

# EYES ON THE NEXT PHASE



**KAZUO USHIDA**

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

## REVIEW OF OPERATIONS: PRECISION EQUIPMENT COMPANY

In IC steppers and scanners, we are enhancing the competitiveness of ArF immersion scanners to increase our market share. In LCD steppers and scanners, we are pursuing higher resolution and processing capabilities in response to customer needs.

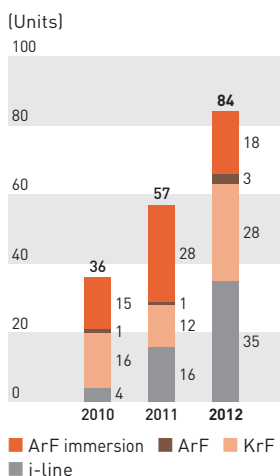
### Review of the Fiscal Year Ended March 2012

Segment sales amounted to ¥248,145 million in the fiscal year ended March 2012 (up 18.9% year on year), due mainly to the rise in unit sales of LCD steppers and scanners, and shorter production periods for IC steppers and scanners. Operating income also rose considerably, up five times\* from the total in the previous fiscal year to ¥42,724 million.

In LCD steppers and scanners, sales totaled 86 units in response to expanding demand for small to medium-sized high-definition panels used in smartphones and tablet computers. Performance was partially impacted by damage to manufacturing

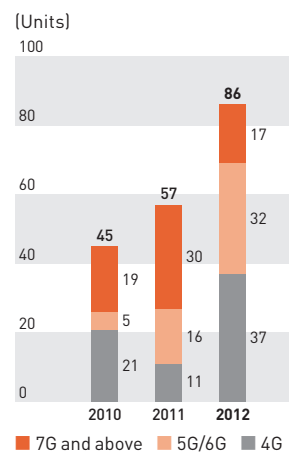
#### IC Steppers and Scanners, Sales Units by Technology

Years ended March 31



#### LCD Steppers and Scanners, Sales Units by Generation

Years ended March 31



**Note:**

Unit sales figures for the fiscal year ended March 2010 and the fiscal year ended March 2011 are for new products only. Figures from the fiscal year ended March 2012 include refurbished equipment.

\* Beginning with the fiscal year ended March 2012, we have revised our method of allocating expenses. For purposes of comparison, operating income for the fiscal year ended March 2011 has been revised using the new standard. The year-on-year change for the fiscal year ended March 2012 has been calculated based on the revised figure for the previous fiscal year.



facilities during the Great East Japan Earthquake last year, but restoration was achieved quickly and unit shipments exceeded initial projections.

In IC steppers and scanners, sales totaled 84 units (including refurbished equipment). We focused particularly on expanding sales of ArF immersion scanners, and gained several new customers. We also streamlined the manufacturing process, resulting in a significant shortening of the production lead time from twelve months to six. This enhanced our ability to respond to shifts in the market, while also strengthening our earnings structure.

### Market Prospects and the Medium Term Management Plan Strategies

#### Greater Competitiveness in IC Steppers and Scanners to Expand Market Share

In response to a slowdown in the semiconductor market, we anticipate that during the fiscal year ending March 2013, the market for IC steppers and scanners will soften to unit demand of around 240 units from 311 in the previous year. However, we expect unit demand to rebound to over 300 units during the fiscal year ending March 2015. Despite the current difficult market environment, Nikon plans to secure earnings by enhancing the competitiveness of its products, and expanding its market share.

One of the products that will be key to greater market share is the new NSR-S621D ArF immersion scanner, which we began shipping in January 2012. This new model retains the proven platform of the NSR-S620D, while offering advancements in overlay accuracy and throughput. The reaction

from customers has been positive, and we expect full-fledged introduction at customer plants from the second half of the fiscal year ending March 2013. Drawing on this competitiveness, we aim to achieve a 40% share of the market for ArF immersion scanners by the fiscal year ending March 2015.

Another product underpinning our push to increase market share is the new NSR-S320F ArF scanner announced in December 2011. This new model utilizes a common platform with the NSR-S621D, and offers overlay accuracy and throughput comparable to that of an immersion scanner. We believe this scanner will allow us to respond to new customer needs.

