent employees and non-regular staff in the Nikon Group (consolidated): Those dispatched to affiliates are counted as employees of the affiliates. The figures for the year ended March 31, 2013, include the figures for the two equity-method affiliates.

"Managers" means section managers and higher. Managers of Nikon Corporation include those in positions other than department manager or higher and those in section manager positions. Group companies outside Japan include Nikon (Thailand) Co., Ltd., Nikon Imaging (China) Co., Ltd., and Hikari Glass (Changzhou) Optics Co., Ltd.



**9 Number of Employees Taking Childcare Leave**

(Years ended March 31)

People

		2010	2011	2012	2013	2014
Nikon Corporation	Men	2	3	4	7	3
	Women	29	21	15	16	22
Group companies in Japan	Men	0	0	1	1	1
	Women	15	28	28	35	32

**10 Number of Employees Taking Nursing Care Leave**

(Years ended March 31)

People

		2010	2011	2012	2013	2014
Nikon Corporation	Men	2	1	1	1	2
	Women	0	1	2	0	0
Group companies in Japan	Men	3	6	1	0	0
	Women	3	5	3	1	2

Notes to the graph and table are as follows.

**9 Number of Employees Taking Childcare Leave**

**10 Number of Employees Taking Nursing Care Leave**

Permanent employees and non-regular staff. Employees of equity-method affiliates are excluded.

**12 Severity Rates at Nikon Corporation and Group Companies in Japan**

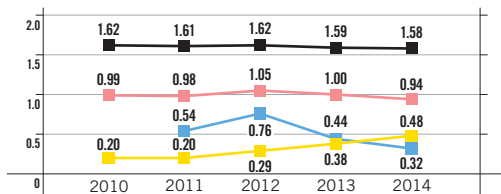
"0.00" indicates a rate of less than 0.005.

**15 Inclusion in SRI Index Portfolio and Other Indices**

- \*1. Socially responsible investment index featuring leading companies from around the world, compiled by FTSE, a subsidiary of the London Stock Exchange.
- \*2. The Morningstar Socially Responsible Investment Index (MS-SRI) is the first socially responsible investment index in Japan. Morningstar Japan K.K. selects 150 companies from among approximately 3,600 listed companies in Japan by assessing their social responsibility and converts their stock prices into the index.
- \*3. ESG (environment, society, governance) surveys, ratings from ECPI
- \*4. Joint selection and announcement by Japan's Ministry of Economy, Trade and Infrastructure and the Tokyo Stock Exchange, Inc., of listed companies with outstanding performance in supporting career development for women.
- \*5. Investment universe comprised of companies identified by Forum Ethibel as displaying high performance in terms of social responsibility.

**11 Frequency Rates of Lost Time Accidents at Nikon Corporation and Group Companies in Japan ★**

(Years ended March 31)



- All industries in Japan (CY)
- Manufacturing industry in Japan (CY)
- Nikon Corporation
- 25 Group companies in Japan (including non-consolidated companies)

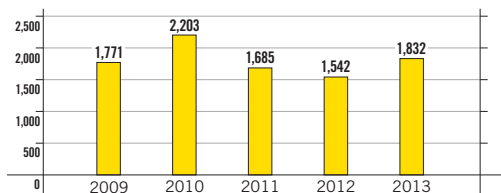
**12 Severity Rates at Nikon Corporation and Group Companies in Japan ★**

(Years ended March 31)

	2010	2011	2012	2013	2014
All industries in Japan (CY)	0.09	0.09	0.11	0.10	0.10
Manufacturing industry in Japan (CY)	0.08	0.09	0.08	0.10	0.10
Nikon Corporation	0.00	0.00	0.00	0.70	0.01
25 Group companies in Japan (including non-consolidated companies)	—	0.01	0.01	0.01	0.00

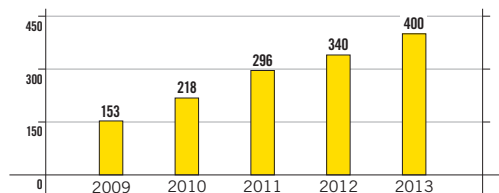
**13 Number of Published Patent Applications in Japan**

(CY)



**14 Number of Patent Registrations in U.S.**

(CY)



**15 Inclusion in SRI Index Portfolio and Other Indices (As of March 31, 2014)**

	SRI index portfolio and other indices
From 2004	FTSE4 Good Index Series <sup>1</sup>
From 2010	Morningstar Socially Responsible Investment Index (MS-SRI) <sup>2</sup>
From 2011	ECPI Ethical Index Global <sup>3</sup>
From 2013	Nadeshiko Brand <sup>4</sup>
From 2013	"Ethibel EXCELLENCE" (part of the Ethibel Investment Register) <sup>5</sup>



## Management Message

# 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 steadfastly 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.

## To Our Stakeholders

### Management Strategy

## 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.”**

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## Restructuring the organization to conform to the Medium-Term Management Plan

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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.

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## Four programs introduced for the establishment of a new Nikon

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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

## 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.

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

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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.

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## CSR-Oriented Management

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## CSR activities that support growth

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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

achieve the goals of the Medium-Term Plan. As culture, history, language, and ways of thinking vary from region to region, we find it is important to communicate closely with local employees to understand each other's way of thinking and respond faithfully to their needs. CSR activities should never be imposed from above. We seek to fully understand the culture of the location where our employees work and what they consider to be important.

Further, we need to bear two points in mind when selling our products globally. First, our products themselves must be implicitly trustworthy. Second, we must be contributing to social development. Our organization is expected to not only observe the law but also respect people and act ethically. Considering the problem of conflict minerals, we must make it unambiguously clear, both in-house and publicly, that we do not use materials for which humanity or morals may have been compromised.



## 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

A handwritten signature in black ink that reads "Kazuo Ushida". The signature is written in a cursive, flowing style.

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.

### 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.

#### Previous In-house Company System

Precision Equipment Company

Imaging Company

Instruments Company

#### Six Core Business Units and Divisions

Semiconductor  
Lithography  
Business Unit

FPD Lithography  
Business Unit

Imaging  
Business Unit

Medical Business  
Development Division

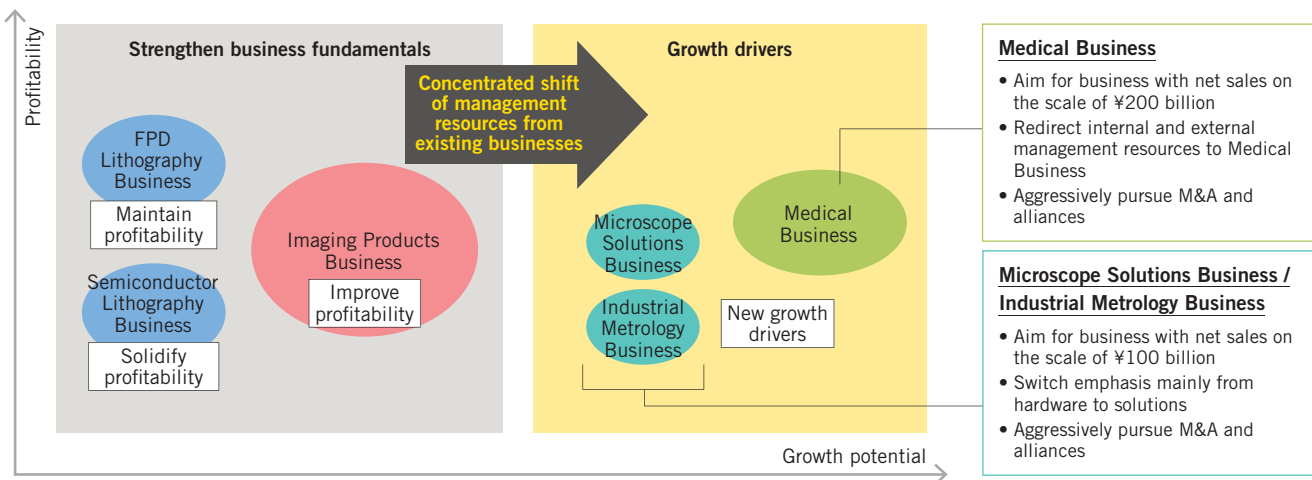
Microscope Solutions  
Business Unit

Industrial Metrology  
Business Unit



**Priority Measures**

**Foster new businesses and strengthen existing businesses**



**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

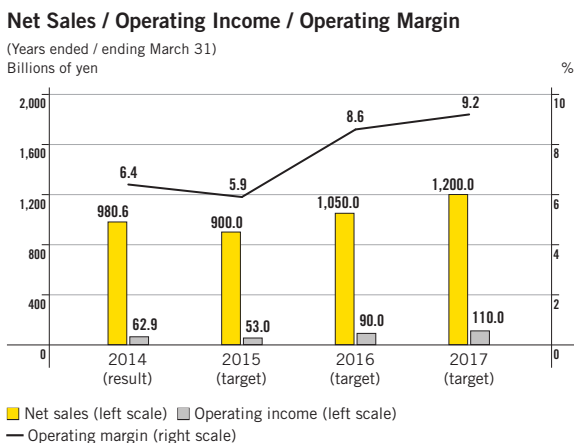
**Human Resources Program**

- 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**



**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)**

Years ended / ending March 31	2014 (result)	2015 (forecast)	2016 (forecast)	2017 (forecast)
US\$	100.17	101	100	100
Euro	134.21	136	140	140

\* 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.

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

# 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.

#### Business Areas

- ◆ **Precision Equipment Business:** Semiconductor Lithography and FPD Lithography Businesses
- ◆ **Instruments Business:** Microscope Solutions and Industrial Metrology Businesses

### 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



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#### FPD Lithography Business

##### Business Lines

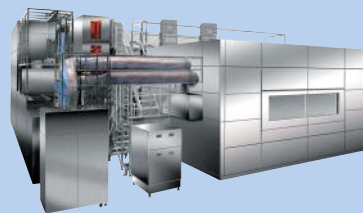
Development and manufacture of FPD lithography systems for the production of LCD and OLED panels

##### 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



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#### 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



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## Management Numerical Targets by Business

### Net Sales

(Billions of yen)

Years ended / ending March 31	2014 (result)	2015 (target)	2016 (target)	2017 (target)
Precision Equipment Business	205.4	210.0	230.0	230.0
Imaging Products Business	685.4	590.0	670.0	700.0
Instruments Business	64.7	70.0	80.0	100.0
Medical and New Businesses	0	0	40.0	130.0
Others	24.9	30.0	30.0	40.0

### Operating Income

(Billions of yen)

Years ended / ending March 31	2014 (result)	2015 (target)	2016 (target)	2017 (target)
Precision Equipment Business	20.0	19.0	36.0	36.0
Imaging Products Business	64.2	58.0	75.0	85.0
Instruments Business	(2.1)	1.0	3.0	8.0
Medical and New Businesses	0	0	1.0	4.0
Others	4.4	5.0	5.0	6.0

\* 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.

## 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]

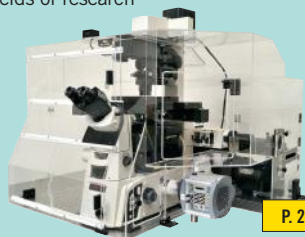
- Increased demand for super resolution microscopes and analytical software

[New Domains]

- Stem cell business is growing
- Fusion of electronic and optical microscopes

#### Strategic Direction

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



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### Industrial Metrology Business

#### Business Lines

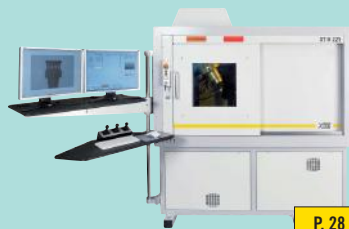
Development and manufacture of industrial microscopes and measuring systems, and X-ray/CT inspection systems

#### 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



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### 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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# Interviews with Key People on the Strategy Going Forward

## Corporate Strategy Division



**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

### Q 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.

### Q 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.

### Q 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.

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**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?**

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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 also 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.

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

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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.

Interviews with Key People on the Strategy Going Forward

# Precision Equipment Business

Refer to "Management's Discussion and Analysis" for details on performance.

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## Semiconductor Lithography Business Unit



In the rapidly changing semiconductor industry, responding to customer needs promptly is crucial. I stay in close contact with the worksite and our customers in this business, working to realize additional growth through timely action.

**Toshikazu Umatate**  
Senior Vice President  
General Manager of Semiconductor Lithography Business Unit

### Q 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.

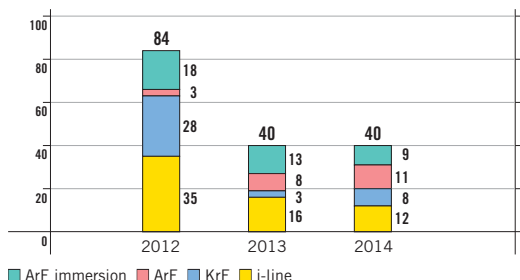
Since April 2014, we have begun taking orders for the successor to the NSR-S622D, our most up-to-date NSR-S630D ArF immersion scanner. With its high overlay accuracy, this scanner improves the yield, making us a strong competitor. Semiconductor manufacturers are pleased with its performance, so we believe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

### Q 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.

### Semiconductor Lithography Systems, Unit Sales by Technology (including refurbished equipment)

(Years ended March 31)  
Units



ArF immersion scanner NSR-S630D

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 are working on structural reform to lower both fixed and variable costs.

To lower fixed costs, we have been shifting personnel to other units, outsourcing work, and streamlining our operations. Until recently, we possessed a uniform in-house supply chain, from development through materials procurement to manufacturing, but now only the most vital and core items that set the Nikon brand apart, such as projection lenses, are handled internally, while parts that can be manufactured more efficiently

by other companies are outsourced. In development, we have discarded the notion to undertake all activities ourselves and do not hesitate to use outside companies for tasks where they are more advanced.

We reduce variable costs, such as for procurement, where we can, and in development we can reduce wasteful spending by more judiciously selecting which projects to begin.

Through these efforts, we are improving the breakeven point of our business so that we are able to return to a profitable status with our current level of net sales.

### **Q What type of business model should you be aiming for?**

The days are gone when we could simply step up the resolution performance in our scanners. Overlay accuracy and other aspects of productivity have become important. In our business unit, we strive to come up with solutions for what is needed in the customer's manufacturing process or how best to interface our equipment with a customer's other systems. We also look for ways to collaborate with manufacturers of various materials or equipment.

Another approach is to continue to cultivate solid relationships with our customers. One key to this approach is modularity, which we brought in with the basic design of the NSR-S620 (launched in 2009). Going modular enabled us to make development and manufacturing much more efficient. In addition, we found we could service the customers who had purchased the NSR-S620 systems by enhancing their performance with modular upgrades. Increasing the productivity of an apparatus tends to be costly no matter what; however, buying a new model every time productivity needs to be raised would be a particularly inefficient investment by the customer. A look at trends in semiconductor-related investment indicates how important upgrading is in a business model. So when we offer a solution, we aim to continue our services after installation to establish a stable base of revenue.

With all the changes that are occurring in the semiconductor industry, it is important to meet the customer's needs as promptly as possible. I would thus like us to bring about further growth through timely action, whether at our worksites or when working closely with customers.

Interviews with Key People on the Strategy Going Forward

# Precision Equipment Business

Refer to "Management's Discussion and Analysis" for details on performance.

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## FPD Lithography Business Unit



To be positioned to revitalize the display market, we have to predict future needs and market our products based on accurate investment decisions to meet these needs.

**Kiyoyuki Muramatsu**  
 Corporate Vice President  
 General Manager of FPD Lithography Business Unit

### Q 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.

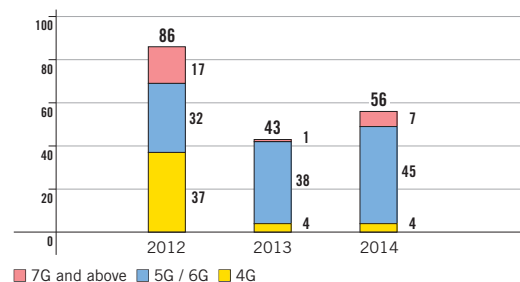
This is an example of where we were experienced enough to take advantage of a new business opportunity by leveraging our existing technology and other strengths.



FPD scanner FX-67S

### FPD Lithography Systems, Unit Sales by Generation

(Years ended March 31)  
 Units





## Q 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.

## Q 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.

## Q 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

Refer to "Management's Discussion and Analysis" for details on performance.

P. 48-51

## Imaging Business Unit



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

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

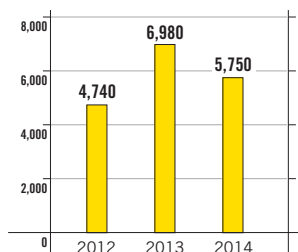
In the fiscal year ended March 2014, the market for digital cameras was sluggish and difficult, particularly in China and Europe.

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.

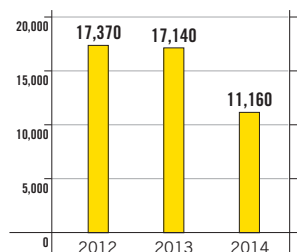
#### Unit Sales of Interchangeable Lens-Type Digital Cameras

(Years ended March 31)  
Thousands of units



#### Unit Sales of Compact Digital Cameras

(Years ended March 31)  
Thousands of units



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.

### Q 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.

### Q 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.



Digital SLR camera **Nikon D810**



Interchangeable lens-type advanced digital camera  
**Nikon 1 J4**



Compact digital camera **COOLPIX S9700**

## Interviews with Key People on the Strategy Going Forward

## Instruments Business

Refer to “Management’s Discussion and Analysis” for details on performance.

P. 48–51

## Microscope Solutions Business Unit



While strengthening the business structure in existing domains, we will apply technology cultivated in those fields to new domains with anticipated market growth for a major leap forward in our business.

**Atsumi Nakamura**

Corporate Vice President  
General Manager of Microscope Solutions Business Unit &  
Department Manager of Marketing Department

**Q 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.

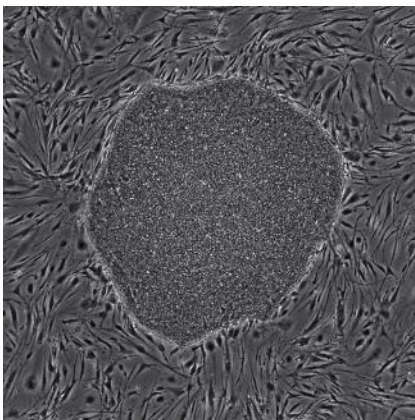


Image of iPS cell captured using BioStation CT integrated cell culture observation system



Super resolution microscope system N-STORM

## Q 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.

## Q 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.

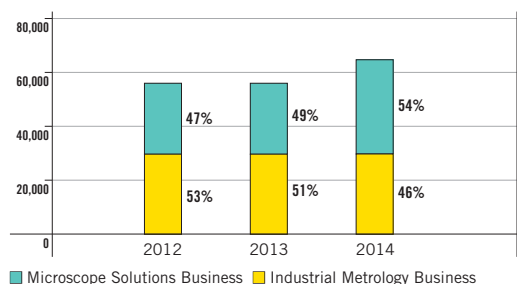
## Q What is the outlook for your Medium-Term Management Plan?

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.

### Instruments Business Sales by Category

(Years ended March 31)  
Millions of yen



## Interviews with Key People on the Strategy Going Forward

## Instruments Business

Refer to “Management’s Discussion and Analysis” for details on performance.

P. 48–51

## Industrial Metrology Business Unit



**As trends in manufacturing change, maintaining the viewpoint of how we can add value to measurement is the key to the evolution of our business model. This will better solidify our ability to firmly meet rising market expectations and put us on the path to profitability.**

**Masao Nakajima**  
Corporate Vice President  
General Manager of Industrial Metrology Business Unit

### Q 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.

### Q 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.

## Q 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.

## Q 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

## Interviews with Key People on the Strategy Going Forward

## Medical Business Development Division



**We will apply Nikon's core competences to answer unmet medical needs and will take steps to put our business on the fast track through rapid decision making, business alliances, and M&A.**

**Osamu Shimoda**  
Corporate Vice President  
General Manager of Medical Business Development Division

### Q 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,\*<sup>1</sup> 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.

### Q 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,\*<sup>2</sup> 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.

### Q 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\*<sup>3</sup>) 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.

### Q 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\*<sup>4</sup> 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.

\*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.



## Business Development Division



By balancing an emphasis on speed to keep pace with changes in the business environment with steadiness and strategy, we are sowing many seeds to develop useful and full-fledged businesses.

**Kazuyuki Kazami**  
Corporate Vice President  
General Manager of Business Development Division

### Q 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.

### Q 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 CO<sub>2</sub>. 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 CO<sub>2</sub> emissions problem. Our technical staff has been placed in the area to follow this concept through to a practical end.

### Q 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.



Solar furnace for experimental tests

## FOCUS Intellectual Property Initiatives

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.

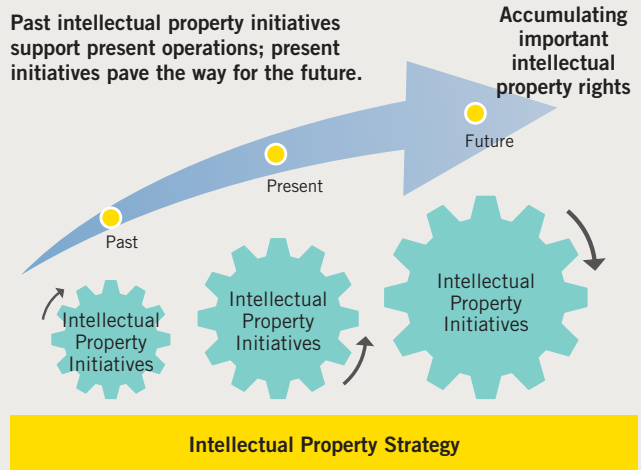
#### ◆ Invention Generation Activities to Increase Patents

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.

