

Management Policies

(Fiscal Year Ended March 2014 – 2017)

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(For FY Ended March 2014 - 2017)**

I. A Look Back at the 1st Year under New Management

Consolidated Financial Results for FY Ended March 2013

Net sales and all income figures exceed most recent forecasts

(Billions of yen)	March 2012 (Results)	March 2013 (Forecast as of Feb. 2013)	March 2013 (Results)	YoY (%)	Compared to forecast
Net sales	848.5	740.0	743.9	-12%	+1%
Operating income (% of sales)	35.5 (4.2%)	35.0 (4.7%)	35.1 (4.7%)	-1%	+0%
Ordinary income	17.9	11.5	13.0	-27%	+13%
Net income	-49.0	6.0	8.0	-	+34%

Medium-Term Vision - Progression of Four Basic Strategies -

**(i) Rebuilding of business portfolio/
Optimal allocation of management resources**

(ii) Review of cost structures

(iii) Restoration of financial health

(iv) Restructuring of governance

A Look Back at the 1st Year under New Management (1)

(i) Rebuilding of business portfolio/Optimal allocation of management resources

Medical

Forecast-exceeding progress and performance

- Gastrointestinal endoscope field: Introduced new products worldwide, which contributed to improved earnings
- Surgical field: Introduced new products, formed business alliance with Sony (established JV)
- Management resource allocation: Increase production capacity of major production sites

Life Science & Industrial

Implemented profitability improvement measures in response to deterioration of macro-economic environment

- Introduced new products in mainstay model lines on schedule
- Rationalized production sites (Philippines, Nagano)

Imaging

Responses to rapidly changing market conditions and drastic reform of earnings structure

- Revised product lineup (shifted to high-value-added products)
- Reorganized manufacturing systems
- Implemented SG&A expense reduction measures

Restructuring of non-core business

Accelerated reorganization of non-core business domains

- Transferred Information & Communication Business (Sept. 2012)
- Liquidated / sold approx. 30 subsidiaries and affiliated companies

A Look Back at the 1st Year under New Management (2)

Results and Challenges

Further rationalization of indirect departments

(ii)
Review of cost structures

- Reorganized production sites worldwide: 30 → 22 sites
- Optimized staff size: Accomplished ahead of schedule → Approx. 6,000* lower than on March 2012
(*includes full-time and part-time employees)

(iii)
Restoration of financial health

- Commenced capital alliance with Sony
- Interest-bearing debt: Decreased approx. ¥82 billion
- Equity ratio: Improved from approx. 5% to over 15%

(iv)
Restructuring of governance

- Instituted new management system clearly separating supervision and execution
- Submitted a “written affirmation on the internal control system” to the TSE

II. Restructuring of the Imaging Business

Factors Preventing Accomplishment of Forecasts in FY Ended March 2013 (1)

Initiatives to revise product lineups, reorganize manufacturing systems, reduce SG&A expenses, etc. completed ahead of initial schedule, but unable to prevent net sales decreases stemming from unexpected degree of compact camera market contraction

【Imaging Business losses (FY Ended March 2013)】

(Billions of yen)	March 2013 (Initial plans in June)	March 2013 (Results)	YoY Change (Difference)	
Compact camera	91.2	57.2	-34.0	Compact camera sales significantly lower than forecasts
SLR (mirrorless)	42.5	37.8	-4.7	
Others (IC recorder)	15.3	12.5	-2.8	
Net sales	149.0	107.6	-41.4	Gross profit down due to lower sales
Gross margin	61.0	32.6	-28.4	
SG&A expenses	60.0	55.7	-4.3	Unable to reduce SG&A expenses, operating loss recorded
Operating income	1.0	-23.1	-24.1	

【Rapidly changing market conditions】

- 1. Unexpected degree of compact camera market contraction
(gross profit down due to lower sales)**

【Lack of responsiveness to market changes】

- 2. Delayed production adjustment (resulting in inventory surplus)**
- 3. High expenses in comparison to sales**



**Revised Imaging Business management policies
to respond to these factors**

Policy Changes

Risk Minimization

New policy: Risk Minimization

1.

