



NIKON CORPORATION
November 8, 2016

Financial Results for the Second Quarter of the Year Ending March 31, 2017 and Restructuring plan

Forward-looking statements for earnings and other performance data contained herein are based on information currently available to the Company, and all potential risks and uncertainties are taken into account. The Company asks that investors understand that changes in conditions may cause actual performance to significantly differ from these projections.

1. Financial results for the first half of the year ending March 2017
2. Existing medium-term management plan
3. Restructuring plan
4. Forecast for the year ending March 2017



Year-on-year

- **Net Sales:**
decreased by ¥55.1 billion (-14%) due to a reduction in digital camera sales volume and the appreciation of the yen
- **Operating Income:**
increased by ¥8.4 billion (+56%) aided by a sharp sales increase of FPD lithography systems, improved product mix, and substantial expense reduction in Imaging Products Business

Actual/
forecast

- **Net Sales:**
reduced by ¥16.3 billion due to a stronger yen impact and unachieved business targets in other businesses despite the volume increase in FPD lithography system sales
- **Operating Income:**
improved by ¥0.3 billion due to expense reductions mainly in Imaging Products Business

Interim
dividend

- **¥12**

Note: Forecast above is as of August 4, 2016. The financial results for FY2016/3 were adjusted retrospectively according a change in the accounting policy for the revenue recognition of the Precision Equipment Business

First Half of the Year Ending March 31, 2017: Financial Highlights



Billions of yen	2016/3 1H (A)	Previous forecast (B) (Aug. 4)	2017/3 1H (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	398.8	360.0	343.7	-55.1	-16.3
Operating Income % vs. Net Sales	14.9 3.7%	23.0 6.4%	23.3 6.8%	+8.4	+0.3
Ordinary Income % vs. Net Sales	20.7 5.2%	25.0 6.9%	25.6 7.4%	+4.9	+0.6
Net Income attributable to owners of the parent % vs. Net Sales	11.5 2.9%	15.0 4.2%	17.7 5.1%	+6.2	+2.7
FCF	-33.9	-	17.4	+51.3	-
Exchange Rate: US\$ EURO	¥122 ¥135	¥107 ¥118	¥105 ¥118	Impact on Net Sales	
				-37.1	-3.9
				Impact on Op. Income	
				-8.9	-1.4

Note: Amounts in this statement are rounded down to the nearest hundred million

First Half of the Year Ending March 31, 2017: Financial Highlights by Segment



Billions of yen		2016/3 1H (A)	2017/3 1H (B)	Change
Precision Equipment Business	Net Sales	85.0	115.3	+36%
	Operating Income	4.4	24.4	+20.0
Imaging Products Business	Net Sales	263.6	178.3	-32%
	Operating Income	24.2	15.2	-9.0
Instruments Business	Net Sales	33.2	30.6	-8%
	Operating Income	-0.5	-1.4	-0.9
Medical Business	Net Sales	5.3	9.0	+70%
	Operating Income	-2.5	-2.4	+0.1
Other	Net Sales	11.4	10.4	-9%
	Operating Income	1.4	1.8	+0.4
Corporate Expenses/ Elimination of Intersegment Transactions	Net Sales	-	-	-
	Operating Income	-12.0	-14.2	-2.2
Consolidated	Net Sales	398.8	343.7	-14%
	Operating Income	14.9	23.3	+8.4

Second Quarter of the Year Ending March 31, 2017: Financial Highlights



Billions of yen	2016/3 Q2 (A)	2017/3 Q2 (B)	Change (B)-(A)
Net Sales	213.0	174.4	-38.6
Operating Income % vs. Net Sales	9.8 4.6%	8.4 4.8%	-1.4
Ordinary Income % vs. Net Sales	12.6 5.9%	8.6 4.9%	-4.0
Net Income attributable to owners of parent % vs. Net Sales	7.4 3.5%	6.3 3.6%	-1.1
Exchange Rate: US\$ EURO	¥122	¥102	Impact on Net Sales -22.6
	¥136	¥114	Impact on Op. Income -4.7

First Half of the Year Ending March 31, 2017: Precision Equipment Business



Billions of yen	2016/3 1H (A)	Previous forecast (B) (Aug. 4)	2017/3 1H (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	85.0	122.0	115.3	+30.3	-6.7
Operating Income	4.4	27.0	24.4	+20.0	-2.6
% vs. Net Sales	5.2%	22.1%	21.2%		
Semiconductor Lithography systems New/Refurbished (units)	4/12	11/8	11/6	+7/-6	±0/-2
FPD Lithography Systems (units)	21	50	51	+30	+1

- **Year-on-year:** Both sales and income increased due to substantial sales increase in FPD lithography systems for small and medium-sized high definition panels
- **Actual/forecast:** FPD lithography systems sold exceeded forecasts by one unit, but the product mix change of semiconductor lithography systems caused sales and income to underperform the forecast

First Half of the Year Ending March 31, 2017: Imaging Products Business



Billions of yen Cameras & Lenses (1,000 of units sold)	2016/3 1H (A)	Previous forecast (B) (Aug. 4)	2017/3 1H (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	263.6	183.0	178.3	-85.3	-4.7
Operating Income <small>% vs. Net Sales</small>	24.2 9.2%	14.0 7.7%	15.2 8.5%	-9.0	+1.2
Digital camera - Interchangeable Lens Type	2,000	1,450	1,420	-580	-30
Interchangeable Lens	2,820	2,100	2,050	-770	-50
Compact DSC	3,120	1,350	1,430	-1,690	+80

- **Year-on-year:** Sales and operating income declined due to a shrinking market, adverse foreign exchange, and the Kumamoto earthquakes, offsetting efforts to reduce operating expense
- **Actual/forecast:** Sales fell short of forecasts due to adverse foreign exchange and failure to meet unit sales targets for digital cameras-interchangeable lens type and interchangeable lenses. Operating income exceeded targets due to a sales strategy focused on profitability and expense reductions