#### LCD Steppers and Scanners to Meet Need for Higher Resolution and Accuracy

In the LCD steppers and scanners market during the fiscal year ending March 2013, we anticipate that demand will remain firm for lithography equipment for small to medium-sized high-definition panels, mainly 6th generation plates, but will decline for large glass plates that are 7th generation and beyond. Overall, we expect unit demand to decline to around 60 units, from 110 in the previous year.

ArF Immersion Scanner  
**NSR-S621D**



Looking ahead, we expect the market to hit bottom during the fiscal year ending March 2013, and then to begin expanding again sometime around the end of that year centered on small to medium-sized high-definition panels to meet smartphone demand. We also expect an increase in new demand for lithography equipment for large plates, to meet demand for such products as panels with even higher precision than those for full HD televisions.

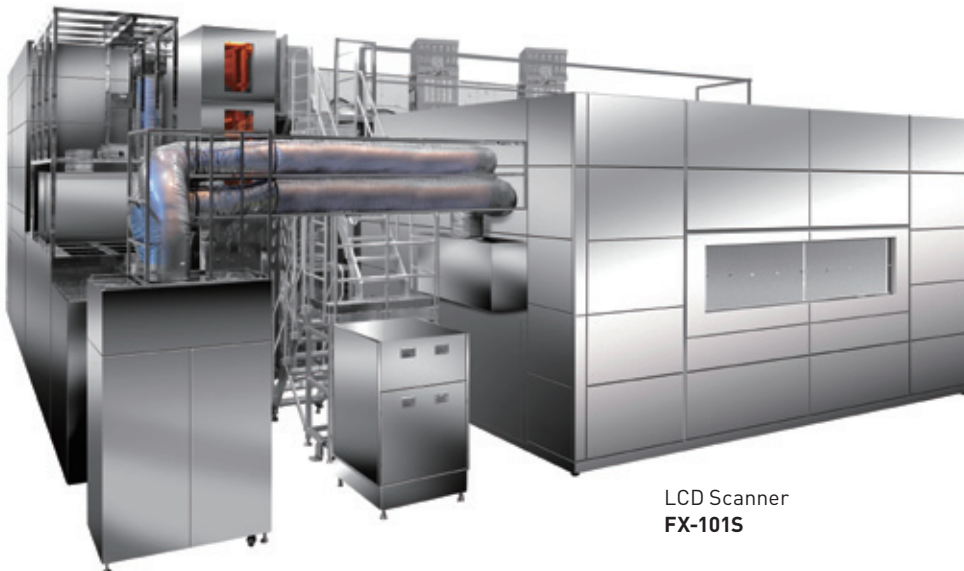
Nikon already has an extremely large share of the market for LCD steppers and scanners, owing to such advanced technologies as multi-lens arrays that easily can be adapted to larger and more precise glass plates. In February 2012, five Nikon employees involved with the development of this technology were awarded the Prime Minister's Prize at the fourth Monozukuri Nippon Grand Awards. We will continue to refine these strengths in an effort to respond to customer needs.

### Developing New Technologies to Enter New Business Fields

The Precision Equipment Company is developing new technologies with an eye to the future. The three keywords for this technology development are "Larger," "Finer" and "Taller."

"Larger" refers to the realization of technologies for wafer sizes up to 450 mm, and extremely large LCD panels. "Finer" refers to such aspects as greater overlay accuracy and ultra-thin line widths in lithography equipment. "Taller" indicates the development of three-dimensional technologies by stacking semiconductors.

We are exploring several fields with the goal of expanding into new business domains by effectively utilizing the advanced technologies employed in IC and LCD steppers and scanners. Through these efforts, we intend to strengthen our business foundation.



LCD Scanner  
FX-101S

# EYES ON BRAND VALUE

## REVIEW OF OPERATIONS: IMAGING COMPANY

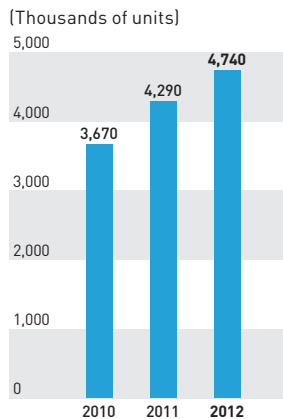
Reflecting its successful recovery after Thailand's flooding and strong demand for the Nikon 1, the Imaging Company expects a sharp upturn in sales of interchangeable lens-type digital cameras. In compact digital cameras, we aim to increase further our share in spite of a maturing market.