**Minimize risks in
compact camera
operations**

2.

**Focus resources
on high-margin
mirrorless cameras**

3.

**Improve
responsiveness to
market changes**

**Construct cost structure appropriate
for business scale**

1. Minimize Risks in Compact Camera Operations

Significantly reduce business scale and limit risks

- ◆ **Substantially reduce number of compact camera models (cease production of low-price models)**
- ◆ **Reduce target for compact camera sales volumes to half of FY2013's target (FY2013 results: 5.1 mil. → FY2014 forecast: 2.7 mil.)**

2. Focus Resources on High-Margin Mirrorless Cameras

Focus allocation of management resources on mirrorless cameras

- ◆ Focus management resources on major cities where mirrorless camera demand is expected to grow
 - ◆ Accelerate investment in sales channels highly suited to mirrorless cameras
- 
- ◆ Achieve strong growth in conjunction with mirrorless camera market trends

3. Improve Responsiveness to Market Changes

Accurately manage risks through more stringent monitoring and swifter decision making

◆ Respond swiftly and objectively based on monitoring findings

- **Monitor plan progression in timely manner**
- **Make companywide decisions based on objective viewpoint**



**Minimize inventory risks,
maintain appropriate level of costs**

Shift to cost structure appropriate for business scale

- ◆ Significantly reorganize manufacturing systems (consolidate 5 sites into 2) → Shenzhen and Vietnam
- ◆ Cut R&D expenditures and operating costs by substantially reducing number of models
- ◆ Reduce Imaging Business staff by 30% by March 2014 compared with March 2012 levels
- ◆ Significantly reorganize sales systems (consolidate overseas sales bases, reduce sales channels efficiently)

Establishment of Cost Structure Appropriate for Business Scale (2)

Aim to lower costs by ¥23 billion through reductions in manufacturing costs and SG&A expenses

◆ Reduction targets for manufacturing costs and SG&A expenses

Initiative		FY2014 (YoY)	
Manufacturing costs	Improve manufacturing cost ratio by shifting to mirrorless cameras (adjusting product mix)	+ ¥4bil.	(Change in costs as a percentage of net sales after reduction costs and expenses)
	Reduce costs by reorganizing manufacturing systems	+ ¥3bil.	
	Reduce costs by decreasing inventory expenses	+ ¥4bil.	
SG&A expenses	Lower R&D expenditures by reducing number of models	+ ¥3bil.	+12pt
	Reduce expenses by consolidating sales bases and channels	+ ¥2bil.	
	Implement other reduction measures (IT/distribution expenses, system revisions, etc.)	+ ¥7bil.	
Total reductions		Approx. + ¥23bil.	+23pt