First Half of the Year Ending March 31, 2017: Instruments Business



Billions of yen	2016/3 1H (A)	Previous forecast (B) (Aug. 4)	2017/3 1H (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	33.2	33.0	30.6	-2.6	-2.4
Operating Income	-0.5	-1.5	-1.4	-0.9	+0.1
% vs. Net Sales	-%	-%	-%		

- **Year-on-year:** Sales and operating income declined due to adverse foreign exchange, etc.
- **Actual/forecast:** Sales declined due to the industrial metrology business falling short of targets. Operating loss was close to the forecast due to efforts to reduce expenses

First Half of the Year Ending March 31, 2017: Medical Business



Billions of yen	2016/3 1H (A)	Previous forecast (B) (Aug. 4)	2017/3 1H (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	5.3	11.0	9.0	+3.7	-2.0
Operating Income	-2.5	-2.5	-2.4	+0.1	+0.1
% vs. Net Sales	-%	-%	-%		

- **Actual/forecast:** Sales fell short of forecasts as sales of Optos products did not meet targets. Operating losses were as forecasted due to efforts to reduce expenses

Note: In the 1st half of FY2016/3, recorded Optos Plc sales and income for three months

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- To grow the business for the next 100 years, we targeted “sustainable growth with a portfolio of 6 businesses”
- We specifically aimed to strengthen current and develop growth businesses
 - For current businesses, we aimed to break-even on the Semiconductor Lithography Business and stabilize profits in the FPD Lithography and Imaging Products Businesses
 - For growth businesses, we aimed to develop the Microscope Solutions, Industrial Metrology and Medical Businesses
- The targets as a result of the above initiatives were net sales of ¥990 billion and operating income of ¥65 billion in FY2018/3
- The direction outlined in the existing medium-term management plan (announced in May 2015) was to be fixed for 3 years

Existing medium-term management plan: current progress and problems



Current Situation

- Limited progress in business portfolio transformation
 - Semiconductor Lithography Business is unable to break-even
 - Imaging Products Business is unable to achieve targets as market declines exceeded expectations
 - Growth businesses are growing slower than expected
- Difficult to achieve company-wide financial targets for 2018/3
- Various programs and initiatives for transformation are not progressing as expected

Issues

- **The fundamental mindset and assumptions underlying the plan need to be revised**
 - Misread market trend and aimed to raise revenue and market share
 - Strategy and initiatives are misaligned with our business environment such as the shrinking market and increasing competition
- Continuing with existing plans could further undermine our ability to generate profits



**We acknowledge the issues of current targets and will
discontinue the existing medium-term management plan**

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Nikon's current situation

- We were unable to effectively respond to weakening market demand and intensifying competition. As a result, our **profits declined** and we failed to meet market expectations
 - We have not resolved the structural challenges our core businesses face

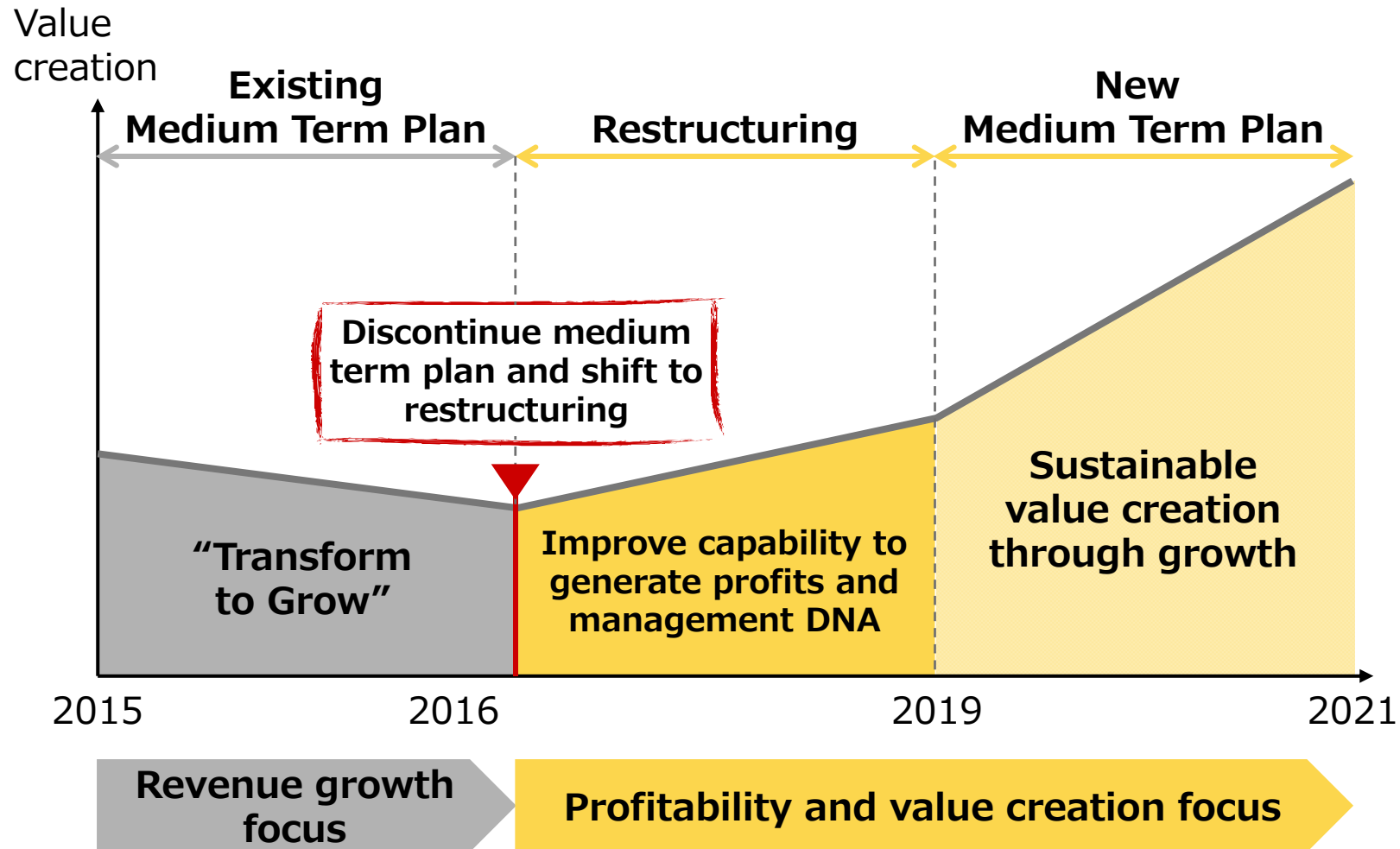
Change in mindset/assessment

- **The fundamental mindset and assumptions underlying the medium-term management plan need to be revised without delay**
 - Continuing with the existing medium-term management plan would ignore structural problems and could further undermine our ability to generate profits
- A **fundamental restructuring** down to our management DNA is vital

