NIKON REPORT 2018

Year Ended March 31, 2018

Unlock the future with the power of light

Unleashing the limitless possibilities of light.
Striving to brighten the human experience.
Focused, with purpose, on a better future for all.
THIS IS THE ESSENCE OF NIKON.

Creation of New Value by Unlocking the Future with the Power of Light

Throughout a century since its founding, Nikon has continued to win customer trust by contributing to the development of society with products and solutions based on its core opto-electronics and precision technologies.

The technologies, the human resources, and the brand cultivated through this process have become reliable strengths supporting Nikon today.

After completing the restructuring that began in November 2016, it will be crucial to further hone these strengths and fulfill our role as the “new eyes for people and industry” in order to create new value and support our growth strategies.

Our vision formulated in 2017 will guide us in fostering corporate culture in which each employee is encouraged to think about what is necessary in order to accomplish growth and to tackle the challenges this introspection reveals. With this culture, everyone at Nikon will unite in our quest to consistently create corporate value.

Nikon Report 2018 puts a spotlight on the value we have provided thus far and the strengths cultivated over the years. Moreover, the report seeks to communicate the basis for the growth strategies to be implemented after the completion of the restructuring and the tasks that will need to be addressed in order to effectively implement those strategies.

We kindly ask all of our stakeholders, including shareholders and investors, to read this report.

Our Philosophy

Trustworthiness and Creativity

Our corporate philosophy is “Trustworthiness and Creativity.”
These are simple words, but they are not easily put into practice.
These important words represent unchanging principles to which
we will always be dedicated.

Our Vision

Unlock the future with the power of light

Unleashing the limitless possibilities of light.
Striving to brighten the human experience.
Focused, with purpose, on a better future for all.
THIS IS THE ESSENCE OF NIKON.

Our Qualities of Mind

Curiosity

We show our passion for progress through
a wide range of interests to cultivate fresh ideas.

Acceptance

We warmly embrace diverse ideas and delight
in differences among people and cultures.

Inspirational Power

We share our ideas with infectious enthusiasm
to effect positive change in the world.

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FINANCIAL AND CORPORATE DATA

Statements contained in this report regarding the plans, projections, and strategies of Nikon Corporation and its subsidiaries and affiliates that comprise the Nikon Group that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data that is obtainable at the time of announcement in compliance with the Nikon Group's management policies and certain premises that are deemed reasonable by the Nikon Group. Hence, actual results may differ, in some cases significantly, from these forward-looking statements due to changes in various factors, including—but not limited to—economic conditions in principal markets, product and service demand trends, customer capital expenditure trends, and currency exchange rate fluctuations.

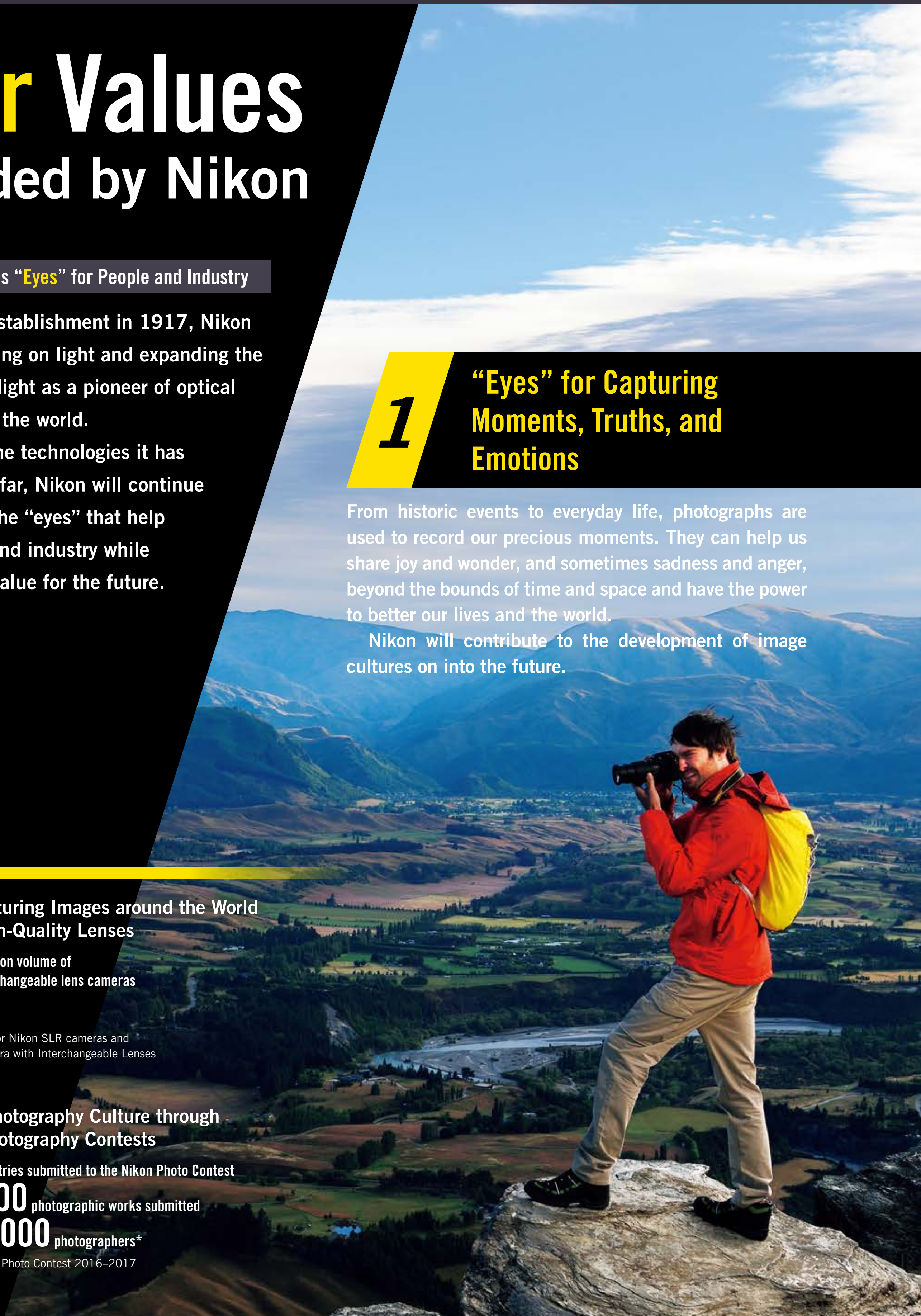
This report covers the activities of domestic and overseas Nikon Group companies, centered on Nikon Corporation. In principle, the terms "the Company," "Nikon Corporation," and "Nikon" refer to Nikon Corporation, while "the Group" and "the Nikon Group" refer to Nikon Corporation and its Group companies.

As for the numerical values relating to the financial content of this report, figures displayed in hundred millions of yen are truncated, and figures displayed in millions of yen are rounded to the nearest unit.

Four Values Provided by Nikon

Contributions as “Eyes” for People and Industry

Ever since its establishment in 1917, Nikon has been focusing on light and expanding the possibilities of light as a pioneer of optical technologies to the world.
By leveraging the technologies it has cultivated thus far, Nikon will continue to function as the “eyes” that help enrich people and industry while providing new value for the future.



1 “Eyes” for Capturing Moments, Truths, and Emotions

From historic events to everyday life, photographs are used to record our precious moments. They can help us share joy and wonder, and sometimes sadness and anger, beyond the bounds of time and space and have the power to better our lives and the world.

Nikon will contribute to the development of image cultures on into the future.

Support for Capturing Images around the World Provided by High-Quality Lenses

Aggregate total production volume of NIKKOR lenses for interchangeable lens cameras

Over **109** million*

* Interchangeable lenses for Nikon SLR cameras and Nikon 1, Advanced Camera with Interchangeable Lenses (as of July 31, 2018)

Cultivation of Photography Culture through International Photography Contests

Aggregate number of entries submitted to the Nikon Photo Contest

over **1,620,000** photographic works submitted

by more than **410,000** photographers*

* Aggregate total for Nikon Photo Contest 2016–2017

2 “Eyes” for Creating a Society in Which People and Objects Are Interconnected

The evolution of IT is bringing about massive changes to our lifestyles. We can receive information from around the world through the Internet, while big data, AI, and other technologies are transforming how we use information. Elevating such information to the status of knowledge will enrich society and people’s lives.

The society realized through the evolution of IT is often referred to as a “super smart society.” Nikon supports the development of more sophisticated semiconductors and displays, which will be integral to the creation of this society, with its lithography systems.

The Power of High-Resolution Images at Home or in Your Hand

Aggregate deliveries of FPD lithography systems used to manufacture high-definition LCD panels and organic light-emitting diode (OLED) panels for flat-screen TVs, smartphones, and tablets

No. 1 global share*

* Since 2004, unit sales basis

Support for a Sophisticated and Convenient IT Society

Number of Nikon semiconductor lithography systems for manufacturing semiconductors to be used in various electronic devices in operation around the world

More than **3,000** units

3 “Eyes” for Viewing at Cellular Level and Discerning by Retinal Images

Medical progress is helping people live longer, but there are still many incurable diseases needing to be cured. Also, everyone wants to always be healthy.

Nikon has been involved in the development of microscopes since its founding. Leveraging the technologies and expertise we have accumulated over the course of our history, we help realize the quick practical use of regenerative medicine. We also assist in the diagnosis of patients with our ultra-wide field retinal imaging devices in the retinal imaging diagnosis field. In this manner, Nikon supports the advancement of life science and medicine and contributes to improved quality of life for countless individuals.

Support for the Advancement of Life Science and Medicine

Reports published on research performed using Nikon’s biological microscopes

Approx. **27,000** a year*

* Number of reports published in 2017 that note use of Nikon biological microscopes

Early Detection of Lesions with the Potential to Cause Eye Fundus Diseases

Number of ultra-wide field retinal imaging devices capable of instantly imaging the center of the eye fundus and surrounding areas shipped

Aggregate total of more than **10,000** units

Support for Air Safety

Laser Radar, a non-contact large-volume inspection system, is used to ensure accurate assembly of aircrafts

Accuracy of ±**0.5** mm up to **50** m away

Contributions to Evolution of Industrial Robots

Nikon encoders that are incorporated into industrial robot joints to realize sophisticated motion control

Over **1** million produced a year

4 “Eyes” for Performing High-Precision Measurements and Inspections

Industries supported by sophisticated manufacturing capabilities continue to advance, creating a more convenient society. This trend is also seen in the development of vehicles, as they become more comfortable, eco-friendly, and safe.

Nikon helps enable the precise measurements and inspections that are indispensable to sophisticated manufacturing, thereby supporting the high levels of quality seen in various industrial products. Nikon also contributes to the evolution of industrial robots and the development of eco-friendly and smart factories.

To create corporate value consistently, we will complete the restructuring and advance the measures for growth.

Kazuo Ushida
President
Representative Director

Masashi Oka
Senior Executive Vice President, CFO
Representative Director

In the fiscal year ended March 31, 2018, we moved forward with the restructuring, which has entered Phase 2. By steadily advancing the restructuring measures, we achieved higher profitability.

The fiscal year ending March 31, 2019 is important as the final year of the restructuring. We will therefore be enhancing Nikon's management DNA to ensure that we can consistently create corporate value while also formulating a new Medium-Term Management Plan that will incorporate growth strategies.

We gratefully ask for the continued support of our shareholders, investors, and all other stakeholders.

We will aim to become a company that is able to contribute to the society for next hundred years by creating new value with unlocking the future with the power of light.

Kazuo Ushida
President
Representative Director

Steady Progress in Restructuring

Enhanced Profitability By Shifting to High-Value-Added Businesses

We have stepped in and forwarded Phase 2 of the restructuring in the fiscal year ended March 31, 2018, while also tying the restructuring to corporate performance, creating a testament to the success of the restructuring measures we have been carrying out since November 2016. Revenue fell more than ¥30.0 billion in comparison with the fiscal year ended March 31, 2017, due to the market contraction for the Imaging Products Business and reduced sales volumes of FPD lithography systems. However, operating profit and profit attributable to owners of the parent both increased year on year, by more than ¥50.0 billion and ¥30.0 billion, respectively. This feat was achieved thanks to a decline in temporary restructuring costs, reduced fixed costs due to the restructuring, and revisions to our business strategies.