### Review of the Fiscal Year Ended March 2012

The Imaging Company posted segment sales of ¥587,127 million during the fiscal year ended March 2012 (a year-on-year decline of 1.6%). Operating income reached ¥53,972 million (down 12.2% year on year\*). During the first half of the year, sales of both digital SLR cameras and compact digital cameras were extremely strong. However, Thailand's flooding during the second half of the year forced our manufacturing subsidiary, Nikon Thailand Co., Ltd. (hereafter NTC) to suspend operations in October 2011. As many of our digital SLR cameras and interchangeable lenses had been manufactured at this facility, we immediately mounted an intensive, company-wide effort to restore our supply chain and enable the early resumption of manufacturing operations. As a result, at the end of November we were able to begin alternative production at Thai

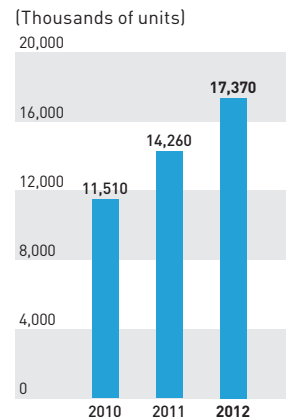
#### Unit Sales of Interchangeable Lens-Type Digital Cameras

Years ended March 31



#### Unit Sales of Compact Digital Cameras

Years ended March 31



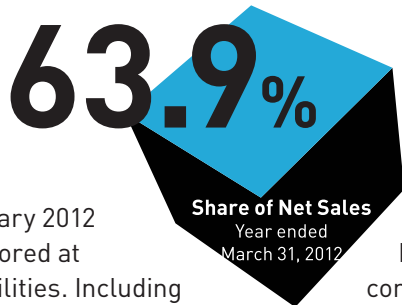
\* Beginning with the fiscal year ended March 2012, we have revised our method of allocating expenses. For purposes of comparison, operating income for the fiscal year ended March 2011 has been revised using the new standard. The year-on-year change for the fiscal year ended March 2012 has been calculated based on the revised figure for the previous fiscal year.



**YASUYUKI OKAMOTO**

Director, Member of the Board and  
Executive Officer  
President of Imaging Company





partner factories, and in January 2012 partial capacity had been restored at NTC's own manufacturing facilities. Including alternative production at Thai partner factories, normal production volume had resumed by the end of March 2012.

When the flooding began there were fears that our business might be seriously impacted and fall into the red during the second half of the year, but the adverse effects of the disaster were minimized thanks to strong sales of the Nikon 1 interchangeable lens-type advanced digital camera that we introduced on the market in October 2011, and to growth in market share of our compact digital cameras. The fact that we were able to achieve profitability by the end of the second half of the fiscal year can be taken as a solid indication of the underlying strength of Nikon's imaging business.

### Market Prospects and Medium Term Management Plan Strategies

#### Analyzing User Needs to Promote Market-Driven Product Development

The market for interchangeable lens-type digital cameras is expected to achieve double-digit annual growth in unit sales through the fiscal year ending March 2015. Although the flooding in Thailand impacted Nikon during the fiscal year ended March 2012, manufacturing capacity has been fully restored, and we plan to boost our market position

significantly during the fiscal year ending March 2013. Meanwhile, the size of the compact digital camera market is expected to remain flat at around 100 million units per year through the fiscal year ending March 2015. Following our success in the U.S. market, Nikon's highly focused marketing efforts enabled us to claim the top share in the European market for the fiscal year ended March 2012. Competition is becoming increasingly fierce, but we intend to maintain our leading market position through the effective combination of desirable products, compelling advertising, and strong marketing capability.