Future direction

- **We will discontinue the existing medium-term management plan**
- We will launch a **“Preemptive Restructuring”** plan while financially sound, to create the foundation for Nikon's “Next 100 Years”
- Our aim is to **increase value creation by enhancing our ability to generate profits and rewiring our management DNA**

We will discontinue the existing medium-term management plan and shift to the restructuring phase



The next 2 years will focus on restructuring, and a medium term plan with growth strategies starting FY2020/3 will be announced

Objective of restructuring:

**Company-wide restructuring to improve value creation:
Strategic pivot from revenue growth to profit growth**

Basic principles:

Create a company-wide **focus on “high value-add businesses”** to improve profitability

Optimize R&D, sales, and manufacturing structure on a global basis

Streamline HQ function to match scale of restructured businesses

Simultaneously **shift to portfolio based management, implement targets linked to shareholder value, and enhance governance structure** to improve transparency and discipline



We will prioritize the restructuring of Semiconductor Lithography, Imaging Products and HQ functions

Semiconductor Lithography Business:

Assessment of situation and key points of restructuring



Assessment of current situation

- Existing strategy focused on **revenue growth through increased unit sales** of ArF Immersion Scanners
- **Profits have declined due to write-downs/write-offs of inventory** caused by a lack of technological competitiveness and the **high R&D expenses of ArF Immersion Scanners**



Key points of restructuring

- **Reassess ArF Immersion Scanner strategy to stop losses**
 - **Reduce the extent of R&D** in ArF Immersion Scanners
 - **Shift focus** from “increasing revenue/sales volume” to “**securing profitability**”
 - **Minimize inventory write-down/write-off risk** by reassessing the sales approach
- Reduce fixed costs related to ArF Immersion Scanner business by **headcount rationalization and re-assignments of 1,000 employees**
- Target **Semiconductor Lithography Business break-even** by FY2018/3



1

Reassess R&D strategy

Reduce R&D and related expenses of ArF Immersion Scanners

2

Reassess sales approach

Focus on profitability and minimize inventory write-down/write-off risk

3

Optimize manufacturing structure

Reduce costs by optimizing manufacturing structure and scale

4

Reassess business organization and structure

Reduce fixed costs by reassessing headcount and expenses

Imaging Products Business:

Assessment of situation and key points of restructuring



Assessment
of current
situation

- Offered a full line of products focused on revenue growth
- **Business unable to adapt** its structure to shrinking market



Key points of
restructuring

- **Focus on high value-add products**
 - Achieve **high profit margins** by focusing on **high value-add products**
- Improve ability to generate profits by **optimizing R&D, sales approach, and manufacturing structure**
- Reduce fixed cost with headcount rationalization and re-assignments of **350** domestic employees



1

Create focus in product portfolio

Further focus on high value-add products

2

Increase focus and efficiency of R&D

Focus on high value-add products and enhance efficiency by increasing commonalities across products and categories

3

Optimize sales and manufacturing structure

Revise structure and improve efficiency to match market scale

4

Reassess business organization and structure

Optimize organization and structure to new strategy

Streamline HQ Structure

- **Streamline** HQ structure as part of overall restructuring
 - Redefine HQ role and function
 - Simplify organization and improve productivity
- Reduce fixed costs through **headcount rationalization and re-assignment of 200 employees** in HQ and other departments

Strengthen Manufacturing Technology of Optical Components

- **Centralize manufacturing functions of optical components** currently spread across departments
 - Increase technology sharing to strengthen manufacturing
 - Enhance ability to adapt to new fields
 - Centralize organization to increase manufacturing efficiency

- **One-time costs: ¥48 billion** during FY2017/3
- **Reduction of fixed costs: ¥20 billion** annually by FY2018/3
- **Headcount reduction: approximately 1,000** during FY2017/3 (excluding re-assignments, etc.)
 - Voluntary retirement plan for domestic employees will be announced
- Impact to performance in FY2017/3
Q1 earnings guidance → **New earnings guidance**

Net Sales	¥820 billion	→	¥800 billion
Operating Income	¥46 billion	→	¥49 billion
Net Income	¥30 billion	→	¥-6 billion

Upon restructuring, the following changes will be applied to clarify management responsibility

- For Representative directors and officers:
 - **Bonuses** related to the fiscal year ending March 31, 2017 will be forfeited
 - **Monthly remuneration** will be partially reduced from November 2016 for a given period
 - **Performance-based Stock Remuneration linked to the existing medium-term management plan** will be fully forfeited

- **The number of directors and officers will be reduced** according to a reassessment of their roles and assignments

Complete restructuring to transform Nikon into a company capable of sustaining value creation

We recognize that restructuring is crucial to restoring Nikon's strength and promise full commit to execution

Shift to portfolio-based management

Redefine role of each business in portfolio and optimize resource allocation

Implement targets linked to shareholder value

Introduce new company-wide target metrics and achieve improvements (e.g., ROE/ROIC)

Enhance governance structure

Improve transparency of leadership appointment/development plan, and revitalize the board with enhanced diversity/effective evaluation system

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Summary of Forecast for the Year Ending March 31, 2017