Nonetheless, I realize that, if the benefits of selection and concentration are only limited to cost reductions, it will only lead to our business shrinking. Therefore, shifting to high-value-added businesses is a basic principle of preemptive restructuring. What the Group aims to achieve is to consistently create corporate value through increased profitability and enhanced management DNA. For this reason, I feel that the accomplishment of “Achieve break-even of the Semiconductor Lithography Business,” which was one of the management policies for Phase 2 of the restructuring, was a huge breakthrough. At the same time, we succeeded in developing a structure capable of consistently generating earnings. This was achieved by cutting fixed costs through head count optimization and transitioning to a more solid business model that focuses on production based on orders. We were also successful in laying the foundations for efforts to “Strengthen the profit structure of the Imaging Products Business,” which was another management policy. The D850 digital SLR camera, which was launched based on our strategy to focus on mid-range and high-end cameras, achieved sales that exceeded our forecasts. As a result, digital camera models equipped with a full-frame sensor achieved year-on-year growth in both unit sales and revenue. In the fiscal year ending March 31, 2019, we are excited to be launching the new Z 7 and Z 6 mirrorless cameras, which will capitalize on our strengths in optical technologies to exude quality that is distinctly Nikon.

In our FPD Lithography Business, we have established a competitive edge. For example, we launched the FX-103SH and the FX-103S systems in the third quarter of the fiscal year ended March 31, 2018. These offerings are ideal for the production of large and high-definition panels, such as the LCD panels and OLED panels used in 4K televisions as well as in 8K televisions, which are expected to become more widespread. We plan to capture demand in this business going forward by leveraging the strength represented by our being the only company currently developing and selling equipment compatible with plate sizes above 10th generation.

Future Prioritization of Portfolio-Based Management

The restructuring measures are proceeding according to plan. However, we must promote further reforms to become a group that continues to grow. My mission is to promote portfolio-based management, which entails concentrating human resources and capital on fields in which Nikon is competitive in consideration of post-restructuring growth strategies.

The Technology Strategy Committee, which was established in 2017, is promoting portfolio-based management from a technological perspective. This committee is tasked with further examining and confirming the core competency that is Nikon's technologies to formulate medium- to long-term technology strategies for exploring new focus areas and for boosting competitiveness in existing businesses. The process for formulating these strategies involves clearly defining the business plans of business units and the technologies that can be combined to support those strategies. We must also reassess the mutual effect of development activity between business units and corporate divisions, such as the Research & Development Division.

Clarifying these matters and categorizing priority research themes based on social and market trends make it possible for us to effectively decide the growth themes that we should cultivate through concentrated investment. With a clear vision for the Nikon Group of the future, we will proceed to develop and revise business portfolios for accomplishing this vision while nurturing new businesses that will drive further growth.

Organizational Reforms Based on Shared Understanding of Management Indicators among Employees

Return on equity (ROE)*1 and return on invested capital (ROIC)*2 have been positioned as indicators for aligning management with the perspective of the capital market. We are currently in the process of developing a new Medium-Term Management Plan, which will contain growth strategies and start in the fiscal year ending March 31, 2020. I am already seeing these two indicators being used as a form of shorthand among Nikon Group department managers in discussions regarding this plan.

However, it will take time for understanding of these indicators to spread to all employees. If the Nikon Group is to truly change, it will be important for us to adopt a focus on capital efficiency while still remaining committed to creating high-quality products. I therefore think it is crucial that we work to foster understanding of ROE and ROIC through messages transmitted to employees worldwide in order to instill an awareness regarding these indicators as quickly as possible.

Moreover, we seek to transform Nikon into an organization in which all employees are able to think about what must be done in order to accomplish growth. Laying the foundations for such an organization is one of the tasks placed before me in the fiscal year ending March 31, 2019.

*1 An indicator representing the ratio of profit attributable to owners of the parent to equity attributable to owners of the parent that is used to judge management efficiency
*2 An indicator for measuring how efficiently returns are being generated through actual invested capital, including working capital and non-current assets

Creation of New Value

Creation of New Value by Unlocking the Future with the Power of Light

Our society is undergoing a major transformation as various systems powered by artificial intelligence (AI) spread rapidly throughout our daily lives and industries. In the midst of this transformation, the Nikon Group seeks to provide the “eyes” that will be needed by people and industries alike by evolving the optical technologies we have cultivated to date—in other words, by unlocking the future with the power of light.

More than 80% of the information taken in by our brains is visual information acquired through our eyes. In AI, the role of the eyes is performed by lenses and sensors, which have crucial functions. Accordingly, we see these devices as being essential to the application of AI, and Nikon is well equipped to contribute in this field with its lens and sensor technologies. For example, we are already engaged in joint development of a solution that helps physicians diagnose diseases by using AI to analyze retinal images taken by the ultra-wide field retinal imaging devices of subsidiary Optos Plc.

By expanding businesses in this field, our business model, which had previously focused on the manufacture and sale of completed products, is changing substantially. I think we have the potential to establish a completely new business model. Based on the assumption that we will utilize AI and other technologies, this model could include businesses in which we develop and provide solutions including applications, and businesses in which we sell specific technologies to business partners as modules. With this in mind, we will concentrate resources on our optical technologies and other proprietary Nikon technologies that can be differentiated from those of our competitors in order to create new value and thereby propel us toward future growth.

ESG at Nikon Group

Broader Perspectives Utilizing Insight of External Directors and Enhancement of Corporate Governance

Turning our attention toward fields outside of the Nikon Group's previous business domains and actively seeking business opportunities therein will open up new possibilities for collaboration with business partners and for combining our technologies with others. In this endeavor, it will be crucial to utilize input from external directors in management to an even greater extent. The growth strategies we are in the process of formulating assume that we will be incorporating technologies, business frameworks, and ideas that lie outside of the fields in which Nikon traditionally excels. In this manner, we need to develop growth strategies that encompass previously unexplored fields and also measure their likelihood of success. We are going about this task by engaging in extensive discussions at meetings of the Board of Directors guided by the insight and knowledge offered by the Company's four external directors based on their experience.

Moreover, Nikon commissioned a third-party organization to conduct an evaluation of the effectiveness of the Board of Directors in the fiscal year ended March 31, 2018. While a certain degree of praise was received for our efforts to enhance corporate governance, it was also stated that there was still room for improvement. In our corporate governance structure, we will not be satisfied with merely fulfilling the formulaic requirements but will rather go further to create a structure that is even more functionally transparent and disciplined.

Contributions to Society and Humanity through Business Activities

Social interest in companies' stances toward environmental, social, and governance (ESG) issues has been growing as of late. As stated, we are pursuing the ongoing enhancement of corporate governance in order to incorporate a more diverse range of perspectives into the process of formulating growth strategies and to increase transparency and discipline. As for contributions to society and the environment through our business activities, the Nikon Group's quest to continue growing by functioning as "new eyes for people and industry" will contribute to the sustainability of not only the Group but also of society and humanity. For example, by providing "eyes" capable of supporting the diagnosis of diseases, we can contribute to the improvement of health and quality of life for people and the reduction of social security expenses.

We aim to develop growth strategies that demonstrate the connection between Nikon's business and society to stakeholders both inside and outside of the Group. In this way, we hope to ensure that Nikon can continue to contribute to the sustainable development of society through its business activities while embodying its corporate philosophy of "Trustworthiness and Creativity" as a company that is meaningful to people around the world over the next 100 years.

To Our Stakeholders

Realization of Further Growth by Sparking Employees' Ambition

The growth strategies that we are developing will guide us in creating new value while unlocking the future with the power of light.

Ambitiously tackling new challenges in areas that lie outside of our traditional product lines and business domains will require "Curiosity" to cultivate fresh ideas, "Acceptance" to warmly embrace diverse ideas and delight in differences among people and cultures, and "Inspirational Power" to share our ideas with infectious enthusiasm to effect positive change in the world. These three traits are set forth in Our Qualities of Mind.

I, personally, will exercise inquisitiveness in learning about technologies and businesses in areas I had not previously considered while also managing the organization in a manner that inspires such ambition in all Nikon Group employees.

The major revolutions that have occurred over the 6 million-year history of humanity were the agricultural revolution that took place approximately 10,000 years ago, the industrial revolution that changed the world approximately 200 years ago, and the Internet revolution that transformed society only 20 years ago. One can see that the time between these revolutions is becoming much shorter, and it can thus be expected that massive changes will continue to occur in the future. In the face of such change, companies that lack a desire to learn will be doomed to fail. At the Nikon Group, we are committed to constantly reexamining the role and value to be provided by the Group in light of upcoming social change and to continuously growing through this process.

Lastly, let me reaffirm our dedication to living up to the expectations of our stakeholders by completing the restructuring and creating corporate value.

I hope you will continue to support the Nikon Group as we continue to move forward.

September 2018

Kazuo Ushida

Kazuo Ushida
President
Representative Director

Q Please tell us about the progress you have made so far on the restructuring effort since November 2016 and your plan going forward. Also, what is your vision for Nikon upon completion of the restructuring?

We embarked on the restructuring in response to an extremely challenging operating environment and the diminishing profitability of our core businesses. The first step we took for the Semiconductor Lithography Business, which was locked in chronic losses, was to drastically revise its sales strategies and to strengthen its relations with core customers. At the same time, we took measures to reduce fixed costs, minimize inventory write-downs, and bring its R&D costs down to an appropriate level. This dual approach helped us restore profitability in the fiscal year ended March 31, 2018. For the Imaging Products Business, we closed our manufacturing plant in China to align our production with the current scale of our business. We also made a conscious decision to be more profit-oriented and selective, and to concentrate on high-value-added products. For the Industrial Metrology Business, we reexamined its product lines from a strategic point of view, which resulted in our decision to exit the CMM business.*

Our reform effort is not limited to these business areas alone. We have been working on re-encoding our management DNA across the entire Company and already see its positive impact. For instance, we changed our business performance management process to one based on return on equity (ROE) and return on invested capital (ROIC), in order to transform the Company to one based on a profitability-focused mindset. We optimized head count mainly in the Semiconductor Lithography Business, Imaging Products Business, and headquarters functions through the voluntary retirement of 1,143 employees in Japan. These measures resulted in the reduction of fixed costs by more than ¥30.0 billion on a Groupwide basis prior to the conclusion of the fiscal year ended March 31, 2018.

Going forward, one of our measures under the restructuring is to switch to a portfolio-based management approach. We have already established a basic framework that enables us to accurately assess the profitability and level of invested capital throughout the lines of Nikon's wide-ranging products. This will help us appropriately position each of our product lines in our portfolio. We will examine the target level of ROIC in each business based on budgets for the fiscal year ending March 31, 2019, set specific targets, and strike a balance in allocating resources based on those targets. To ensure the effectiveness of these frameworks, we will rigorously implement the plan-do-check-act (PDCA) cycle so that we can be agile in reexamining our portfolio as necessitated by changes in the operating environment.

In doing so, the ROIC targets of each business have to be tied to the goals and measures of each division/department and employee. In other words, it is important that all frontline employees feel and see that what they deliver will ultimately impact Nikon's corporate value for the better. We will enhance transparency in work processes, standardize them, and promote efficient meetings and communication. We will strive to provide a setup/workplace that helps raise employees' motivation.

There is no doubt that we are faced with a challenging operating environment. The market for the Imaging Products Business is expected to shrink further. For the Precision Equipment

Business, the outlook for capital expenditures in the FPD industry is uncertain for 2019 and beyond. The Healthcare Business is expected to grow in the future, but it will take some time before it can make any contribution to our bottom line. Nevertheless, to consistently increase our corporate value, it is critical that we identify new growth drivers and nurture them by investing resources generated through our restructuring effort. The operating environment is challenging, but we are absolutely committed to re-encoding our management DNA such that the ROE will consistently be at a level higher than 8% in the medium term. We are in the process of shaping our strategies for sustainable growth into a new medium-term management plan, which should enable us to maximize Nikon's core value.

* Business engaged in the development, manufacturing, sale, and service of Coordinate Measuring Machines

Q Please outline the key elements of future financial strategies and shareholder return policies.

