

Strengthening of Management Capital

By providing value to society with products and services supported by and created with its various management capital, the Nikon Group has a long history of practicing its corporate philosophy of "Trustworthiness and Creativity." We will further enhance the management capital that supports Nikon's value creation to accomplish our goal of becoming a "Leading Company in Precision and Optics."

Financial Capital



To ensure sustainable and stable business activities, it is essential for us to utilize the capital entrusted to us by shareholders, the profit gained through business activities, and funds procured through borrowings in a balanced, efficient, and effective manner. Nikon is turning its attention to decisive investments in medium- to long-term improvements in enterprise value while maintaining its focus on financial health.

Credit Ratings

(As of June 12, 2020)
Japan Credit Rating Agency,
Ltd. (JCR)

A+

Rating and Investment Information,
Inc. (R&I)

A

Net Cash

Fiscal year ended March 31, 2020

¥184.8 billion

Ratio of Equity Attributable to Owners of
the Parent to Total Assets
["Equity ratio" under Japanese GAAP]

Fiscal year ended March 31, 2020

53.7%

Manufactured Capital



As a manufacturer, *Monodzukuri* (manufacturing) is the essence of business activities for Nikon. By integrating Groupwide manufacturing activities on a cross-business basis, the Company has established a *Monodzukuri* structure through digital manufacturing. We are taking steps to apply existing technologies to new fields, embrace new development themes, and realize drastic improvements to productivity. A broad scope has been defined for these activities, encompassing production systems, *Monodzukuri* technology, procurement, and quality management.

Capital Expenditures

Fiscal year ended March 31, 2020

¥28,775 million

Quality Management

Fiscal year ended March 31, 2020

Serious product accidents
related to safety*

0

* Based on the definition of serious product accidents used in the Japan's Consumer Product Safety Act.

Intellectual Capital



Patents, trademarks, and other intellectual assets are vital to the competitiveness and prosperity of Nikon's business. We therefore acquire, maintain, and utilize these assets in a strategic and lawful manner. In regard to the strength of our technologies, we will advance R&D activities in a wide range of fields based on our opto-electronics and precision technologies to develop state-of-the-art technologies and maintain our technological edge. We continue to focus on recruitment and cultivation of the human resources necessary for these activities.

Ratio of R&D Expenditures to Revenue

Fiscal year ended March 31, 2020
(IFRS)

10.5%

Intellectual Properties

Fiscal year ended March 31, 2020

Disclosed patent
applications in Japan

632

Patent registrations in the
United States

294

Companies Supported via Investment by
Nikon

Fiscal year ended March 31, 2020

Venture companies /
Venture capital
partners

22 companies

Financial Strategies See page 20~ for details. ➔

Production System Reform

Intellectual Property Initiatives

Enhancement of Basic Research

Monodzukuri Technology Reform

Human Resource Development of *Monodzukuri* Technology

Quality Management Reform

Procurement Reform

Strengthening of Management Capital

Management Capital That Supports Nikon's Value Creation

Human Capital



A corporate culture encouraging bold action geared toward creating new corporate value is imperative for Nikon's sustainable growth. We aspire to provide workplace environments in which diverse employees can fully exercise their ambitions and talents. To this end, the Company has adopted impartial, performance-based systems for employee evaluation and treatment and supports employees in pursuing self-directed career planning and skills development.

Ratio of Local Hires in Upper Management

(Outside of Japan)

Fiscal year ended March 31, 2020

23.4%

Ratio of Female Employees

Fiscal year ended March 31, 2020

39.2%

Accidents Resulting in Fatalities

Fiscal year ended March 31, 2020

0

Social and Relationship Capital



Nikon views its business partners as just that: partners that help raise the value it provides to society. We therefore form strategic partnerships with other companies as well as with universities, and various other organizations. In addition, communication with stakeholders, including customers and shareholders, is utilized to improve management and business activities, and to enhance the trustworthiness of Nikon.

Ratio of Transaction Volume Accounted for by Procurement Partners That Have Undergone CSR Assessments

Fiscal year ended March 31, 2020

80%

Shareholders and Institutional Investors with Which Meetings Have Been Held

Fiscal year ended March 31, 2020

Approx. **500** companies (total)

Number of Employees Participating in Town Hall Meetings with the President

Fiscal year ended March 31, 2020

Approx. **6,600** employees at 14 business facilities worldwide

Natural Capital



Companies utilize various types of natural capital in their business activities, meaning that preservation of the global environment is a prerequisite to business continuity. In light of climate change and other global environmental issues, Nikon has formulated the Nikon Long-Term Environmental Vision, to realize three pillars deemed important to its business activities: a decarbonized society, a resource circulating society, and a healthy and environmentally safe society. In addition, we have established Medium-Term Environmental Goals to guide us in pursuing the objectives of our environmental vision in reducing environmental impacts across the entire supply chain.