Sales vs. Forecast

- Sales of FPD lithography systems is expected to increase
- Semiconductor lithography systems is expected to have fewer field upgrades
- Sales plans for Imaging Products and Instruments are revised
- Overall sales forecast is revised downward by ¥20 billion

Operating Income vs. Forecast

- Income is expected to increase due to increased sales of FPD lithography systems
- Overall income forecast is revised upward by ¥3 billion

Net Income attributable to owners of parent

- Restructuring cost of ¥48 billion is recorded as an extraordinary loss
- Net loss of ¥6 billion is expected for the fiscal year

Planned annual cash dividend per share

- ¥16 (interim: ¥12, year-end: ¥4)

Forecast for the Year Ending March 31, 2017: Financial Highlights



Billions of yen	2016/3 Actual (A)	2017/3 Previous forecast (B) (Aug. 4)	2017/3 New forecast (C)	Change (C)-(A)	Change (C)-(B)
Net Sales	819.3	820.0	800.0	-19.3	-20.0
Operating Income % vs. Net Sales	31.6 3.9%	46.0 5.6%	49.0 6.1%	+17.4	+3.0
Ordinary Income % vs. Net Sales	37.8 4.6%	49.0 6.0%	52.0 6.5%	+14.2	+3.0
Net Income attributable to owners of parent % vs. Net Sales	18.2 2.2%	30.0 3.7%	-6.0 -0%	-24.2	-36.0
FCF	24.3	45.0	45.0	+20.7	±0
Exchange Rate:				vs. 2016/3 Actual <u>Impact on Net Sales</u> Approx. -68.0	
US\$	¥120	¥106	¥105		
EURO	¥133	¥117	¥117	<u>Impact on Op. Income</u> Approx. -16.0	

Forecast for the Year Ending March 31, 2017: Financial Highlights by Segment



Billions of yen		2016/3 Actual (A)	2017/3 New forecast (B)	Change
Precision Equipment Business	Net Sales	178.8	255.0	+43%
	Operating Income	9.6	45.0	+35.4
Imaging Products Business	Net Sales	520.4	415.0	-20%
	Operating Income	45.7	33.0	-12.7
Instruments Business	Net Sales	77.2	84.0	+9%
	Operating Income	2.8	3.0	+0.2
Medical Business	Net Sales	18.3	19.0	+4%
	Operating Income	-4.6	-6.0	-1.4
Other	Net Sales	24.4	27.0	+11%
	Operating Income	4.5	4.0	-0.5
Corporate Expenses Total/Elimination of Intersegment Transactions	Net Sales	-	-	-
	Operating Income	-26.4	-30.0	-3.6
Consolidated	Net Sales	819.3	800.0	-2%
	Operating Income	31.6	49.0	+17.4

Forecast for the Year Ending March 31, 2017: Precision Equipment Business



Billions of yen	2016/3 Actual	Previous forecast (Aug. 4)	2017/3 New forecast
Net Sales	178.8	260.0	255.0
Operating Income	9.6	40.0	45.0
% vs. Net Sales	5.4%	15.4%	17.6%
Semiconductor Lithography systems New/Refurbished (units)	14/21	26/16	26/16
FPD Lithography Systems (units)	46	90	92
Semiconductor Lithography systems Market Scale CY15/16 (units)	220	Approx. 210	Approx. 210
FPD Lithography Systems Market Scale CY15/16 (units)	80	Approx. 120	Approx. 120

- **Sales:** FPD lithography systems is projected to have 2 additional units in sales, but the sales forecast is reduced by ¥5 billion due to delays in field upgrades of semiconductor lithography systems
- **Operating income:** The forecast is revised favorably by ¥5 billion aided by increased sales of FPD lithography systems

Forecast for the Year Ending March 31, 2017: Imaging Products Business



Billions of yen Cameras & Lenses (1,000 of units sold)	2016/3 Actual	Previous forecast (Aug. 4)	2017/3 New forecast
Net Sales	520.4	423.0	415.0
Operating Income % vs. Net Sales	45.7 8.8%	33.0 7.8%	33.0 8.0%
Digital camera - Interchangeable Lens Type	4,040	3,350	3,250
Interchangeable Lens	5,900	4,900	4,750
Compact DSC	6,230	3,350	3,450
D-CIL Market Scale	13,040	-	12,000
IL Market Scale	21,340	-	20,000
C-DSC Market Scale	20,790	-	13,500

- **Sales:** The forecast is revised and lowered by ¥8 billion in consideration of the 1st half year result and revised 2nd half sales forecast
- **Operating income:** The forecast remains unchanged

Forecast for the Year Ending March 31, 2017: Instruments Business



Billions of yen	2016/3 Actual	Previous forecast (Aug. 4)	2017/3 New forecast
Net Sales	77.2	88.0	84.0
Operating Income	2.8	4.0	3.0
% vs. Net Sales	3.6%	4.5%	3.6%

- Microscope solutions business is expected to perform as planned
- Industrial metrology business sales and operating income forecasts are reduced by ¥4 billion and ¥1 billion, respectively, due to weaker than expected customer capital expenditure

Forecast for the Year Ending March 31, 2017: Medical Business



Billions of yen	2016/3 Actual	Previous forecast (Aug. 4)	2017/3 New forecast
Net Sales	18.3	21.0	19.0
Operating Income	-4.6	-6.0	-6.0
% vs. Net Sales	-%	-%	-%

- Sales forecast is lowered by ¥2 billion in consideration of 1st half year results and operating income forecast remains unchanged