With a portfolio comprising business-to-business operations such as the Precision Equipment Business and business-to-consumer operations of the Imaging Products Business, Nikon's performance is prone to be affected by economic fluctuations. We have therefore made it a policy to keep the equity ratio at a level that will allow us to maintain a single-A issuer rating in Japan. This should enable us to secure the funds needed to fuel ongoing growth despite market fluctuations. Other financial targets include increasing ROE to above 8% early on, and sustaining this ratio at an even higher level in the medium term. Internally, we are in the process of aligning ROIC targets with capital costs commensurate with risks of each business, and formulating measures to improve capital and investment efficiency.

Free cash flow in the fiscal year ended March 31, 2018, was a positive ¥90.2 billion, which was equivalent to 12.6% of revenue. This was a massive improvement from the fiscal year ended March 31, 2017, when free cash flow was a positive ¥56.6 billion, which represented 7.6% of revenue. At Nikon, cash flows are highly influenced by advances received and can therefore vary greatly from year to year. On average, it is around ¥60.0 billion or roughly 8% of revenue. We will keep implementing measures to improve profitability, increase operating cash flows, and generate the funds necessary to implement our growth strategies. We have also introduced a global cash-management system (CMS) to facilitate more efficient, Groupwide use of the cash generated through business activities. We believe CMS will allow global, integrated management of cash and free us to direct funds to growth areas more swiftly and comprehensively.

Allocation of capital is a pivotal task of management. In order for Nikon to maintain and strengthen its core value amid today's sweeping tide of technological innovation, it is critical to remain active in R&D. For this reason, we will emphasize investment in future growth areas, including basic research and new development areas, in addition to product development in existing business units. We will balance capital allocation among R&D investments for driving ongoing growth, M&A activities and other growth investments, along with shareholder returns, based on the medium- to long-term growth strategies we are considering. We will take potential fluctuations in performance into account as we do. Our aim will be to balance allocations in a manner that contributes to higher corporate value. We target a dividend payout ratio of 40% or more.

Q What steps is Nikon taking to strengthen its relationships with shareholders and investors?

Since I became CFO in June 2016, I have put a lot of effort into IR activities through direct dialogue with investors. During the fiscal year ended March 31, 2018, I met with more than 140 investors through individual and small group meetings, and the IR team as a whole met with more than 500 investors. Feedback and comments from these investors covered a wide range of topics, including progress on restructuring and opportunities and risks associated with our business strategies. With investors who prefer long-term investments in particular, we exchanged candid views on environmental, social and governance (ESG) investments, including identification of social issues and ways for Nikon to address them, financial strategies such as capital allocation, and governance issues. We always share the valuable input and feedback we draw from such meetings with the Board of Directors and the Executive Committee, to refine our management and business strategies. We will continue to seek out the opinions of investors through these IR activities and apply their feedback to grow our corporate value.

Overview of the Restructuring

The Nikon Group is advancing a Groupwide restructuring to increase profitability and enhance its management DNA in order to improve corporate value and thereby build the foundations for Nikon's next 100 years.

In November 2016, management decided to enter into a period of restructuring. This decision followed the discontinuation of the Medium-Term Management Plan 2015 in light of forecast-exceeding market contraction in existing businesses and progress in developing growth businesses that did not go as planned. This period of restructuring is slated to continue until the conclusion of the fiscal year ending March 31, 2019. During the period, we are implementing a Groupwide "Preemptive Restructuring" plan that entails drastically increasing profitability and enhancing management DNA with the aim of improving corporate value. After the completion of the restructuring, Nikon intends to announce a new Medium-Term Management Plan with growth strategies starting in the fiscal year ending March 31, 2020.

Goals and Basic Principles of the Restructuring

Objective of Restructuring	**Companywide restructuring to improve value creation: Strategic pivot from revenue growth to profit growth**
Basic Principles	**Create a Companywide focus on "high-value-added businesses" to improve profitability**
	Optimize R&D, sales, and manufacturing structures on a global basis
	Streamline headquarters functions 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 prioritize the restructuring of the Imaging Products Business, the Semiconductor Lithography Business, and headquarters functions.

Progress of the Restructuring

Companywide

- Reduction of more than ¥30.0 billion in fixed costs prior to the fiscal year ended March 31, 2018
- Promotion of portfolio-based management
- Revision of management DNA and processes based on ROE and ROIC
- Examination of measures for reinforcing corporate governance

Headquarters

- Improvement of efficiency and enhancement of functions
  - Consolidation of previously dispersed optical engineering functions and optical component production functions and technologies
  - Enhancement of coordination between Research & Development Division and business units
  - Narrowing of scope of basic and applied research themes
  - Head count optimization of approximately 200 employees

→ Improvement of productivity through streamlining and consolidation

Imaging Products Business

- Selection and concentration of resources on high-value-added products
- Head count optimization
- Optimization of development, production, and sales structures

→ Strengthening of profit structure to improve margins even in a shrinking market

Semiconductor Lithography Business

- Drastic revision of business strategies
  - Dedication to practicing build-to-order manufacturing
  - Revision of development policies
- Head count optimization

→ Reinforcement of operating foundations to avoid future losses and to achieve profitability exceeding capital costs

Management Responsibility

- Revision of compensation of representative directors and officers
- Reduction of number of officers according to a reassessment of roles and assignments

Plan for Completion of the Restructuring

Steadily implement measures to build foundations for a reborn Nikon in the final year of the restructuring period (fiscal year ending March 31, 2019)

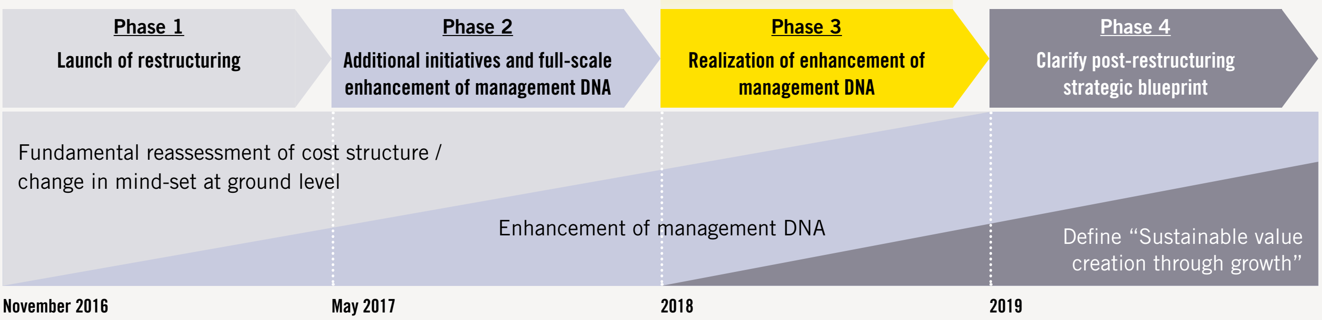
1 Headquarters Restructuring
- Streamline and enhance headquarters functions
- Improve R&D management

2 Promotion of Portfolio-Based Management
- Establish and implement frameworks to entrench portfolio-based management

3 Enhancement of Business Performance Management Based on ROE and ROIC
- Develop structures that link on-site efforts to ROIC in all business units

4 Reinforcement of Corporate Governance Structures
- Improve transparency and discipline

Four Phases of the Restructuring



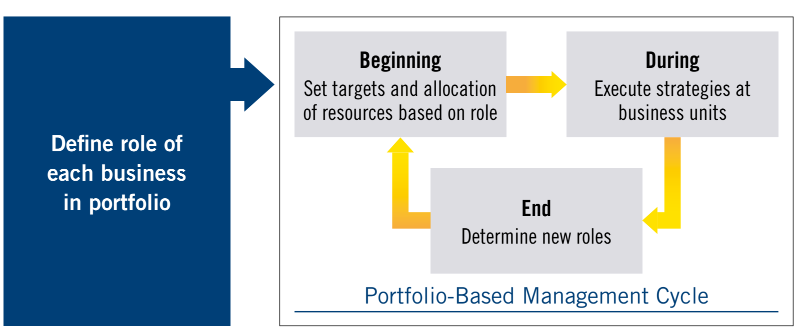
Target transformation into a company that can generate and sustain ROE at a level higher than 8% in the medium term

Portfolio-Based Management

Nikon's Vision for Portfolio-Based Management

Nikon's vision for portfolio-based management starts with the definition of the role of each business. Based on these roles, the goals of each business and the resources they will be allocated are decided. This process enables the Company to efficiently and accurately allocate human resources and capital to fields in which Nikon is competitive and thereby realize steady growth into the future. To facilitate this process, we must completely redefine the roles expected of each business in order to determine the product lines on which we will focus, the research and development themes in which we will invest, and other factors pertaining to the selection and concentration of resources. We will need to adopt a flexible approach toward management based on these decisions.

Looking ahead, Nikon will take both a medium-term and a long-term perspective to the improvement of corporate value. Accordingly, we will base decisions on the operating profit and return on invested capital (ROIC) that can be expected in the medium term and potential business growth and risks to corporate value in the long term.



Portfolio-Based Management Cycle

Initiative Example

Establishment of Precision Components & Modules Business Unit

The Precision Components & Modules Business Unit, which was established in April 2018, develops a solutions-oriented business that entails providing modules and components in response to various market and customer needs and issues. Moreover, the component businesses that had previously been operated independently in different Company business units will be consolidated within this business unit in order to create an optimal business model and structure. This unit will not be limited to dealing in end products or to practicing self-sufficiency, but will rather investigate fields with the potential for new business development and collaborate with other companies in an effort to create new component businesses in a wider range of fields. This business unit will be operated in conjunction with our portfolio-based management approach, such as by flexibly allocating the resources required to develop new businesses, to ensure that it is amply equipped to seize the opportunities placed before it.

Technologies, Human Resources, and Brand Cultivated over History Spanning More Than a Century

Over more than a century since its founding, Nikon has continued its quest to unlock the possibilities of light.

During this quest, we have created new value by providing products and services matched to the needs of society. Nikon remains committed to fulfilling its role of providing “new eyes for people and industry” in the future society by helping to resolve various issues while creating new value. Accomplishing these objectives will be made possible by the distinctive strengths Nikon has cultivated thus far, namely, its technologies and human resources, which underpin the competitiveness of the Company.

By further refining these strengths, Nikon will seek to enhance the competitiveness of its brand in order to become a company that can continue delivering value to the society and growing over the next century.

1 Technologies

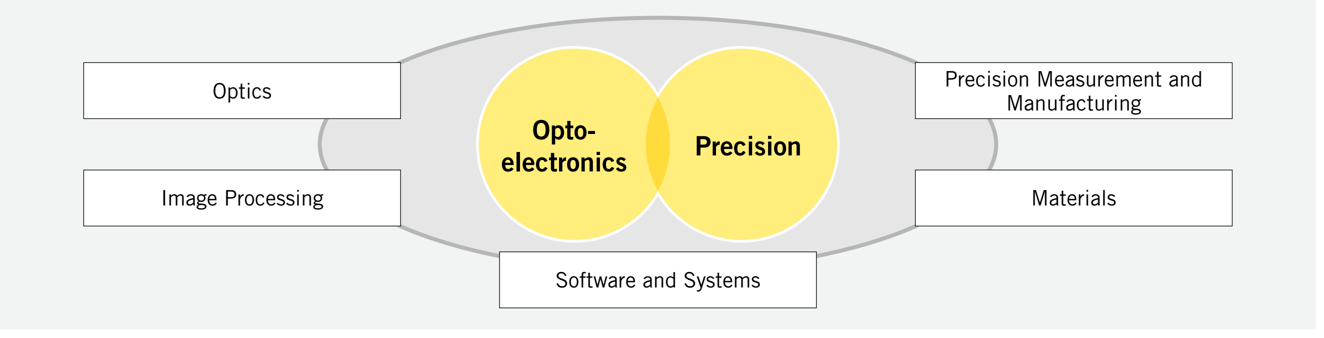
Basic Technologies and Ability to Combine Those Technologies That Supports Nikon

Nikon provides a diverse range of products and services based on the core opto-electronics and precision technologies it has cultivated since its founding. Our opto-electronics technologies are among the world’s best. With these technologies, we are able to control light across a wide range of wavelengths, spanning from X-rays to infrared light, with a high degree of accuracy to create products and services for various purposes. Meanwhile, our precision technologies boast world-leading precision, allowing for high-speed control accurate to measurements roughly 1/100,000th the width of a strand of hair.