Reduction in CO₂ Emissions from Energy Consumption

Fiscal year ended March 31, 2020

Year-on-year reduction

10.1%

Waste Reduction

Fiscal year ended March 31, 2020

Year-on-year reduction

8.8%

* Excluding valuable resources

Water Withdrawal Reduction

Fiscal year ended March 31, 2020

Year-on-year reduction

5.6%

Measures for Enhancing Management Capital
Priority Measures of Medium-Term Management Plan

Intellectual Property Initiatives

Enhancement of Basic Research

Human Resource Development of *Monodzukuri* Technology

Financial Strategies [See page 20~ for details.](#)

Climate Change Measures

Quality Management Reform

Procurement Reform

Strengthening of Management Capital

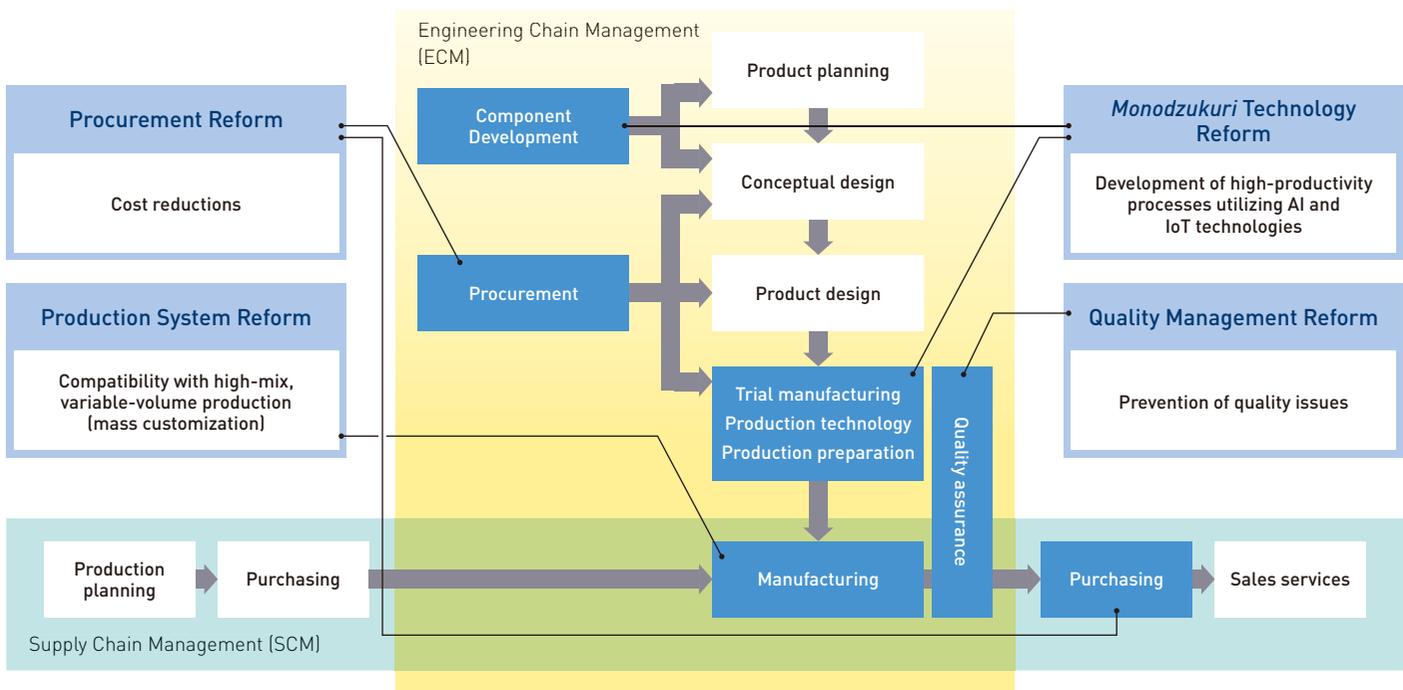
Enhancement of *Monodzukuri* (Manufacturing) Foundation

Under its Medium-Term Management Plan, Nikon aspires to become a “Leading Company in Precision and Optics.” To this end, we are advancing four reforms geared toward the enhancement of Nikon’s *Monodzukuri* foundation along with measures for developing the human resources that will support these reforms in order to establish a foundation for growth.