To increase the Imaging Company's market share, our current Medium Term Management Plan calls for the "steady introduction of new products with distinctively superior technologies." The Nikon 1 interchangeable lens-type advanced digital camera represents one fruit of this ongoing strategy. The Nikon 1 is favored by women and young people, segments of the market where Nikon has traditionally been weak. However, it is also accepted as an attractive second camera for digital SLR owners. As a result, the Nikon 1 is succeeding in carving out an entirely new market, distinct from the conventional digital SLR and compact digital camera markets. The reason for its success among consumers lies in the fact that the technologies used in this camera were developed as the result of a thorough analysis of actual user needs. For example, users of compact digital cameras tend to report dissatisfaction with the autofocus speed. The Nikon 1 addressed this issue by introducing the world's first\* image sensor, created for



Digital SLR Camera  
**Nikon D4**



Digital SLR Camera  
**Nikon D800**



Digital SLR Camera  
**Nikon D3200**

an interchangeable lens-type digital camera, that comes with a focal plane phase-detection autofocus, providing high-speed, highly accurate autofocus capability. The fact that this camera also allows the user to simultaneously capture video and high-resolution still images, offers the user a new way to enjoy photography.

As is the case with the D800 digital SLR model, which features an advanced image sensor and a superior image-processing engine, we believe that despite the relatively higher prices, products with a clear technological edge will continue to succeed in the marketplace. We will maintain our focus on the development of innovative technologies and products that incorporate those technologies, centering on camera bodies and NIKKOR interchangeable lenses, to meet the ever-evolving needs of our customers.

\* As of September 21, 2011

### Expanding Our Market Share in Emerging Markets

When we look to the future of the imaging business, our keyword has got to be emerging markets. Much of Nikon's future success will depend on how much market share we are able to capture in developing countries that still have a strong potential for future economic expansion. We already have a solid market share in some of these emerging countries, but many other areas await development. Brand strength is extremely important in these countries, where establishment of strong brand appeal will lead to brand-based demand.

The Nikon brand is already well established in India, Russia and China, where we consistently command a strong share of the market. However, Nikon remains relatively weak in much of Central and South America, the Middle East, Africa and parts of Southeast Asia. We will focus on improving

our brand image in these regions. As part of these efforts, in addition to the sales subsidiaries we have already established in Thailand, Brazil and the United Arab Emirates, we will now turn our attention to reinforcing our sales and service systems in Central and South America and the Middle East.

### Establishing a New Brand Image and Reinforcing Our Manufacturing Capability

One of the areas on which I am personally focusing special attention is our brand image. While maintaining the legendary Nikon name for unsurpassed technology and quality, I want to add some new elements to our brand image, such as "fashionable" and "sophisticated." The two products that best embody these new concepts are the Nikon 1, and the COOLPIX series compact digital camera. As they steadily penetrate the market, these two products are beginning to create a very positive new Nikon image that combines the elements of our traditional brand with the new elements of being fashionable and sophisticated.

A second area on which I am placing special emphasis is ensuring that our imaging business is market driven. This requires not only a strong marketing capability, but also demands that we build our ability to create new and advanced technologies to meet user needs, and ensure that our manufacturing capability is the best in the industry. With regard to manufacturing, we are currently working to simplify design work through the adoption of platform-based design systems, and we are looking to cut costs through the increased use of automation. As the person in charge of Nikon's imaging business, I am pleased to report that these new approaches are already beginning to show solid results.



Interchangeable Lens-Type  
Advanced Digital Camera  
**Nikon 1 J1**



Interchangeable Lens-Type  
Advanced Digital Camera  
**Nikon 1 V1**



Compact Digital Camera  
**COOLPIX S9300**



Compact Digital Camera  
**COOLPIX P310**

# EYES ON FURTHER GROWTH

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NIKON CORPORATION ANNUAL REPORT 2012



## TOSHIYUKI MASAI

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

## REVIEW OF OPERATIONS: INSTRUMENTS COMPANY

The Instruments Company will continue to develop its bioscience field, with particular focus on products related to live cell research, and will boost sales and profits of its industrial instruments business by expanding sales of non-contact three-dimensional (3D) measurement systems.

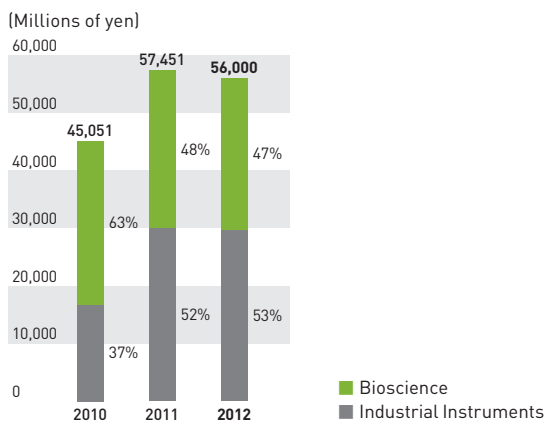
### Review of the Fiscal Year Ended March 2012

The Instruments Company posted segment sales of ¥56,000 million in the fiscal year ended March 2012. The figure was down 2.5% year on year as a result of the yen's appreciation and cutbacks in both research and capital expenditures in the overall economy. Operating losses, however, continued to improve, falling to ¥3,166 million (from ¥3,893 million in the previous fiscal year\*).