Responding to the needs of society throughout our history, we have conducted research and development in a broad spectrum of fields, such as optical, precision measurement and manufacturing, image processing, material, software and system technologies. The strength of Nikon lies in its basic technologies, namely, its two core technology groups and peripheral technologies, and its ability to combine these technologies in order to create diverse value. These strengths underpin the undeniable competitiveness of Nikon.

In the coming era, which will be characterized by diversifying values and issues and increasing volatility, the ability to respond to social needs and create innovation will be key to ongoing growth. Nikon keeps refining its technological strength to fulfill its role of providing “new eyes for people and industry” and to achieve sustainable growth.

Nikon’s Basic Technologies



Examples of Combinations of Basic Technologies

Digital SLR and Mirrorless Cameras + NIKKOR Lenses

Comprehensive Strength Matched to the Digital Era and Built on Exemplary Nikon Technologies

Nikon delivers camera systems boasting high comprehensive performance that are matched to the digital era. These systems leverage the strengths Nikon has forged since the film era, namely, the opto-electronics, precision, and other film camera technologies we have cultivated since the launch of the Nikon Model I in 1948 along with the reliable sturdiness of our cameras. Nikon's systems blend these strengths with new digital era technologies, including our image processing, sensor, manufacturing, and material technologies. This DNA has been inherited by our mirrorless cameras, where it continues to evolve.

Basic Technologies Used in Digital SLR and Mirrorless Cameras, and NIKKOR Lenses

Digital SLR and Mirrorless Cameras

High-Sensitivity Sensors

The quality of images depends on the ability of each image sensor to convert light into electric charges and on the system to efficiently transform those charges into electrical signals. Nikon's cutting-edge, high-sensitivity sensors are created with sophisticated engineering technologies to capture as much light as possible from the subject being photographed. Moreover, these sensors feature an improved capability to focus light on light-receiving photodiodes, enabling them to realize a standard sensitivity of ISO 102400—the highest in Nikon's history.

Image-Processing Engines

Our image processing engines enable the swift processing of sensor data to realize high-speed continuous shooting and high-resolution videos. Even in high-sensitivity photography modes, our engines effectively contribute to the reduction of noise, ensuring a sharp picture right down to the minute details. Combining Nikon's high-sensitivity sensors and image processing engines, our digital SLR cameras achieve high-speed continuous shooting at up to 12 frames per second* while maintaining exceptional levels of sensitivity.

* High-speed continuous shooting at approximately 14 frames per second possible in mirror up release mode

NIKKOR Lenses

Aspherical Lenses

Nikon was a step ahead of the world when it developed engineering theories and processing technologies for aspherical lenses in the 1960s. Aspherical lenses are effective at correcting distortions, spherical aberrations, and various other aberrations. Just one aspherical lens can achieve the same aberration correction capabilities as several spherical lenses and thereby make significant contributions to smaller and lighter lens units.

Nano Crystal Coat

Nano Crystal Coat is an extremely effective anti-reflective coating for lenses created during the process of developing state-of-the-art semiconductor lithography systems. This coating excels at preventing ghosts caused by red light, which had previously been hard to avoid. Furthermore, Nano Crystal Coat has also demonstrated an exceptional ability to prevent ghosts and flares stemming from light entering lenses at an angle.

Semiconductor Lithography Systems

Contribution to the Evolution of a Digital Society by Making Semiconductors More Compact and Functional

As smartphones, home electronics, and all other electronic devices are made more compact and functional, they are ushering in a more comfortable era. Nikon's semiconductor lithography systems are making large contributions to the evolution of the semiconductors (semiconductor integrated circuits) that are indispensable to these devices.

Semiconductor lithography systems use exceptionally high-performance lenses to reduce the size of circuit patterns imprinted on photomasks, the blueprints for semiconductors, and then expose these patterns on silicon wafers to create intricate, highly complex circuit patterns.

Basic Technologies Used in Semiconductor Lithography Systems

High-Resolution Projection Lenses

Higher resolutions allow for the exposing of more complex circuit patterns. Nikon is able to realize high levels of performance in lenses by combining its exceptional engineering capabilities with its comprehensive production and quality management systems, which encompass everything from the preparation of lens materials to dissolution, polishing, coating, and finally assembly.

High-Speed, High-Precision Stages

Nikon utilizes its sophisticated precision technologies to create stages for mounting silicon wafers that are capable of high-speed movement and stopping, thereby contributing to increased productivity and allowing for the mass production of semiconductors.

Alignment Sensors

When manufacturing semiconductors, it is crucial to be able to overlap several circuit patterns without any misalignments. Nikon achieves the necessary precision in alignment for producing semiconductors by using an array of sensors that employ its opto-electronics technologies to realize accurate positioning.

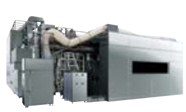
From Pursuing of Greater Depth to Seeking Increased Breadth

The strength of Nikon can be seen in the high level of sophistication of its two core technology groups as well as of the peripheral technologies and in its ability to combine these technologies to create a diverse range of value. Up until now, we have consistently pursued greater depth in our technologies through means such as seeking to create more accurate or high-resolution lenses or to make more precise measurements. Looking ahead, in addition to depth, it will be important to pursue greater breadth in our technologies by enhancing our ability to combine technologies to provide value in new fields in order to address the changing and diversifying needs of society.

Examples of Products Made Possible through Greater Breadth

FPD Lithography Systems

Nikon's proprietary multi-lens systems allow for multiple lenses arranged into two rows to be controlled like a single, large lens. These systems make it possible to perform lithography on large glass plates with high precision and efficiency. Moreover, these systems are combined with various lithography system technologies to address the need for ever-larger and higher resolution displays.



Super Resolution Microscope N-SIM S

The N-SIM S Super Resolution Microscope combines a newly developed structured illumination system with image processing technologies to realize high-speed image acquisition while maintaining spatial resolution of approximately 100 nanometers—roughly twice that of conventional light microscopes. It thereby addresses live cell imaging needs by allowing for target cells to be observed while still alive.

Joint Unit for Human Collaborative Robots

Our new Joint Unit integrates high-precision encoders that combine opto-electronics technologies and precision technologies, motors, and other components together. This Joint Unit makes it possible to detect even slight torsions of shafts when robots bump into people or objects. The unit will no doubt make large contributions to the development of human collaborative robots that work cooperatively with people.

Exploration of New Fields through Collaboration between Businesses and with External Partners

Establishment of Optical Engineering Division, Production Technology Division, and Precision Components & Modules Business Unit

The Optical Engineering Division and the Production Technology Division were established to respectively consolidate the optical engineering and production technology divisions that had previously been dispersed throughout the different business units. The establishment of these divisions was aimed at allowing for technologies to be used in a cross-business manner and thereby facilitating efforts to pursue inter-business collaboration along with the exploration of new fields. Similarly, the Precision Components & Modules Business Unit was created to centralize operations related to components, an area of strength for Nikon, with the goal of creating new businesses.

Fusion of External Insight and Nikon Technologies

Nikon is utilizing the automated camera solutions of Mark Roberts Motion Control Limited, which was converted into a subsidiary in 2016, together with its own image-related technologies and wide-ranging sales channels to explore new markets. During the same year, the Company formed a strategic alliance with Verily Life Sciences LLC in the retinal imaging diagnosis field to contribute to the early diagnosis and treatment of diabetic retinopathy and diabetic macular edema.

TOPIC Formation of Technology Strategy Committee to Promote Companywide Technology Strategies

In 2017, the Nikon Group formed the Technology Strategy Committee. This committee is tasked with maintaining an understanding of technologies and research themes of business units and of the Research & Development Division and other corporate organizations. In this way, the committee is to identify growth fields based on consideration of the Group's current technology and research assets and the new technology development fields for the future.

When exploring new fields, the committee determines whether our objectives can be achieved by combining the Group's technologies or if we will need to engage in technological collaboration with external partners. Medium- to long-term technology strategies are formulated accordingly. In addition, the committee pursues close coordination with business units, the Optical Engineering Division, the Research & Development Division, and the Production Technology Division; works to draft cross-business technology strategies; and sets Companywide technology development policies based on factors such as commercialization timing and profitability.

Under the guidance of the Technology Strategy Committee, everyone at Nikon will unite to accelerate initiatives for evolving our technological prowess to address the needs of the society of the future.

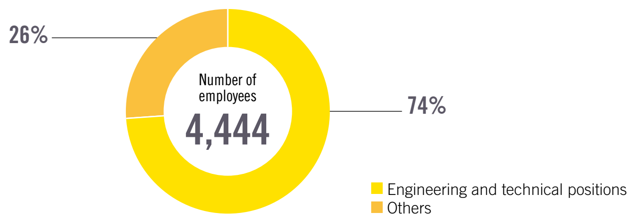
2 Human Resources

Diverse Human Resources Creating Value with Technologies

It is our human resources who utilize the Nikon Group's exceptional technological prowess to create new value. The Nikon Group employs a diverse range of human resources, including the numerous optical engineers who support the Group's core opto-electronics technologies. The growth of the Group up until today has been supported by its diverse human resources, who have continued to breed new ideas to contribute to the ongoing development of society.

One of the Nikon Group's greatest assets is its ability to utilize the comprehensive strength of these diverse human resources to create value with its sophisticated technologies.

Ratio of Nikon Employees in Engineering and Technical Positions (As of March 31, 2018, non-consolidated)



Human Resource Development through Wide Assortment of Training Programs

Human resources are indispensable in our efforts to further enhance our already high technological prowess and other capabilities. For this reason, the Nikon Group is focused on improving the comprehensive strength and technical skills of its employees. The insight and technological prowess we have cultivated to date are transferred to new employees through both formal and on-the-job training so they can be merged with the fresh ideas of these employees to create new value.

ENGINEERING TRAINING

Optical technologies have formed the foundation for Nikon's technologies since the Company's establishment. However, optical engineers are in scarce supply around the world, and few companies are able to secure such individuals. Faced with this reality, Nikon implements training programs with an emphasis on cultivating this scarce resource within the Company. For example, optical technology training provides information on optical theory and other basic knowledge while also transmitting knowledge regarding Nikon's proprietary technologies in this area.

In addition, we have unique education programs for engineers that include training for developmental engineers designed to teach them about manufacturing by having them experience manufacturing as well as other areas of operations spanning from upstream to downstream areas.

TECHNICAL TRAINING

New employees in technical positions are submitted to a basic manufacturing technology skill course over the first nine months after they join the Company. Through this course, they learn the technical skills and knowledge required at Nikon with regard to such areas as machining, optical manipulation, and basic optical and electrical theory.

Furthermore, the Nikon Group encourages its employees to take the national examination on technical skills, and a large number of our employees have acquired the highest ranking bestowed through this examination. There have also been several Nikon employees who have received "Modern Craftsman"*1 designation for exceptional technicians and the Medal with Yellow Ribbon.*2

Employees taking part in entry-level manufacturing technology course

*1 A program through which the Ministry of Health, Labour and Welfare selects approximately 150 technicians from across Japan each year to be recognized for their exceptional skills

*2 One of the six types of medals conferred by the emperor of Japan to recognize individuals who have made extraordinary contributions to society, public welfare, culture, or other areas; the Medal with Yellow Ribbon is awarded to individuals who, through their diligence and perseverance, have developed technologies or achieved successes that make them role models to others

Human Resource Energization Constantly Contributing to Growth and Discovery

Addressing the growing complexity of social issues and the diversification of needs requires us to create new value in an ever-widening range of new fields. One means through which we aim to create such value is by enabling employees who have developed sophisticated specialized skills to move beyond the boundaries of division and business area to exercise these skills in a wider range of fields. To this end, Nikon has implemented a career matching support program and an open recruitment system to energize individual employees and workplaces.

In addition, we actively recruit mid-career individuals with the aim of invigorating the organization by injecting completely new technologies, insight, and values into Nikon. The Healthcare Business, in particular, is a new field for Nikon, meaning that the acquisition of talented human resources in this field is vital. We have therefore made this a high priority.

