Q&A of Financial Results for the 2nd Quarter of the Year
Ending March 31, 2024

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The company-wide
Q: Given the harsh outlook for business performance in the current fiscal year, please share directionally the outlook for each business next fiscal year.
A: In the Imaging Products Business, market is returning to normal after tight supply caused by parts procurement constraints. We also see our operating margin normalizing between the low to mid 10% range from highs above 20%. Our focus market of mid/high-end models is growing, and we expect to expand sales next fiscal year with the introduction of new models and the like. The Imaging Products Business remains a pillar of earnings.
In the Precision Equipment Business, we expect sales volumes of FPD lithography systems to recover into the high 30s units next fiscal year, but the recovery in earnings should be modest as sales volumes of G10 models, where we enjoy a monopoly, will be limited, and most sales will be in G8 models, where competition is fierce. In semiconductor lithography systems, we expect limited investment from our core customer and look forward to expanded investment beginning two fiscal years from now.
In the Components Business, we expect earnings will continue to soften as deliveries for EUV related components are postponed. The business remains a growth driver over the medium to long term, however, as the trend toward higher precision and greater demand for EUV inspection systems remain unchanged. In the Healthcare Business, we expect business performance to continue to expand solidly. In the Digital Manufacturing Business, we aim sales growth and earnings improvement as one-time costs related to M&A dissipate.
Imaging Products Business
Q: Your full year forecast for the Imaging Products Business entailed a ¥25.0B increase in revenue compared to August forecast, but only a ¥2.0B increase to operating profit, making profit growth appear modest. Please share a breakout of the factors growing profit.
A: We are not chasing share growth in low-priced digital cameras. The average selling prices (ASP) for digital camera-interchangeable lens type and interchangeable lenses grew about 20% YoY in 1H and are both expected to grow about 10% over the full year. Compared to our August forecast, we expect profit growth to be modest. Because an increase in costs such as higher parts procurement prices, higher sales promotion costs triggered by intensified competition, and about ¥1.5B in one-time costs due to changes in the pension fund system at overseas subsidiaries should weigh on profits, although maintaining high ASPs, increasing sales volumes and changes to FX assumptions should grow profit.

Precision Equipment Business
Q: Please share your measures aimed at expanding the Semiconductor Lithography Business in China.
A: In China, we are advancing a sales expansion strategy along two fronts, the ArF lithography systems used to produce cutting-edge semiconductors, and the i-line and KrF lithography systems used in layers whose pattern pitches are relatively larger. We have seen some success with sales of ArF lithography systems and the percentage of sales destined for China has been climbing. ArF immersion technology is subject to export controls. Therefore, we plan to ship systems built to specifications cleared for export as well as ArF dry lithography systems to continue to expand sales. In China, i-line and KrF lithography systems including refurbished products are also gathering from around the world. Many systems have been in use for more than 20 years, so to capture replacement demand, in 2024 we will launch the NSR-2205iL1, which is a renewed version of an i-line lithography system we used to sell for 22mmx22mm lithography area applications. These system sales should contribute to stable service revenue, alongside our install base of i-line and KrF lithography systems in China.

Components Business
Q: Your EUV related component customer is bringing in-house the manufacture of light sources used in EUV mask inspection systems. Is there risk in the future the customer may also bring in-house the manufacture of components that Nikon supplies?
A: Given the joint development we have conducted with the customer to date, we believe the EUV related components we supply will not be targeted for in-house fabrication. Furthermore, we are working together on the development of next-generation, high-NA systems, and plan to start shipping to the customer components for high-NA
systems before the year end.

**Digital Manufacturing Business**

Q: Part of the reasons for your miss on your 1H plan and downward revision to full year forecast include not just external factors such as customer investment trends, but also restructuring costs, which should be within your own control. Are there any concerns the same thing may happen again in the future?

A: We are working to make the Advanced Manufacturing Business a pillar of earnings for the Company in 2030. The acquisition of Morf3D, which contracts processing of metal 3D printing, has given us greater insights into customer needs and market trends and paved the way for our acquisition of SLM, which we expect to achieve greater business volumes. Today, we are making a foray into a new business domain and incurring costs related to M&A and restructuring at Morf3D, but we aim to enhance management controls and solidly build this business.