### Tri-Divisional Cooperative Framework



### Visual Image of Intellectual Property Initiatives



◆ **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.

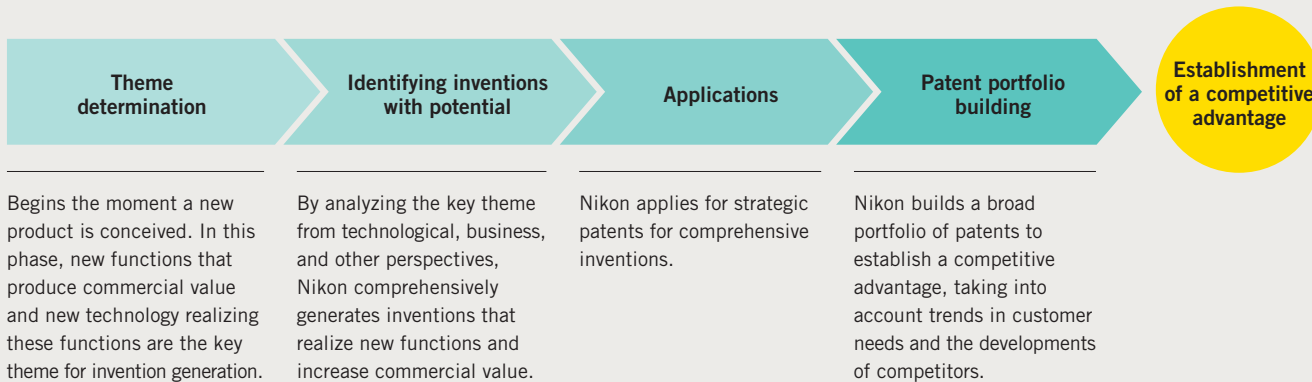
As of April 2014, Nikon had applied for trademark registrations in 195 countries—every country (including emerging nations) that provides trademark protection—to further protect the Nikon brand. To safeguard the highly recognized status of its brand, Nikon is utilizing the trademark registration systems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

**Flow of Invention Generation Activities**



# Nikon CSR Activities That Support Growth

★: Includes quantitative data covered by independent practitioner's assurance. (See page 85 for details.)

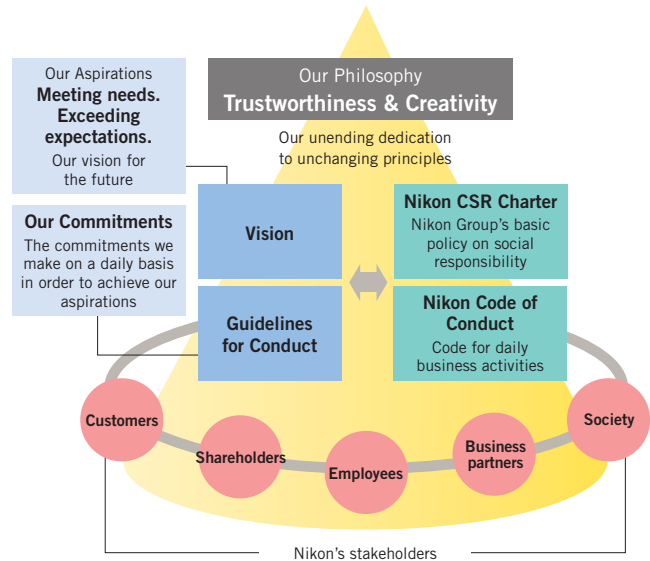
## The Nikon Group's Approach to CSR

For the Nikon Group, fulfilling CSR means embodying our corporate philosophy: "Trustworthiness and Creativity." We seek to contribute to the sustainable development of society by responding to the trust that society places in us and creating new value that exceeds expectations.

In 2007, the Nikon Group formulated "Our Aspirations" as a vision that looks toward the future and "Our Commitments" as the policy for realizing this vision. We are also working to increase CSR awareness among each and every employee through the Nikon CSR Charter and the Nikon Code of Conduct.

Furthermore, we participate in the United Nations Global Compact and support its Ten Principles regarding human rights, labor, the environment, and anti-corruption. We also take account of related international codes in the pursuit of business activities.

### Nikon's High-Level Policy and Stakeholders



## CSR Promotion System

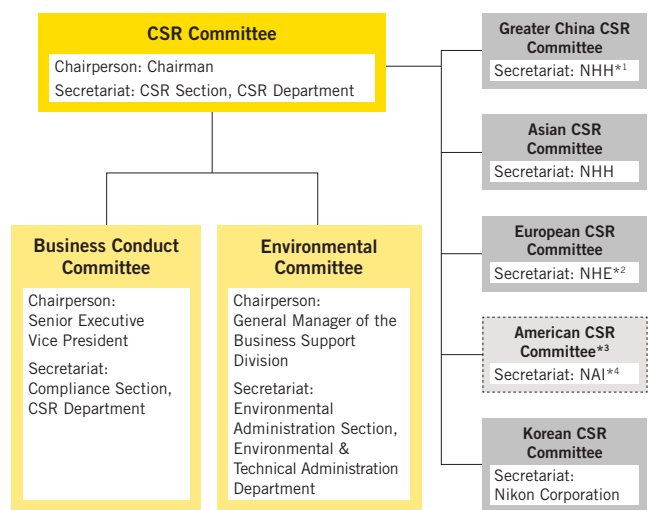
The Nikon Group has established the CSR Committee, which is chaired by the chairman and comprises members drawn from the Executive Committee. The CSR Committee convenes twice a year, and through progress reports on CSR activities the committee constantly stays abreast of overall CSR activities and reviews policies and plans of CSR promotional activities. To liaise with this committee, two cross-divisional specialist subcommittees, the Business Conduct Committee and the Environmental Committee, have been established.

### ◆ Enhancement of CSR Promotion Systems at Group Companies outside Japan

A high percentage of the Nikon Group's sales and employees are based outside Japan. Accordingly, it is essential for the Group to expand CSR activities not only in Japan but also abroad. To meet this requirement, we have established functions to manage and promote CSR at holding companies in every region and set up CSR committees specific to each region that include Group company presidents from those regions as members.

In the year ended March 31, 2014, in addition to activities under way in Greater China\* and the European region, we implemented a structure to manage and promote CSR in the Asia region,\* the Americas region, and Korea. Plans call for convening the first CSR Committee in these three new regions in the year ending March 31, 2015.

### CSR Promotion Organization (As of July 31, 2014)



\*1. NHH: Nikon Holdings Hong Kong Limited

\*2. NHE: Nikon Holdings Europe B.V.

\*3. American CSR Committee to be established by the end of 2014.

\*4. NAI: Nikon Americas Inc.

\* "Greater China" refers to China, Hong Kong, and Taiwan, and the "Asia region" refers to Asian countries excluding Greater China and Korea, Oceania, and the Middle East.

## Priority Issues in the Medium-Term CSR Plan

The Nikon Group sets the priority issues for its CSR activities and formulates a three-year plan for each of them. Every six months, we report on our progress on activities to meet annual targets to the CSR Committee.

### Priority Issues in the CSR Medium-Term Plan (Three-year plan from April 2014 to March 2017)

We will strive to develop our business globally while constantly maintaining a strong awareness of CSR, including compliance- and environment-related issues. We will enhance trust by encouraging and supporting communication with stakeholders and responding sincerely to stakeholder expectations.

- Expansion and promotion of environmental management
- Implementation of compliance activities
- Respect for human rights and labor practices and promotion of diversity in the workforce
- Promotion of social contribution activities
- Promotion of CSR activities in the supply chain

### Results for the Year Ended March 31, 2014 [Summary] ★

Self-evaluation ○: Achieved △: Measures started but not yet achieved

Priority issues	Targets	Results	Self-evaluation
Development of a CSR infrastructure	Provide employee education in a localized manner through regional holding companies outside Japan	<ul style="list-style-type: none"> <li>• Implemented region-wide e-learning through regional holding companies in Greater China, Asia, and Europe</li> <li>• Published CSR newsletters on the Intranet in Europe</li> </ul>	○
	Formulate and implement the action plans on CSR promotion systems in the Americas through regional holding companies	Developed a CSR promotion plan for the Americas and gave individual briefings to Group companies in the region. Held the first Americas CSR coordinator meeting in January	○
Expansion and promotion of environmental management P. 36	For environment-related targets and results, please refer to the “Environmental Action Plan” on page 36.		
Implementation of compliance activities P. 38	Conduct a survey in the Nikon Group and set Group policies to prevent the offering of bribes to public officials	Expanded the scope of “bribery” from “bribe offering” to “bribe offering and taking” after conducting risk surveys, and formulated the draft Group policy aimed at prevention	○
	In Group companies outside Japan, conduct compliance awareness surveys and provide feedback about the results to all surveyed companies through regional holding companies	Conducted surveys of all targeted Group companies outside Japan and provided feedback after aggregate analysis of the responses	○
Respect for human rights and labor practices and promotion of diversity in the workforce P. 39	Raise the number of female employees (permanent and non-regular employees) as a percentage of all employees to at least 10% (as of March 31, 2014)	The number of male employees increased due to the policy of promoting re-hiring after retirement, but the ratio of female employees joining the Company is growing with the ratio rising to 10.01% (as of March 31, 2014)	○
	Start the full-scale operation of the mentor system	Started the full-scale operation of the mentor system, 10 groups of 20 mentors/mentees conducted interviews. Held a joint briefing session at the end	○
	Make all employees, both those within and outside Japan, aware of the Nikon Group HR Vision	Used the Intranet and internal newsletters, etc., to familiarize Nikon Group employees with the HR vision. Used as training materials at the Nikon Group next-generation leader training program	○
	Continue conducting the Nikon Group monitoring survey to identify any issues relating to human rights and labor practices	Collected and analyzed responses from 65 companies in the Nikon Group, including non-consolidated companies, and reported to the CSR Committee. Gave feedback to all Group companies	○
Promotion of social contribution activities P. 41	Encourage employees to conduct volunteer activities in the disaster-affected areas of the Great East Japan Earthquake and make related presentations every month in order to ensure the disaster is not forgotten	Organized 17 rounds of employee volunteer activities. Communicated the situation in the disaster-stricken areas to approx. 22,000 persons at monthly exhibitions at Nikon Plaza Sendai and other venues, including exhibitions of photos for the Photo Book Project for Junior High School Students, etc.	○
	Increase the number of participants in the Photo Book Project for Junior High School Students in Fukushima Prefecture and ensure the completion of the books at all the schools	In the year ended March 31, 2014, the number of participating schools in Fukushima Prefecture increased by three schools. A total of 42 schools and one organization completed photo books in Iwate, Miyagi, and Fukushima prefectures	○
	Collect information about social contribution activities conducted by Group companies across the world and raise the awareness of our employees by disclosing this information to stakeholders	Conducted the first detailed survey of all Group companies. Reported periodically on the activities on the Nikon website or internal newsletter. Also reported locally on the Thai scholarship program on Group company website	○
Promotion of CSR activities in the supply chain P. 42	Continue on-site inspections (at a possible total of 40 companies), discuss with Group companies outside Japan CSR-oriented procurement from their procurement partners, and formulate and implement the necessary measures	Conducted on-site inspections at 36 procurement partners in Japan. Outside Japan, completed the coordination of monitoring with Nikon Holdings Hong Kong Limited and Group companies with a view to standardizing the CSR guidelines	△
	Explain the policies on the issue of conflict minerals to procurement partners, and survey the situation concerning the use of these minerals. Disclose the obtained information within 2014	Conducted policy briefings for all procurement partners. At the same time, conducted a survey of targeted products and compiled the results for disclosure (retrieval rate 90.5%)	○
	Conduct environmental management system audits on procurement partners and chemicals management system audits within the Group, targeting a total of 150 sites	Audited environmental management systems at 150 businesses	○

## Nikon CSR Activities That Support Growth


★: Includes quantitative data covered by independent practitioner's assurance. (See page 85 for details.)

### Expansion and Promotion of Environmental Management

## Continuing Environmental Conservation Activities in an Effective Manner toward the Creation of a Recycling-Oriented Society

### The Nikon Basic Environmental Management Policy

The Nikon Group believes in the importance of using resources efficiently and preventing environmental pollution to pass on a sustainable and healthy planet to future generations. As a Group, we have formulated the Nikon Basic Environmental Management Policy and strive to protect the global environment.

 **The Nikon Basic Environmental Management Policy**  
<http://www.nikon.com/about/csr/environment/promote/policy/>

### Environmental Management System

The Nikon Group has established an environmental management organization based on the Nikon Basic Environmental Management Policy and is implementing a Groupwide environmental management system under the leadership of the Environmental & Technical Administration Department. Through

this organization, we constantly monitor the enactment and enforcement of relevant regulations, treaties, and standards both within and outside Japan, track social needs, and set up response structures. We also take measures to prevent and rectify soil pollution and accidental spills of hazardous substances.

Furthermore, under the Nikon Environmental Action Plan, which outlines our medium-term goals, we set environmental targets for each fiscal year, evaluate our performance, and identify and review any issues.

### Product-Related Activities

#### ◆ Eco-Friendly Product Development

The Nikon Group is working toward improving its products to reduce the environmental impact as much as possible across the entire product lifecycle and continues to operate a unique management system designed to spur the development of even more advanced eco-friendly products.

### Environmental Action Plan – Results for the Year Ended March 31, 2014 [Summary] ★

Self-evaluation ○: Achieved △: Measures started but not yet achieved

Theme		Targets	Results	Self-evaluation
Product-related activities	Energy conservation (prevention of global warming)	<ul style="list-style-type: none"> <li>Improve overall energy efficiency</li> <li>Improve overall energy efficiency of new representative products released during the year ending March 31, 2014</li> </ul>	<ul style="list-style-type: none"> <li>Improved average power consumption efficiency for all models of newly released products</li> <li>As an example, improved power consumption efficiency for the D3300 Nikon DX-format digital SLR camera (launched in Feb. 2014) by 25% (compared with D3200)</li> </ul>	○
	Reduction in the use of hazardous chemical substances	<ul style="list-style-type: none"> <li>Maintain 100% compliance for products subject to the RoHS Directive*1</li> </ul>	<ul style="list-style-type: none"> <li>Continued to maintain 100% compliance for products subject to the RoHS Directive</li> </ul>	○
	Distribution	<ul style="list-style-type: none"> <li>Reduction in environmental impact of physical distribution</li> <li>Foster the visualization of CO<sub>2</sub> emissions from international distribution</li> </ul>	<ul style="list-style-type: none"> <li>Understand CO<sub>2</sub> emissions due to distribution between Nikon and outside Japan</li> <li>Calculated CO<sub>2</sub> emissions from distribution in Europe</li> </ul>	○
Activities at facilities	Reduction in GHG emissions (CO <sub>2</sub> emissions from energy use)	<ul style="list-style-type: none"> <li>Total CO<sub>2</sub> emissions from Nikon Corporation and Group manufacturing companies in Japan: 135 thousand tons or less</li> <li>CO<sub>2</sub> emissions per unit of real output from Group manufacturing companies outside Japan: Achieve a 7% reduction from the baseline emissions (= average for the period from the year ended March 31, 2006, to the year ended March 31, 2008)</li> </ul>	<ul style="list-style-type: none"> <li>Total CO<sub>2</sub> emissions from Nikon Corporation and Group manufacturing companies in Japan: 124 thousand tons</li> <li>Group manufacturing companies outside Japan: Reduced by 7.5% from the average for the period from the year ended March 31, 2006, to the year ended March 31, 2008 (improvement per unit of output)</li> </ul>	○
	Waste reduction	<ul style="list-style-type: none"> <li>Waste from Nikon Corporation and Group manufacturing companies in Japan: Maintain at levels of the year ended March 31, 2011 (4,867 tons or less)*2 (Zero emissions)</li> <li>Facilities that have achieved level 1: Build a level S system</li> <li>Hikari Glass (Changzhou) Optics Co., Ltd., and Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.: Build a level 3 system</li> </ul>	<ul style="list-style-type: none"> <li>Waste from Nikon Corporation and Group manufacturing companies in Japan: Maintained levels of the year ended March 31, 2011 (3,796 tons)*2 (Zero emissions)</li> <li>For facilities that have achieved level 1: Achieved level S</li> <li>Hikari Glass (Changzhou) Optics Co., Ltd., and Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.: Achieved level 3</li> </ul>	○
	Conserve forest resources	<ul style="list-style-type: none"> <li>Collect and analyze data on reducing use of photocopy paper</li> </ul>	<ul style="list-style-type: none"> <li>Nikon Corporation: Understood quantities of paper purchased for photocopying and other printouts</li> <li>Link to reduction during or after the year ending March 31, 2015</li> </ul>	○
Others	Environmental management system (EMS)	<ul style="list-style-type: none"> <li>(Integrated ISO 14001 certification)</li> <li>Nikon Metrology UK Ltd.: complete certification</li> </ul>	<ul style="list-style-type: none"> <li>(Integrated ISO 14001 certification)</li> <li>Nikon Metrology UK Ltd.: obtained certification</li> </ul>	○

\*1. RoHS stands for Restriction of Hazardous Substances. This directive was adopted by the EU and restricts the use of certain hazardous chemical substances in electrical and electronic equipment with a view to minimizing the risks that these substances pose to the environment and human health.

\*2. Except valuable resources

In 1995, Nikon Corporation developed and established the Nikon Product Assessment as an instruction manual for carrying out assessments. Since establishing the instruction manual, we have continued to revise and tighten the assessment items and standards in line with circumstances, reflecting the latest regulations and other information in the assessment in April 2014. The Nikon Product Assessment is used at the design and development levels for all products of the Nikon Group, and we have already assessed more than 1,000 products and units.

◆ **Eco-Friendliness of Key Products**

- Digital SLR camera: D3300  
(Released in February 2014)

The D3300 is a Nikon DX-format digital SLR camera, an entry-level model that offers an optical viewfinder with approximately 95% frame coverage and approximately 0.85 magnification, high-speed continuous shooting at approximately 5 fps, and support for 60p full-HD video, all in a high-strength, compact, and lightweight body with a monocoque structure made with a new material that uses carbon fiber (9.9% lighter than the D3200).



Energy efficiency	Improved 25% compared with standard models (D3200)
Lead-free solder	Lead-free solder is used on all electronic circuit boards.
Reduction of hazardous substances	Complies with the standards set by the European RoHS Directive
Ratio of lead- and arsenic-free glass	100%

- Research Stereo Microscope SMZ25 and SMZ18  
(Released in June 2013)

The newly developed stereo microscope features a large zoom ratio of 25:1 (for the SMZ25), which far exceeds the range of conventional stereomicroscopes, combined with high resolution and fluorescence transmission capability. Nikon has adopted LED as the light source for the illuminator. The microscope is maintenance free with a substantially longer life span.



SMZ18 (Combination of P2-DBL LED Diascopic Illumination Base)

Reduced electricity consumption	For the SMZ25 (motorized): 68% For the SMZ18 (manual): 70%
Longer life	Adoption of LED as the light source has prolonged the illuminator's life and makes it maintenance free.
Lead-free solder	Lead-free solder is used on all electronic circuit boards.

**Activities at Facilities**

◆ **Reducing CO<sub>2</sub> Emissions** ★

At the Nikon Group, each unit and facility has established its own reduction targets and is implementing measures to attain them. Each department promotes their own autonomous activities, such as visualization of energy usage, extending this to management by the adoption of objectives, and awareness-raising activities for employees. Further, we have endeavored to make more efficient use of energy and conserve more energy in view of the recent electricity supply restrictions.

In the year ended March 31, 2014, the total CO<sub>2</sub> emissions of Nikon Corporation and Group manufacturing companies in Japan amounted to 124 thousand tons, indicating we achieved our target of 135 thousand tons. For the same period, the CO<sub>2</sub> emissions per unit of real output from Group manufacturing companies outside Japan were reduced by 7.5% to meet the target of a 7.0% reduction compared with baseline emissions.

◆ **Waste Reduction**

The amount of waste disposal (except valuable resources) during the year ended March 31, 2014, by Nikon Corporation was 2,383 tons, while that by Group manufacturing companies in Japan totaled 1,413 tons. Together, Nikon Corporation and Group manufacturing companies in Japan achieved their target of maintaining the same level of waste disposal as in the year ended March 31, 2011.

In the year ended March 31, 2009, the Nikon Group defined four levels of zero emissions according to the rate of final landfill disposal. In light of the fact that many facilities have already achieved and maintained level 1, we added level S to the existing four levels in the year ended March 31, 2014, with which we are striving to achieve a further reduction in our final landfill disposal rate.

**Achievement of Level S and Level 1 Zero Emissions in the Nikon Group**

(Year ended March 31, 2014)

Level	Company
<b>Level S</b>	Nikon Corporation (All six plants)
	Tochigi Nikon Corporation / Tochigi Nikon Precision Co., Ltd.
	Sendai Nikon Corporation
	Miyagi Nikon Precision Co., Ltd.
	Kurobane Nikon Co., Ltd.
<b>Level 1</b>	TNI Industry Co., Ltd. Nagai Factory
	TNI Industry Co., Ltd. Aizu Factory
<b>Level 1</b>	Nikon Imaging (China) Co., Ltd.