3 Brand

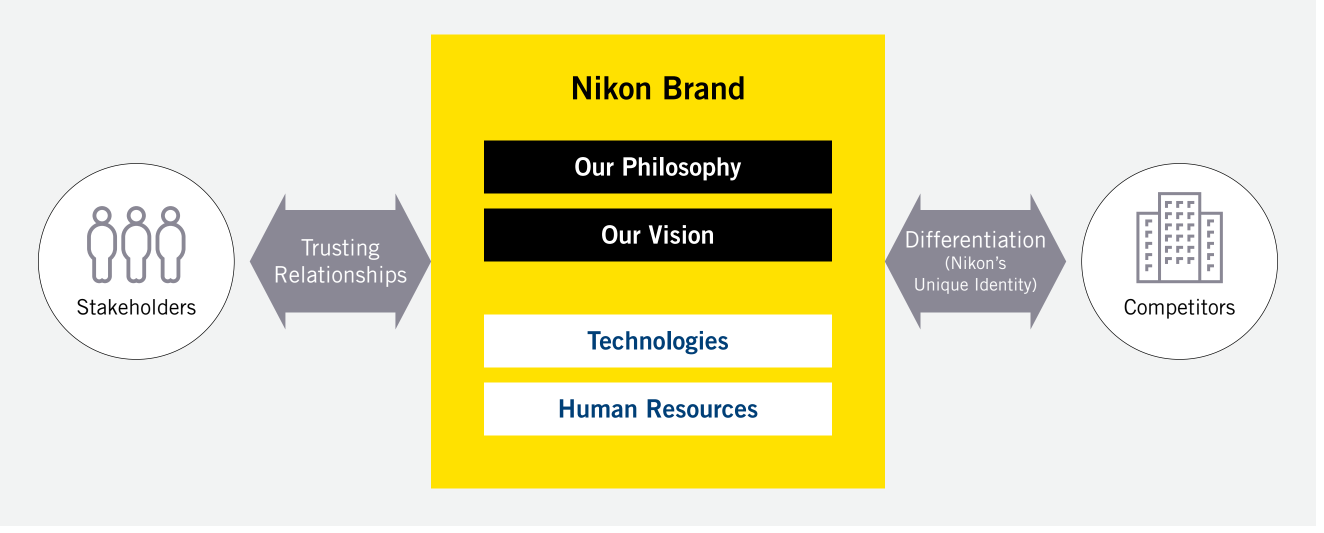
Nikon's Brand Policy

The brand we have cultivated over our more than 100-year history is highly recognized and trusted around the world. A brand is an intangible asset and a core element of corporate value. A brand can be a bridgehead for seizing new business opportunities while providing many advantages for improving corporate value. For example, a brand can contribute to profit growth by facilitating the following efforts.

- Building trusting relationships with new customers
- Forming connections with new business partners
- Recruiting talented human resources

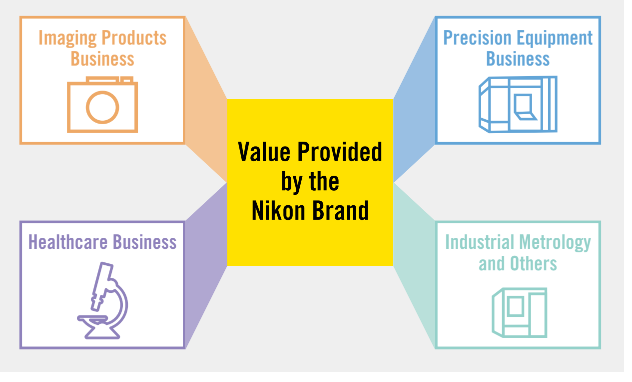
Nikon has long been guided by its corporate philosophy of "Trustworthiness and Creativity" to contribute to society by providing products and solutions based on its core technologies, namely, its opto-electronics and precision technologies. In July 2017, we unveiled our new vision of "Unlock the future with the power of light." This vision inspires us to continue applying the technologies we have developed thus far to various fields in order to create new value and improve upon our brand power while cementing our bonds of trust with stakeholders.

Positioning of Nikon Brand



Challenges for the Nikon Brand and Initiatives

Although a large portion of the population associates Nikon with its Imaging Products Business, the Company is, in fact, engaged in the Precision Equipment Business, the Healthcare Business, the Industrial Metrology Business, and other business-to-business operations. One of our challenges over the foreseeable future will thus be to improve recognition with regard to the entirety of Nikon's businesses, including these business-to-business operations, while cultivating a brand image that effectively communicates the value Nikon has to offer society (brand provision value). To overcome this challenge, we will engage in effective and efficient advertising initiatives alongside other activities for increasing our brand value.



Main Branding Activities

Sponsorships

Nikon contributes to the development of sports through sponsorships of international sporting events. The Nikon logo is prominently displayed at such events to promote the Nikon brand. In addition, we conduct various activities for visitors and establish Nikon Professional Services (NPS) depots for professional photographers at events. These initiatives help improve the recognition of the Nikon brand while also heightening its value.

Football (AFC)

Swimming (FINA)

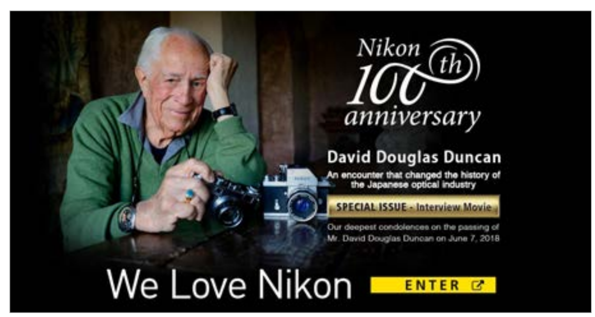
Golf (The Open)

Photo by Getty Images

Campaign Commemorating 100th Anniversary (January 2017–July 2018)

To celebrate Nikon's 100th anniversary, we assembled a project team to advance a commemorative campaign that entailed producing an anniversary logo and launching an anniversary website, which contains various contents. Furthermore, we created anniversary products and merchandise and ran a global corporate advertising campaign employing photographs of Marilyn Monroe through digital media, newspapers, and magazines and on public transportation. These initiatives helped us express our gratitude toward our stakeholders for supporting us up until today while also reminding them of Nikon's history and brand value.

Nikon 100th anniversary website



TOPIC Brand Symbol

The current brand symbol was created in 2003 to help foster an image for the Nikon brand that matched the needs of the time. The graphic's sequential rays represent future possibilities while the yellow symbolizes expansion and passion and the black portrays reliability and quality. Found in the corporate logos of Group companies, on product packaging and websites, and in advertisements, the brand symbol is being used as a communication tool to foster widespread understanding of and promote the Nikon brand.

Business Portfolio–Path of Transformation

Since its founding in 1917, Nikon has continued to transform its business portfolio to address the changing needs of the given era. Moving forward, we will keep contributing to the realization of a better society by providing an array of products and solutions based on our core opto-electronics and precision technologies in the coming era of increasingly diverse values.

Social Changes

Urgent need for globalization in all industrial fields

1917–

Post-World War II reconstruction and rapid growth of Japanese economy

1946–

Evolution of computers and telecommunications transforms industry and lifestyles

1980–

Nikon's Initiatives

Domestic production of optical instruments using sophisticated technologies and Nikon-manufactured optical glass

- Establishment of Nippon Kogaku K.K.
- Mass production of optical glass achieved through manufacturing research
- Development of binoculars, astronomical telescopes, microscopes, and various other optical instruments
- Development of camera lenses, NIKKOR adopted as brand name

Contributions to world-renowned "Made in Japan" brand while supporting industrial development and improved quality of life with cameras and other optical instruments as a comprehensive optical instrument manufacturer

- Transition to production of consumer optical instruments, provision of various products such as cameras, surveying instruments, and ophthalmic lenses
- Nikon adopted as brand name for small-sized cameras
- Establishment of Nikkor Club and photo gallery-Nikon Salon-and start of international photograph contest (currently Nikon Photo Contest) to contribute to the development of photography culture
- Development of high-resolution optical lenses for use with printed circuit boards needed for manufacturing electronic components
- Contribution to space exploration through cameras

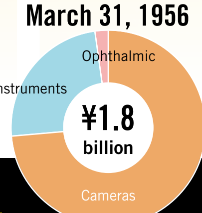
Contributions to evolution and productivity of industry through advancement of opto-electronics and precision technologies and creation of foundations for a society offering convenience for all

- Launch of first domestically manufactured commercial stepper
- Launch of FPD lithography systems
- Release of new lines of microscopes, measuring instruments, and other devices
- Change of corporate name to Nikon Corporation
- Commercialization of digital cameras

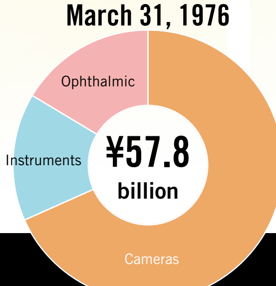
Transformation of Business Portfolio

Distribution of revenue

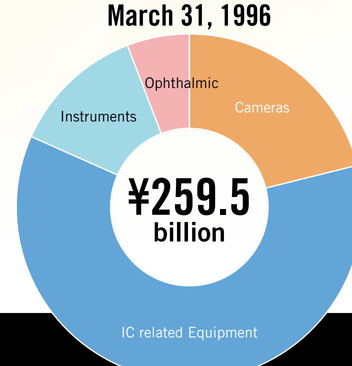
March 31, 1956



March 31, 1976



March 31, 1996



Note: Figures before the fiscal year ended March 31, 1996 use non-consolidated data; figures thereafter use consolidated data.

Unlock the future with the power of light

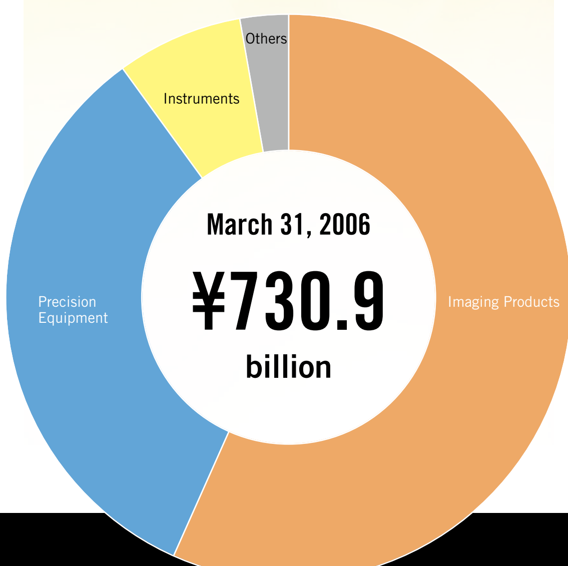
Massive social change driven by rapid advancement of digitalization and network development

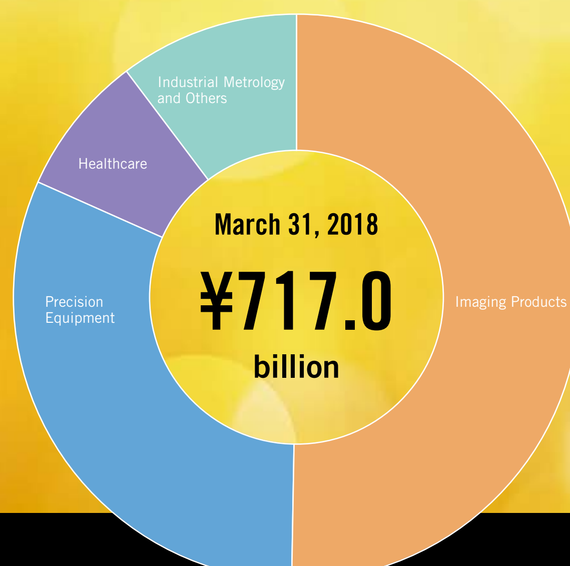
1999–

Looking ahead, Nikon will continue to apply its core technologies, which have been developed throughout its history, to a wide range of business fields to create new value and thereby contribute to the changing society.

Provision of new solutions to contribute to rapid development of society

- Full-fledged launch of digital single-lens reflex camera
- Advancement of FPD lithography systems to accommodate larger and higher-definition displays
- Launch of cell culture observation system and super resolution microscopes
- Expansion of lineup of non-contact inspection systems
- Entry into healthcare business





Performance Highlights

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31
Note: International Financial Reporting Standards (IFRS) have been adopted to prepare the consolidated financial statements of Nikon Corporation and its consolidated subsidiaries since the year ended March 31, 2017, whereas Japanese generally accepted accounting principles (Japanese GAAP) were previously adopted until the year ended March 31, 2016.