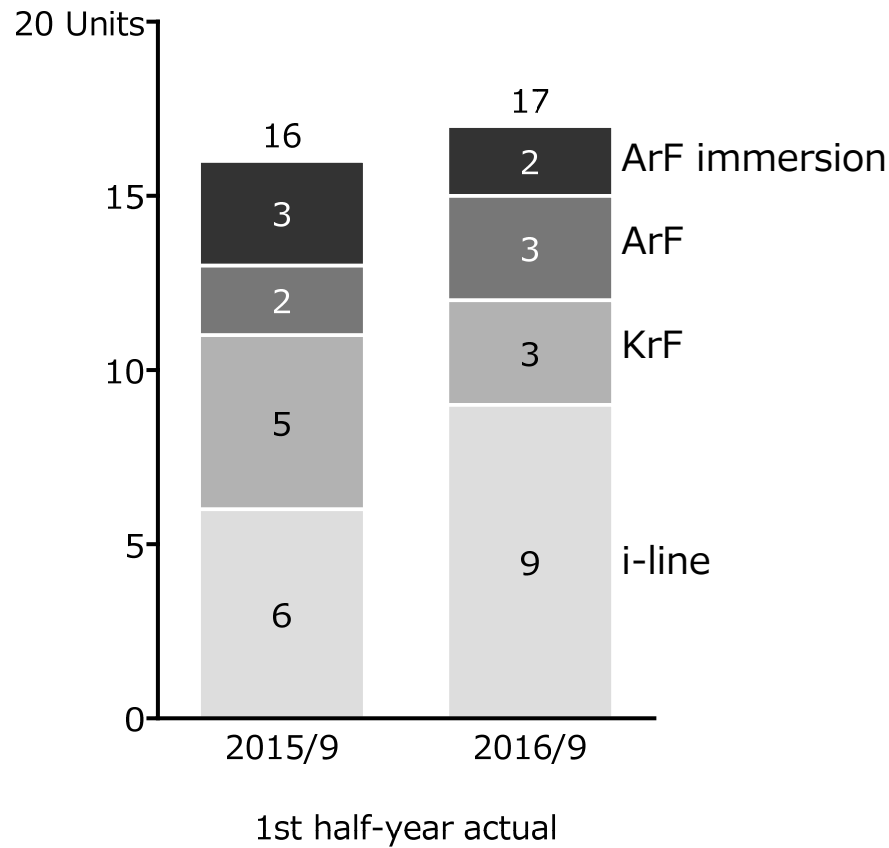


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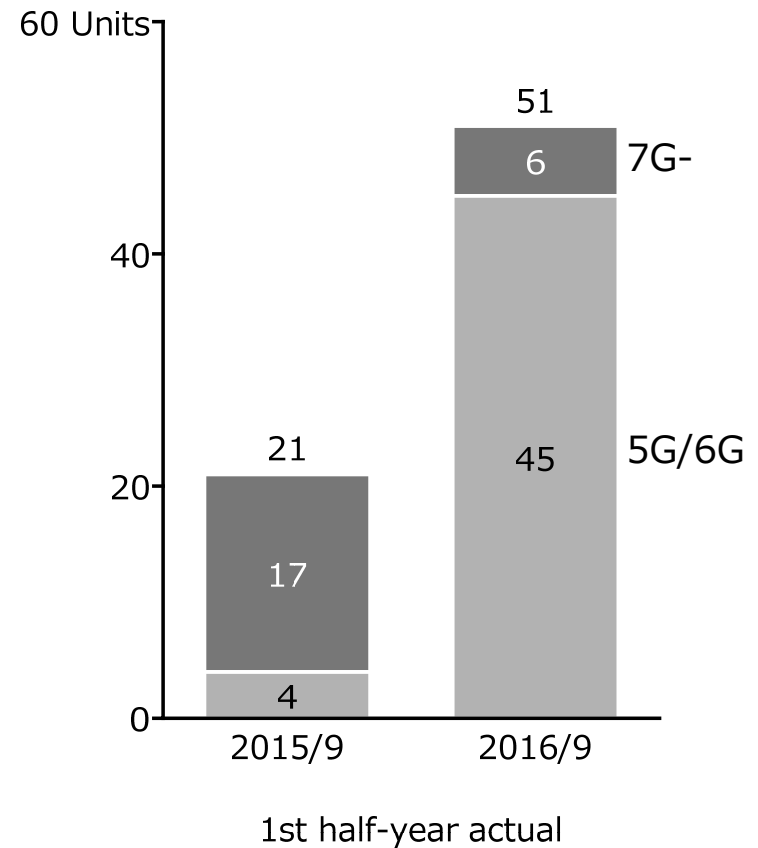
Reference Data



**SEMICONDUCTOR LITHOGRAPHY
SYSTEMS SALES BY TECHNOLOGY
(INCL. REFURBISHED)**



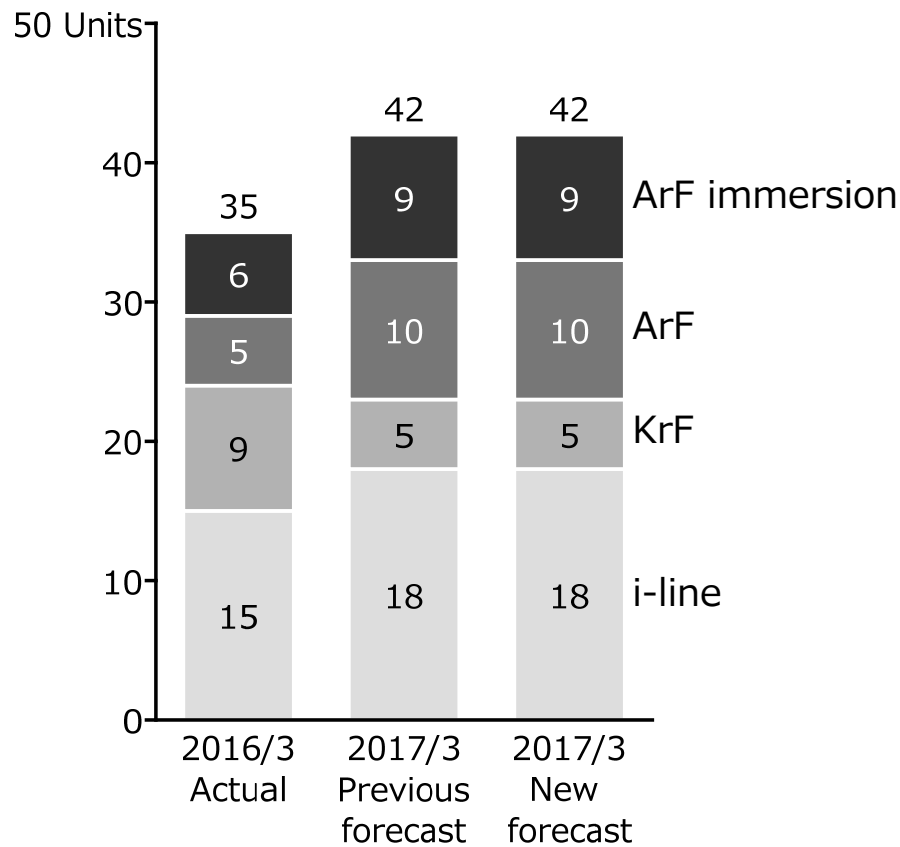
**FPD LITHOGRAPHY SYSTEMS SALES
BY GENERATION**