\* Level S: Final landfill disposal rate of less than 0.5%  
Level 1: Final landfill disposal rate of less than 1%

## Nikon CSR Activities That Support Growth

### Implementation of Compliance Activities

## Encouraging Individual Employees to Make Decisions and Take Actions Appropriately in Response to Global Social Changes

### Nikon's Approach to Compliance

The Nikon Group defines compliance as “meeting the expectations of stakeholders and earning their trust by not only complying with laws and regulations but also conducting business activities that are sound, fair, and conform to corporate rules and social norms.” In April 2011, to put greater emphasis on global CSR, the Nikon Code of Conduct was revised, simplifying content such as fair business practices, human rights, CSR procurement, and anti-corruption, and became the shared code for conduct throughout the entire Group. Currently, the Nikon Code of Conduct is available in 19 languages.

#### ◆ Compliance Promotion System

The Business Conduct Committee, chaired by the senior executive vice president of Nikon Corporation, performs the functions of deliberation and decision of the action plans for the purpose of strengthening compliance. The Compliance Section of Nikon Corporation's CSR Department under the Business Conduct Committee works in cooperation with persons in charge of promoting compliance stationed in the various departments of the Company and in Group companies. Outside Japan, regional holding companies of the Group, in collaboration with the Compliance Section, are playing a major role in facilitating the promotion of compliance activities relevant to the region.

### Compliance Promotion Activities

#### ◆ Establishing a Group Anti-Bribery Policy

In April 2014, to reinforce measures to prevent bribery, we established the Nikon Anti-Bribery Policy after evaluating the bribery risks and surveying opportunities to interact with public officials in the course of work by interviewing employees who had returned from postings outside Japan or were dispatched to Group companies. This step reiterates the Nikon zero-tolerance approach toward bribery. Going forward, we will propagate this policy to ensure that it is known to all employees. We will also develop guidelines suited to the realities on the ground in each region.

#### ◆ Compliance Education

We implemented compliance education through e-learning as well as Group training conducted by compliance facilitators at all departments and companies in and outside Japan. In the year ended March 31, 2014, we took steps to spread awareness

of changes to the Nikon CSR Charter, which was revised in February 2013.

As of the year ended March 31, 2014, we started to distribute a global compliance newsletter that is available in English, Chinese, and Japanese. The newsletter takes up compliance-related news reported around the world and explains the thinking on compliance in the Nikon Group.

#### ◆ Code of Conduct Hotline

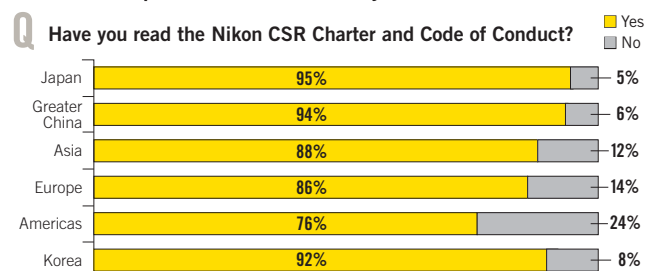
The Nikon Group established the Code of Conduct Hotline as a central point of contact for employees of the 22 Group companies in Japan, including five non-consolidated Group companies. In the year ended March 31, 2014, the hotline was used 50 times to report concerns related to harassment, alleged noncompliance, and other issues. These concerns are addressed and solved by relevant departments working in cooperation with each other.

Group companies outside Japan have their own reporting/consulting hotlines. However, since the hotlines have a low track record of use, we will conduct information campaigns through the holding companies in each region.

#### ◆ Global Awareness Survey

The Nikon Group conducts awareness surveys on a global scale among its employees in an effort to understand the degree of penetration of its corporate philosophy and awareness of the Code of Conduct as well as the implementation of compliance education. In the year ended March 31, 2014, we expanded the awareness surveys already conducted in Japan, China, and Europe to other regions, and we also made efforts to standardize certain questions on the awareness survey for all regions. A regional comparison of the standardized questions was reported to the Business Conduct Committee. In the future, we will continue to analyze survey results, which will be reflected in the activities to promote compliance.

### CSR and Compliance Awareness Survey (Year ended March 31, 2014)





## Respect for Human Rights and Labor Practices and Promotion of Diversity in the Workforce

# Respecting Diversity and Human Rights to Provide Employees with Workplaces Where They Can Fulfill Their Potential

### Nikon Group HR Vision

Based on our corporate philosophy of “Trustworthiness and Creativity,” we have defined the profile of the ideal employee that Nikon seeks, and in 2013 we established the Nikon Group HR Vision, which provides guidelines for talent development, training, and performance management. This vision was delivered to all Nikon Group employees through the Intranet, internal newsletters, internal training, and other means in the year ended March 31, 2014.

### Nikon Person Core Competencies



 [Nikon Group HR Vision \(full text\)](http://www.nikon.com/about/csr/employee/hr-vision/)  
http://www.nikon.com/about/csr/employee/hr-vision/

### Global Human Resources (HR) Management

The Nikon Group develops and manages global development programs for all Nikon Group employees to enable them to make valuable contributions on a global scale.

#### ◆ Global Human Resources Management Meeting

The Nikon Group invites HR managers from major countries to the Global Human Resources Management Meeting as part of efforts to globalize HR functions across the Nikon Group as well as to establish an infrastructure to develop global talent. In meetings held during the year ended March 31, 2014, the development of a talent management system and upcoming important initiatives were discussed.

#### ◆ Next-Generation Leader Training

We held a next-generation leader training program in Tokyo to develop future global leaders and to build a human network on a global scale. In this four-day program, participants from across the Nikon Group deepened their understanding of the history of Nikon and discussed the challenges that the Nikon Group is currently facing regarding future growth. This program has been held twice, with the participation of 36 people from 10 countries.



Participants engage in an intense discussion.

### Respect for Human Rights

Under the Nikon CSR Charter and the Nikon Code of Conduct, the Nikon Group is committed to respecting human rights. As an advocate and supporter of the international declaration on the protection of human rights, the Group also upholds the principles of the United Nations (UN) Global Compact.

#### ◆ Human Rights Education

The Nikon Group works to deepen its employees' understanding of human rights through education on the UN Global Compact. Group companies in Japan provide employees, including those of non-consolidated Group companies, with human rights education using e-learning. In the year ended March 31, 2014, we took extensive steps to promote training to employees who had never before received such education.

## Nikon CSR Activities That Support Growth

★: Includes quantitative data covered by independent practitioner's assurance. (See page 85 for details.)

### ◆ Conducting Monitoring Surveys at Group Companies

Each year since 2010, we have conducted regular monitoring surveys at all Nikon Group companies for the management of issues related to human rights and labor. The survey results are reported to the CSR Committee, and if any problems are detected, confirmation is made and instructions for corrective action are provided. In the year ended March 31, 2014, we conducted a monitoring survey of 65 companies, including five non-consolidated Group companies. No serious problems have been identified in the surveys conducted to date. Each Group company is notified of the survey results.

### Abilities Demonstrated by Diverse Employees

The Nikon Group respects diversity and the human rights of employees. By treating them fairly, our basic goal is to develop an environment in which employees can make the most of their abilities and produce optimal results as a team. We are currently focusing efforts in Japan, such as supporting the progress of women in the workplace and assisting people with disabilities.

### ◆ Women in the Workplace ★

The Nikon Group employs and treats its employees equally, regardless of gender. In Japan, however, large differences still exist between the numbers of male and female employees and managers. We regard this situation as a challenge for us to overcome. Nikon Corporation set a target of increasing the percentage of female employees to at least 10% of the total number (permanent employees and non-regular staff) by the end of March 2014. In our recruiting activities, we participated in joint job fairs for women and have been striving to improve the work environment to enable employees to achieve a better work-life balance. As a result, as of March 31, 2014, the percentage of female employees was 10.01%. Furthermore, Nikon Corporation has set the target of doubling the number of female managers\* from 22, as of the end of March 2010, to 44 by the end of March 2015. As of the end of March 2014, Nikon Corporation had 47 female managers, which shows we achieved the target earlier than planned. The Company will take steps to raise the ratio of female managers\* to 5.0% by the end of March 2017, which is its next target.

In recognition of its measures to support the career development of female employees, Nikon Corporation was selected as a Nadeshiko Brand company for the second consecutive year by the Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange, Inc.

\* Including those in positions other than department manager or higher and those in section manager positions

### ◆ Supporting Diverse Work Styles

The Nikon Group is developing systems and measures to enable employees to make the most of their abilities and produce results as a team. We also strive to manage our employees' working hours in consideration of achieving an appropriate work-life balance.

At Nikon Corporation, employees can take childcare leave for up to two years and opt to work either staggered or shorter hours to take care of their children or other family members. We have also made it possible for employees to take child or family care leave on an hourly basis. In the year ended March 2014, nine females participated in the staggered work shift, and 11 males and 66 females chose the short-time work option.

In addition, Nikon Corporation has established a variety of other leave systems, including a re-entry system and volunteer leave system.

### Health and Safety Management

The Nikon Group maintains the Nikon Group Health and Safety Goal to secure its employees' health and safety—which are the foundation of all its corporate activities—and to remain a vibrant corporation where people can be committed to work with enthusiasm and vitality.

In Japan, in addition to the statutory health and safety committee, the Nikon Group has its own Central Health and Safety Committee, which investigates and deliberates on matters related to the Company's health and safety policies, the establishment of accident-free workplaces, and basic measures taken to maintain and promote employee health.

Each Group company outside Japan also implements health and safety measures.



Nadeshiko Brand

## Promotion of Social Contribution Activities

# Fostering Social Contribution Activities through Communication with Society

### Approach to Social Contribution Activities

The Nikon Group actively engages in social contribution activities, adopting the basic policy of contributing to the achievement of a wholesome society as a good corporate citizen. In line with this policy, the Nikon Group conducts social contribution activities around the world in six fields—environment, education, contribution to local communities, assistance for reconstruction, welfare, and photographic and image cultures.

### Environment

#### ◆ The International Children's Painting Competition

To foster environmental awareness among children, on whose shoulders the future rests, Nikon has been organizing the International Children's Painting Competition on the Environment with the United Nations Environment Programme (UNEP) and the Foundation for Global Peace and Environment (FGPE). In 2013, 697,876 entries were submitted from 110 countries. Nikon seeks to spread children's messages on the importance of environmental conservation by showcasing the winning entries at exhibitions.



The painting by 1st prize global winner Chiratchaya Kaeokamkong (age 12, Thailand), in the 22nd competition

### Education

#### ◆ Nikon Scholarship Program in Thailand

Having built a strong, lasting partnership with Thailand through its business activities, the Nikon Group established scholarship programs that provide support for students attending schools in Thailand and graduate students studying overseas in Japan. Through the Nikon Shanti Scholarship program, Nikon supported 174 students in the year ended March 2014, bringing the total number of participants to date to 1,192 students. From 2013, Nikon has launched the Gift from Nikon Project, whereby scholarship students receive framed pictures of themselves with important people in their lives, such as family or friends.



Presenting a photo to a student at the scholarship ceremony in November 2013

#### ◆ Nikon Scholarship Program in Laos

After Nikon Lao Co., Ltd., commenced operations in 2013, Nikon established two scholarship programs. Nikon hopes that these programs will contribute to the development of human resources, the future prosperity of Laos, and the cultivation of friendship with Japan. Through the Nikon-EDF Japan Scholarship for Laos program, support for 100 junior high school students will be provided every year, while the Nikon-JICA Scholarship for Laos will offer annual support for 40 students at Savannakhet University.

### Assistance for Reconstruction

#### ◆ Assisting Reconstruction through Photography—Photo Book Project for Junior High School Students

The Nikon Group has continued to provide reconstruction assistance following the Great East Japan Earthquake. The year ended March 2014 marked the third year of the Photo Book Project for Junior High School Students. Forty-two schools and one organization took part in the project, through which 2,850 students created their own photo books. Nikon provided support by donating compact digital cameras and organizing activities at schools, including photography classes.



Photobooks created by junior high school students

### Photographic and Image Cultures

#### ◆ Nikon Photo Contest

In the hope that lovers of photography around the world, from amateurs to professionals, will feel more joy through images and more happiness through expressions, Nikon is conducting a wide range of activities to contribute to photographic arts and photographic culture. Such activities include providing photographers with exhibition space for their works and organizing contests. Nikon has been holding the Nikon Photo Contest as an international photo competition since 1969. Approximately 370,000 photographers have entered the contest to date, submitting more than 1.46 million entries.



Logo of the Nikon Photo Contest 2014-2015

## Nikon CSR Activities That Support Growth

### Promotion of CSR Activities in the Supply Chain

## Aiming to Deepen Mutual Understanding and Achieve Co-Prosperity with Procurement Partners through Supply Chain Management

### Dealing with the Issue of Conflict Minerals

#### ◆ Policy and Management Systems

The Nikon Group promotes corporate social responsibility (CSR) throughout the supply chain in an effort to strike a balance between improving social and environmental conditions and achieving sustainable growth as a company. One of the most serious social issues in the world is that of conflict minerals from the Democratic Republic of the Congo and its neighboring countries. The Nikon Group has adopted a basic policy of not using conflict minerals mined or intermediated by armed forces violating human rights in the area. To cut off funding to such groups, we have been conducting surveys in our supply chain since 2011 to determine policy compliance.

In 2013, we surveyed the procurement partners for our main products and achieved a response rate of 90.5%, as we worked to identify smelting sites for such minerals. Going forward, we will continue to strive to achieve “conflict-free” Nikon products in cooperation with our procurement partners in 2014 and beyond.



Explanatory meetings for our procurement partners

#### ◆ Cooperation with Outside Organizations

Nikon Corporation is tackling the issue of conflict minerals in cooperation with industry organizations and others. From November 2012, we have participated in the Responsible Minerals Trade Working Group, a study group established by the Japan Electronics and Information Technology Industries Association (JEITA), to collect more information. We have engaged in industry group activities since then.

One of the essential steps in promoting conflict-free products is to increase the number of smelters around the world that have been confirmed as not having any connection with armed forces. For this reason, in April 2014 we joined the Conflict-Free Sourcing Initiative (CFSI; headquartered in Washington, D.C.), which is establishing the CFS Program.

We will endeavor to engage in dialogue and collaboration with NGOs as we strive to procure mineral resources in a responsible manner and tackle human rights issues in the Democratic Republic of the Congo and its neighboring countries.

### Promoting CSR-Oriented Procurement

#### ◆ CSR-Oriented Procurement Promotion System

Based on the Nikon Basic Procurement Policy, the Nikon Group has established the Nikon Procurement Partners' CSR Guidelines to engage with CSR issues, including the prevention of corruption and respect for human rights, along the entire supply chain.

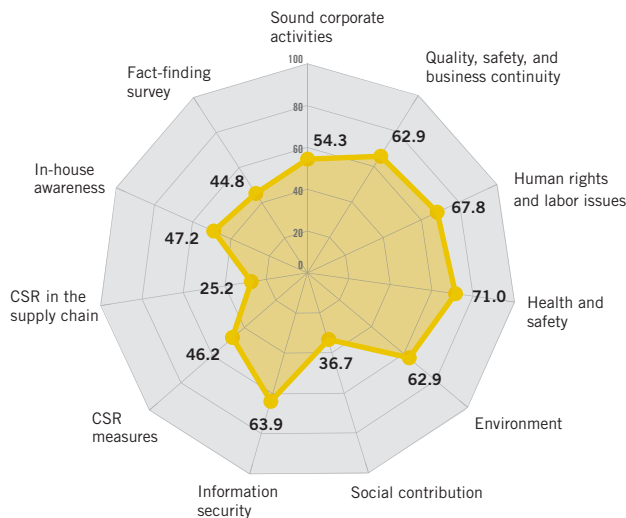
 **Basic Procurement Policy**  
<http://www.nikon.com/about/info/procurement/policy.htm>

#### ◆ Increasing Awareness among Procurement Partners

To fulfill its social responsibilities in the supply chain, the Nikon Group promotes CSR procurement in stages across the entire supply chain, including procurement partners. These activities include briefing sessions, surveys, and efforts to ascertain current conditions through on-site inspections. In the year ended March 31, 2014, we conducted questionnaire-style CSR surveys of all 2,382 procurement partners of the Nikon Group in Japan. Taking into account the quality of the survey results, we identified high-priority procurement partners and conducted on-site inspections at 36 companies. Outside Japan, we are advancing initiatives in the Asia region where our principal production sites are located. In the year ended March 31, 2014, we carried out CSR surveys at 12 procurement partners that had not been previously surveyed. In the year ending March 31, 2015, we will formulate a CSR Procurement Standard that incorporates more detailed requirements for our procurement partners, and to verify the standard we will monitor procurement partners.

**Results of the CSR Survey of Procurement Partners in Japan**

(Total data: 1,039 companies Unit: %)



**◆ Activities Related to Paper Procurement**

We frequently hear reports of numerous problems involving the procurement of raw materials for paper and the decline in the world's natural forests. In April 2013, the Nikon Group established a Paper Procurement Policy and communicated it to Group companies in and outside Japan to strive for appropriate paper procurement. In September 2013, we conducted a monitoring survey designed to verify paper procurement within the Group and used the results to set a medium-term goal for the year ending March 2017.

Nikon Corporation has participated in the Consortium for Sustainable Paper Use (CSPU) since June 2014. The consortium was established jointly by Japanese companies, World Wide Fund for Nature (WWF) Japan—an international environmental conservation NGO—and Response Ability, Inc. The objective and goal of the consortium is to encourage and expand the sustainable use of paper throughout society. We are also pursuing initiatives pertaining to paper usage in collaboration with other companies.



CSPU's logo

**Promoting Green Procurement**

**◆ Green Procurement Promotion System**

The Nikon Group has established the Nikon Green Procurement Standards for procuring environmentally friendly parts and materials. We have incorporated the standards in the basic transaction agreement and promote them across the entire supply chain. In recent years, regarding regulations on chemical substances in products, such as the European RoHS Directive and the European REACH Regulation, compliance has become a key issue, and we have worked to enhance our management systems. Managing hazardous chemical substances contained in Nikon products requires the cooperation of our procurement partners because the products are manufactured from materials and parts that are procured and manufactured along a complex supply chain. The Nikon Group examines, implements, and monitors concrete action through the Green Procurement Subcommittee and its subordinate organization, the Green Procurement Conference, to build a system to manage chemical substances in products throughout its supply chain.

**◆ Building and Auditing Environmental Management Systems**

The Nikon Group asks its procurement partners to establish and operate environmental management systems that meet the Nikon Green Procurement Standards. Environmental management systems are classified as management systems for environmental conservation and management systems for chemical substances in products. Systems for managing environmental conservation require our procurement partners to build structures for reducing the environmental impact of their business activities. Systems to manage chemical substances, on the other hand, require building structures that target procured products and their manufacturing processes to manage and reduce chemical substances that have an impact on the environment.

As well as auditing the environmental management systems of its procurement partners, the Nikon Group provides support for those partners that have not yet developed similar systems. We also certify procurement partners who meet the requirements for environmental management systems as Nikon Environmental Partners. In the year ended March 2014, we surveyed 150 business sites and divisions, conducting partner certification for 113 business sites. Through these initiatives, we are promoting further improvements of environmental management systems across the supply chain.

# Corporate Governance

## Management System

The Nikon Group carries out its business through a divisional organization under the direct control of the president. We have also established a management system that responds swiftly to changes in the business environment through our officer system.

## Board of Directors and the Executive Committee

The Board of Directors makes prompt decisions on matters of importance to the Nikon Group and monitors the exercise of duties by directors. Two independent outside directors also sit on the Board to strengthen the supervisory functions of the Board of Directors.

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

## Board of Corporate Auditors

Corporate auditors periodically attend important meetings, such as those of the Board of Directors and the Executive Committee in order to supervise the execution of duties by directors as well as to perform monitoring and auditing of corporate management and directors. Two independent external corporate auditors are also invited to Board of Corporate Auditors.

## Number of Female and Non-Japanese Directors, Corporate Auditors, and Officers of Nikon Corporation

**Females: 0, Non-Japanese: 0**

## Attendance at Meetings of the Board of Directors and Board of Corporate Auditors by External Directors and External Corporate Auditors

(Year ended March 31, 2014)

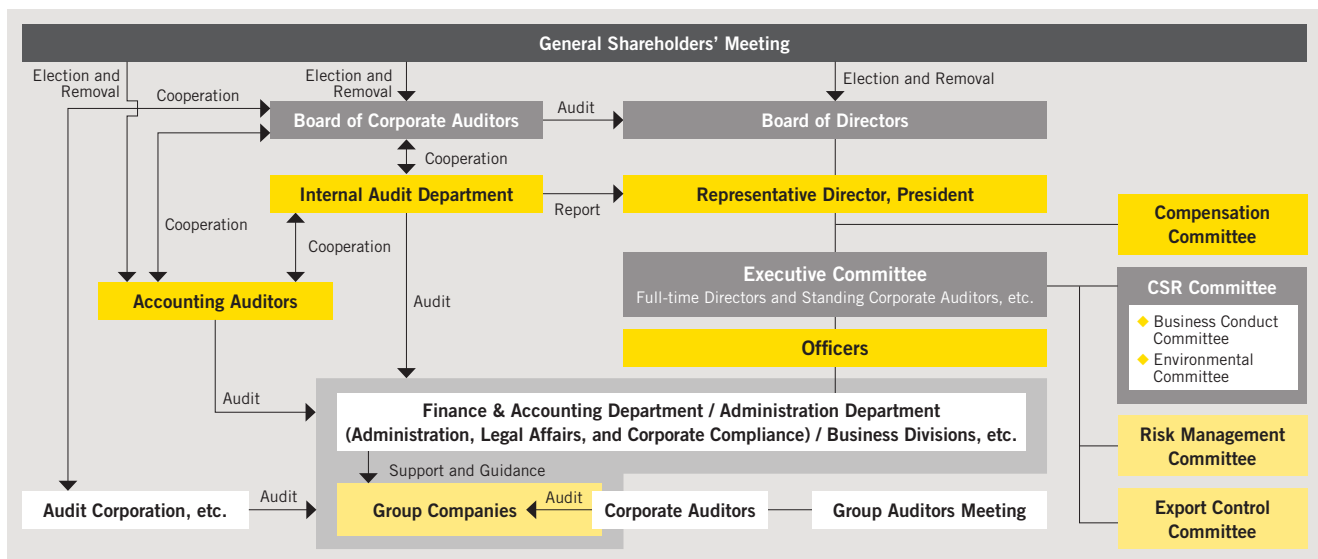
Category	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Board of Corporate Auditors
External directors	Kenji Matsuo	Present at 12 of 13 meetings	—
	Koukei Higuchi	Present at 12 of 13 meetings	—
External corporate auditors	Susumu Kani	Present at 13 of 13 meetings	Present at 8 of 8 meetings
	Haruya Uehara	Present at 12 of 13 meetings	Present at 8 of 8 meetings
	Hiroshi Hataguchi	Present at 13 of 13 meetings	Present at 8 of 8 meetings

\* Mr. Susumu Kani resigned from the position of corporate auditor as of June 27, 2014.