Earnings Improvement Forecasts for FY2014

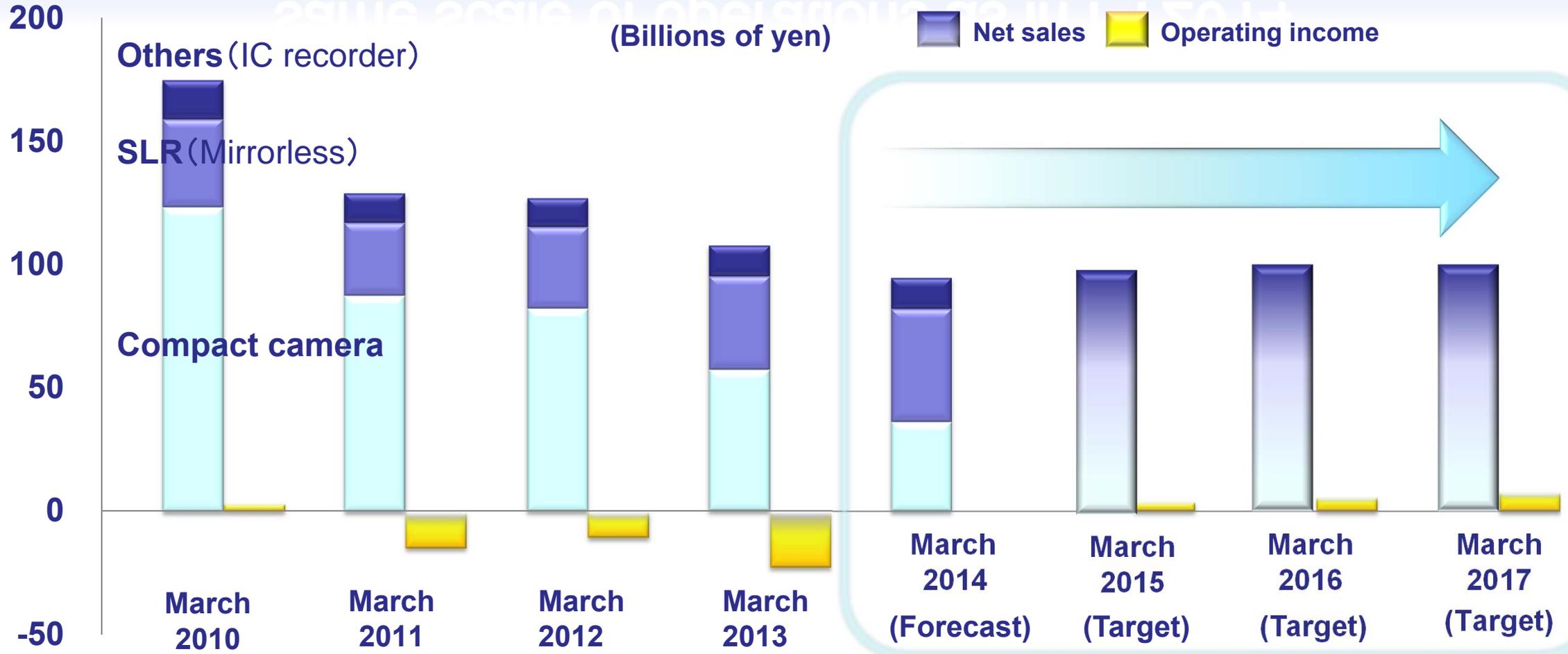
Earnings structure after substantial reduction of compact camera business scale

【Imaging Business profit & losses forecast (FY Ending March 2014)】

(Billions of yen)	March 2013 (Results)	March 2014 (Forecast)	YoY Change	
Compact camera	57.2	40.3	-16.9	Account for substantial reduction in compact camera sales
SLR (mirrorless)	37.8	50.0	+12.2	
Others (IC recorder)	12.5	13.7	+1.2	
Net sales	107.6	104.0	-3.6	Increase gross profit by reducing costs
Gross margin	32.6	44.0	+11.4	
SG&A expenses	55.7	44.0	-11.7	Breakeven on operating income basis by cutting SG&A expenses
Operating income	-23.1	0.0	+23.1	

Medium- to Long-Term Direction

Return to profitability in medium to long term by maintaining same scale of operations as in FY2014



III. Initiatives to Meet Medium-Term Vision Goals

Major Initiatives and Tasks (Medical Business)

Accelerate medium-term vision's strategies and expand business scope for future growth

Reinforcement of the gastrointestinal endoscope field

- Further expand scale of operations by enhancing sales efforts for strong-performing new products
- Address standardization of early diagnosis procedures utilizing NBI
- Promote use of definitive diagnosis methods for lung cancer in bronchial tube field



Realization of drastic growth in the surgical field

- Imaging field
 - Enhance lineup of differentiated products geared toward minimally invasive procedures
- Energy field
 - Develop surgery-related business into new growth pillar by bolstering lineup and expanding share



Sales expansion in emerging markets

- Expand market by accelerating training center construction
- Introduce new products for emerging markets (lower-cost models)



Major Initiatives and Tasks (Life Science & Industrial, Review of cost structures)

Improve profitability of life science field and expand industrial field

Life Science & Industrial Business

- Improve profitability by introducing high-value-added products (focus development resource allocation, expand sales in emerging markets)
- Further innovate production structure (reduce costs through centralized purchasing)
- Rationalize back-office departments on a global scale
- Expand product portfolio