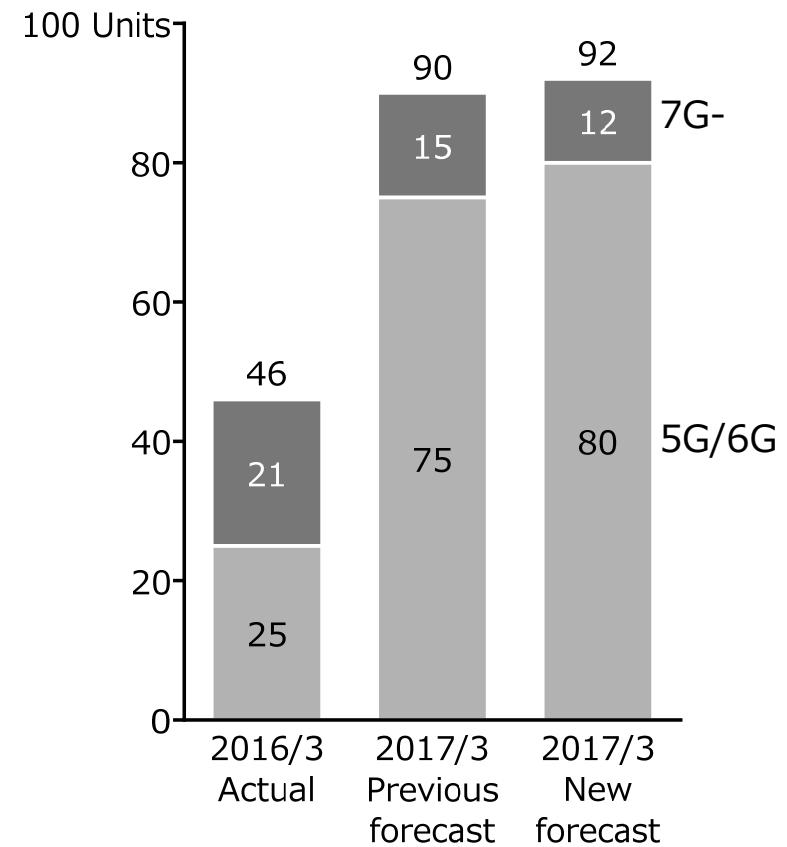
Forecast for the Year Ending March 31, 2017: Precision Equipment Business



SEMICONDUCTOR LITHOGRAPHY SYSTEMS SALES BY TECHNOLOGY (INCL. REFURBISHED)



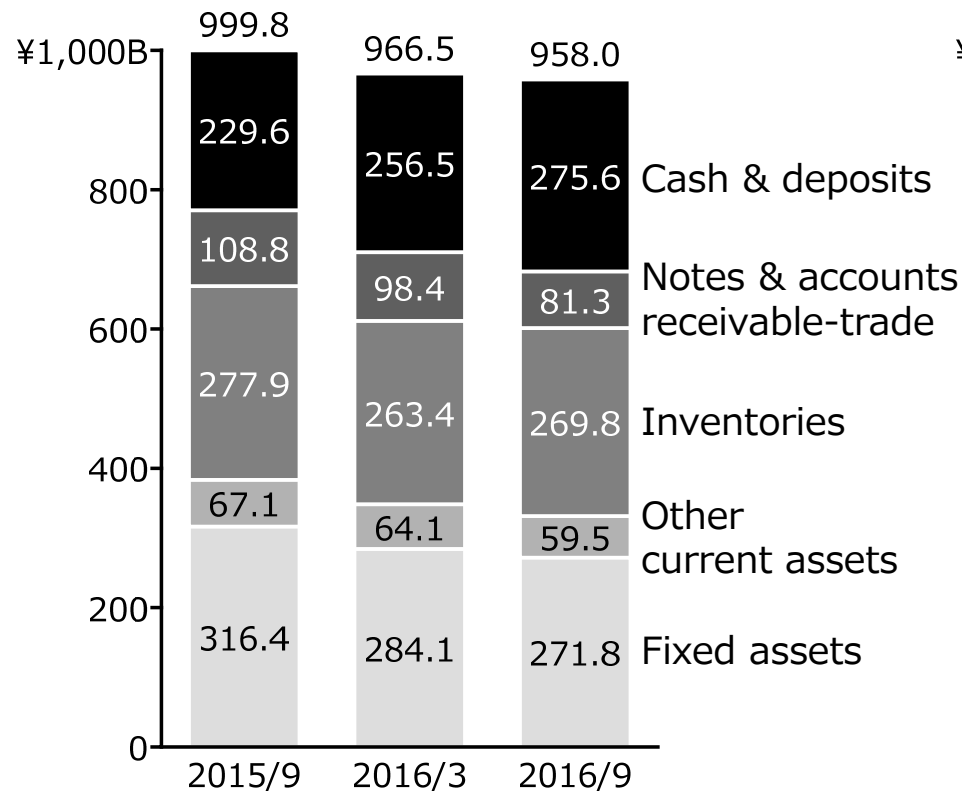
FPD LITHOGRAPHY SYSTEMS SALES BY GENERATION