## Compensation Committee

The Compensation Committee, which includes experts from outside the Nikon Group, was established to enhance the objectivity and transparency of matters related to compensation of directors, officers, and corporate auditors and to ensure that decisions on remuneration are linked to corporate financial results. The obligations of this committee include examining and proposing guidelines for the compensation of directors, officers, and corporate auditors and other related systems.

## Nikon's Corporate Governance Organization (As of June 27, 2014)



**Compensation for Directors and Corporate Auditors** (Year ended March 31, 2014)

Category	Monthly compensation		Subscription rights to shares granted as stock-related compensation		Bonus		Total	
	Number of persons	Amount of compensation	Number of persons	Amount of compensation	Number of persons	Amount of compensation	Number of persons	Amount of compensation
<b>Directors</b> (External directors out of all directors)	10 (2)	¥303 million (¥20 million)	8 (—)	¥104 million (—)	8 (—)	¥80 million (—)	10 (2)	¥487 million (¥20 million)
<b>Corporate auditors</b> (External corporate auditors out of all corporate auditors)	5 (3)	¥81 million (¥30 million)	—	—	—	—	5 (3)	¥81 million (¥30 million)
<b>Total</b>	15	¥384 million	8	¥104 million	8	¥80 million	15	¥568 million

**Method for Calculating Compensation**

<b>Basic policies regarding compensation</b>	<ul style="list-style-type: none"> <li>The compensation system is intended to provide motivation for continuous efforts to improve corporate and shareholder value and be capable of enhancing drive and morale.</li> <li>The compensation system is intended to enable the securing and retention of talented human resources as well as support their development and offer incentives.</li> <li>Decision-making processes within the compensation system should be objective and highly transparent.</li> </ul>
<b>Compensation structure</b>	The compensation structure for directors consists of a firmly fixed monthly compensation, a bonus linked to the degree of achievement of corporate performance objectives, and stock compensation-type stock options. The latter encourages directors and officers to share a common awareness of value with shareholders and further enhances motivation and morale for long-term improvements in performance. Compensation for outside directors and corporate auditors consists of fixed monthly compensation only.
<b>Performance-based system linked to corporate financial results</b>	The amount of bonus paid can fluctuate between zero to two times the standardized minimum for such bonuses depending on performance evaluation indicators and the degree of achievement of performance objectives for duties for which the director or officer is responsible. Consolidated net sales, consolidated ordinary income, and consolidated cash flow are used as performance evaluation indicators.
<b>Method for deciding compensation level and payment amount</b>	To ensure that compensation levels and structures are decided appropriately and in line with duties and responsibilities, the Compensation Committee, which includes experts from outside the Nikon Group, examines and offers proposals regarding related systems. Compensation levels at major Japanese companies with global operations are also considered in setting compensation at a level that reflects the Company's business performance and scale. The Compensation Committee, which comprises a representative director and several outside experts, determines policy regarding compensation for directors, officers, and corporate auditors, examines systems, and deliberates issues such as specific methods for calculating compensation. The Board of Directors decides director and officer compensation based on the results of such deliberations, while compensation for corporate auditors is decided in consultation with the corporate auditors.

**Compensation for Corporate Auditor** (Year ended March 31, 2014)

Accounting Auditor	Category	Payment
<b>Deloitte Touche Tohatsu LLC</b>	Total amount of remuneration, etc., of independent auditor during the fiscal year under review	¥87 million
	Total amount of money and other properties that the Company and its subsidiaries must pay in remuneration of independent auditor for its services to the Company and its subsidiaries during the fiscal year under review	¥165 million

**Internal Audits**

An internal audit department has been established as an independent organization that reports directly to the president. The department independently evaluates the Internal Control Reporting System (J-SOX) and the effectiveness of internal control from the standpoint of the Companies Act. In addition, the department audits the systems of the Nikon Group and their operational status, examining whether the operations of each department are appropriately conducted, as well as whether risks are being effectively managed. The department then makes recommendations for improvement.

Outside Japan, internal audit sections have been established at each of the regional holding companies. Each of these sections performs audits and J-SOX evaluations of its local companies from an independent standpoint, supervised by the Internal Audit Department of Nikon Corporation. Under this globalized internal audit system, which covers four world regions including Japan, we will work to implement even more effective audits on a global scale.

**Risk Management**

As an organization for risk management coordination, the Nikon Group has created the Risk Management Committee, which is chaired by a senior executive vice president.

In addition, the Nikon Group conducts risk identification surveys to gain overall insight into the risks potentially affecting the Group and then performs risk assessment, in which it identifies, analyzes, and evaluates criteria to create a risk map that shows the level of influence and probability of each risk. We study measures for mitigating risks and determine the order of priority for addressing them. We also compared our Group's status with the general risk map of the manufacturing industry to detect any risks that may have been overlooked inside the Group. We regularly update the risk map and visualize the progress of countermeasures as well as subsequent changes in the monitored risks.

# Directors, Corporate Auditors, and Officers

(As of June 27, 2014)



## Directors

### Makoto Kimura <sup>1</sup>

**Chairman of the Board  
Representative Director**

1974 Joined the Company  
2001 Corporate Vice President, General Manager of Marketing & Merchandising Management Department, Imaging Company  
2002 Corporate Vice President, General Manager of Marketing Management Department, Imaging Company  
2002 Corporate Vice President, President of Imaging Company  
2003 Managing Director, Member of the Board & Executive Vice President, President of Imaging Company  
2005 Senior Managing Director, Member of the Board & Executive Vice President, President of Imaging Company  
2007 Director, Member of the Board & Executive Vice President, President of Imaging Company  
2009 Director, Member of the Board & Senior Executive Vice President, Officer in charge of Business Development Headquarters, President of Imaging Company  
2010 Director, President, Member of the Board, Officer in charge of Business Development Headquarters  
2014 Chairman of the Board and Director (to present)

### Kazuo Ushida <sup>2</sup>

**President  
Representative Director**

1975 Joined the Company  
2003 Corporate Vice President, General Manager of Development Headquarters, Precision Equipment Company  
2005 Managing Director, Member of the Board & Executive Vice President, President of Precision Equipment Company  
2007 Director, Member of the Board & Executive Vice President, President of Precision Equipment Company  
2009 Director, Member of the Board & Executive Vice President, Officer in charge of Intellectual Property Headquarters, President of Precision Equipment Company  
2013 Director, Member of the Board & Senior Executive Vice President, Officer in charge of Intellectual Property Headquarters, President of Precision Equipment Company, Vice Officer in charge of Corporate Planning Headquarters  
2014 President and Director, Overseeing Business Development Division and Medical Business Development Division (to present)

### Junichi Itoh <sup>3</sup>

**Senior Executive Vice President,  
CFO  
Representative Director**

1975 Joined Mitsubishi Bank, Ltd.  
2002 Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.  
2005 Managing Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.  
2005 Managing Director of The Bank of Tokyo-Mitsubishi, Ltd.  
2006 Managing Director of The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
2009 Senior Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
2011 Director, Member of the Board & Senior Executive Vice President & CFO, Officer in charge of Corporate Planning Headquarters and Finance & Accounting Headquarters of the Company  
2012 Director, Member of the Board & Senior Executive Vice President & CFO, Officer in charge of Corporate Planning Headquarters, Finance & Accounting Headquarters and Information Security Headquarters  
2014 Senior Executive Vice President, CFO and Director, Overseeing Corporate Strategy Division and Internal Audit Department (to present)

### Yasuyuki Okamoto <sup>4</sup>

**Senior Vice President  
Director**

1978 Joined the Company  
2005 Corporate Vice President, General Manager of Marketing Management Department, Imaging Company  
2006 Corporate Vice President, General Manager of Marketing Headquarters, Imaging Company  
2007 Corporate Vice President, President & CEO of Nikon Inc.  
2009 Senior Vice President, President & CEO of Nikon Inc.  
2010 Director, Member of the Board & Senior Vice President, President of Imaging Company  
2014 Senior Vice President and Director, Overseeing Imaging Business Unit and Business Support Division (to present)

### Norio Hashizume <sup>5</sup>

**Senior Vice President  
Director**

1975 Joined the Company  
2005 Corporate Vice President, General Manager of Financing & Accounting Department  
2009 Director, Member of the Board & Corporate Vice President, Officer in charge of Affiliates Administration Department, General Manager of Financing & Accounting Department  
2010 Director, Member of the Board & Senior Vice President, General Manager of Finance & Accounting Headquarters  
2014 Senior Vice President and Director, Overseeing Finance & Accounting Division (to present)



**Hiroshi Ohki** 6**Senior Vice President  
Director**

1979 Joined the Company  
 2008 Corporate Vice President, General Manager of Research & Development Headquarters, Core Technology Center  
 2011 Senior Vice President, Vice President of Core Technology Center & General Manager of Research & Development Headquarters, Core Technology Center  
 2012 Director, Member of the Board & Senior Vice President, President of Core Technology Center  
 2014 Senior Vice President and Director, General Manager of Core Technology Division, Overseeing Intellectual Property Division, Semiconductor Lithography Business Unit, Microscope Solutions Business Unit, Industrial Metrology Business Unit and Customized Products Business Unit (to present)

**Toshiyuki Masai** 9**Director**

1980 Joined the Company  
 2005 Corporate Vice President, President & CEO of Nikon Inc.  
 2007 Corporate Vice President, President of Nikon Europe B.V.  
 2009 Director, Member of the Board & Senior Vice President, President of Instruments Company  
 2014 Director (to present)

**Takaharu Honda** 7**Senior Vice President  
Director**

1977 Joined the Company  
 2008 Corporate Vice President, General Manager of Business Planning Department, Imaging Company  
 2011 Senior Vice President, Officer in charge of Corporate Communications & IR Department, General Manager of Corporate Planning Headquarters  
 2014 Senior Vice President and Director, General Manager of Human Resources & Administration Division, Overseeing Information Security Division and Information System Division (to present)

**Kenji Matsuo** 10**External Director**

1973 Joined Meiji Life Insurance Company  
 2001 Director of Meiji Life Insurance Company  
 2004 Director of Meiji Yasuda Life Insurance Company  
 2005 Managing Director of Meiji Yasuda Life Insurance Company  
 2005 President, Representative Director of Meiji Yasuda Life Insurance Company  
 2006 External Director of the Company (to present)  
 2006 President, Representative Executive Officer and Director of Meiji Yasuda Life Insurance Company  
 2013 Senior Advisor of Meiji Yasuda Life Insurance Company (to present)

**Tomohide Hamada** 8**Senior Vice President  
Director**

1980 Joined the Company  
 2009 Corporate Vice President, General Manager of 2nd Development Department, LCD Equipment Division, Precision Equipment Company  
 2012 Corporate Vice President, General Manager of LCD Equipment Division, Precision Equipment Company  
 2013 Senior Vice President, General Manager of LCD Equipment Division, Precision Equipment Company  
 2014 Senior Vice President and Director, General Manager of Corporate Strategy Division (to present)

**Koukei Higuchi** 11**External Director**

1960 Joined The Tokio Marine & Fire Insurance Co., Ltd.  
 1996 President of The Tokio Marine & Fire Insurance Co., Ltd.  
 2001 Chairman of The Tokio Marine & Fire Insurance Co., Ltd.  
 2003 Counsellor of The Tokio Marine & Fire Insurance Co., Ltd.  
 2004 Counsellor of Tokio Marine & Nichido Fire Insurance Co., Ltd.  
 2010 External Director of the Company (to present)  
 2013 Honorary Adviser of Tokio Marine & Nichido Fire Insurance Co., Ltd. (to present)

**Corporate Auditors****Yoshimichi Kawai** 12**Standing Corporate Auditor**

1972 Joined the Company  
 2001 Operating Officer, General Manager of Customized Products Division  
 2003 Operating Officer, General Manager of Production Headquarters, Precision Equipment Company  
 2004 Director, Member of the Board & Operating Officer, Vice President of Precision Equipment Company  
 2005 Managing Director, Member of the Board & Senior Executive Officer, Vice President of Precision Equipment Company  
 2007 Director, Member of the Board & Executive Officer, Officer in charge of Financing & Accounting Department, President of Business Administration Center  
 2009 Director, Member of the Board & Executive Officer, Officer in charge of Corporate Communications & IR Department, President of Business Administration Center  
 2011 Standing Corporate Auditor (to present)

**Koichi Fujii** 13**Standing Corporate Auditor**

1978 Joined the Company  
 2008 General Manager of Internal Audit Department  
 2014 Standing Corporate Auditor (to present)

**Haruya Uehara** 14**External Corporate Auditor**

1969 Joined The Mitsubishi Trust and Banking Corporation  
 1996 Director of The Mitsubishi Trust and Banking Corporation  
 2002 Deputy President of The Mitsubishi Trust and Banking Corporation  
 2004 President, The Mitsubishi Trust and Banking Corporation  
 2005 President, Mitsubishi UFJ Trust and Banking Corporation  
 2008 Chairman, Mitsubishi UFJ Trust and Banking Corporation  
 2011 Corporate Auditor of the Company (to present)  
 2012 Senior Advisor, Mitsubishi UFJ Trust and Banking Corporation (to present)

**Hiroshi Hataguchi** 15**External Corporate Auditor**

1967 Registered as attorney at law  
 1967 Joined the Export-Import Bank of Japan  
 1972 Joined Otsuka General Legal Office  
 1987 Professor, the Legal Training and Research Institute, Supreme Court of Japan  
 1990 Lecturer, Faculty of Law, Hosei University  
 1994 Vice President, Daiichi Tokyo Bar Association  
 1996 Governor, the Japan Federation of Bar Associations  
 2010 Established Hataguchi Legal Office (to present)  
 2011 Corporate Auditor of the Company (to present)

**Officers**

Officers who are not Directors are listed below.

**Kunio Kawabata****Senior Vice President**

Overseeing FPD Lithography Business Unit, Glass Business Unit, and Encoder Business Unit

**Toshikazu Umatate****Senior Vice President**

General Manager of Semiconductor Lithography Business Unit

**Nobuyoshi Gokyu****Senior Vice President**

General Manager of Imaging Business Unit

**Kazuyuki Kazami****Corporate Vice President**

General Manager of Business Development Division

**Tsuneyoshi Kon****Corporate Vice President**

General Manager of Business Support Division

**Masao Nakajima****Corporate Vice President**

General Manager of Industrial Metrology Business Unit

**Osamu Shimoda****Corporate Vice President**

General Manager of Medical Business Development Division

**Toru Iwaoka****Corporate Vice President**

President & CEO of Nikon Inc.

**Kenji Yoshikawa****Corporate Vice President**

Corporate Strategy Division

**Atsumi Nakamura****Corporate Vice President**

General Manager of Microscope Solutions Business Unit & Department Manager of Marketing Department

**Takumi Odajima****Corporate Vice President**

Corporate Strategy Division

**Jun Nagatsuka****Corporate Vice President**

Deputy General Manager of Medical Business Development Division

**Yojiro Tanii****Corporate Vice President**

General Manager of Customized Products Business Unit

**Kiyoyuki Muramatsu****Corporate Vice President**

General Manager of FPD Lithography Business Unit

**Hiroyuki Hiraiwa****Corporate Vice President**

General Manager of Glass Business Unit

**Tetsuya Yamamoto****Corporate Vice President**

Sector Manager of Development Sector, Imaging Business Unit & Department Manager of Fundamental Technology Development Department

**Naoya Sugimoto****Corporate Vice President**

Corporate Strategy Division & Department Manager of Alliance Development Department

**Tadashi Nakayama****Corporate Vice President**

Sector Manager of Marketing Sector, Imaging Business Unit

# Management's Discussion and Analysis

Nikon Corporation and Consolidated Subsidiaries  
For the year ended March 31, 2014

## Business Environment

During the consolidated fiscal year ended March 31, 2014, Japan showed signs of a slight recovery aided by a series of government policies, but the global economy struggled, with the United States generally improving but not in individual consumption, Europe in economic stagnation, and the developing economies facing adversity. In this environment, we revamped operations to profit thanks to changes in the business climate and set up a Management Measures Committee to make business intrinsically stronger. Stressing "minimum cost operations" to the entire Group, we worked to slash supply and logistics costs and to streamline development and manufacturing.

The market environments of our core businesses varied. In the Precision Equipment Business, fields related to semiconductors were weak, while fields related to flat panel displays (FPD) progressed steadily. In the Imaging Products Business, the market shrank for both interchangeable lens-type digital cameras and compact digital cameras. In the Instruments Business, the market remained steady for bioscience instruments and, in the latter half of the fiscal year, signs of recovery were evident in capital investment for industrial instruments.

## Financial Performance

In addition to overall cost-cutting measures and streamlining to build a profit structure responsive to market changes, we invested in distinctive new products to strengthen our existing businesses. In new business areas, we placed priority on analytics and diagnosis in health and medical-related areas by actively engaging in capital and business partnerships for research and development (R&D) and for activities aimed at creating viable future businesses.

As a result, on a consolidated basis, net sales for the fiscal year under review declined ¥29,938 million, or 3.0%, to ¥980,556 million, while operating income climbed ¥11,940

million, or 23.4%, to ¥62,942 million. With ¥15,006 million in extraordinary income from the Ministry of Land, Infrastructure, Transport and Tourism to compensate for expropriating land and relocating buildings at the Yokohama Plant, net income reached ¥46,825 million, an increase of ¥4,366 million, or 10.3%, from the previous year.

## Income (Loss) Analysis

Years ended March 31, 2013 and 2014

	% of Net Sales	
	2013	2014
Net sales	100.0%	100.0%
Cost of sales	(65.7)	(64.3)
Gross profit	34.3	35.7
SG&A expenses	(29.3)	(29.3)
Operating income	5.0	6.4
Other income (expenses)—net	1.1	1.2
Income before income taxes and minority interests	6.1	7.6
Income taxes	(1.9)	(2.8)
Net income before minority interests	4.2	4.8
Net income	4.2	4.8

\* Expenses, losses, and subtractive amounts are in parentheses.

## Performance by Business Segment

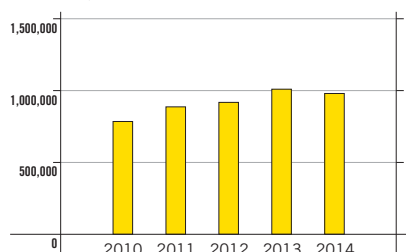
### Precision Equipment Business

Lackluster capital investment for semiconductor manufacturers led to adverse market conditions, whereas FPD-related concerns progressed steadily due to stronger demand related to smartphones and tablet computers.

While striving to boost sales in the semiconductor lithography business, particularly of NSR-S621D and NSR-S622D ArF immersion scanners, we started taking orders for the NSR-S630D, which features enhanced overlay accuracy in superpositioning and higher productivity. Sales grew steadily in the

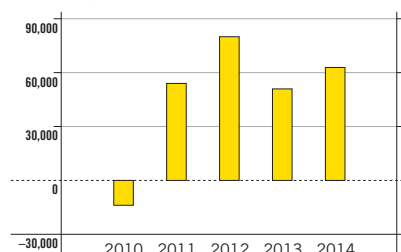
### Net Sales

(Years ended March 31)  
Millions of yen



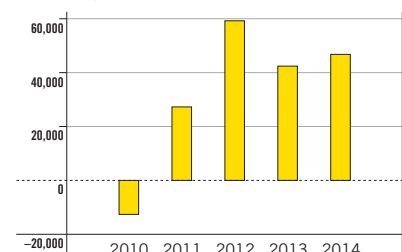
### Operating Income (Loss)

(Years ended March 31)  
Millions of yen



### Net Income (Loss)

(Years ended March 31)  
Millions of yen



FPD lithography business, especially of the FX-66S and the FX-67S, which are geared for the production of small to medium-sized high-definition displays for smartphones and tablet computers, thus allowing the Company to retain its high market share. We also strengthened the profit structure by shortening production times and cutting costs throughout the business.

Net sales thus increased 14.8% from the previous fiscal year, to ¥205,447 million, and operating income surged 53.4%, to ¥20,079 million.

### Imaging Products Business

The market for interchangeable lens-type digital cameras shrank drastically, reflecting worsening market environments especially in Europe and China, while a similar decline occurred in the market for compact digital cameras, as both businesses faced adverse market environments.