Accelerate reforms by team of in-house specialists

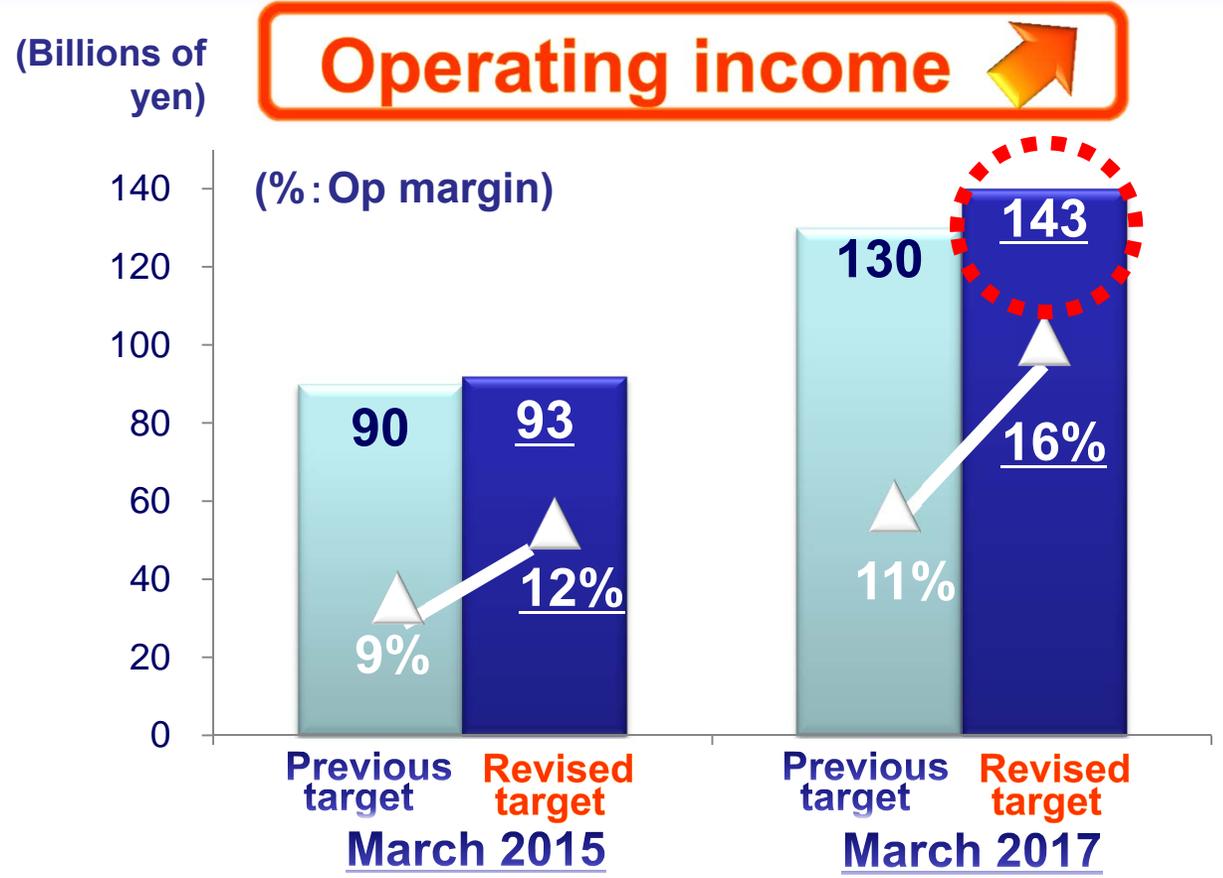