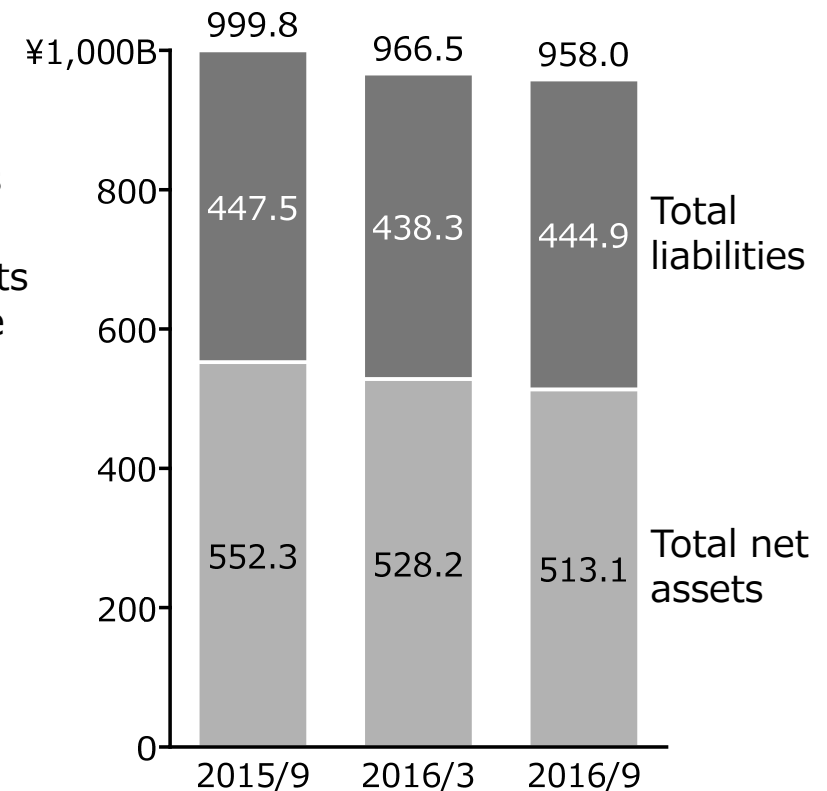
First Half of the Year Ending March 31, 2017: B/S Breakdown



ASSETS



LIABILITIES/NET ASSETS

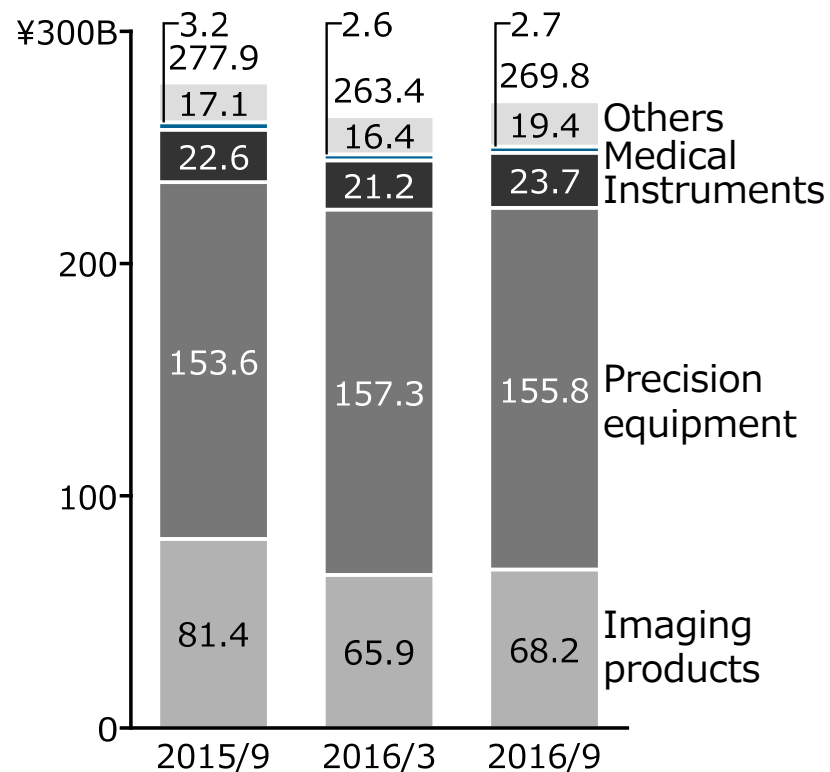


Capital ratio 55.1% 54.5% 53.4%

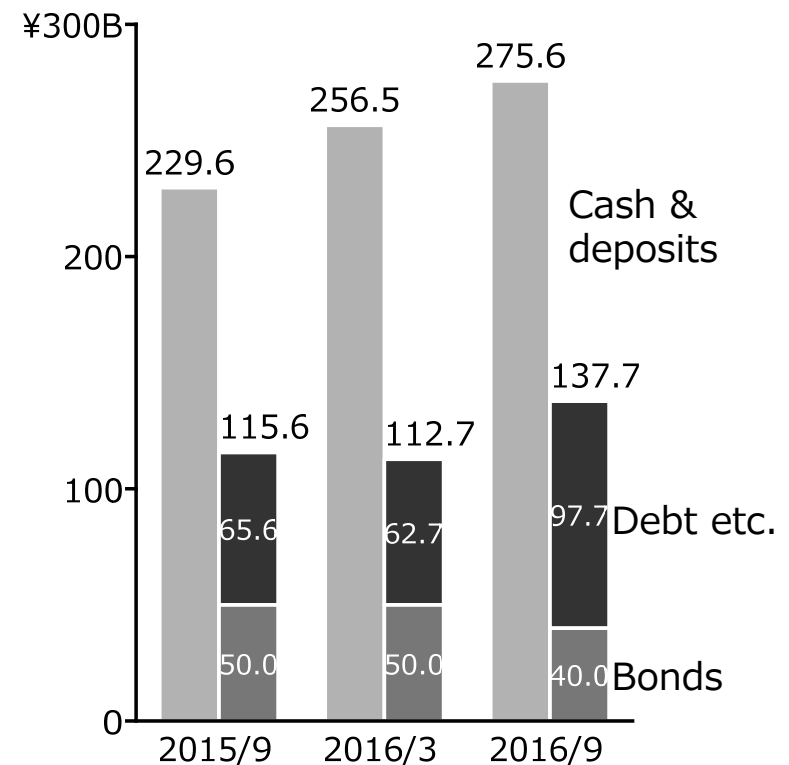
First Half of the Year Ending March 31, 2017: Inventories, Cash & Deposits and Interest-bearing Debt