For interchangeable lens-type digital cameras, we pushed sales of such existing products as the D7100 and launched distinctly new products, including the Df, the smallest and lightest of the Nikon FX format cameras, and the D4S, the latest flagship model. We also released the Nikon 1 AW1, the world's first waterproof and shock-resistant interchangeable lens-type digital camera. The cumulative production of interchangeable lenses reached 85 million units in January 2014. With aggressive sales of compact digital cameras, such as the COOLPIX S6600, which is designed to make "selfies" easy, and the multi-function COOLPIX P600, the world's first camera equipped with a 60x optical zoom, we garnered high market share in each geographical region. Also, by slashing costs, adopting new materials, and streamlining our development, design, and manufacturing, along with revamping our sales strategy, we improved profitability.

Although net sales fell 8.8% from the previous fiscal year, to ¥685,446 million, operating income increased 5.9%, to ¥64,284 million.

### Instruments Business

Thanks to public spending increases in Japan and the United States, we expanded the Microscope Solutions Business sales, particularly of state-of-the-art super resolution microscope systems and inverted research microscopes. In February 2014, we signed a capital and business partnership agreement with JEOL Ltd. to reinforce sales activities and create new products.

In the industrial instruments business, semiconductors and electronic components sold sluggishly during the first half of the fiscal year due to restraint in capital investment, but recovery was visible from the latter half. We launched CNC video measuring systems, such as the NEXIV VMZ-R3020 and NEXIV VMZ-R6555, and further expanded sales focusing on non-contact metrology systems.

As a result, net sales increased 20.1% from the previous fiscal year, to ¥64,709 million, and an operating loss of ¥2,156 million was recorded, less than the previous year's loss of ¥4,978 million.

### Other Businesses

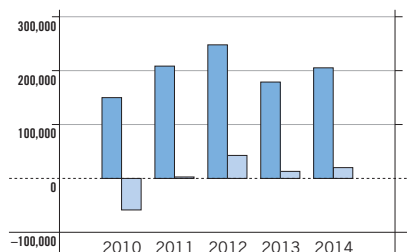
In the Customized Products Business, sales of space-related products decreased, whereas sales of solid-state lasers and optical components remained steady. In the Glass-Related Business, sales of FPD photomask substrates were higher than in the previous year.

As a result, net sales decreased 5.3% from the previous fiscal year, to ¥24,954 million; however, operating income increased 24.3%, to ¥4,420 million.

The breakdown of net sales by business segment for the fiscal year under review and the previous year, indicated in brackets, was 21.0% (17.7%) for Precision Equipment, 69.9% (74.3%) for Imaging Products, 6.6% (5.3%) for Instruments, and 2.5% (2.6%) for Other Businesses, with Precision Equipment and Instruments up year on year and accounting for dominant shares of sales.

#### Precision Equipment Business

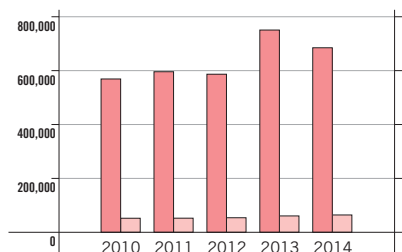
(Years ended March 31)  
Millions of yen



■ Net sales ■ Operating income (loss)

#### Imaging Products Business

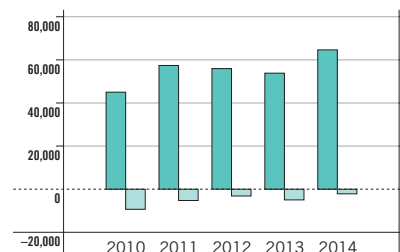
(Years ended March 31)  
Millions of yen



■ Net sales ■ Operating income

#### Instruments Business

(Years ended March 31)  
Millions of yen



■ Net sales ■ Operating loss

## Management's Discussion and Analysis

### Business Climate and Issues for the Current Fiscal Year

In the Nikon Group's business environment, for the Precision Equipment Business, a recovery is expected in the semiconductor-related market. In the FPD-related market, although investment may decline in equipment using small to medium-sized displays, demand is likely to recover for devices using large displays. In the Imaging Products Business, the market for interchangeable lens-type digital cameras is projected to contract, but an improvement is expected later in the fiscal year. Although the compact digital camera market will probably also shrink, the decrease is expected to be more moderate than in the fiscal year under review. In the Instruments Business, the bioscience-related market is expected to remain steady, and capital investment is likely to continue recovering in the industrial instruments market.

Against this background, the Nikon Group will continue to pursue "minimum cost operations" throughout the Group to strengthen management and will posture itself to swiftly recognize changes in the business climate and to respond flexibly and actively. In developing new businesses, we are considering areas, particularly in health and medical-related fields, for which we intend to actively invest in R&D and M&A opportunities. We will continue to globally develop our businesses with corporate social responsibility, enhancing our brand by aiming for higher-quality products.

### Capital Expenditures and R&D Spending

Capital expenditures were ¥45,472 million for the fiscal year ended March 31, 2014, a 24.4% decline from the previous fiscal year when plants in Thailand were repaired after flooding.

Within individual business segments, expenditures were ¥9,731 million for Precision Equipment, ¥16,131 million for Imaging Products, ¥1,363 million for Instruments, and ¥11,314 million for Other Businesses. The remaining ¥6,934 million in capital expenditures was used for Company assets. From the fiscal year ending March 31, 2015, the Nikon Group's depreciation amounts will be calculated using the straight-line method.

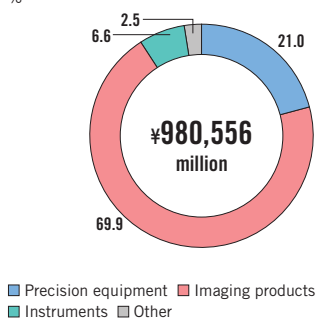
Although ¥74,552 million for R&D costs was 2.5% less than in the previous fiscal year, the proportion of R&D spending to net sales remained at the previous year's level of 7.6%. Within individual business segments, costs were ¥25,474 million for Precision Equipment, ¥28,430 million for Imaging Products, ¥5,257 million for Instruments, and ¥15,392 million for Other Businesses.

### Financial Position

Total assets as of March 31, 2014, were ¥949,515 million, an increase of ¥84,848 million from the previous fiscal year-end. This rise was mainly attributable to increased cash and cash equivalents. Liabilities reached ¥402,702 million, an increase of ¥28,252 million, due principally to the larger long-term debt as well as to bonds being issued. Completing the transfer of the land expropriated by the Ministry of Land, Infrastructure, Transport and Tourism enabled other—net for the expropriation in previous years to become compensation income for expropriation, resulting in current liabilities decreasing ¥19,010 million from the previous fiscal year-end. Net assets increased ¥56,595 million, to ¥546,813 million. This rise was attributable mainly to an increase in retained earnings due to ¥46,825 million in net income recorded in the fiscal year under review. The equity ratio moved up 0.9 point from the previous fiscal year, to 57.5%.

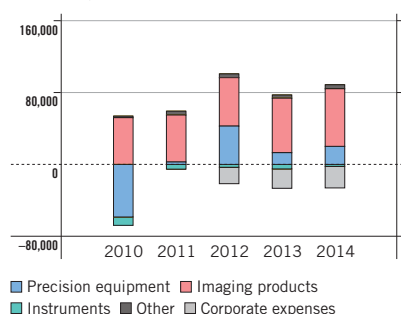
#### Sales by Business Segment

(Year ended March 31, 2014)  
%



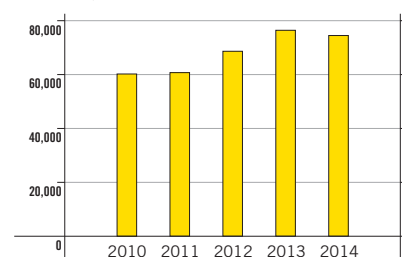
#### Operating Income (Loss) by Business Segment

(Years ended March 31)  
Millions of yen



#### R&D Costs

(Years ended March 31)  
Millions of yen



\* The "Other" segment comprises businesses not included in reportable segments, such as the Glass-Related Business and Customized Products Business.  
Beginning with the fiscal year ended March 31, 2012, we have revised our method of accounting for corporate expenses. Figures for operating income (loss) for the years ended March 31, 2010 and 2011, are based on the previous method.

**Cash Flow Analysis**

For the fiscal year ended March 31, 2014, net cash provided by operating activities was ¥114,185 million. This growth came despite a decrease in notes and accounts payable—trade of ¥13,942 million and income taxes—paid of ¥5,777 million, reflecting the posting of income before income taxes and minority interests of ¥74,692 million, a decrease in notes and accounts receivable—trade of ¥13,925 million, and a decrease in inventories of ¥34,684 million.

Net cash used in investing activities was ¥43,194 million, primarily expenditure of ¥32,681 million for purchases of property, plant and equipment.

Net cash provided by financing activities was ¥31,869 million. After taking into account ¥8,722 million in dividends paid, cash was derived from long-term debt of ¥27,000 million and the issuance of ¥19,889 million of bonds.

**Basic Policy on Shareholder Returns;  
Current and Subsequent Term Dividends**

Our policy on shareholder returns is as follows: “Along with expanding investment (investment in capital and in development) in business and technology development to ensure future growth as we take steps to enhance competitiveness, our fundamental approach is to pay a steady dividend that reflects the perspective of shareholders, while making adjustments to better reflect operating performance.” In accordance with this policy, and in light of a total return ratio of 25% or more as our goal, we conducted dividend increases and purchases of treasury stock. In line with the decrease in sales and a rise in profit for the fiscal year ended March 31, 2014, we increased the year-end dividend to ¥22 per share, ¥10 higher than in the previous year; including an interim dividend of ¥10 per share, the full-year dividend amounted to ¥32 per share. For the current fiscal year, we plan to pay a full-year dividend of ¥32 per share, of which the interim dividend will be ¥10 per share.

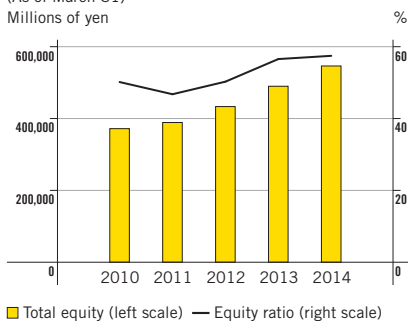
**Balance Sheet Analysis**

As of March 31, 2013 and 2014

	% of Total Assets	
	2013	2014
Total assets	100.0%	100.0%
Total current assets	66.5	68.3
Inventories	31.1	25.8
Property, plant and equipment	18.7	16.8
Investments and other assets	14.8	14.9
Total current liabilities	34.6	29.5
Short-term borrowings	2.1	1.5
Long-term debt, less current portion	7.2	10.5
Total equity	56.7	57.6

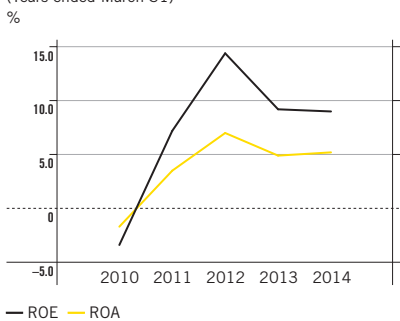
**Total Equity and Equity Ratio**

(As of March 31)  
Millions of yen



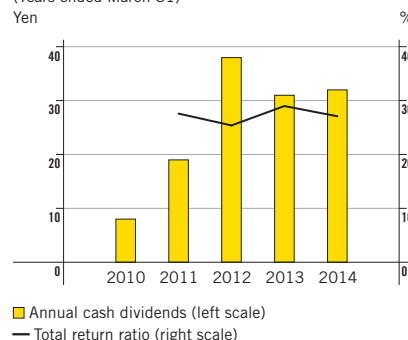
**ROE and ROA**

(Years ended March 31)  
%



**Annual Cash Dividends and Total Return Ratio**

(Years ended March 31)  
Yen



\* ROE is calculated as net income (loss) divided by average shareholders' equity, and ROA is calculated as net income (loss) divided by average total assets.

# Consolidated Balance Sheet

Nikon Corporation and Consolidated Subsidiaries  
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents (Note 14)	¥ 110,095	¥ 221,368	\$ 2,150,872
Notes and accounts receivable — trade (Note 14):			
Customers	129,154	123,896	1,203,805
Unconsolidated subsidiaries and associated companies	5,071	4,548	44,188
Inventories (Note 4)	269,413	244,942	2,379,925
Deferred tax assets (Note 11)	43,960	38,373	372,846
Other current assets	21,750	19,665	191,079
Allowance for doubtful receivables	(3,795)	(3,970)	(38,572)
Total current assets	575,648	648,822	6,304,143
<b>Property, plant and equipment (Note 5)</b>			
Land	15,026	15,235	148,023
Buildings and structures	119,753	126,082	1,225,050
Machinery and equipment	195,861	208,489	2,025,743
Furniture and fixtures	74,760	81,717	793,982
Lease assets	13,969	12,001	116,606
Construction in progress	15,936	8,408	81,694
Total	435,305	451,932	4,391,098
Accumulated depreciation	(273,700)	(292,654)	(2,843,505)
Net property, plant and equipment	161,605	159,278	1,547,593
<b>Investments and other assets</b>			
Investment securities (Notes 3, 6 and 14)	54,475	60,666	589,448
Investments in and advances to unconsolidated subsidiaries and associated companies	12,896	12,589	122,321
Long-term loans to employees and other	294	322	3,124
Net defined benefit asset	12,956	19,267	187,202
Software	21,769	23,256	225,962
Goodwill	4,443	3,760	36,530
Security deposits	3,184	3,233	31,411
Other (Note 2 (r))	17,630	18,578	180,512
Allowance for doubtful receivables	(232)	(256)	(2,483)
Total investments and other assets	127,415	141,415	1,374,027
<b>Total</b>	<b>¥ 864,668</b>	<b>¥ 949,515</b>	<b>\$ 9,225,763</b>

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings (Notes 6 and 14)	¥ 13,740	¥ 14,511	\$ 140,995
Current portion of long-term debt (Notes 6 and 14)	6,703	11,302	109,812
Notes and accounts payable — trade (Note 14):			
Suppliers	123,964	117,496	1,141,629
Unconsolidated subsidiaries and associated companies	713	1,345	13,069
Income taxes payable (Note 14)	1,396	4,449	43,228
Accrued expenses (Note 14)	54,505	52,272	507,894
Advances received	50,799	46,374	450,581
Provision for product warranties	8,096	9,927	96,453
Other current liabilities	39,270	22,500	218,617
Total current liabilities	299,186	280,176	2,722,278
<b>Long-term liabilities</b>			
Long-term debt (Notes 6 and 14)	64,905	101,319	984,447
Net defined benefit liability (Note 7)	3,632	4,675	45,422
Asset retirement obligations	2,512	2,755	26,773
Deferred tax liabilities (Notes 2 (r) and 11)	318	10,356	100,624
Other long-term liabilities	3,897	3,421	33,228
Total long-term liabilities	75,264	122,526	1,190,494
<b>Commitments and contingent liabilities</b> (Notes 13, 15 and 16)			
<b>Equity</b>			
Common stock (Note 8):			
Authorized—1,000,000,000 shares;			
issued, 400,878,921 shares in 2013 and 2014	65,476	65,476	636,183
Capital surplus (Note 8)	80,712	80,712	784,216
Stock acquisition rights (Note 9)	796	953	9,257
Retained earnings (Note 8)	345,698	384,843	3,739,246
Treasury stock—at cost:			
4,279,760 shares in 2013 and 4,219,304 shares in 2014	(12,804)	(12,619)	(122,606)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	9,482	12,859	124,945
Deferred loss on derivatives under hedge accounting	(217)	(160)	(1,556)
Foreign currency translation adjustments	2,136	17,424	169,297
Remeasurements of defined benefit plans	(1,061)	(2,762)	(26,837)
Total	490,218	546,726	5,312,145
Minority interests		87	846
Total equity	490,218	546,813	5,312,991
<b>Total</b>	¥864,668	¥949,515	\$9,225,763

See notes to consolidated financial statements.

## Consolidated Statement of Income

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Net sales</b>	¥1,010,494	¥980,556	\$9,527,362
<b>Cost of sales</b>	663,509	630,568	6,126,782
Gross profit	346,985	349,988	3,400,580
<b>Selling, general and administrative expenses (Note 10)</b>	295,983	287,046	2,789,022
Operating income	51,002	62,942	611,558
<b>Other income (expenses)</b>			
Interest and dividend income	2,069	2,073	20,143
Interest expense	(1,301)	(1,352)	(13,134)
Foreign exchange losses	(7,300)	(5,487)	(53,309)
Loss on sales of property, plant and equipment	(57)	(24)	(233)
Loss on impairment of long-lived assets (Note 5)	(664)	(2,320)	(22,541)
Loss on sales of investment securities	(32)	(12)	(113)
Loss on valuation of investment securities	(36)	(459)	(4,458)
Gain on sales of property, plant and equipment	302	239	2,318
Gain on sales of investment securities	5,133	1,485	14,427
Compensation income for expropriation (Note 19)		15,006	145,805
Insurance income	8,865		
Environmental expenses (Note 20)		(949)	(9,224)
Equity in earnings of associated companies	2,462	2,328	22,623
Other — net	1,414	1,222	11,866
Other income (expenses) — net	10,855	11,750	114,170
<b>Income before income taxes and minority interests</b>	61,857	74,692	725,728
<b>Income taxes (Note 11):</b>			
Current	12,082	11,714	113,820
Deferred	7,316	16,143	156,852
Total income taxes	19,398	27,857	270,672
<b>Net income before minority interests</b>	42,459	46,835	455,056
<b>Minority interests in net income</b>		10	93
<b>Net income</b>	¥ 42,459	¥ 46,825	\$ 454,963
		Yen	U.S. Dollars (Note 1)
<b>Per share of common stock (Notes 2 (p) and 18):</b>			
Basic net income	¥107.07	¥118.06	\$1.15
Diluted net income	106.92	117.88	1.15
Cash dividends applicable to the year	31.00	32.00	0.31

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Net income before minority interests</b>	¥42,459	¥46,835	\$455,056
<b>Other comprehensive income (Note 17):</b>			
Unrealized gain on available-for-sale securities	6,414	3,396	32,997
Deferred gain on derivatives under hedge accounting	1,376	56	548
Foreign currency translation adjustments	23,663	15,288	148,548
Remeasurements of defined benefit plans	(205)	276	2,679
Share of other comprehensive income (loss) in associates	6	(19)	(183)
Total other comprehensive income	31,254	18,997	184,589
<b>Comprehensive income (Note 17)</b>	¥73,713	¥65,832	\$639,645
Total comprehensive income attributable to:			
Owners of the parent	¥73,713	¥65,811	\$639,444
Minority interests		21	201

See notes to consolidated financial statements.