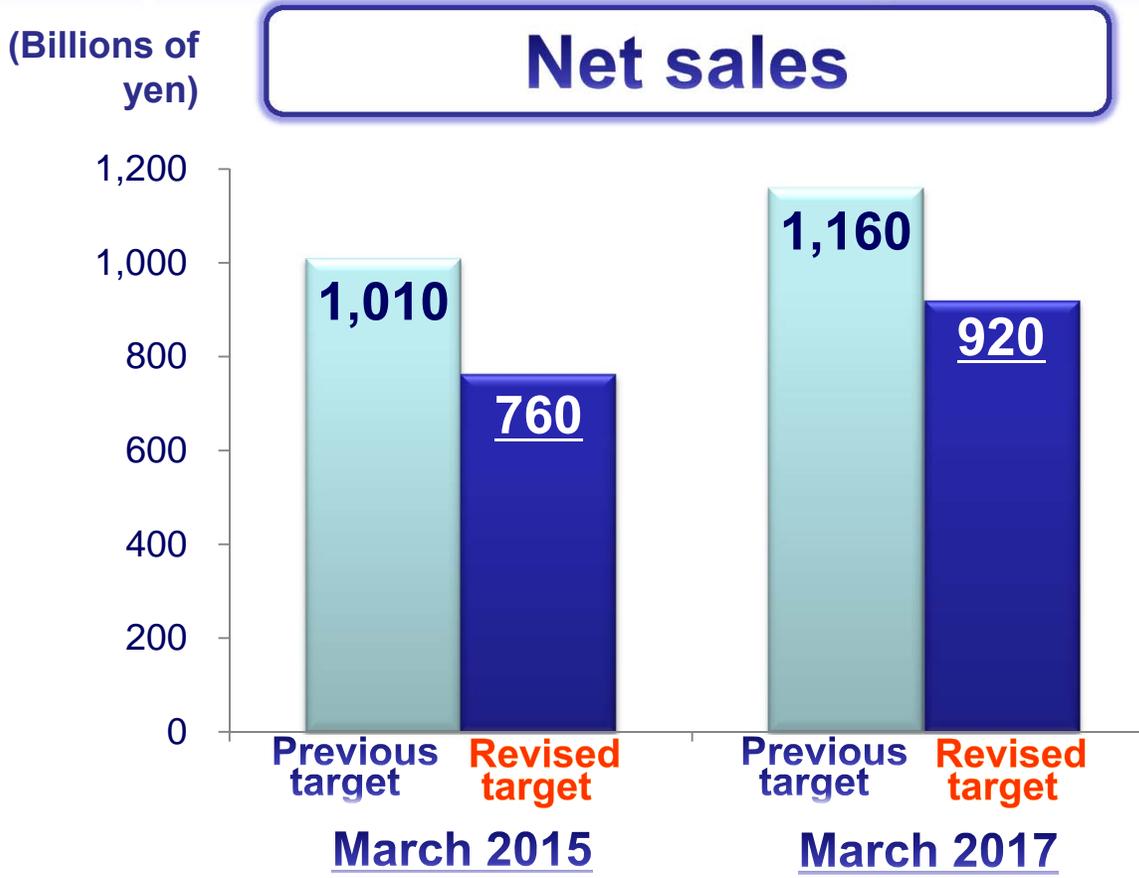
Review of cost structures