Overview of Reforms

Nikon has established the Production Technology Division, the Optical Engineering Division, and the Research & Development Division as cross-business unit organizations. Measures specifically aimed at the enhancement of our *Monodzukuri* foundation by setting up systems, framework, and technologies to establish engineering chain management (ECM) and practicing supply chain management (SCM) to pursue Companywide optimization of manufacturing in a manner that blurs the lines between business units.



Human Resource Development in *Monodzukuri* Technology Fields to Support Four Reforms for Enhancing *Monodzukuri* Foundation

Nikon is working to solidify its foundations for sustainable growth by training human resources directly involved in manufacturing, and enhancing its capacity for engineering in a manner that takes manufacturing into account. In addition to strengthening manufacturing capabilities, we are also focused on developing human resources with the capacity to continually create new value by tackling new challenges.

In April 2020, we launched the Technical College program to systematically endow junior employees with the knowledge and skills necessary for manufacturing at Nikon and to foster engineers with an abundance of wide-perspective-based creativity. Efforts are also being directed toward expert training pertaining to quality management and procurement as well as quality management for fostering a shared understanding of manufacturing knowledge.

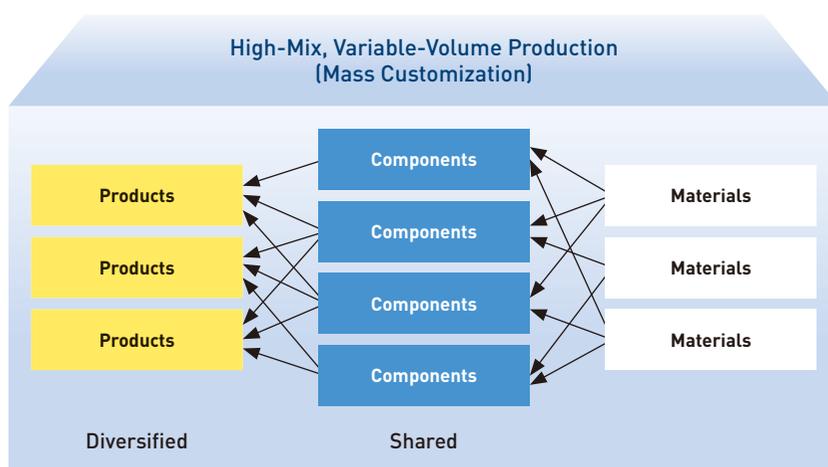
Strengthening of Management Capital

Enhancement of *Monodzukuri* (Manufacturing) Foundation

Production System Reform

Compatibility with High-Mix, Variable-Volume Production (Mass Customization)

To drive the Groupwide evolution of the Nikon Group's optical technologies, we are moving forward with the development of production systems, targeting improvements in production technologies and productivity, to enhance our *Monodzukuri* systems. For this purpose, the development and engineering functions of optical components and units, core elements of our product competitiveness, that were previously dispersed among business units have been consolidated within the Optical Engineering Division. Similarly, optical component and unit manufacturing and production technology functions have been concentrated within subsidiary Tochigi Nikon Corporation. The consolidated production equipment, staff, technologies, and other resources are being utilized to improve productivity through synergies. Going forward, we will promote compatibility using high-mix, variable-volume production (mass customization) to respond to customers' diversifying needs through efficient manufacturing.



Monodzukuri Technology Reform

Development of High-Productivity Processes Utilizing AI and IoT Technologies

Nikon is developing innovative *Monodzukuri* technologies, including those for utilizing digital data and adopting automation. For example, we are accumulating the *Monodzukuri* techniques and technologies into digital data and deploying the results analyzed by AI to the production site using IoT. This process is making it possible to automate production schedules, track production processes, and pursue standardization. Moreover, we are promoting digital manufacturing to realize high-mix, variable-volume production of high-quality products through the optimization of costs and lead times.

Procurement Reform

Cost Reductions

Nikon is reinforcing its financial base in its pursuit of cost reductions that will help fuel future growth investments. Nikon's Medium-Term Management Plan targets an aggregate total of ¥18.0 billion for three-year cost reductions. The reform of cost structures including procurement reforms will have an important role to play in accomplishing this goal. We are cutting costs through reductions to direct and indirect costs, optimization of supply chains, and installation of information infrastructure. In addition to these measures, further cost reductions are being targeted through logistics reforms, such as modal shifts and warehouse optimization, which were newly included in the scope of reforms starting from the fiscal year ending March 31, 2021.