# Consolidated Statement of Changes in Equity

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2014

	Thousands	Millions of Yen											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)				Total	Minority Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurement of Defined Benefit Plans			
<b>BALANCE, April 1, 2012 (as previously reported)</b>	396,537	¥65,476	¥80,712	¥605	¥319,823	¥(12,993)	¥ 3,062	¥(1,593)	¥(21,475)		¥433,617	¥ —	¥433,617
Effect of accounting change				5					(51)	¥ (856)	(902)		(902)
<b>BALANCE, April 1, 2012 (restated)</b>	396,537	65,476	80,712	605	319,828	(12,993)	3,062	(1,593)	(21,526)	(856)	432,715		432,715
Adjustment of retained earnings for newly consolidated subsidiaries and liquidation of consolidated subsidiaries					(611)						(611)		(611)
Net income					42,459						42,459		42,459
Cash dividends, ¥40.0 per share					(15,862)						(15,862)		(15,862)
Purchase of treasury stock	(3)					(6)					(6)		(6)
Disposal of treasury stock	65				(116)	195					79		79
Net change in the year				191			6,420	1,376	23,662	(205)	31,444		31,444
<b>BALANCE, March 31, 2013</b>	396,599	¥65,476	¥80,712	¥796	¥345,698	¥(12,804)	¥ 9,482	¥ (217)	¥ 2,136	¥(1,061)	¥490,218	¥ —	¥490,218
Adjustment of retained earnings for newly consolidated subsidiaries and liquidation of consolidated subsidiaries					1,158						1,158		1,158
Net income					46,825						46,825		46,825
Cash dividends, ¥32.0 per share					(8,726)						(8,726)		(8,726)
Purchase of treasury stock	(5)					(11)					(11)		(11)
Disposal of treasury stock	66				(112)	196					84		84
Net change in the year				157			3,377	57	15,288	(1,701)	17,178	87	17,265
<b>BALANCE, March 31, 2014</b>	396,660	¥65,476	¥80,712	¥953	¥384,843	¥(12,619)	¥12,859	¥ (160)	¥ 17,424	¥(2,762)	¥546,726	¥87	¥546,813

Thousands of U.S. Dollars (Note 1)

	Thousands	Thousands of U.S. Dollars (Note 1)											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)				Total	Minority Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurement of Defined Benefit Plans			
<b>BALANCE, March 31, 2013</b>		\$636,183	\$784,216	\$7,733	\$3,358,904	\$(124,411)	\$ 92,131	\$(2,104)	\$ 20,750	\$(10,307)	\$4,763,095	\$ —	\$4,763,095
Adjustment of retained earnings for newly consolidated subsidiaries and liquidation of consolidated subsidiaries					11,254						11,254		11,254
Net income					454,963						454,963		454,963
Cash dividends, US\$0.311 per share					(84,780)						(84,780)		(84,780)
Purchase of treasury stock						(105)					(105)		(105)
Disposal of treasury stock					(1,095)	1,910					815		815
Net change in the year				1,524			32,814	548	148,547	(16,530)	166,903	846	167,749
<b>BALANCE, March 31, 2014</b>		\$636,183	\$784,216	\$9,257	\$3,739,246	\$(122,606)	\$124,945	\$(1,556)	\$169,297	\$(26,837)	\$5,312,145	\$846	\$5,312,991

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥ 61,857	¥ 74,692	\$ 725,728
Adjustments for:			
Income taxes — paid	(30,284)	(5,777)	(56,133)
Loss on impairment of fixed assets	664	2,320	22,541
Decrease in allowance for doubtful receivables	(1,404)	(248)	(2,406)
Increase in provision for product warranties	79	1,559	15,144
Depreciation and amortization	36,226	42,477	412,722
Decrease in net defined benefit liability	(988)	(531)	(5,162)
Interest and dividend income	(2,069)	(2,073)	(20,143)
Equity in earnings of associated companies	(2,462)	(2,328)	(22,623)
Interest expenses	1,301	1,352	13,134
Gain on sales of property, plant and equipment	(245)	(215)	(2,085)
Gain on sales of investment securities	(5,101)	(1,473)	(14,314)
Loss on valuation of investment securities	36	459	4,458
Compensation income for expropriation		(15,006)	(145,805)
Other — net	(13,080)	8,792	85,421
Changes in assets and liabilities:			
Decrease in notes and accounts receivable — trade	19,790	13,925	135,296
Decrease in inventories	12,082	34,684	337,000
Decrease in notes and accounts payable — trade	(35,821)	(13,942)	(135,462)
Decrease in advances received	(3,679)	(6,126)	(59,521)
Decrease in accrued expenses	(6,264)	(3,227)	(31,353)
Other — net	21,253	(15,129)	(146,981)
Total adjustments	(9,966)	39,493	383,728
Net cash provided by operating activities	51,891	114,185	1,109,456
<b>Investing activities:</b>			
Purchases of property, plant and equipment	(61,856)	(32,681)	(317,535)
Proceeds from sales of property, plant and equipment	2,762	738	7,169
Purchases of investment securities	(1,410)	(4,629)	(44,973)
Proceeds from sales of investment securities	5,278	4,118	40,010
Proceeds from compensation for expropriation		4,492	43,645
Net increase in loans receivable	(110)	23	225
Other — net	(9,774)	(15,255)	(148,224)
Net cash used in investing activities	(65,110)	(43,194)	(419,683)
<b>Financing activities:</b>			
Net (decrease) increase in short-term borrowings	(92)	762	7,407
Proceeds from long-term debt	4,700	46,889	455,586
Repayments of long-term debt	(7,041)	(7,113)	(69,114)
Dividends paid	(15,842)	(8,722)	(84,745)
Other — net	77	53	512
Net cash (used in) provided by financing activities	(18,198)	31,869	309,646
Foreign currency translation adjustments on cash and cash equivalents	9,371	7,331	71,224
Net (decrease) increase in cash and cash equivalents	(22,046)	110,191	1,070,643
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	430	1,082	10,518
Cash and cash equivalents, beginning of year	131,711	110,095	1,069,711
Cash and cash equivalents, end of year	¥110,095	¥221,368	\$2,150,872

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2014

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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 that is more familiar to readers outside of Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikon Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥102.92 to US\$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 70 (71 in 2013) significant subsidiaries (together, the "Group"). Changes include the addition of HIKARI GLASS (HK) LIMITED; Hikari Glass (Changzhou) Optics Co., Ltd.; Nikon Sales (Thailand) Co., Ltd.; exclusion of Nikon Precision Singapore Pte Ltd due to the merger by Nikon Singapore Pte Ltd.; and completion of liquidation of three subsidiaries of Nikon Metrology NV. 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 Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two associated companies (two associated companies in 2013) are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition (goodwill) is charged to income when incurred if the amounts are immaterial; otherwise, the amounts are amortized on a straight-line basis principally over 10 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 has also been eliminated.

The fiscal year-end of Nikon Imaging (China) Co., Ltd.; Nikon Precision Shanghai Co., Ltd.; Nikon Imaging (China) Sales Co., Ltd.; Nikon (Russia) LLC.; Nikon Mexico S.A. de C.V.; NIKON DO BRASIL LTDA.; Nikon Instruments (Shanghai) Co., Ltd.; and Hikari Glass (Changzhou) Optics Co., Ltd. is December 31. In preparing the consolidated financial statements, the Group used financial statements of those companies that had been prepared on the basis of the provisional closing of their accounts as of the consolidated closing date.

### (b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements; (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process; (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

### (c) 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 invested in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

### (d) Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

## Notes to Consolidated Financial Statements

### (e) Property, Plant and Equipment

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

### (f) Long-Lived Assets

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

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

### (g) Investment Securities

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

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

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

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

The Company records investments in limited liability investment partnerships (deemed "investment securities" under the provisions set forth in Article 2, Item 2 of the Financial Instruments and Exchange Law) using the amount of interest in such partnerships calculated based on ownership percentage and the most recent financial statements on the report date stipulated in the partnership agreement.

### (h) Retirement and Pension Plans

The Company has a defined-benefit corporate pension plan (cash balance plan) and a defined-contribution pension plan, and its consolidated domestic subsidiaries have a defined-benefit corporate pension plan and unfunded retirement benefit plans. Certain

domestic subsidiaries have a smaller enterprise retirement allowance mutual aid system. Certain foreign subsidiaries also have defined-benefit plans and defined-contribution pension plans.

Effective April 1, 2000, the Company and its domestic subsidiaries adopted a new Accounting Standard for Retirement Benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Prior service costs and actuarial gains or losses are being amortized over 10 years.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

- (a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥1,537

million (\$14,931 thousand) was recorded, and asset for retirement benefits of ¥1,557 million (\$15,130 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥1,977 million (\$19,209 thousand).

Due to the application of IAS19 "Employee Benefits" (amended in June 16, 2011) on or after January 1, 2013, principally the method of recognition with respect to actuarial gains and losses, past service cost and interest cost and certain presentation were changed from this fiscal year in certain overseas subsidiaries. This accounting policy change is applied retrospectively and cumulative effect is reflected to the beginning balance of equity. The effect of this retrospective application on the consolidated financial statements is immaterial.

#### **(i) Stock Options**

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

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

#### **(j) Research and Development Costs**

Research and development costs are charged to income as incurred.

#### **(k) Leases**

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

The revised accounting standard requires that finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

All other leases are accounted for as operating leases.

#### **(l) Income Taxes**

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

The Company and some foreign subsidiaries file a tax return under the consolidated corporate tax system, which allows the companies to base tax payments on the combined profits or losses of the company and their wholly owned domestic subsidiaries.

#### **(m) Foreign Currency Transactions**

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

#### **(n) Foreign Currency Financial Statements**

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

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

#### **(o) Derivatives and Hedging Activities**

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

Derivatives are classified and accounted for as follows: (a) all derivatives are recognized principally as either assets or liabilities and remeasured at fair value, and gains or losses on derivative transactions are recognized in the statement of income, and (b) for derivatives used for hedging purposes, 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.

Foreign exchange forward contracts and currency option contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the related unrealized gains or losses are recognized in income. Forward contracts entered into for forecast transactions are also measured at fair value, but the unrealized gains or losses on qualifying hedges are

## Notes to Consolidated Financial Statements

deferred until the underlying transactions have been completed. 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. 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. 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 is recognized and included in interest expense or income.

### (p) 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 statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

### (q) Changes in Presentation

Consolidated balance sheet

For the fiscal year ended March 31, 2014, deferred tax liabilities, included in "Other" under noncurrent liabilities in the previous year, was individually presented in the balance sheet as the materiality has increased. The amount of deferred tax liabilities in the previous year was ¥318 million. Deferred tax assets, on the other hand, was presented individually in the previous year but included in "Other" under investments and other assets in the fiscal year under review due to the decrease of its materiality (¥7,646 million at the end of the fiscal year under review).

### (r) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

#### (1) Changes in Accounting Policies

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

#### (2) Changes in Presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

#### (3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

#### (4) Corrections of Prior-Period Errors

When an error in prior-period financial statements is discovered, those statements are restated.

### (s) New Accounting Pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

- (a) Treatment in the balance sheet (please see (h) for more details)
- (b) Treatment in the statement of income and the statement of comprehensive income (please see 2. (h) for more details)
- (c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

### 3. Investment Securities

Investment securities at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Non-current:			
Equity securities	¥53,646	¥59,939	\$582,388
Investment in a limited liability investment partnership	829	727	7,060
Total	¥54,475	¥60,666	\$589,448

The costs and aggregate fair values of investment securities at March 31, 2013 and 2014 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2013				
Securities classified as:				
Available-for-sale:				
Equity securities	¥39,289	¥16,992	¥2,858	¥53,423
Total	¥39,289	¥16,992	¥2,858	¥53,423

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities classified as:				
Available-for-sale:				
Equity securities	¥40,289	¥20,535	¥1,611	¥59,213
Total	¥40,289	¥20,535	¥1,611	¥59,213

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities classified as:				
Available-for-sale:				
Equity securities	\$391,459	\$199,522	\$15,652	\$575,329
Total	\$391,459	\$199,522	\$15,652	\$575,329

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2013 and 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Available-for-sale:			
Equity securities	¥ 223	¥ 726	\$ 7,059
Investment in a limited liability investment partnership	829	727	7,060
Total	¥1,052	¥1,453	\$14,119

Proceeds from sales of available-for-sale securities were ¥779 million for the fiscal year ended March 31, 2013. Gross realized gains and losses on these sales computed on a moving-average cost basis were ¥0 million and ¥32 million, respectively, for the fiscal year ended March 31, 2013. Proceeds from sales of available-for-sale securities were ¥4,087 million (\$39,706 thousand) for the fiscal year ended March 31, 2014. Gross realized gains and losses on these sales computed on a moving-average cost basis were ¥1,485 million (\$14,427 thousand) and ¥9 million (\$83 thousand), respectively, for the fiscal year ended March 31, 2014.

## Notes to Consolidated Financial Statements

### 4. Inventories

Inventories at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Finished and semifinished products	¥116,505	¥ 92,792	\$ 901,594
Work in process	119,760	123,813	1,203,005
Raw materials and supplies	33,148	28,337	275,326
Total	¥269,413	¥244,942	\$2,379,925

### 5. Long-Lived Assets

The Nikon Group classifies by business segment or its subsegment the smallest units that create generally independent cash flows as well as important idle assets.

The Group reviewed its long-lived assets for impairment as of March 31, 2013 and recognized an impairment loss of ¥664 million as “Loss on impairment of long-lived assets” for machinery, equipment, furniture and structures in Japan, Asia and Europe. This is because fair value of these assets was lower than the carrying amounts.

The Group reviewed its long-lived assets for impairment as of March 31, 2014 and recognized an impairment loss of ¥2,319 million as “Loss on impairment of long-lived assets” for machinery, equipment, furniture and structures in Japan, China and Thailand. This is because these assets were no longer expected to be used in the future.

### 6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Short-term loans, principally from banks: 2013: 0.45000% - 8.75000% 2014: 0.21182% - 12.69000%	¥13,740	¥14,511	\$140,995
Total	¥13,740	¥14,511	\$140,995

Long-term debt at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Loans, principally from banks and insurance companies: 2013: 0.63125% - 1.95250% due 2014-2023 2014: 0.61300% - 1.95250% due 2014-2025	¥27,600	¥ 49,600	\$ 481,928
Obligations under finance leases	4,008	3,021	29,355
Bonds	40,000	60,000	582,977
Total	71,608	112,621	1,094,260
Less: current portion	(6,703)	(11,302)	(109,812)
Long-term debt, less current portion	¥64,905	¥101,319	\$ 984,448



The aggregate annual maturities of long-term debt at March 31, 2014 are as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 11,302	\$ 109,812
2016	15,854	154,041
2017	13,356	129,770
2018	10,226	99,359
2019	105	1,016
Thereafter	61,778	600,262
Total	¥112,621	\$1,094,260

At March 31, 2014, the following assets were pledged as collateral for long-term debt:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Investment securities	¥1,625	\$15,794

Liabilities secured by the above assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Long-term debt, including current portion	¥4,700	\$45,667

As is customary in Japan, the Company maintains substantial deposit balances with banks from which it has borrowed. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks require, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks, and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debts payable to the banks. The Group has never been requested to provide any additional collateral.

## 7. Retirement and Pension Plans

The Company has a defined-benefit corporate pension plan (cash balance plan) and a defined-contribution pension plan, and its consolidated domestic subsidiaries have a defined-benefit corporate pension plan and unfunded retirement benefit plans. Certain domestic subsidiaries have a smaller enterprise retirement allowance mutual aid system. Certain foreign subsidiaries also have a defined-benefit plan and a defined-contribution pension plan.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

### Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Balance at beginning of year	¥117,252	\$1,139,251
Current service cost	3,933	38,211
Interest cost	2,539	24,674
Actuarial gains	(1,467)	(14,252)
Benefits paid	(6,374)	(61,929)
Past service cost	30	289
Others	2,217	21,544
Balance at end of year	¥118,130	\$1,147,788

## Notes to Consolidated Financial Statements

(2) The changes in plan assets for the year ended March 31, 2014 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Balance at beginning of year	¥119,398	\$1,160,106
Expected return on plan assets	2,904	28,217
Actuarial losses	5,296	51,457
Contributions from the employer	9,679	94,047
Benefits paid	(6,328)	(61,485)
Others	1,773	17,226
Balance at end of year	¥132,722	\$1,289,568

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Funded defined benefit obligation	¥ 117,341	\$ 1,140,121
Plan assets	(132,722)	(1,289,568)
	(15,381)	(149,447)
Unfunded defined benefit obligation	789	7,667
Net liability (asset) for defined benefit obligation	(14,592)	(141,780)
Liability for retirement benefits	4,675	45,422
Asset for retirement benefits	(19,267)	(187,202)
Net liability (asset) for defined benefit obligation	¥ (14,592)	\$ (141,780)

(4) The components of net periodic benefit costs for the year ended March 31, 2014 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Service cost	¥ 3,933	\$ 38,211
Interest cost	2,539	24,674
Expected return on plan assets	(2,904)	(28,217)
Amortization of prior service cost	(1,961)	(19,056)
Recognized actuarial losses	52	509
Other	620	6,024
Net periodic benefit costs	¥ 2,279	\$ 22,145

In addition to the above, the Company and certain subsidiaries charged contributions of ¥2,138 million to the defined contribution pension plan to income during the fiscal year ended March 31, 2014.

(5) Other comprehensive income on defined retirement benefit plans as of March 31, 2014 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Actuarial gains	¥419	\$4,067

(6) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Unrecognized prior service cost	¥ 528	\$ 5,130
Unrecognized actuarial gains	(4,713)	(45,796)
Total	¥(4,185)	\$ (40,666)

(7) Plan assets as of March 31, 2014

*a. Components of plan assets*

Plan assets consisted of the following:

	2014
Debt investments	58%
Equity investments	32
General account	6
Others	4
Total	100%

*b. Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended March 31, 2014 were set forth as follows:

	2014
Discount rate	1.8%
Expected rate of return on plan assets	2.0

**Year Ended March 31, 2013**

The liability for employees' retirement benefits at March 31, 2013 consisted of the following:

	Millions of Yen 2013
Projected benefit obligation	¥ 117,246
Fair value of plan assets	(119,398)
Unrecognized prior service cost	2,644
Unrecognized actuarial gain	(10,845)
Prepayment of service cost	13,230
Net liability	¥ 2,877

The plan assets include contributions to the employee retirement benefit trust of ¥9,217 million at March 31, 2013.

The components of net periodic benefit costs for the fiscal year ended March 31, 2013 were as follows:

	Millions of Yen 2013
Service cost	¥ 3,637
Interest cost	2,362
Expected return on plan assets	(2,344)
Recognized actuarial loss	1,485
Amortization of prior service cost	(1,999)
Net periodic retirement benefit costs	¥ 3,141

In addition to the above, the Company and certain subsidiaries charged contributions of ¥2,212 million to the defined contribution pension plan to income during the fiscal year ended March 31, 2013.

Assumptions used for the fiscal year ended March 31, 2013 were principally as set forth below:

	2013
Discount rate	1.8%
Expected rate of return on plans assets	2.0%
Recognition period of actuarial gains (losses)	10 years
Amortization period of prior service cost	10 years

## Notes to Consolidated Financial Statements

### 8. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below.

#### (a) Dividends

Under the Companies Act, 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 Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act 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 Companies Act 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 the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and the legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

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

### 9. Stock Options

The stock options outstanding as of March 31, 2014 were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2004 Stock Options	12 directors 10 officers	210,000 shares	June 29, 2004	¥1,225	From June 30, 2006 to June 29, 2014
2005 Stock Options	11 directors 10 officers	178,000 shares	June 29, 2005	¥1,273	From June 30, 2007 to June 29, 2015
2007 Stock Options	12 directors 12 officers	99,000 shares	March 14, 2007	¥2,902	From February 28, 2009 to February 27, 2017
2007 Stock Options	8 directors 15 officers	26,100 shares	August 27, 2007	¥ 1	From August 28, 2007 to August 27, 2037
2008 Stock Options	8 directors 16 officers	117,900 shares	November 25, 2008	¥ 1	From November 26, 2008 to November 25, 2038
2009 Stock Options	9 directors 15 officers	68,100 shares	August 10, 2009	¥ 1	From August 11, 2009 to August 10, 2039
2010 Stock Options	10 directors 13 officers	66,800 shares	July 14, 2010	¥ 1	From July 15, 2010 to July 14, 2040
2012 Stock Options	10 directors 14 officers	99,700 shares	March 19, 2012	¥ 1	From March 20, 2012 to March 19, 2042
2013 Stock Options	8 directors 16 officers	108,300 shares	August 23, 2012	¥ 1	From August 24, 2012 to August 23, 2042
2014 Stock Options	8 directors 15 officers	119,600 shares	August 1, 2013	¥ 1	From August 2, 2013 to August 1, 2043

The stock option activities are as follows:

	2004 Stock Options	2005 Stock Options	2007 Stock Options	2007 Stock Options	2008 Stock Options	2009 Stock Options	2010 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options
<b>For the year ended March 31,</b>										
<b>2013</b>										
<u>Non-vested</u>										
April 1, 2012-Outstanding										
Granted									108,300	
Canceled										
Vested									108,300	
March 31, 2013-Outstanding										
<u>Vested</u>										
April 1, 2012-Outstanding	97,000	129,000	99,000	26,100	117,900	68,100	66,800	99,700		
Vested									108,300	
Exercised	42,000	13,000								
Canceled										
March 31, 2013-Outstanding	55,000	116,000	99,000	26,100	117,900	68,100	66,800	99,700	108,300	
Exercise price	¥ 1,225	¥ 1,273	¥ 2,902	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥ 2,245	¥ 2,323								
Fair value price at grant date			¥ 840	¥ 3,259	¥ 734	¥ 1,408	¥ 1,527	¥ 2,037	¥ 1,726	
<b>For the year ended March 31,</b>										
<b>2014</b>										
<u>Non-vested</u>										
March 31, 2013-Outstanding										
Granted										119,600
Canceled										
Vested										119,600
March 31, 2014-Outstanding										
<u>Vested</u>										
March 31, 2013-Outstanding	55,000	116,000	99,000	26,100	117,900	68,100	66,800	99,700	108,300	
Vested										119,600
Exercised	32,000	19,000		1,900	6,600	3,000	2,800			
Canceled			20,000							
March 31, 2014-Outstanding	23,000	97,000	79,000	24,200	111,300	65,100	64,000	99,700	108,300	119,600
Exercise price	¥ 1,225	¥ 1,273	¥ 2,902	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥ 2,267	¥ 2,183		¥ 2,341	¥ 2,171	¥ 2,140	¥ 1,999			
Fair value price at grant date			¥ 840	¥ 3,259	¥ 734	¥ 1,408	¥ 1,527	¥ 2,037	¥ 1,726	¥ 1,632

The assumptions used to measure the fair value of 2014 Stock Options which were granted on August 1, 2013:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	47.238%
Estimate of remaining outstanding period:	15 years
Estimate dividend:	¥31.00 per share
Risk-free interest rate:	1.272%

## Notes to Consolidated Financial Statements

### 10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fiscal years ended March 31, 2013 and 2014 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Advertising expenses	¥83,815	¥73,232	\$711,545
Provision for doubtful receivables	(461)	(129)	(1,251)
Provision of warranty costs	4,212	4,992	48,505
Employees' salaries	32,855	32,966	320,303
Net periodic retirement benefit cost	2,357	2,149	20,881
Employees' bonuses and others	17,682	17,333	168,409
Research and development costs	76,497	74,552	724,369

### 11. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% for the fiscal years ended March 31, 2013 and 2014.

The tax effects of significant temporary differences and tax loss carryforwards, which result in deferred tax assets and liabilities, at March 31, 2013 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Deferred tax assets:			
Write-down of inventories	¥33,433	¥28,204	\$274,041
Warranty reserve	6,590	7,933	77,082
Liability for employees' retirement benefits	529	1,474	14,320
Depreciation and amortization	16,560	15,844	153,946
Accrued bonuses	3,654	4,575	44,457
Other	6,097	3,464	33,651
Total	¥66,863	¥61,494	\$597,497
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	¥ 2,730	¥ 5,129	\$ 49,839
Unrealized gain on available-for-sale securities	3,816	5,432	52,779
Undistributed earnings of foreign subsidiaries	8,272	9,653	93,793
Other	2,022	6,775	65,823
Total	¥16,840	¥26,989	\$262,234
Net deferred tax assets	¥50,023	¥34,505	\$335,263

A valuation allowance of ¥4,660 million in 2013 and ¥7,897 million (\$76,731 thousand) in 2014 was deducted from the amounts calculated above.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the consolidated statement of income for the year ended March 31, 2014, with the corresponding figures for 2013 is as follows:

	2013	2014
Normal statutory tax rate	38.0%	<b>38.0%</b>
Tax credit for research and development costs	(2.2)	<b>(3.0)</b>
Tax rate difference of consolidated subsidiaries	(7.1)	<b>(5.4)</b>
Deferred tax assets for unrealizable profits	0.4	<b>(0.5)</b>
Increase (decrease) in valuation allowance	(1.1)	<b>4.1</b>
Tax effect on retained earnings for foreign subsidiaries	2.4	<b>1.8</b>
Amortization of goodwill	0.4	<b>0.3</b>
Effect of corporate income tax rate reduction in Japan		<b>2.1</b>
Other — net	0.6	<b>(0.1)</b>
Actual effective tax rate	31.4%	<b>37.3%</b>

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal years beginning on or after April 1, 2014, from approximately 38.01% to 35.64%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014 by ¥1,551 million (\$15,070 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥1,546 million (\$15,019 thousand).