Japanese GAAP

	2009	2010	2011	2012	2013	2014
Profit or loss (for the year):						
Net sales	¥ 879,719	¥ 785,499	¥ 887,513	¥ 918,652	¥1,010,494	¥ 980,556
Cost of sales	(561,642)	(552,409)	(575,536)	(567,000)	(663,509)	(630,568)
Selling, general and administrative expenses	(269,892)	(246,944)	(257,924)	(271,571)	(295,983)	(287,046)
Operating income (loss)	48,185	(13,854)	54,053	80,081	51,002	62,942
Income (loss) before income taxes	39,180	(17,672)	46,506	86,168	61,857	74,692
Net income (loss) attributable to owners of the parent	28,056	(12,615)	27,313	59,306	42,459	46,825
Financial position (fiscal year-end):						
Total assets	749,805	740,632	829,909	860,230	864,668	949,515
Total equity	379,087	372,070	389,220	433,617	490,218	546,813
Interest-bearing debt	114,940	102,388	87,476	86,367	85,348	127,132
Cash flows (for the year):						
Net cash provided by operating activities	10,112	103,497	123,614	15,073	51,891	114,185
Net cash used in investing activities	(44,518)	(47,108)	(23,589)	(49,145)	(65,110)	(43,194)
Free cash flow	(34,406)	56,389	100,024	(34,071)	(13,219)	70,991
Net cash (used in) provided by financing activities	5,774	(31,477)	(20,122)	(15,150)	(18,198)	31,869
Per share of common stock*1 (yen):						
Basic net income (loss)	70.76	(31.82)	68.90	149.57	107.07	118.06
Diluted net income	67.91	—	68.83	149.41	106.92	117.88
Cash dividends paid	18.00	8.00	19.00	38.00	31.00	32.00
Financial indicators:						
Equity ratio (%)	50.5	50.2	46.8	50.3	56.6	57.5
Debt equity (D/E) ratio (times)	0.30	0.28	0.22	0.20	0.17	0.23
Return on equity (ROE)*2 (%)	7.3	(3.4)	7.2	14.4	9.2	9.0
Return on assets (ROA)*2 (%)	3.6	(1.7)	3.5	7.0	4.9	5.2
Capital expenditures	43,467	37,525	29,776	55,915	60,158	45,472
Depreciation and amortization	32,910	35,956	34,034	32,570	36,226	42,477
R&D costs	61,489	60,261	60,767	68,701	76,497	74,552
Non-financial data:						
Number of consolidated subsidiaries	48	69	68	68	71	70
Number of employees	23,759	26,125	24,409	24,348	24,047	23,859
Ratio of female employees*7 (%)	—	50.1	46.2	43.2	41.0	40.4
Ratio of overseas employees (%)	60.3	63.7	61.4	59.3	58.2	57.4

Environment-related data:	2014	2015	2016	2017	2018
CO_2 emissions from Nikon Group (thousand tons of CO_2)*3	235	236	227	216	204★
Water use by Nikon Group (thousand m³)	2,819	3,700	3,867	3,820	3,936★

Note: Environment-related data includes figures for the Company, 15 domestic Group companies, and eight overseas Group manufacturing companies.
For more details, please refer to the "Boundary of the Nikon Group's Environmental Management Systems and Environmental Performance Data" section on page 44 of *Sustainability Report 2018*.

★: Quantitative data covered by the independent practitioner's assurance (See page 109 for details.)

Financial Information	https://www.nikon.com/about/ir/finance/
Sustainability Reports	https://www.nikon.com/about/sustainability/report/

Millions of yen

2015	2016*4
¥ 857,782	¥ 819,388
(532,383)	(506,773)
(281,987)	(280,917)
43,412	31,699
35,153	28,579
18,364	18,254
972,945	966,578
572,201	528,280
115,498	112,772
71,309	105,215
(24,945)	(80,881)
46,364	24,334
(24,955)	(18,174)
46.29	46.05
46.21	45.94
32.00	18.00
58.6	54.5
0.20	0.21
3.3	3.4
1.9	1.9
32,550	34,498
38,458	37,739
66,730	66,781
75	84
25,415	25,729
44.6	45.1
60.5	61.6

IFRS

			Millions of yen	Thousands of U.S. dollars*5
	2016	2017	2018	2018
Profit or loss (for the year):				
Revenue	¥ 841,040	¥ 749,273	¥ 717,078	$ 6,749,603
Cost of sales	(522,232)	(443,153)	(404,170)	(3,804,311)
Selling, general and administrative expenses	(276,988)	(247,548)	(248,683)	(2,340,768)
Other income (expenses)	(6,554)	(57,798)	(7,988)	(75,191)
Operating profit	35,266	774	56,236	529,334
Profit before income taxes	39,546	3,068	56,257	529,528
Profit attributable to owners of the parent	29,947	3,967	34,772	327,298
Financial position (fiscal year-end):				
Total assets	982,564	1,018,351	1,098,343	10,338,319
Total equity	537,078	538,150	573,541	5,398,540
Interest-bearing debt	112,642	141,494	128,314	1,207,773
Cash flows (for the year):				
Net cash provided by operating activities	107,512	97,342	125,082	1,177,357
Net cash used in investing activities	(83,178)	(40,693)	(34,808)	(327,632)
Free cash flow	24,334	56,649	90,275	849,724
Net cash (used in) provided by financing activities	(18,174)	15,522	(19,970)	(187,973)
Per share of common stock*1 (yen and U.S. dollars):				
Basic earnings	75.55	10.01	87.76	0.83
Diluted earnings	75.37	9.98	87.49	0.82
Cash dividends paid	18.00	16.00	36.00	0.34
Financial indicators:				
Ratio of equity attributable to owners of the parent to total assets (%)	54.6	52.8	52.2	
D/E ratio (times)	0.21	0.26	0.22	
ROE*2 (%)	5.5	0.7	6.3	
ROA*2 (%)	3.0	0.4	3.3	
Capital expenditures	34,498	32,234	33,472	315,060
Depreciation and amortization	38,811	33,972	31,706	298,438
R&D expenditures*6	66,781	63,636	60,704	571,387
Non-financial data:				
Number of consolidated subsidiaries	84	82	81	
Number of employees	25,729	25,031	21,029	
Ratio of female employees*7 (%)	45.1	44.1	40.5	
Ratio of overseas employees (%)	61.6	60.7	58.5	

*1 Per share of common stock information is calculated based on the weighted-average number of ordinary shares outstanding during the year.

*2 Throughout this report, ROE is computed by dividing profit (loss) attributable to owners of the parent by the average of equity attributable to owners of the parent at the start and end of the given fiscal year, and ROA is computed by dividing profit (loss) attributable to owners of the parent by the average of total assets at the start and end of the given fiscal year.

*3 Values are the aggregated results of CO_2 emissions from energy use.
The following values were used for CO_2 conversion factors.
Electricity
In Japan: The CO_2 conversion factors without adjustment for each electric power utility noted in the "List of Emissions Factors by Electric Power Utility" specified in the Act on Promotion of Global Warming Countermeasures were used.
Outside Japan: The International Energy Agency (IEA) factors were used. The FY2015 IEA factors were used for the fiscal years ended March 31, 2017 and 2018; the Thailand factors were used for Laos.
City gas
The gas company eigenvalues noted in the guidance document for Periodic Report pursuant to the Act on the Rational Use of Energy (Energy Conservation Act) were multiplied by the values given in Appended Table 2 of the "List of Calculation Methods and Emissions Factors for Calculation, Reporting and Announcement Systems" specified in the Act on Promotion of Global Warming Countermeasures and then multiplied by 44/12.
Heat and other fuels
The values noted in the "List of Calculation Methods and Emissions Factors for Calculation, Reporting and Announcement Systems" specified in the Act on Promotion of Global Warming Countermeasures were used.

*4 In the Precision Equipment Business, revenue from sales transactions of FPD lithography systems for overseas customers had previously been recognized on either the shipping dates or the time of delivery to the locations designated by customers. Since the fiscal year ended March 31, 2017, however, the accounting policy has been changed to recognize revenue at the point when installation is completed. Accordingly, consolidated financial figures for the fiscal year ended March 31, 2016, were adjusted retrospectively in accordance with the change in the accounting policy.

*5 U.S. dollar figures are translated for reference only at ¥106.24 = $1, the exchange rate on March 31, 2018.

*6 R&D expenditures include the portion of development costs that are capitalized as intangible assets.

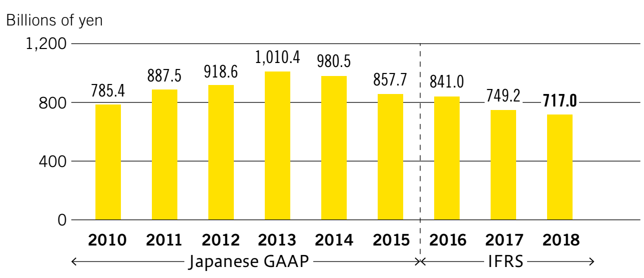
*7 The ratio of female employees is calculated based on full-time employees and non-regular staff of Nikon Group companies. Employees seconded to affiliates are counted among the employees of the company from which they have been seconded.

Performance Highlights

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31
Note: Figures for the year ended March 31, 2015, and prior are prepared in accordance with Japanese GAAP.
Figures for the fiscal year ended March 31, 2016, and thereafter are prepared in accordance with IFRS.

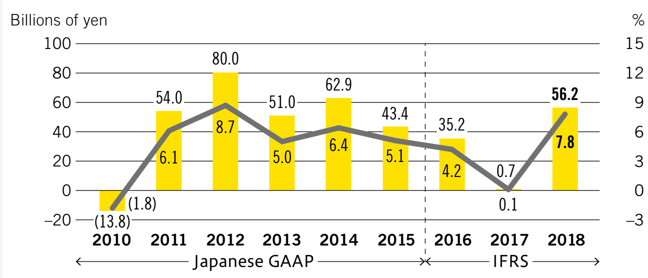
Growth Potential

1 Revenue*



* "Net sales" under Japanese GAAP

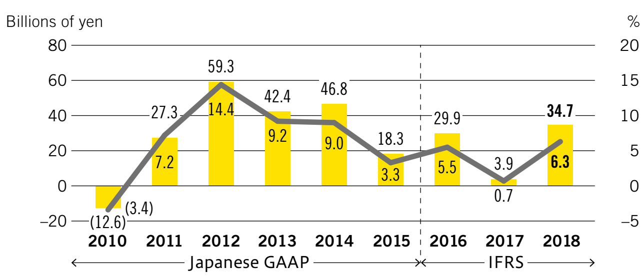
2 Operating Profit (Loss) / Operating Margin



Operating profit (loss) (left scale)
Operating margin (%) (right scale)

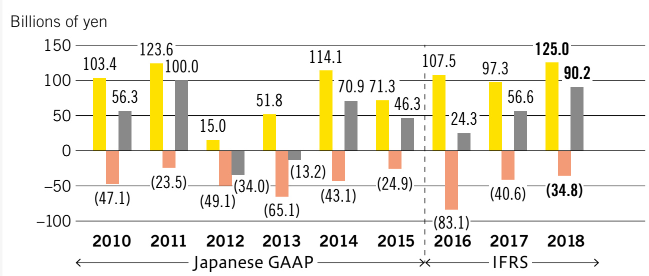
Profitability

3 Profit (Loss) Attributable to Owners of the Parent* / ROE



Profit (loss) attributable to owners of the parent* (left scale)
ROE (%) (right scale)
* "Net income (loss) attributable to owners of the parent" under Japanese GAAP

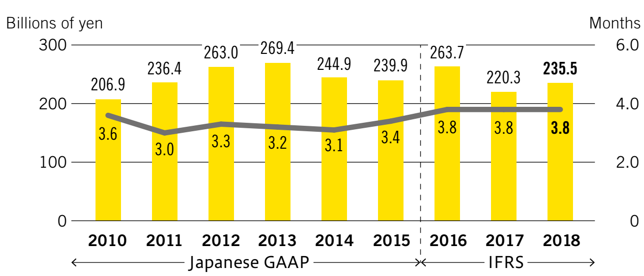
4 Cash Flows



Net cash provided by operating activities
Net cash used in investing activities
Free cash flow