- Rationalize and reorganize redundant indirect departments (reduce IT, distribution, indirect material, and corporate expenses; standardize workflow processes)
- Cut costs by accelerating revision of production sites and strengthening procurement capabilities



Quantitative Goals of Medium-Term Vision (Consolidated)

Upward revision of operating income and net income targets



Exchange rate assumptions for revised targets: US\$1 = ¥90, 1 EUR = ¥120 (previous target assumptions: US\$1 = ¥80, 1 EUR = ¥100)
 (Note) Previous targets are those detailed in the medium-term vision that was released on June 8, 2012. Revised targets reflect the recently announced revisions.

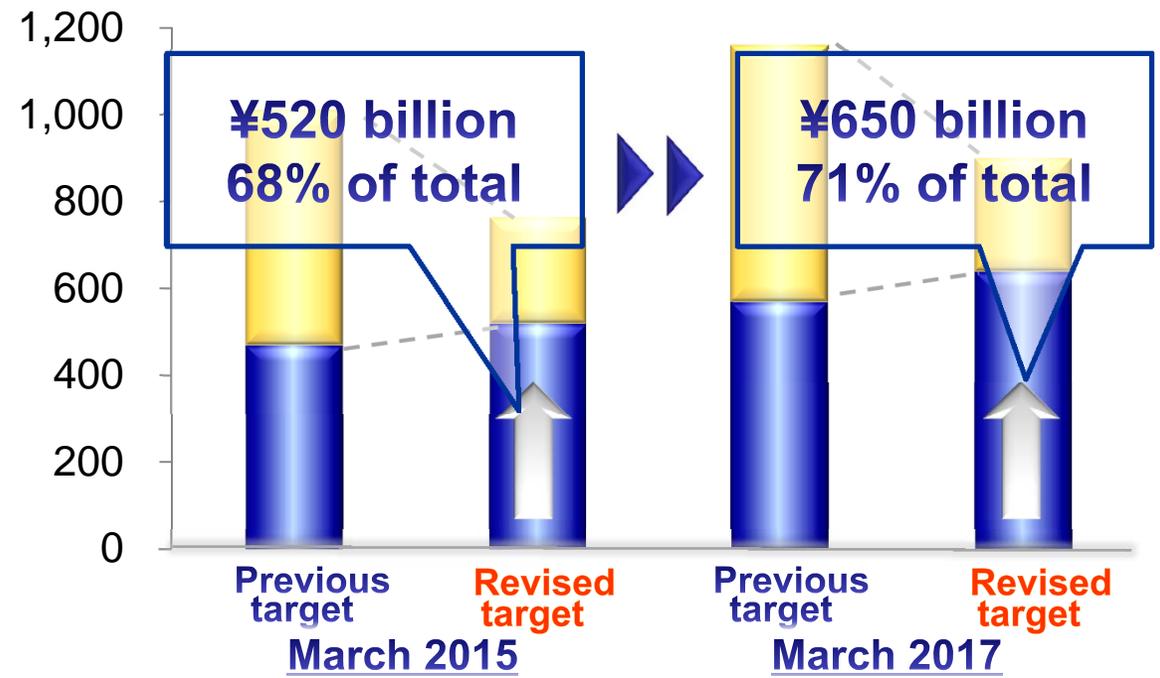
Quantitative Goals (By Segment)