Market conditions were especially severe in the bioscience field as a result of lower public spending in Europe and the United States, as well as project delays and deferrals. Total sales in this area fell compared with the previous fiscal year, but even under these conditions unit sales of our advanced research N-SIM and N-STORM super-resolution microscopes grew more than 50%, and unit sales of confocal microscopes increased more than 20%, thanks to technical advances and improved functions. Unit sales of microscopes for general research

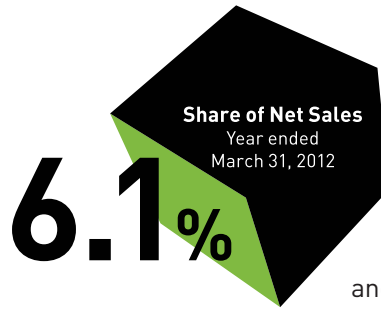
### Sales by Product Group

Years ended March 31



\* Beginning with the fiscal year ended March 2012, we have revised our method of allocating expenses. For purposes of comparison, operating loss for the fiscal year ended March 2011 has been revised using the new standard.





and clinical fields were up slightly. As a result, despite the contraction in demand in Europe and the United States, we were able to boost our share of the overall bioscience market.

In the field of industrial instruments, demand for optical measuring systems in electronic component and semiconductor industries fell sharply during the second half of the year, particularly in Asia, but sales related to smartphones and tablet computers remained firm. Demand for non-contact 3D measuring systems made by Nikon Metrology NV—established following the October 2009 acquisition of a Belgian manufacturer of measuring equipment—remained strong, especially in the automobile sector, with unit sales growing more than 30% compared with the previous year. As a result, year-on-year sales of industrial instruments were largely unchanged compared with the previous fiscal year.

With regard to Nikon Metrology NV, we recorded an impairment of goodwill of approximately ¥6,500 million during the fiscal period under review. This is because, while sales of the Nikon Metrology Group are growing steadily, we have reached the conclusion that prospects for market growth in the United States, Europe and developed countries are weaker than we had forecast at the time of acquisition, causing us to shift

to a lower growth model. The impairment also reflects the fact that we have revised and refocused the Nikon Metrology product line, in order to generate more stable cash flows.

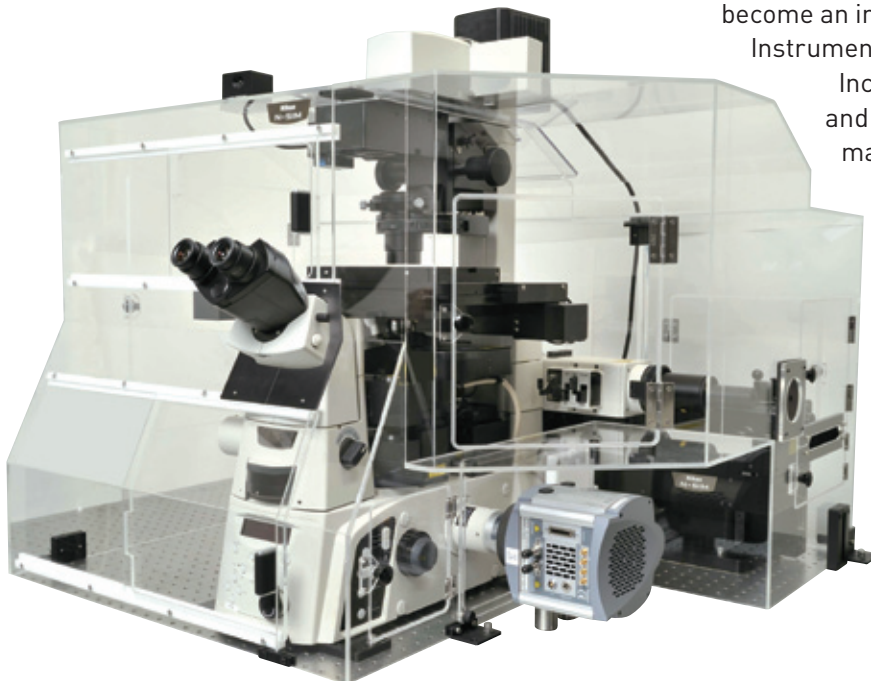
### Market Prospects and Medium Term Management Plan Strategies