## 12. Research and Development Costs

Research and development costs charged to income were ¥76,497 million and ¥74,552 million (\$724,369 thousand) for the fiscal years ended March 31, 2013 and 2014, respectively.

## 13. Leases

The Group leases certain machinery and equipment for manufacturing.

The minimum rental commitments under noncancelable operating leases at March 31, 2013 and 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Due within one year	¥ 3,634	<b>¥4,326</b>	<b>\$42,031</b>
Due after one year	6,476	<b>4,168</b>	<b>40,499</b>
Total	¥10,110	<b>¥8,494</b>	<b>\$82,530</b>

## Notes to Consolidated Financial Statements

### 14. Financial Instruments and Related Disclosures

#### (1) Group Policy for Financial Instruments

The Group restricts fund management to short-term deposits, and funding is mainly through bank loans and bond issuance. Derivatives are used, not for speculative purposes, but to hedge foreign exchange risk and interest rate exposures.

#### (2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Although receivables in foreign currencies due to global operations are exposed to the market risk of fluctuation in foreign currency exchange rates, mainly the position net of payables in foreign currencies is hedged, principally by using forward foreign currency contracts.

Investment securities are exposed to the risk of market price fluctuations but are managed by monitoring market values and the financial position of issuers on a regular basis. In addition, securities other than held-to-maturity securities are continually reviewed as to the situation, taking into account the relationship between the Group and trading partners.

#### (3) Fair Values of Financial Instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of March 31, 2013 and 2014 were as follows. The accounts for which fair value is deemed to be extremely difficult to calculate were not included in the following:

March 31, 2013	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥110,095	¥110,095	
Notes and accounts receivable — trade	130,430	130,430	
Investment securities	53,423	53,423	
Investments in and advances to unconsolidated subsidiaries and associated companies	233	568	¥ 335
<b>Total</b>	<b>¥294,181</b>	<b>¥294,516</b>	<b>¥ 335</b>
Short-term borrowings	¥ 13,740	¥ 13,740	
Notes and accounts payable — trade	124,677	124,677	
Long-term loans	27,600	27,940	¥ (340)
Bonds	40,000	41,561	(1,561)
Accrued expenses	54,505	54,505	
Income taxes payable	1,396	1,396	
Derivatives	(5,257)	(5,257)	
<b>Total</b>	<b>¥256,661</b>	<b>¥258,562</b>	<b>¥(1,901)</b>

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies, which involve the import of raw materials, are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Short-term borrowings are mainly related to working capital, and long-term debt is related primarily to working capital and capital investment. Although debts of variable interest rates are exposed to market risks from changes in variable interest rates, some long-term debts among those risks are mitigated by using derivatives of interest rate swaps to reduce the risk of fluctuations in interest expenses and to adjust the fixed interest. Please see “Summary of Significant Accounting Policies, Derivatives and Hedging Activities” for more details about hedging.

Derivative transactions entered into by the Group have been made in accordance with internal policies that regulate the authorization and credit limit amount. The counterparties to the Group’s derivative contracts are limited to major international financial institutions to reduce credit risk.

Accounts payables and debts are exposed to liquidity risk. The Group manages its liquidity risk by contracting committed lines of credit.



March 31, 2014	Millions of Yen			Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥221,368	¥221,368		\$2,150,872	\$2,150,872	
Notes and accounts receivable — trade	124,474	124,474		1,209,421	1,209,421	
Investment securities	59,213	59,213		575,329	575,329	
Investments in and advances to unconsolidated subsidiaries and associated companies	232	867	¥ 635	2,262	8,432	\$ 6,170
Total	¥405,287	¥405,922	¥ 635	\$3,937,884	\$3,944,054	\$ 6,170
Short-term borrowings	¥118,842	¥118,842		\$1,154,698	\$1,154,698	
Notes and accounts payable — trade	14,511	14,511		140,995	140,995	
Long-term loans	49,600	48,989	¥ 611	481,928	475,989	\$ 5,939
Bonds	60,000	61,218	(1,218)	582,976	594,811	(11,835)
Accrued expenses	52,272	52,272		507,894	507,894	
Income taxes payable	4,449	4,449		43,228	43,228	
Derivatives	(2,572)	(2,572)		(24,987)	(24,987)	
Total	¥297,102	¥297,709	¥ (607)	\$2,886,732	\$2,892,628	\$ (5,896)

#### **Cash and cash equivalents**

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

#### **Notes and accounts receivable — trade**

The carrying values of notes and accounts receivable — trade approximate fair value because of their short maturities.

Carrying amounts and fair values of notes and accounts receivables — trade are the amounts after deduction of the allowance for doubtful receivables.

#### **Investment securities and investments in and advances to unconsolidated subsidiaries and associated companies**

The fair values of investment securities and investments in and advances to unconsolidated subsidiaries and associated companies are measured at the quoted market price of the stock exchange. Investment securities and investments in and advances to unconsolidated subsidiaries and associated companies whose fair value is not readily determinable (the carrying values of ¥1,052 million and ¥12,664 million as of March 31, 2013 and ¥1,453 million and ¥14,517 million (\$14,119 thousand and \$141,049 thousand) as of March 31, 2014) are excluded because it is difficult to estimate the fair values and impossible to estimate the future cash flows.

#### **Notes and accounts payable, short-term borrowings and income taxes payable**

The carrying values of those accounts approximate fair values because of their short maturities.

#### **Accrued expenses**

The carrying values of accrued expenses approximate fair value because of their short maturities.

#### **Long-term loans**

The fair values of long-term loans are determined by discounting the future cash flows related to the loans at the rate assumed based on yield of government bonds and credit spread. Certain long-term loans with variable interest rates are hedged items of interest rate swaps which qualify for hedge accounting and meet specific matching criteria. The fair value of such long-term loans with variable interest rates are determined by discounting the principal and interest, as if the interest rates under the interest rate swaps were originally applied to the underlying loans, at the rate assumed based on indices such as yield of government bonds and credit spread.

Long-term loans include the current portion of long-term debt.

#### **Bonds**

The fair values of bonds are determined by the market price, if it is available, or by discounting the future cash flows related to the debt at the rate assumed based on interest rates on government securities and credit risk.

Bonds are included in long-term debt in the consolidated balance sheet.

## Notes to Consolidated Financial Statements

### (4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2013	Millions of Yen	
	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥110,095	¥
Notes and accounts receivable	134,225	
Total	¥244,320	¥

March 31, 2014	Millions of Yen		Thousands of U.S. Dollars	
	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥221,368	¥	\$2,150,872	\$
Notes and accounts receivable	128,443		1,247,993	
Total	¥349,811	¥	\$3,398,865	\$

## 15. Derivatives

The Group enters into derivative contracts, including foreign exchange forward contracts, currency option contracts, foreign currency swap contracts and interest rate swap contracts to hedge foreign exchange risk and interest rate exposures. The Group does not hold or issue derivatives for trading purposes. Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including 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 the Group's 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 that regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting was not applied at March 31, 2013 and 2014 were as follows:

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
	<b>2013</b>			
Forward exchange contracts:				
Selling USD	¥ 9,309		¥ (23)	¥ (23)
Selling EUR	27,121		(1,336)	(1,336)
Selling Other	15,857		(1,109)	(1,109)
Buying JPY	(6)		0	0
Buying USD	(5,922)		(28)	(28)
Buying EUR	(5,823)		(167)	(167)
Buying Other	(643)		5	5
Total				¥(2,658)

Currency swap contracts:				
Yen receipt, Brazil Real payment	¥ 1,153	¥ 477	¥ (45)	¥ (45)
Yen receipt, Thai Baht payment	11,416	10,387	(2,150)	(2,150)
Total				¥(2,195)

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
	<b>2014</b>				<b>2014</b>			
Forward exchange contracts:								
Selling USD	¥ 33,421		¥ (13)	¥ (13)	\$ 324,370		\$ (123)	\$ (123)
Selling EUR	12,820		(340)	(340)	124,559		(3,302)	(3,302)
Selling Other	27,608		(110)	(110)	268,249		(1,078)	(1,078)
Buying JPY	(69)		(1)	(1)	(675)		(8)	(8)
Buying USD	(13,992)		87	87	(135,949)		843	843
Buying EUR	(20)		(0)	(0)	(190)		(1)	(1)
Buying Other	(144)		0	0	(1,403)		1	1
Total				¥ (377)				\$ (3,668)
Currency swap contracts:								
Yen receipt, Brazil Real payment	¥ 1,142	¥ 666	¥ 9	¥ 9	\$ 11,098	\$ 6,466	\$ 83	\$ 83
Yen receipt, Thai Baht payment	10,387	7,533	(1,902)	(1,902)	100,920	73,147	(18,479)	(18,479)
Total				¥(1,893)				\$(18,396)

Notes: Method used to calculate the fair value

(1) Forward exchange contracts:

Forward exchange rates are used for the fair values of forward exchange contracts.

(2) Currency option contracts:

The fair values of derivative transactions are based on information provided by financial institutions.

In the case of transacting zero cost option contracts, only the fair value and unrealized loss (gain) corresponding to option premiums are shown.

(3) Currency swap contracts:

The fair values of derivative transactions are based on information provided by financial institutions.

The currency swap amounts are notional amounts, which are shown in the above table, and do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## Notes to Consolidated Financial Statements

Derivative transactions to which hedge accounting was applied at March 31, 2013 and 2014 were as follows:

March 31, 2013	Hedged Item	Contract Amount	Millions of Yen		Thousands of U.S. Dollars		
			Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:							
Selling USD	Receivables (forecasted transaction)	¥ 842		¥ (4)			
Selling EUR	Receivables (forecasted transaction)	24,248		(400)			
<b>Total</b>				<b>¥(404)</b>			

March 31, 2014	Hedged Item	Contract Amount	Millions of Yen		Thousands of U.S. Dollars		
			Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:							
Selling USD	Receivables (forecasted transaction)	¥ 3,597		¥ (1)	\$ 34,945		\$ (14)
Selling EUR	Receivables (forecasted transaction)	24,547		(315)	238,509		(3,057)
Buying USD	Payables (forecasted transaction)	(1,014)		15	(9,850)		147
<b>Total</b>				<b>¥(301)</b>			<b>\$(2,924)</b>

Note: Method used to calculate the fair value

(1) Forward exchange contracts:

Forward exchange rates are used for the fair values of forward exchange contracts.

March 31, 2013	Hedged Item	Contract Amount	Millions of Yen		Thousands of U.S. Dollars		
			Contract Amount due after One Year	Fair Value	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps:							
(fixed-rate payment, floating rate receipt)	Long-term debt	¥4,400		¥4,400			

March 31, 2014	Hedged Item	Contract Amount	Millions of Yen		Thousands of U.S. Dollars		
			Contract Amount due after One Year	Fair Value	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps:							
(fixed-rate payment, floating rate receipt)	Long-term debt	¥8,700		¥8,700	\$84,532		\$84,532

The above interest rate swap amounts are notional amounts, which are shown in the above table, and do not represent the amounts exchanged by the parties or measure the Group's exposure to credit or market risk. In addition, the fair value of such interest rate swaps in Note 14 is included in that of hedged items (i.e., long-term debt).

## 16. Contingent Liabilities

At March 31, 2014, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars	
	2014	2014	2014	2014
As the guarantor of bank loans and indebtedness, principally of employees, unconsolidated subsidiaries and associated companies	¥721		\$7,001	
<b>Total</b>	<b>¥721</b>		<b>\$7,001</b>	

## 17. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2013 and 2014 were as follows:

	2013	Millions of Yen	Thousands of U.S. Dollars
		2014	2014
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 9,960	¥ 6,265	\$ 60,873
Reclassification adjustments to profit	31	(1,476)	(14,345)
Amount before income tax effect	9,991	4,789	46,528
Income tax effect	(3,577)	(1,393)	(13,531)
Total	¥ 6,414	¥ 3,396	\$ 32,997
Deferred gain (loss) on derivatives under hedge accounting:			
Losses arising during the year	¥ (2,177)	¥ (6,922)	\$ (67,254)
Reclassification adjustments to loss	4,397	7,013	68,138
Amount before income tax effect	2,220	91	884
Income tax effect	(844)	(35)	(336)
Total	¥ 1,376	¥ 56	\$ 548
Foreign currency translation adjustment:			
Adjustments arising during the year	¥23,663	¥15,289	\$148,548
Remeasurements of defined benefit plans:			
Adjustments arising during the year	¥ (385)	¥ 265	\$ 2,570
Reclassification adjustments to profit	109	154	1,497
Amount before income tax effect	(276)	419	4,067
Income tax effect	71	(143)	(1,388)
Total	¥ (205)	¥ 276	\$ 2,679
Share of other comprehensive income (loss) in associates:			
Gains (losses) arising during the year	6	(19)	(183)
Total other comprehensive income	¥31,254	¥18,998	\$184,589

## Notes to Consolidated Financial Statements

### 18. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2014 was as follows:

	Millions of Yen	Thousands of Shares Weighted-Average Shares	Yen	U.S. Dollars
	Net Income		EPS	
<b>For the year ended March 31, 2013:</b>				
Basic EPS				
Net income available to common shareholders	¥42,459	396,567	¥107.07	\$1.14
Effect of dilutive securities				
Warrants (stock option)		556		
Diluted EPS				
Net income for computation	¥42,459	397,123	¥106.92	\$1.14
<b>For the year ended March 31, 2014:</b>				
Basic EPS				
Net income available to common shareholders	¥46,825	396,630	¥118.06	\$1.15
Effect of dilutive securities				
Warrants (stock option)		608		
Diluted EPS				
Net income for computation	¥46,825	397,238	¥117.88	\$1.15

### 19. Compensation Income for Expropriation

Responding to the request of expropriation for the construction projects of the new Yokohama National Highway No. 468 by the Ministry of Land, Infrastructure, Transport and Tourism and the Yokohama-Fujisawa town planning to construct a road by Yokohama City, part of the land of the Yokohama Plant was transferred to the Ministry of Land, Infrastructure, Transport and Tourism. The Company has received compensation income for the expropriation accordingly.

### 20. Environmental Expenses

An amount required for treatment of contaminated soil for the land which the Group possesses was recorded.

### 21. Subsequent Events

#### Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 27, 2014:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Year-end cash dividends, ¥22.00 (\$0.21) per share	¥8,727	\$84,789

## 22. Segment Information

### 1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular consideration by the Company's management is being performed in order to decide how resources are allocated among the Group and evaluate the performance of the segments.

Therefore, the Group has three reportable segments: the Precision Equipment Business, the Imaging Products Business and the Instruments Business.

The Precision Equipment Business provides products and services of IC steppers and LCD steppers. The Imaging Products Business provides products and services of imaging products and their peripheral domain, such as digital SLR cameras, compact digital cameras and interchangeable camera lenses. The Instruments Business provides products and services including microscopes, measuring instruments and inspection equipments.

### 2. Methods of Measurement for the Amount of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Figures for segment profit (loss) are on an operating income (loss) basis. Intersegment sales or transfers are based on current market prices.

### 3. Information on Sales, Profit (Loss), Assets and Other Items:

	Reportable Segment						Millions of Yen	
	Precision Equipment	Imaging Products	Instruments	Total	Other	Total	Reconciliations	Consolidated
<b>For the year ended</b>								
<b>March 31, 2013</b>								
Sales:								
Sales to external customers	¥179,013	¥751,241	¥53,877	¥984,131	¥ 26,363	¥1,010,494		¥1,010,494
Intersegment sales or transfers	950	793	1,101	2,844	32,027	34,871	¥ (34,871)	
<b>Total</b>	<b>¥179,963</b>	<b>¥752,034</b>	<b>¥54,978</b>	<b>¥986,975</b>	<b>¥ 58,390</b>	<b>¥1,045,365</b>	<b>¥ (34,871)</b>	<b>¥1,010,494</b>
Segment profit (loss)	¥ 13,090	¥ 60,711	¥ (4,978)	¥ 68,823	¥ 3,556	¥ 72,379	¥ (21,377)	¥ 51,002
Segment assets	191,439	296,665	49,485	537,589	110,930	648,519	216,149	864,668
Other:								
Depreciation and amortization	8,720	16,260	1,550	26,530	6,454	32,984	3,242	36,226
Increase in property, plant and equipment and intangible assets	8,302	34,449	1,512	44,263	10,733	54,996	5,162	60,158

Notes:

- The "Other" category incorporates operations not included in the reportable segments, including the Glass-Related Business and the Customized Products Business.
- Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥249 million and corporate expenses of minus ¥21,626 million. In addition, reconciliations of segment asset adjustments include corporate assets not allocated to the respective reportable segments of ¥243,951 million and the elimination of intersegment transactions of minus ¥27,802 million. The principal components of corporate assets are surplus funds (cash and deposits) held by the Company and its consolidated subsidiaries, long-term investments (investment securities), deferred tax assets and some intersegment fixed assets.
- Segment profit (loss) is adjusted with reported operating income in the consolidated financial statements.

## Notes to Consolidated Financial Statements

Millions of Yen

	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Precision Equipment	Imaging Products	Instruments	Total				
<b>For the year ended March 31, 2014</b>								
Sales:								
Sales to external customers	¥205,447	¥685,446	¥64,709	¥955,602	¥24,954	¥ 980,556		¥980,556
Intersegment sales or transfers	500	559	901	1,960	23,268	25,228	¥(25,228)	
<b>Total</b>	<b>¥205,947</b>	<b>¥686,005</b>	<b>¥65,610</b>	<b>¥957,562</b>	<b>¥48,222</b>	<b>¥1,005,784</b>	<b>¥(25,228)</b>	<b>¥980,556</b>
Segment profit (loss)	¥ 20,079	¥ 64,284	¥ (2,156)	¥ 82,207	¥ 4,420	¥ 86,627	¥(23,685)	¥ 62,942
Segment assets	203,779	242,784	57,264	503,827	98,133	601,960	347,555	949,515
Other:								
Depreciation and amortization	9,561	20,725	1,717	32,003	5,775	37,778	4,699	42,477
Increase in property, plant and equipment and intangible assets	9,731	16,131	1,363	27,225	11,314	38,539	6,933	45,472

Thousands of U.S. Dollars

	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Precision Equipment	Imaging Products	Instruments	Total				
<b>For the year ended March 31, 2014</b>								
Sales:								
Sales to external customers	\$1,996,178	\$6,659,990	\$628,730	\$9,284,898	\$242,464	\$9,527,362		\$9,527,362
Intersegment sales or transfers	4,859	5,431	8,753	19,043	226,076	245,119	\$ (245,119)	
<b>Total</b>	<b>\$2,001,037</b>	<b>\$6,665,421</b>	<b>\$637,483</b>	<b>\$9,303,941</b>	<b>\$468,540</b>	<b>\$9,772,481</b>	<b>\$ (245,119)</b>	<b>\$9,527,362</b>
Segment profit (loss)	\$ 195,095	\$ 624,606	\$ (20,953)	\$ 798,748	\$ 42,943	\$ 841,691	\$ (230,133)	\$ 611,558
Segment assets	1,979,978	2,358,955	556,392	4,895,325	953,490	5,848,815	3,376,948	9,225,763
Other:								
Depreciation and amortization	92,902	201,366	16,684	310,952	56,109	367,061	45,661	412,722
Increase in property, plant and equipment and intangible assets	94,545	156,732	13,240	264,517	109,934	374,451	67,368	441,819

## Notes:

- The "Other" category incorporates operations not included in the reportable segments, including the Glass-Related Business and the Customized Products Business.
- Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥341 million (\$3,314 thousand) and corporate expenses of minus ¥24,026 million (\$233,447 thousand). In addition, reconciliations of segment asset adjustments include corporate assets not allocated to the respective reportable segments of ¥360,425 million (\$3,501,995 thousand) and the elimination of intersegment transactions of minus ¥12,870 million (\$125,047 thousand). The principal components of corporate assets are surplus funds (cash and deposits) held by the Company and its consolidated subsidiaries, long-term investments (investment securities), deferred tax assets and some intersegment fixed assets.
- Segment profit (loss) is adjusted with reported operating income in the consolidated financial statements.



## Related Information

1. Related information by geographical area at March 31, 2013 and 2014 consisted of the following:

### (1) Net sales

	Japan	USA	Europe	China	Other	Total
<b>For the year ended March 31, 2013</b>	¥144,417	¥271,460	¥260,038	¥118,162	¥216,417	¥1,010,494

	Japan	USA	Europe	China	Other	Total
<b>For the year ended March 31, 2014</b>	¥150,161	¥222,677	¥254,036	¥141,502	¥212,180	¥980,556

	Japan	USA	Europe	China	Other	Total
<b>For the year ended March 31, 2014</b>	\$1,459,012	\$2,163,593	\$2,468,286	\$1,374,870	\$2,061,601	\$9,527,362

Note: Sales are classified in countries or regions based on location of customers.