Strong contributions by Medical Business

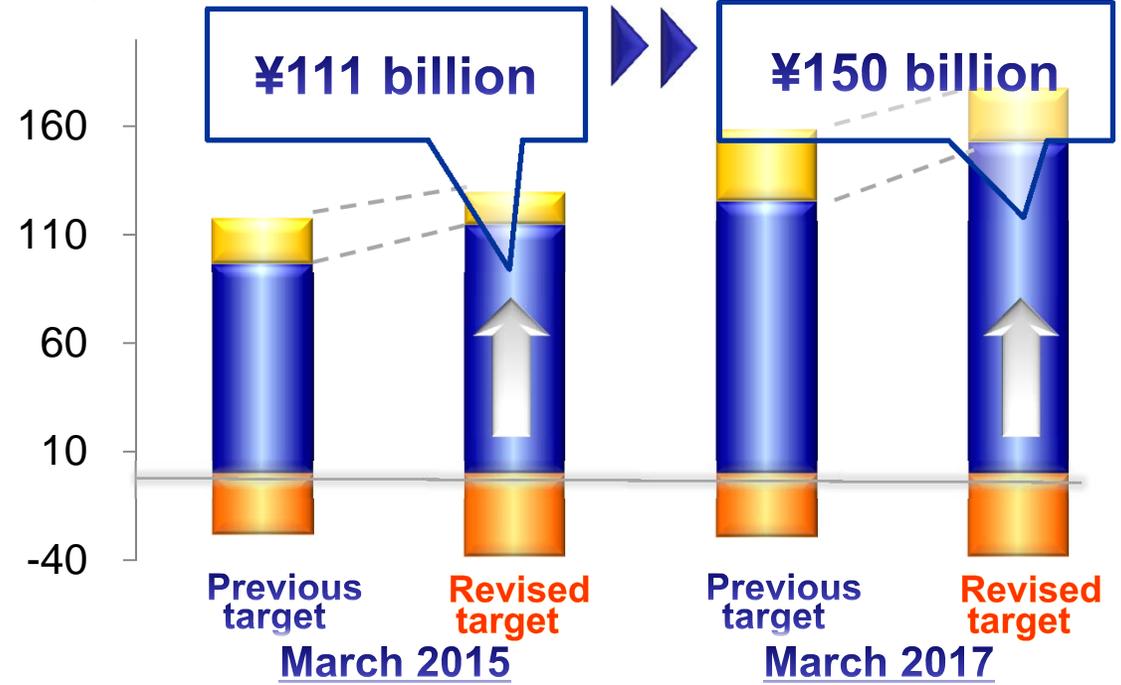
Net sales

(Billions of yen)

■ Medical Business
 ■ Total for other businesses
 ■ Elimination or Corporate



Operating income



Exchange rate assumptions for revised targets: US\$1 = ¥90, 1 EUR = ¥120 (previous target assumptions: US\$1 = ¥80, 1 EUR = ¥100)

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Performance Indices and Targets

	FY Ended March 2012 (Results)	FY Ended March 2013 (Results)	FY Ending March 2017 (Target)
Return on invested capital(ROIC)	2.7%	2.7%	10% or more
Operating margin	4.2%	4.7%	10% or more
Free cash flow (Cash flow from operating activities + cash flow from investing activities)	-4.8 billion yen	58.7 billion yen	70 billion yen or more
Equity ratio	4.6%	15.5%	30% or more

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Supplementary Materials (Consolidated)

	FY Ending March 2015		FY Ending March 2017	
	Previous target	Revised target	Previous target	Revised target
Net sales	1,010 billion yen	760 billion yen	1,160 billion yen	920 billion yen
Operating income (Operating margin)	90 billion yen <i>9%</i>	93 billion yen <i>12%</i>	130 billion yen <i>11%</i>	143 billion yen <i>16%</i>
Ordinary income (Ordinary income ratio)	70 billion yen <i>7%</i>	70 billion yen <i>9%</i>	115 billion yen <i>10%</i>	125 billion yen <i>14%</i>
Net income (Net income ratio)	40 billion yen <i>4%</i>	45 billion yen <i>6%</i>	85 billion yen <i>7%</i>	85 billion yen <i>9%</i>

Exchange rate assumptions for revised targets: US\$1 = ¥90, 1 EUR = ¥120 (previous target assumptions: US\$1 = ¥80, 1 EUR = ¥100)

(Note) Previous targets are those detailed in the medium-term vision that was released on June 8, 2012. Revised targets reflect the recently announced revisions.

Supplementary Materials (By Segment)

		FY Ending March 2015		FY Ending March 2017	
		Previous target	Revised target	Previous target	Revised target
Net sales	Medical	470 billion yen	→ 520 billion yen	570 billion yen	→ 650 billion yen
	Life Science & Industrial	108 billion yen	115 billion yen	120 billion yen	135 billion yen
	Imaging	160 billion yen	100 billion yen	170 billion yen	100 billion yen
	Others	38 billion yen	25 billion yen	55 billion yen	35 billion yen
	Total	1,010 billion yen	760 billion yen	1,160 billion yen	920 billion yen
Operating income	Medical	97 billion yen	→ 111 billion yen	126 billion yen	→ 150 billion yen
	Life Science & Industrial	8 billion yen	9 billion yen	14 billion yen	15 billion yen
	Imaging	7 billion yen	7 billion yen	9 billion yen	9 billion yen
	Others	1 billion yen	-1 billion yen	5 billion yen	1 billion yen
	Elimination or Corporate	-28 billion yen	-33 billion yen	-29 billion yen	-32 billion yen
	Total	90 billion yen	93 billion yen	130 billion yen	143 billion yen

Exchange rate assumptions for revised targets: US\$1 = ¥90, 1 EUR = ¥120 (previous target assumptions: US\$1 = ¥80, 1 EUR = ¥100)

(Note) Previous targets are those detailed in the medium-term vision that was released on June 8, 2012. Revised targets reflect the recently announced revisions.

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