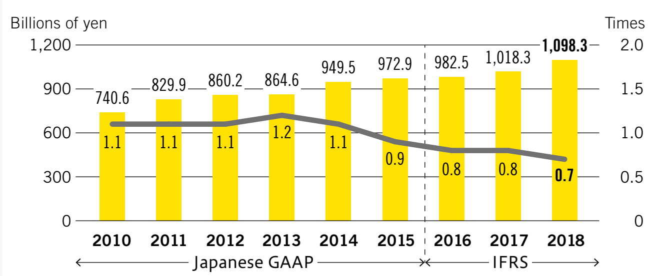
Efficiency

5 Inventories / Inventory Turnover Period



Inventories (left scale)
Inventory turnover period (months) (right scale)

6 Total Assets / Asset Turnover



Total assets (left scale)
Asset turnover (times) (right scale)

External Ratings

Euronext Vigeo Eiris Index World 120

Snam Sustainability Index

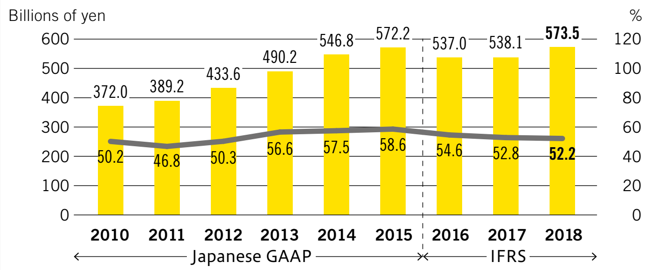
FTSE4 Good Index Series

FTSE Blossom Japan Index

Morningstar Socially Responsible Investment Index (MS-SRI)

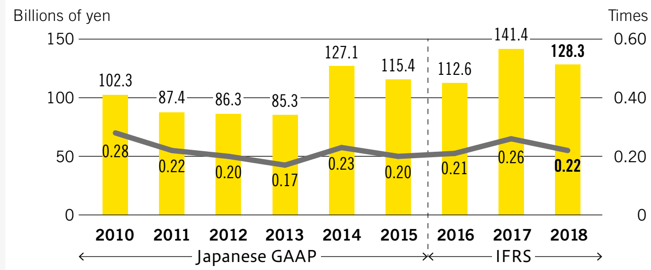
Safety

7 Total Equity / Ratio of Equity Attributable to Owners of the Parent to Total Assets*



Total equity (left scale)
Ratio of equity attributable to owners of the parent to total assets* (%) (right scale)
* "Equity ratio" under Japanese GAAP

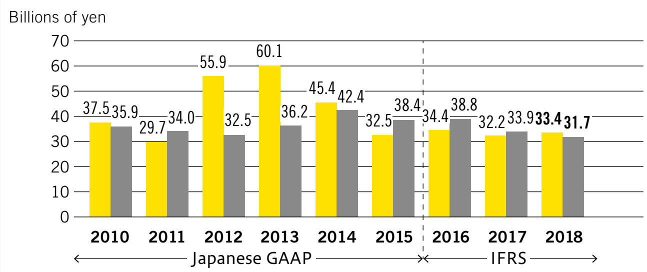
8 Interest-Bearing Debt / D/E Ratio



Interest-bearing debt (left scale)
D/E ratio (times) (right scale)

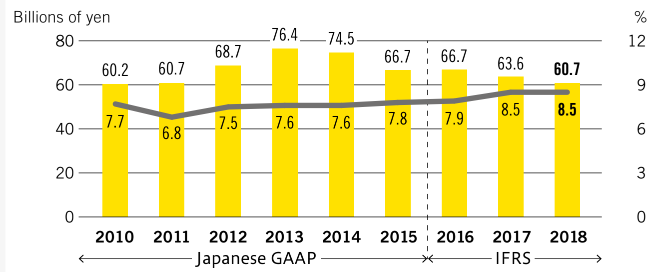
Growth Investments

9 Capital Expenditures / Depreciation and Amortization



Capital expenditures
Depreciation and amortization

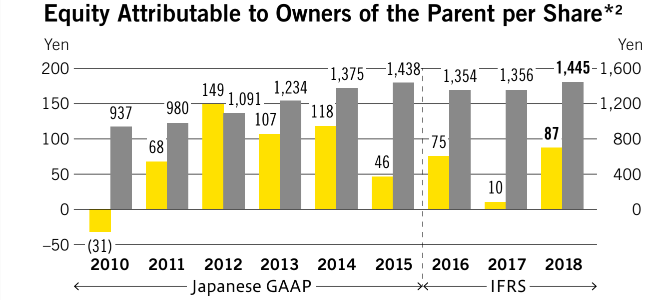
10 R&D Expenditures*1 / Ratio of R&D Expenditures to Revenue*2



R&D expenditures*1 (left scale)
Ratio of R&D expenditures to revenue*2 (%) (right scale)
*1 "R&D costs" under Japanese GAAP
*2 "Ratio of R&D costs to net sales" under Japanese GAAP

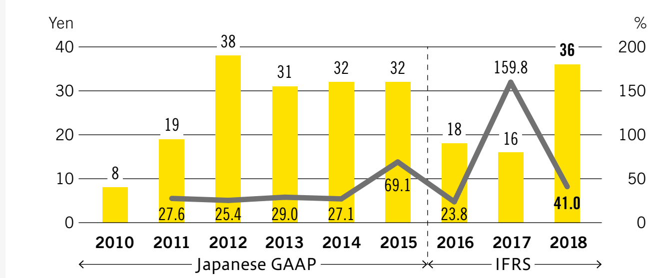
Shareholder Returns

11 Basic Earnings (Loss) per Share*1 / Equity Attributable to Owners of the Parent per Share*2



Basic earnings (loss) per share*1 (left scale)
Equity attributable to owners of the parent per share*2 (right scale)
*1 "Basic net income (loss) per share" under Japanese GAAP
*2 "Net assets per share" under Japanese GAAP

12 Cash Dividends per Share / Dividend Payout Ratio



Cash dividends per share (left scale)
Dividend payout ratio (%) (right scale)

ECPI Ethical Index Global

ECPI Sense in sustainability

MSCI ESG Leaders Indexes*

MSCI 2018 Constituent MSCI ESG Leaders Indexes

MSCI Japan ESG Select Leaders Index*

MSCI 2018 Constituent MSCI Japan ESG Select Leaders Index

MSCI Japan Empowering Women Index*

MSCI 2018 Constituent MSCI Japan Empower Women Index (WIN)

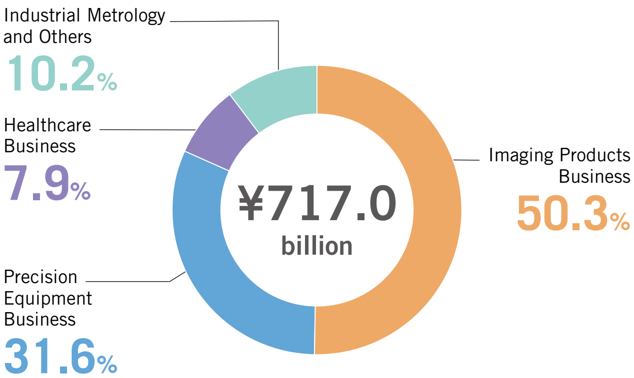
Nikon's Business Structure

Leveraging its core opto-electronics and precision technologies, Nikon has developed a varied business portfolio. This portfolio includes the Imaging Products Business, which supplies digital cameras and interchangeable lenses; the Precision Equipment Business, which offers FPD lithography systems and semiconductor lithography systems; the Healthcare Business, which provides biological microscopes and ultra-wide field retinal imaging devices; and the Industrial Metrology Business, which handles industrial microscopes and metrology systems.

IMAGING PRODUCTS BUSINESS

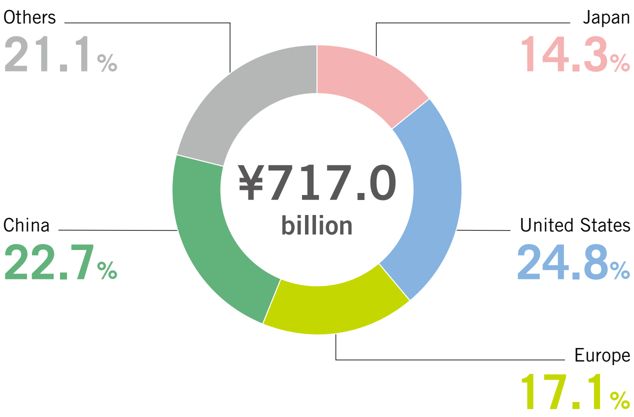
PRECISION EQUIPMENT BUSINESS

Revenue by Business Segment (Year ended March 31, 2018)



HEALTHCARE BUSINESS

Revenue by Region (Year ended March 31, 2018)



INDUSTRIAL METROLOGY AND OTHERS

Imaging Business Unit

Development, manufacturing, sales, and service of digital cameras–interchangeable lens type, interchangeable lenses, compact digital cameras, and other products

CHARACTERISTICS

Nikon develops high-performance products by combining the latest digital image processing and network technologies with the camera technology cultivated from 1948, with the launch of the small-sized Nikon Model I camera. Throughout the world, Nikon possesses high brand power.

Underpinned by its accumulated experience and technologies, Nikon works to offer a range of products and services that brings to fruition "new ways to enjoy images" and pursues the unlimited possibilities of photos and video.

FPD Lithography Business Unit

Development, manufacturing, sales, and service of FPD lithography systems for the production of LCD and organic light-emitting diode (OLED) panels

CHARACTERISTICS

Nikon possesses a high share of the market for FPD lithography systems used in the manufacture of small and medium-sized high-definition LCD panels for smartphones and tablet computers, of large, high-definition LCD panels for TVs, and of organic light-emitting diode (OLED) panels. Nikon's proprietary multi-lens systems offer overwhelming advantages for larger and higher-definition panels.

Semiconductor Lithography Business Unit

Development, manufacturing, sales, and service of semiconductor lithography systems for the production of semiconductors used primarily in electronics

CHARACTERISTICS

Nikon pursues the miniaturization of circuit patterns critical to the enhanced performance and increased integration of semiconductors. The Company possesses immersion exposure technologies that fill the space between the projection lens and the wafer with purified water to achieve high resolution. In addition, Nikon has released Litho Booster, which is equipped with an alignment station that contributes to increased exposure accuracy through high-speed, high-precision wafer measurement.

Healthcare Business Unit

Development, manufacturing, sales, and service of biological microscopes, cell culture observation systems, ultra-wide field retinal imaging devices, etc., and cell quality evaluation and contract manufacturing of cells in the regenerative medicine field

CHARACTERISTICS

By means of its super resolution microscopes, which achieve resolution exceeding the limits of optical diffraction, Nikon opens up new possibilities in live cell imaging. Meanwhile, we offer the ultra-wide field retinal imaging devices developed and manufactured at subsidiary Optos Plc and perform cell quality evaluation and contract manufacturing of cells in the regenerative medicine field. By going even further to develop inspection and diagnosis solutions utilizing machine learning in the retinal imaging field, we help improve people's quality of life.

Industrial Metrology Business Unit

Development, manufacturing, sales, and service of industrial microscopes, measuring instruments, X-ray / CT inspection systems, metrology systems, and surveying instruments

CHARACTERISTICS

Nikon provides quality-control solutions required for sophisticated manufacturing processes. Nikon's industrial microscopes, non-contact 3D metrology systems, and X-ray / CT inspection systems, that enable non-destructive inspection, are used in industries such as automotive, aerospace, and electronic components. Meanwhile, joint-venture company Nikon-Trimble Co., Ltd., contributes to high-precision surveying and improved productivity in the construction and surveying fields.

Others

CHARACTERISTICS

In addition to the Customized Products Business, which handles space-related products, and the Glass Business, which handles FPD photomask substrates, etc., as well as the Encoders Business and the Ophthalmic Lenses Business, Other Businesses contribute to the development of science and technology in addition to industry and society.