Quality Management Reform

Prevention of Quality Issues

The Nikon Group views quality, encompassing the safety and environmental friendliness of products and services, as the utmost priority in its operations and imperative to the trustworthiness of Nikon. To prevent quality issues, we are advancing quality management reforms in the Groupwide quality management frameworks and the quality assurance activities of business units. We have also revised our quality management system to further reduce costs from quality losses during production, and ongoing improvement activities are being implemented in this regard.

Strengthening of Management Capital

Intellectual Property Initiatives / Enhancement of Basic Research / Climate Change Measures

Nikon is engaging in intellectual property initiatives and working toward the enhancement of basic research as the foundation for the ongoing improvement of the technological prowess and brand power that are its core strengths. We are also implementing climate change response measures and addressing other social and environmental issues based on the Medium-Term CSR Plan to develop Nikon into a company that grows together with society.

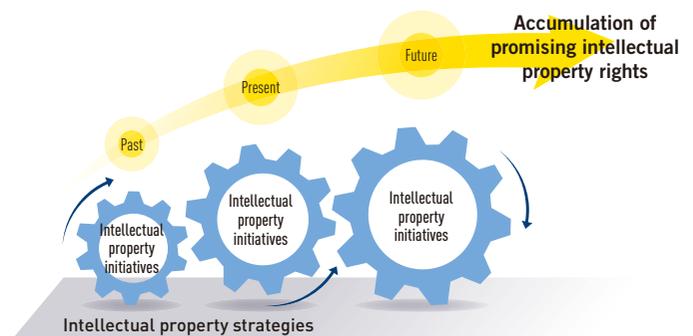
Intellectual Property Initiatives

Nikon processes a range of intellectual properties, including the advanced technologies and designs produced by its business units and R&D divisions, and these intellectual properties underpin the market competitiveness of Nikon products.

Basic Policies

The Legal & Intellectual Property Division pursues extensive coordination with business units and R&D divisions and drafts intellectual property strategies that contribute to the growth of existing businesses and the creation of new businesses. Ongoing intellectual property initiatives are advanced based on these strategies.

Long dedicated to intellectual property initiatives, Nikon's past intellectual property initiatives now support its present business activities while the intellectual property initiatives the Company is advancing today will form the foundations for the new businesses of tomorrow.

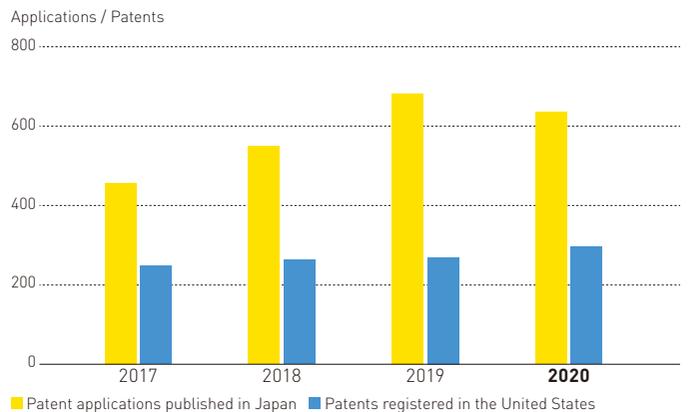


Major Activities

The Legal & Intellectual Property Division is engaged in invention generation activities that entail involvement in the development of new businesses, starting from the exploration phases, in order to produce inventive ideas that will become sources of business competitiveness. These inventive creation activities are divided into several steps, ranging from theme selection to patent portfolio development, to facilitate proactive intellectual property activities.

The number of patent applications published in Japan and patents registered in the United States is one of the important indicators for intellectual property activities. These numbers are shown in the graph to the right. To generate new core pillars of profit, as described in the Medium-Term Management Plan, Nikon is ramping up inventive creation activities in growth fields, quickly responding to opportunities for investment and alliances, and reorganizing its intellectual property portfolios. Moreover, we proactively form business alliances with outside partners to facilitate the accomplishment of the goals of the Medium-Term Management Plan.

Patent Applications Published in Japan and Patents Registered in the United States



Protection of Brand and Designs

Trademark rights for the Nikon brand that we have cultivated throughout our long history have been acquired in the roughly 200 countries and regions where such rights can be obtained. We are also engaged in the wide-ranging global acquisition of design rights pertaining to the valuable designs produced by Nikon. We take steps to protect these trademarks and design rights, including the enhancement of the monitoring of e-commerce sites, coordination with customs to implement protective measures at customs, and confrontations with the violators of these rights. Through ongoing vigilance in combating the sale of counterfeit and infringing products, we are ensuring that customers can purchase our products with peace of mind. These efforts contribute to the safety and security of society and to the accomplishment of other objectives of the United Nations' Sustainable Development Goals (SDGs).