INVENTORIES



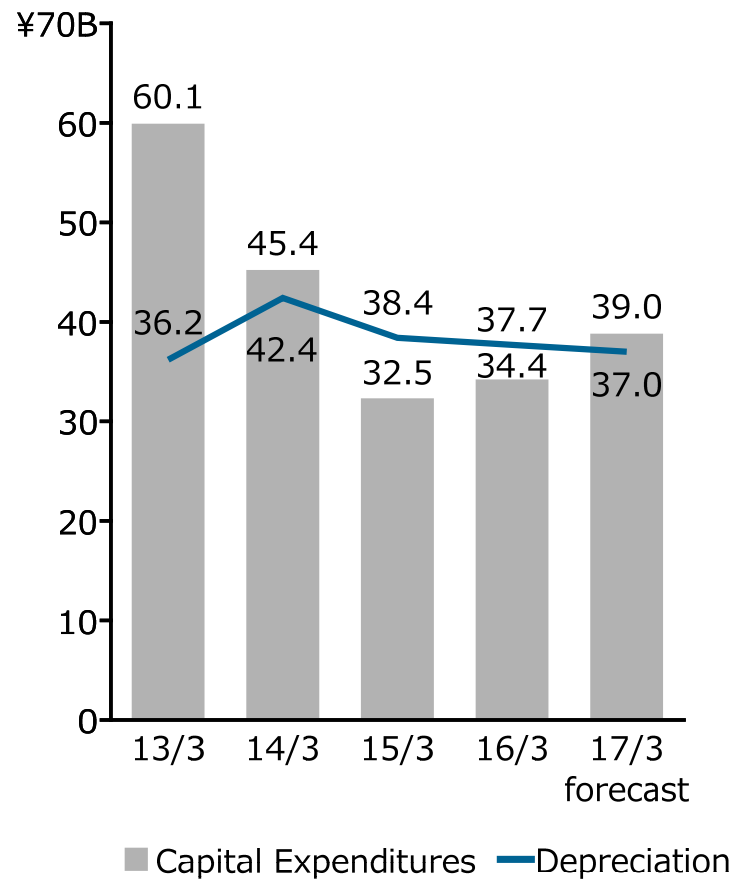
CASH & DEPOSITS AND INTEREST-BEARING DEBT



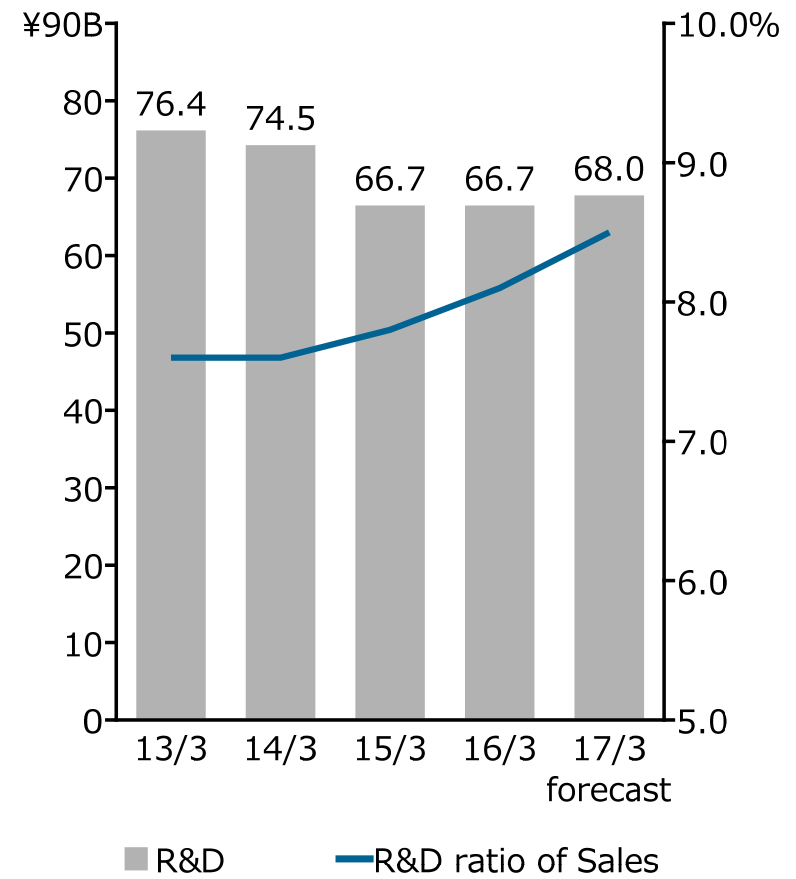
Forecast for the Year Ending March 31, 2017: Capital Expenditures, Depreciation and R&D



CAPITAL EXPENDITURES, DEPRECIATION



R&D



Note: Changed to the straight-line method of depreciation from the fiscal year ended March 2015

Forecast for the Year Ending March 31, 2017: Foreign Exchange Impact



	Exchange Rate	Financial Impact from Fluctuation by 1 yen	
	17/3 Forecast for 2H	Net Sales 2H	Operating Income 2H
US \$	¥105	Approx. ¥1.7 billion	Approx. ¥0.1 billion
EURO	¥115	Approx. ¥0.6 billion	Approx. ¥0.4 billion



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