#### Bioscience: Enter Live Cell Research Field and Strengthen Presence in Emerging Markets

Most of the demand for our bioscience-related products comes from government agencies and public institutions, and conditions in the bioscience sector are expected to remain severe for some time. To improve our sales and profits under these conditions, it is essential that we move into new fields and develop new markets in emerging countries.

One new field attracting much interest is live cell research. As aging populations and rising health care costs become serious social problems worldwide, there is increasing recognition of the need to remain healthy. This need is closely linked to regenerative and preventive medicine. Live cell research is particularly important in regenerative medicine, an area in which demand for highly advanced microscopes is strong. Nikon is already the market leader in high-end microscope systems for advanced research, but as interest in regenerative medicine grows, we expect that live cell research will become an increasingly important market for the Instruments Company.

Increasing our sales of high-end systems and high-volume products in emerging markets remain important goals. We aim to expand sales of the latter, particularly in the emerging markets of Asia by increasing our sales locations in China, and expanding the localized direct sales in Brazil and Mexico that Nikon established during the fiscal year ended March 2012.



Super Resolution Microscope  
N-SIM



### Industrial Instruments: Boost Non-Contact 3D Measuring and X-ray Inspection Tools to Lift Profits

Market conditions for industrial instruments are expected to remain severe through the first half of the fiscal year ending March 2013, and although the outlook remains unclear, we expect to see signs of a recovery during the second half of that fiscal year.

Demand for certain products in fields where technology is advancing rapidly will continue to grow. For example, in 3D measuring systems, contact-type devices currently dominate the market, but the shift to non-contact instruments is expanding steadily. Advances in non-contact technology are making it possible to obtain data instantaneously from massive numbers of measurement points, in contrast to the paltry amount of data obtained with contact-type devices, thus facilitating a shift from point-based to plane-based measurement. Moreover, Nikon's technology is allowing us to produce X-ray inspection systems with far superior image quality and measuring accuracy, which is opening up new applications in the industrial instruments field. For these reasons we have identified Nikon Metrology's non-contact 3D measuring systems and X-ray inspection systems as medium-term growth products, and have implemented full-scale product development and marketing programs targeting users with large-scale measurement needs, such as aircraft and automotive industries. We expect these steps to contribute to increased Company sales and profits in future.

We will continue to develop and introduce to the market highly competitive products that combine Nikon's proven optical technologies with the non-

contact 3D measurement and X-ray inspection technologies of Nikon Metrology. We will place special emphasis on reinforcing marketing activities for Nikon Metrology products in Japan and in Asia as a whole. We will take advantage of Nikon's sales subsidiaries and local distributors to extend our sales channels, and we will work to develop product support systems that cover both hardware and software applications.

### “Business Must Grow” Aiming to move ahead and expand

Steady growth and expansion is essential for any business, and the Instruments Company is no exception. Our Medium Term Management Plan places special emphasis on the following four strategic areas to help achieve steady growth. 1) Organization: We are reinforcing our marketing department, and creating an organizational management system capable of responding quickly to the needs of the market. 2) Product development: We will focus on development of highly competitive products that meet market needs. 3) Marketing: We will establish a sales system optimized for each regional market, and a service system to enable our customers to select and use our products with confidence. 4) Production: We will establish a more flexible production system in which the manufacturing sites for each product are optimized with regard to exchange rates and other external factors.

These strategic measures will be promoted in a coordinated manner by all of our business divisions, and are designed to help the Instruments Company increase both revenues and profits in the years to come.



X-ray  
CT Metrology System  
**MCT225**



High Accuracy  
Laser Scanner for CMM  
**LC15Dx**

(CMM: Coordinate Measuring Machine)