Going forward, we will maintain our vigilance in protecting the Nikon brand and improving its value on a global scale.

Strengthening of Management Capital

Intellectual Property Initiatives / Enhancement of Basic Research / Climate Change Measures

Enhancement of Basic Research

Nikon’s superior technological prowess is one of the Company’s strengths. We are taking a long-term perspective as we engage in a diverse range of ongoing R&D activities to reinforce existing businesses and create new businesses. We thereby aim to further hone the technological prowess that supports our growth strategies.

Basic Policies

The technologies developed over the course of years of basic research are used in Nikon’s businesses while also making large contributions in growth fields. The Company recognizes that swiftly incorporating the results of R&D projects into its businesses is vital to the effective implementation of the Medium-Term Management Plan. R&D activities are being shaped by this recognition.

Major Activities

Nikon’s optical technologies and AI-powered measurement technologies are important essential technologies for growth fields. Nikon has released a number of highly regarded research theses in areas such as research and development in growth fields, optical theory, and mathematical theory. In the fiscal year ended March 31, 2020, Nikon succeeded in commercializing a foreign-material detection and inspection system that was jointly developed together with AOHATA Corporation. This system utilizes Nikon’s spectroscopic technologies and deep learning AI to deliver revolutionary quality management solutions.

Furthermore, Nikon has been issuing Nikon Research Reports since the fiscal year ended March 31, 2020, to communicate the successes of its R&D activities to a wide range of stakeholders. These reports contain a breadth of information on Nikon’s R&D successes. Major focuses include the technologies included in new products and the technologies that have been recognized by academic and other external institutions. These technologies are based on Nikon’s core opto-electronics and precision technologies.



For more detailed information on Nikon’s R&D activities, please refer to the following webpage: <https://www.nikon.com/about/technology/rd/>

Climate Change Measures

Nikon is further advancing measures for responding to climate change, as this is important to accomplishing the goals of the Medium-Term CSR Plan, which is aimed at realizing a sustainable society, and mitigating business risks.

Basic Policies

Previously, a “low-carbon society” was positioned as one of the pillars of Nikon’s Long-Term Environmental Vision. However, this pillar was changed to a “decarbonized society” in February 2020 to accelerate climate change response measures. The Nikon Medium-Term Environmental Goals were also revised in conjunction with this change. Nikon is committed to reducing greenhouse gas emissions across its supply chain while also helping lower emissions from society through its business activities.

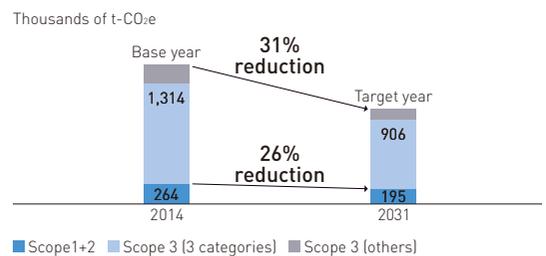
Major Activities

Approximately 80% of the greenhouse gas emissions from across Nikon’s supply chain are accounted for under Scope 3.* Of these emissions, the three categories of purchased goods and services, use of sold products, and upstream transportation and distribution represent a particularly large portion. For this reason, the reduction of Scope 3 and other greenhouse gas emissions has been positioned among the Nikon Medium-Term Environmental Goals, and reductions are being pursued through a number of activities accordingly. For example, we are working to heighten the efficiency of production and development processes and to make greater use of renewable energy. In addition, Nikon is focusing on making smaller, lighter, and more energy-efficient products that are even friendlier to the environment.

In November 2019, the Nikon Medium-Term Environmental Goals were approved by the Science Based Targets international initiative, confirming that these targets are based on scientific evidence.

Moreover, Nikon has announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures.

Greenhouse Gas Reduction Targets in Nikon Medium-Term Environmental Goals



Notes:
 Scope 1: Direct greenhouse gas emissions from fuel use at Company facilities
 Scope 2: Indirect greenhouse gas emissions from use of purchased electricity and heat
 Scope 3: Indirect greenhouse gas emissions from business activities across the supply chain (excluding those associated with Scope 1 and 2).

For more detailed information on Nikon’s climate change measures, please refer to the following webpage: <https://www.nikon.com/about/sustainability/report/>