### (2) Property, plant and equipment

	Japan	North America	Europe	China	Thailand	Other	Total
<b>For the year ended March 31, 2013</b>	¥92,511	¥6,211	¥4,370	¥17,447	¥39,724	¥1,342	¥161,605

	Japan	North America	Europe	China	Thailand	Other	Total
<b>For the year ended March 31, 2014</b>	¥92,691	¥6,326	¥4,459	¥17,966	¥36,470	¥1,366	¥159,278

	Japan	North America	Europe	China	Thailand	Other	Total
<b>For the year ended March 31, 2014</b>	\$900,608	\$61,462	\$43,326	\$174,566	\$354,358	\$13,273	\$1,547,593

2. Information for amortization of goodwill for the years ended March 31, 2013 and 2014, and the balance of goodwill by reportable segment at March 31, 2013 and 2014 was as follows:

	Reportable Segment						Total
	Precision Equipment	Imaging Products	Instruments	Total	Other	Corporate or Eliminations	Total
<b>For the year ended March 31, 2013</b>							
Amortization of goodwill for the current fiscal year			¥ 714	¥ 714			¥ 714
Balance of goodwill at March 31, 2013			¥4,443	¥4,443			¥4,443

	Reportable Segment						Total
	Precision Equipment	Imaging Products	Instruments	Total	Other	Corporate or Eliminations	Total
<b>For the year ended March 31, 2014</b>							
Amortization of goodwill for the current fiscal year			¥ 683	¥ 683			¥ 683
Balance of goodwill at March 31, 2014			¥3,760	¥3,760			¥3,760

	Reportable Segment						Total
	Precision Equipment	Imaging Products	Instruments	Total	Other	Corporate or Eliminations	Total
<b>For the year ended March 31, 2014</b>							
Amortization of goodwill for the current fiscal year			\$ 6,642	\$ 6,642			\$ 6,642
Balance of goodwill at March 31, 2014			\$36,530	\$36,530			\$36,530

# Independent Auditor's Report

## Deloitte.

Deloitte Touche Tohmatsu LLC  
Shinagawa Intercity  
2-15-3, Konan  
Minato-ku, Tokyo 108-6221  
Japan  
Tel:+81 (3) 6720 8200  
Fax:+81 (3) 6720 8205  
www.deloitte.com/jp

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NIKON CORPORATION:

We have audited the accompanying consolidated balance sheet of NIKON CORPORATION and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### 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 its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

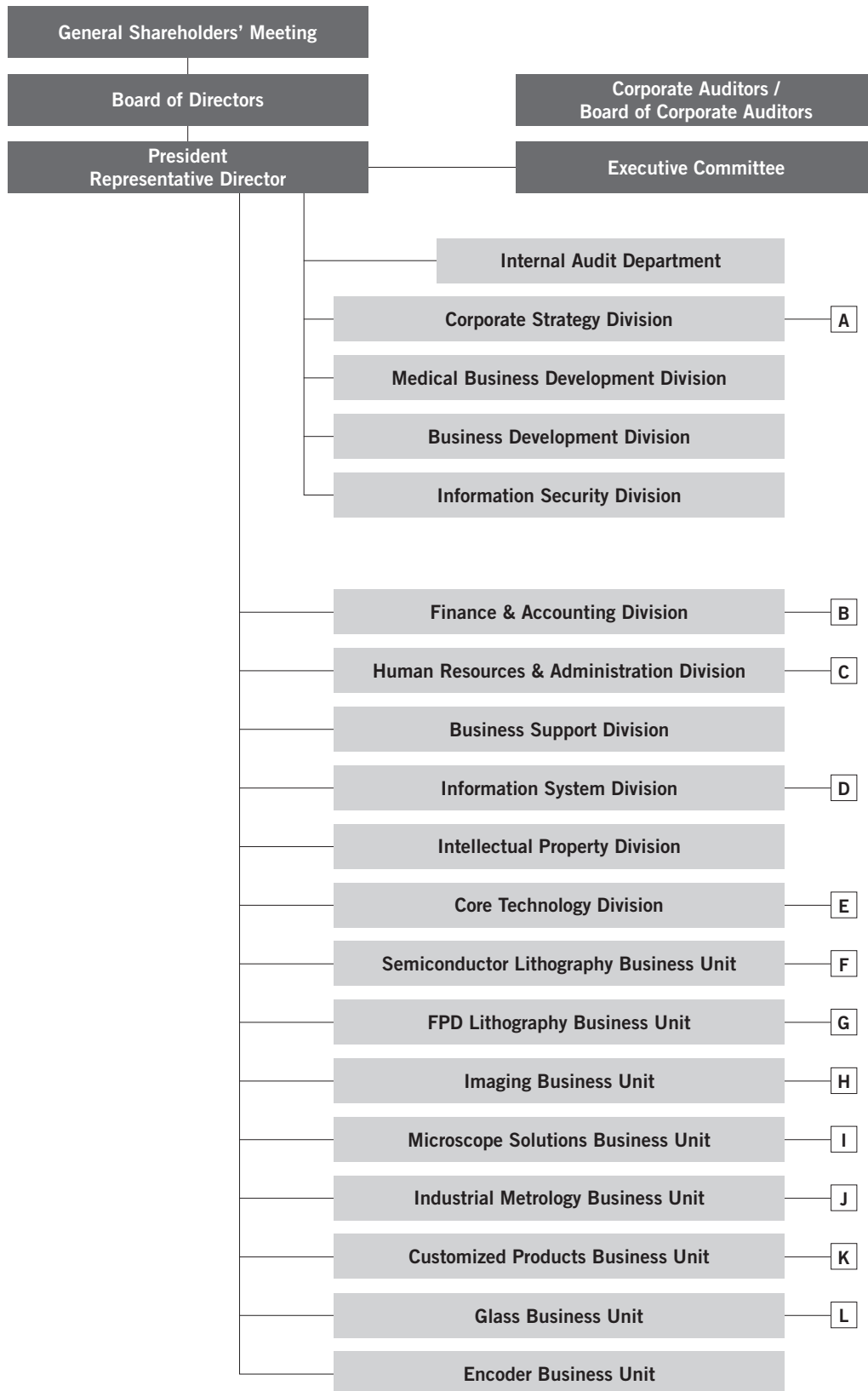
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of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

*Deloitte Touche Tohmatsu LLC*

June 27, 2014

# Organization of the Nikon Group

(As of June 27, 2014)



\* Alphabet letters next to division names (A to L) correspond to companies of the Nikon Group on pages 82 and 83 to show affiliation between companies and divisions.

# Nikon Group Companies

(As of June 27, 2014)

## Europe

- B Nikon Holdings Europe B.V.**  
Centralized supply, administration, and management of funds of affiliates in Europe
- F Nikon Precision Europe GmbH**  
Maintenance and servicing of semiconductor lithography systems
- H Nikon Europe B.V.**  
Import, sales, and servicing of cameras
- H Nikon AG**  
Import, sales, and servicing of cameras, microscopes, and measuring instruments
- H Nikon GmbH**  
Import, sales, and servicing of cameras and microscopes
- H Nikon U.K. Ltd.**  
Import, sales, and servicing of cameras and microscopes
- H Nikon France S.A.S.**  
Import, sales, and servicing of cameras and microscopes
- H Nikon Nordic AB**  
Import, sales, and servicing of cameras
- H Nikon Kft.**  
Import, sales, and servicing of cameras
- H Nikon s.r.o.**  
Import, sales, and servicing of cameras, microscopes, and measuring instruments
- H Nikon Polska Sp. z o.o.**  
Import, sales, and servicing of cameras
- H Nikon (Russia) LLC.**  
Import, sales, and servicing of cameras
- I Nikon Instruments Europe B.V.**  
Import, sales, maintenance, and servicing of microscopes
- I Nikon Instruments S.p.A.**  
Import, sales, maintenance, and servicing of microscopes and measuring instruments
- J Nikon Metrology NV**  
Development, manufacturing, sales, maintenance, and servicing of microscopes, measuring instruments, and metrology

## Asia / Oceania / Middle East

- B Nikon Holdings Hong Kong Limited**  
Promotion of CSR and internal audit to affiliates in Asia and Oceania
- B Nikon Asia Pacific Pte. Ltd.\*2**  
Manage finance, accounting, legal affairs, and tax for Group companies in the Asia and Oceania region
- F Nikon Precision Korea Ltd.**  
Maintenance and servicing of semiconductor/FPD lithography systems
- F Nikon Precision Taiwan Ltd.**  
Maintenance and servicing of semiconductor/FPD lithography systems
- F Nikon Precision Shanghai Co., Ltd.**  
Maintenance and servicing of semiconductor/FPD lithography systems
- H Nikon Hong Kong Ltd.**  
Import, sales, and servicing of cameras
- H Nikon Singapore Pte. Ltd.**  
Import, sales, and servicing of cameras, microscopes, and measuring instruments, and maintenance and servicing of semiconductor lithography systems
- H Nikon (Malaysia) Sdn. Bhd.**  
Support for sales and servicing of cameras, microscopes, and measuring instruments
- H Nikon Imaging (China) Sales Co., Ltd.**  
Import, sales, and servicing of cameras
- H Nikon Australia Pty Ltd**  
Import, sales, and servicing of cameras
- H Nikon India Private Limited**  
Import, sales, and servicing of cameras, and maintenance and servicing of measuring instruments
- H Nikon Sales (Thailand) Co., Ltd.**  
Import, sales, and servicing of cameras
- H Nikon Middle East FZE\*2**  
Import, sales, and servicing of cameras in the Middle East, Africa, and Western and Southern Asia
- H PT Nikon Indonesia\*2**  
Import, sales, and servicing of cameras
- H Nikon Imaging Korea Co., Ltd.**  
Import, sales, and servicing of cameras
- H Nikon (Thailand) Co., Ltd.**  
Manufacture of digital cameras, interchangeable lenses, and digital camera components
- H Nikon Imaging (China) Co., Ltd.**  
Manufacture of digital cameras and digital camera components
- H Nikon Lao Co., Ltd.\*2**  
Assembly of digital camera units
- H Nikon International Trading (Shenzhen) Co., Ltd.**  
Procurement of parts for digital cameras
- H Guang Dong Nikon Camera Co., Ltd.**  
Manufacture of digital camera components

- H** **Hang Zhou Nikon Camera Co., Ltd.**  
Manufacture of digital camera components
- I** **Nikon Instruments (Shanghai) Co., Ltd.**  
Marketing, maintenance, and servicing of microscopes and measuring instruments
- I** **Nikon Instruments Korea Co., Ltd.**  
Sales, maintenance, and servicing of microscopes and measuring instruments
- I** **Nanjing Nikon Jiangnan Optical Instrument Co., Ltd.\*2**  
Manufacture of microscopes and objective lenses for microscopes

## Japan

- A** **Nikon-Essilor Co., Ltd.\*1**  
Development, manufacture, sales, and servicing of ophthalmic lenses
- C** **Nikon Business Service Co., Ltd.**  
Employee welfare activities, procurement, logistics, and activities related to intellectual property
- C** **Nikon Tsubasa Inc.**  
Processing, assembly, and packing of parts for optical instruments
- D** **Nikon Systems Inc.**  
Development and support of computer software
- E** **Nikon and Essilor International Joint Research Center Co., Ltd.**  
Research and development in materials, optics, and ophthalmics
- F** **Tochigi Nikon Precision Co., Ltd.**  
Manufacture of devices and lenses for semiconductor/FPD lithography systems
- F** **Nikon Tec Corporation**  
Sales of used equipment and maintenance service for semiconductor/FPD lithography systems
- G** **Miyagi Nikon Precision Co., Ltd.**  
Manufacture of devices for FPD/semiconductor lithography systems
- H** **Tochigi Nikon Corporation**  
Manufacture of interchangeable lenses and optical lenses
- H** **Sendai Nikon Corporation**  
Manufacture of cameras
- H** **Nikon Imaging Japan Inc.**  
Sales and servicing of cameras
- H** **Nikon Vision Co., Ltd.**  
Development, manufacture, sales, and servicing of sport optics products

- I** **Kurobane Nikon Co., Ltd.**  
Manufacture of objective lenses for microscopes/measuring instruments/semiconductor inspection equipment, and optical components
- I** **Nikon Instech Co., Ltd.**  
Sales, maintenance, and servicing of microscopes, measuring instruments, and semiconductor inspection equipment
- J** **Nikon-Trimble Co., Ltd.\*1**  
Development, manufacture, sales, and servicing of surveying instruments
- K** **Nikon Engineering Co., Ltd.**  
Design, manufacture, and sales of Projection Exposure System, Live Cell Observation System, Laser Marking System, etc.
- L** **Hikari Glass Co., Ltd.**  
Manufacture and sales of optical glass and molded optical glass

## The Americas

- B** **Nikon Americas Inc.**  
Centralized supply, administration, and management of funds of affiliates in the U.S.
- F** **Nikon Precision Inc.**  
Import, sales, maintenance, and servicing of semiconductor lithography systems
- F** **Nikon Research Corporation of America**  
Research and development related to lithography systems
- H** **Nikon Inc.**  
Import, sales, and servicing of cameras
- H** **Nikon Canada Inc.**  
Import, sales, and servicing of cameras and microscopes
- H** **Nikon Mexico, S.A. de C.V.**  
Import, sales, and servicing of cameras
- H** **Nikon do Brasil Ltda.**  
Import, sales, and servicing of cameras, microscopes, and measuring instruments
- I** **Nikon Instruments Inc.**  
Import, sales, maintenance, and servicing of microscopes

\*1. Nikon-Essilor Co., Ltd., and Nikon-Trimble Co., Ltd., are equity-method affiliates.

\*2. Nikon Asia Pacific Pte. Ltd., Nikon Middle East FZE, PT Nikon Indonesia, Nikon Lao Co., Ltd., and Nanjing Nikon Jiangnan Optical Instrument Co., Ltd., were excluded from consolidation as of March 31, 2014.

**A**-**L** indicates the division or business unit with which the Group company is affiliated.

**■** Consolidated Subsidiaries

**A** Corporate Strategy Division  
**B** Finance & Accounting Division  
**C** Human Resources & Administration Division  
**D** Information System Division  
**E** Core Technology Division

**F** Semiconductor Lithography Business Unit  
**G** FPD Lithography Business Unit  
**H** Imaging Business Unit  
**I** Microscope Solutions Business Unit

**J** Industrial Metrology Business Unit  
**K** Customized Products Business Unit  
**L** Glass Business Unit

# Investor Information

(As of March 31, 2014)

## Nikon Corporation

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome,  
Chiyoda-ku, Tokyo 100-8331 Japan  
(Scheduled to relocate to the following address  
on Nov. 25, 2014:  
Shinagawa Intercity Tower C, 2-15-3, Konan,  
Minato-ku, Tokyo 108-6290 Japan)

## Date of Establishment

July 25, 1917

## Number of Employees

23,859 (Consolidated)

## Capital

¥65,475 million

## Stock Status

Total number of authorized to be issued:  
1,000,000,000 shares  
Number of shares issued:  
400,878,921 shares

## Number of Shareholders

42,918

## Financial Instruments Exchange Listing

Tokyo Stock Exchange  
(Ticker Symbol: 7731)

## Share Registrar

Mitsubishi UFJ Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku,  
Tokyo 100-8212, Japan

### For further information or additional copies of this report, please contact:

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome,  
Chiyoda-ku, Tokyo 100-8331 Japan  
Tel: +81-3-3214-5311  
(Scheduled to relocate to the following address  
on Nov. 25, 2014:  
Shinagawa Intercity Tower C, 2-15-3, Konan,  
Minato-ku, Tokyo 108-6290 Japan  
Tel: +81-3-6433-3600)

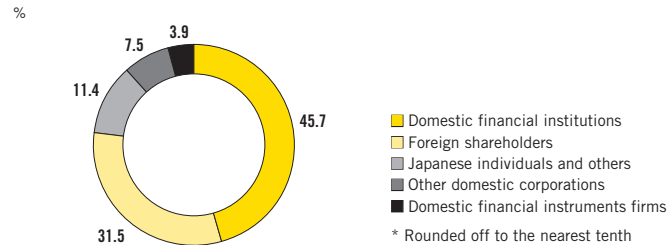
### Website

Please refer to the Nikon website for a variety of  
additional information, including financial  
results, presentation materials, and CSR reports.

Investor Relations .....  
<http://www.nikon.com/about/ir/>

Responsibility .....  
<http://www.nikon.com/about/csr/>

## Composition of Shareholders



## Major Shareholders

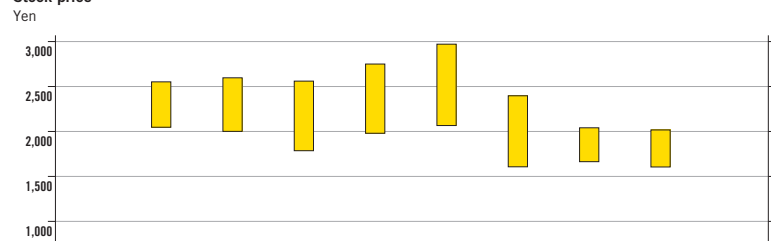
Name of Shareholder	Number of shares held (thousands)	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	27,698	7.0
Japan Trustee Services Bank, Ltd. (Trust Account)	22,593	5.7
Meiji Yasuda Life Insurance Company	19,537	4.9
JPMorgan Chase Bank 380072	7,872	2.0
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,383	1.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,378	1.9
NIPPON LIFE INSURANCE COMPANY	7,301	1.8
The Jojo Bank, Ltd.	6,801	1.7
The Bank of New York, Non-Treaty JASDEC Account	6,753	1.7
Mitsubishi UFJ Trust and Banking Corporation	5,481	1.4

\*1. The ratio of shareholding is calculated by deducting treasury stock of 4,219,304 shares and rounding off to the nearest thousandth.

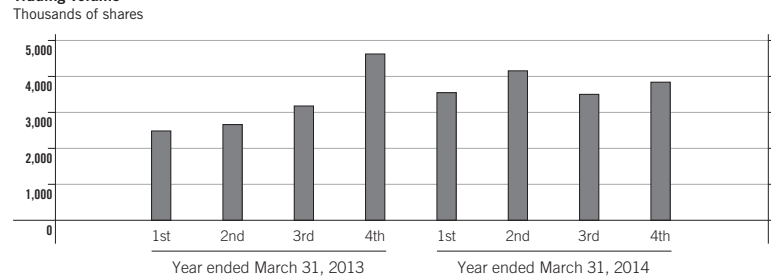
\*2. The number of shares held is truncated to the unit indicated.

## Stock Price Range and Trading Volume

### Stock price



### Trading volume



# Independent Practitioner's Assurance of Social and Environmental Performance

## Independent Practitioner's Assurance Report

To the President and Representative Director of NIKON CORPORATION

We have undertaken a limited assurance engagement of the sustainability information (CO<sub>2</sub> Emissions and Those Emissions per Unit of Sales (Index) and Energy Use and Its Use per Unit of Sales (Index) by NIKON CORPORATION (the "Company") and Group Manufacturing Companies in Japan, CO<sub>2</sub> Emissions from Group Manufacturing Companies outside Japan, Water Use by the Company and Group Manufacturing Companies in Japan, Percentage of Female Employees at the Company and Group Companies in and outside Japan, Frequency Rates of Lost Time Accidents and Severity Rates at the Company and Group Companies in Japan, Number of Female Managers at the Company) (the "sustainability information", indicated with the verification logo (★) on the figures, the tables and the titles of activities which include those quantitative information for assurance) for the year ended March 31, 2014 that were included in the "Nikon Report 2014" of the Company.

### The Company's Responsibility

The Company is responsible for the preparation of the sustainability information in accordance with the calculation and reporting standard adopted by the Company (indicated with the sustainability information).

### Inherent Uncertainty

CO<sub>2</sub> quantification is subject to inherent uncertainty for reasons such as incomplete scientific knowledge used to determine emissions factors and the values needed.

### Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our Responsibility

Our responsibility is to express a limited assurance conclusion on the sustainability information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board ("IAASB"), and ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, issued by the IAASB.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. These procedures also included the following:

- Evaluating whether the Company's methods for estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or reperforming the estimates.
- Undertaking site visits to assess the completeness of the data, data collection methods, source data and relevant assumptions applicable to the sites.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

### Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Company's sustainability information is not prepared, in all material respects, in accordance with the calculation and reporting standard adopted by the Company.

*Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd.*

Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd.  
Tokyo, Japan  
September 18, 2014

#### \* International Standard on Assurance Engagements (ISAE) 3000 and 3410

These are standards on assurance engagements that were developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The ISAE 3000 deals with "assurance engagements other than audits or reviews of historical financial information of entities," which encompass assurance engagements on environmental information and information about social aspects. In particular, the ISAE 3410 prescribes the procedures of assurance engagements on greenhouse gas statements based on the ISAE 3000. To comply with the ISAE 3410, the requirements of the ISAE 3000 also need to be fulfilled.

#### \* Inherent uncertainty

Uncertainty is inherent in greenhouse gas quantification. This uncertainty is unavoidable for any entity that performs the calculations, because the global warming potential values and other elements used for the quantification are simply scientific assumptions today, and errors generated by measuring equipment and other sources are inevitable. This uncertainty does not mean that quantified values are inappropriate. The ISAE 3410 stipulates that information can be assured as long as the assumptions are reasonable and the information is adequately disclosed.



## NIKON CORPORATION

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-8331 Japan  
(Scheduled to relocate to the following address on Nov. 25, 2014:  
Shinagawa Intercity Tower C, 2-15-3, Konan, Minato-ku, Tokyo 108-6290 Japan)  
[www.nikon.com](http://www.nikon.com)



This eco-friendly booklet was produced using FSC®-certified paper; non-VOC (volatile organic compound), vegetable-oil ink; and waterless printing technology.

Printed in Japan