- Customized Products Business
- Glass Business
- Encoder Business
- Ophthalmic Lenses Business

Corporate Strategy Division

Masashi Oka
Senior Executive Vice President, CFO
Representative Director
Officer in charge of Corporate Strategy Division
and General Manager of the division

Status of Corporate Strategies as of the Fiscal Year Ended March 31, 2018

We believe we made headway by steadily executing measures set forth in our Restructuring Plan, successfully accomplishing the pressing task of returning the Semiconductor Lithography Business to positive performance and taking bold action to implement cost reforms for the Imaging Products Business. We also started the initiative to “re-encode our management DNA” by introducing a new management process based on return on equity (ROE) and return on invested capital (ROIC) performance.

We also undertook the major task of optimizing operating capital, including human resources and technologies. As part of this effort, we established the Optical Engineering Division in April 2017, and in June dissolved the Core Technology Division. We then formed the Research & Development Division, dedicated to R&D activities, and the Production Technology Division that oversees the Group’s production strategies and product engineering. These reorganizations were aimed at reinforcing Nikon’s R&D structure and streamlining production for the entire Group. Furthermore, we integrated the Microscope Solutions Business Unit into the Medical Business Development Division to form the Healthcare Business Unit. Our goal was to strengthen existing businesses and accelerate the creation and cultivation of new businesses in the healthcare, medical, and bioscience fields, which are expected to grow in the future.

We also launched the Nikon Intrapreneur Program. This new program gives our employees a chance to prototype and potentially commercialize their ideas. Through these initiatives, we aspire to foster an innovative atmosphere within the organization, thereby creating business opportunities that will lead to growth.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

The most crucial initiative will be to formulate a new medium-term management plan for the post-restructuring era, starting in the fiscal year ending March 31, 2020. This will define our mid-term aspirations for the Nikon Group and formulate a growth strategy to help us achieve them.

An accompanying initiative, as part of our efforts to re-encode our Management DNA, is to shift to portfolio-based management. In this process, we will redefine the roles expected of each business in order to optimally allocate resources. This will enable us to devote operating resources more efficiently and effectively into fields with potential to grow.

We will also continue reinforcing our corporate governance structure. This entails further streamlining and enhancing headquarters’ functions, bringing transparency to both the selection of members and the fostering of candidates for senior management, and evaluating the effectiveness of the Board of Directors.

Nikon Intrapreneur Program presentation

Imaging Business Unit

Nobuyoshi Gokyu
Senior Vice President
General Manager of Imaging Business Unit

Overview of the Fiscal Year Ended March 31, 2018

The Imaging Business Unit continued to face a shrinking camera market in the fiscal year ended March 31, 2018. We therefore positioned this year as a period for strengthening our foundations to transition to a business structure capable of producing ongoing income growth. Restructuring measures were implemented accordingly. As part of these measures, we ceased operations at a manufacturing subsidiary in China, ended sales of products via the Internet in Brazil, and took other steps to cut fixed costs by reorganizing production and sales bases and optimizing head counts. In addition, we optimized development, production, and sales structures to better focus on addressing market changes and providing high-value-added products. Our various initiatives produced results in line with our expectations, and the earnings base of the Imaging Business Unit is stronger than it was a year ago, because of these initiatives. Due to these efforts, operating profit increased 76% year on year.

Furthermore, the D850 digital SLR camera launched in September 2017 has been posting favorable sales, supported by the high evaluation of customers, and has been the recipient of numerous awards in Japan and overseas. Given these successes, I feel that we were able to demonstrate the strength of Nikon.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

In the fiscal year ending March 31, 2019, we will transition from the preparatory phase of strengthening our foundations to aggressively pursue growth. Accordingly, this year will see us complete work process reforms and other restructuring measures while also developing, producing, and selling new products. We will dedicate our efforts to mirrorless cameras, an area that, despite presenting issues for the Company, is garnering attention as the driver behind the growth of the camera market. Meanwhile, initiatives pertaining to digital SLR cameras and other existing products will continue to receive attention. As for mirrorless cameras, the new Z 7 and Z 6, which pursue a new dimension in optical performance, were launched in the fiscal year ending March 31, 2019. At the same time, we will cultivate an increased awareness of invested capital costs within the unit as we continue to focus efforts on high-value-added products. We thereby hope to establish a business structure capable of maintaining profit margins even as sales volumes decline in conjunction with the contraction of the camera market.

The Imaging Products Business is a major business generating more than 50% of Nikon's revenue and is thus the source of our brand power. All of us at the Imaging Business Unit are committed to growing by cultivating new demand through the provision of products and imaging experiences that are distinctly Nikon.

Digital SLR camera
D850

Mirrorless camera
Z 7

Compact digital camera
COOLPIX P1000

FPD Lithography Business Unit

Kiyoyuki Muramatsu
Senior Vice President
General Manager of FPD Lithography Business Unit

Overview of the Fiscal Year Ended March 31, 2018

Brisk capital expenditures by customers were seen throughout the fiscal year ended March 31, 2018, amid the trend toward larger TVs and increased demand for organic light-emitting diode (OLED) panels. Although sales volumes did not reach last fiscal year's levels, we still found ourselves doing a lot of business, with the driving force behind our success being equipment capable of producing generation 10.5 plate size and larger panels. This fiscal year also saw us investing in production bases to bolster production capacity and ensure we can meet the robust demand.

Also, we launched two systems that are compatible with generation 10.5 plate sizes: the FX-103SH and the FX-103S. These systems are ideal for mass production of LCD panels for use in 4K TVs; 8K TVs, which are expected to become more widespread; and high-definition tablets as well as for OLED panels. We made smooth progress in developing, producing, transporting, and installing these systems, and were able to achieve our target of selling three units during the fiscal year ended March 31, 2018. As for systems for small and medium-sized panels, we developed a platform that is compatible with larger and higher-definition OLED panels.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

In the fiscal year ending March 31, 2019, the market for FPD lithography systems is anticipated to enjoy growth in demand for systems for large panels in China and other areas. In light of this demand, Nikon will adopt a strategy of boosting the competitiveness of its systems to secure a wider range of earnings sources. For large panel systems, our focus will be on achieving stable production and improving the overall quality of systems for generation 10.5 plate sizes. With regard to small and medium-sized panel systems, we will proceed with the development of high-definition, high-productivity systems for use in mass production of OLED panels. We expect to sell 18 systems for generation 10.5 plate sizes in the fiscal year ending March 31, 2019, a substantial increase over the previous fiscal year. As always, delivering products to customers as promised will be our top priority. To ensure that the promises we have made are kept, we will advance delivery plans through close coordination between relevant divisions and representatives.

Furthermore, we will continue to create and deliver new value that is desirable to customers in order to guarantee a stable revenue base even in the midst of a maturing market for new FPD lithography systems.

FPD lithography system FX-103S

FPD lithography system FX-68S

Semiconductor Lithography Business Unit

Toshikazu Umatate
Senior Vice President
General Manager of Semiconductor Lithography Business Unit

Overview of the Fiscal Year Ended March 31, 2018

In the fiscal year ended March 31, 2018, the Semiconductor Lithography Business adopted operating policies focused on efficiency and profit as dictated by the policies of the restructuring. Accordingly, we sought to optimize head counts, to cut R&D expenses by reducing the scope of development projects that will be pursued, and to rationalize inventories. These efforts produced results in line with our expectations. Meanwhile, the benefits of reforms implemented prior to the start of the restructuring, such as the advance toward a profit-focused sales structure, began making contributions to performance. These results combined with the profit generated through services and the resale of used equipment enabled us to break even, a goal that we were committed to accomplishing no matter what.

We also moved forward with work process reforms, and we have been able to confirm that, as a result of these reforms, our ability to monitor the process of starting manufacturing of new products in real-time and respond to unforeseen circumstances has grown stronger.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

In the fiscal year ending March 31, 2019, we will look to grow sales volumes by seizing upon robust capital expenditure demand. We will also enter Phase 3 of the restructuring, which will entail reorganizing our production system primarily through the reexamination of the roles of the Semiconductor Lithography Business's Production Management Division and those of Tochigi Nikon Precision Co., Ltd. As another task during Phase 3, we aim to boost production efficiency and quality while stabilizing earnings.

As the Internet of Things becomes more commonplace, the means of use for semiconductors are growing more diverse. In response to this trend, we will work to expand service operations allowing customers to repurpose their existing Nikon systems through upgrades that involve replacing projection lenses or stages. At the same time, we are focused on starting up new businesses in order to strengthen our operating foundation going forward. For example, we have launched the Litho Booster alignment station and are currently moving ahead with the development of a new optical processing machine.

I would say that semiconductor lithography systems are the products among Nikon's portfolio that make most use of the Company's core competencies, namely, its opto-electronics and precision technologies. Recognizing this fact, those of us in the Semiconductor Lithography Business plan to involve ourselves in the projects of other businesses to an even greater extent to promote the use of the technologies and expertise we have accumulated thus far in new fields and thereby maximize the value of these strengths.

ArF immersion scanner NSR-S631E

ArF scanner NSR-S322F

Healthcare Business Unit

Masato Hamatani
Corporate Vice President
General Manager of
Healthcare Business Unit

Overview of the Fiscal Year Ended March 31, 2018

In June 2017, the Healthcare Business Unit was created through the consolidation of the former Microscope Solutions Business Unit and the former Medical Business Development Division. The Healthcare Business Unit is expected to become a major driver of Nikon's future growth through the expansion of its existing operations and the creation of new businesses. Hoping to live up to this expectation, we are concentrating on the development and commercialization of innovations in the regenerative medicine field and the ophthalmological diagnosis field, both fields in which we can utilize the microscope technologies we have honed over the course of a century.

Specific initiatives include the development of a cell quality and culture process evaluation system for the regenerative medicine field. This system combines the cell culture evaluation expertise of customers with the Nikon Group's cell observation and image analysis technologies to provide indicators and methods for quantitatively evaluating cell quality and culture processes. In addition, we commenced strategic business cooperation with Berkeley Lights, Inc., in 2016. As part of this cooperation, we began exclusive sales in Japan of Berkeley's Beacon®*1 platform, a revolutionary multipurpose cell research and development platform, in January 2018. We were also able to expand the range of solutions offered by Nikon. Meanwhile, we commenced operation of the cell cultivation facilities that are part of the contract cell manufacturing business in Japan conducted through a partnership between Lonza, a major global regenerative medicine cell manufacturer, and subsidiary Nikon CeLL innovation Co., Ltd. In the ophthalmological diagnosis field, we are making smooth progress with regard to the machine learning-powered retinal diagnostic imaging system development project being advanced by Optos Plc and Verily Life Sciences LLC.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

Nikon CeLL innovation has already received orders and commenced full-fledged production. One order came from U.S. biotechnology company Athersys, Inc., which contracted Nikon CeLL innovation to produce regenerative medicine products using somatic stem cells. In addition, Advanced Cell Technology and Engineering Ltd. has reached out to our subsidiary for development and manufacturing services for the creation of a clinical-use master cell bank*2 to be utilized for regenerative medicine products derived from dental pulp cells.*3 Furthermore, a development contract from Yumanity Therapeutics, Inc., of the United States has also been secured. This contract will entail using the BioStation CT, a cell culture observation system that utilizes live cell imaging technology,*4 in the development of a drug discovery assay*5 system. We hope to rapidly launch and promptly expand a business utilizing this system.

Looking ahead, the Healthcare Business Unit will move forward with the integration of the organizations and operations of its two predecessors as it aggressively develops existing and new businesses with an emphasis on speed. Investments and other measures will be taken to acquire technologies promising to drive income growth, and we will also introduce high-value-added products and explore new demand in existing businesses.

Super resolution microscope
N-SIM S

*1 Beacon® is a registered trademark or trade name of Berkeley Lights, Inc., in the United States and other countries.
*2 Master cell bank: Source cells, which can be base cells for manufacturing regenerative medicine products, that are grown for a minimum designated number of generations, then divided into multiple ampoules.
*3 Dental pulp cell: Cells protected by hard tissue known as dentition, including stem cells of the nervous system.
*4 Live cell imaging technology: A method to visualize and observe the functions and the gene expression of living cells.
*5 Assay development: In order to investigate whether compounds can be a drug, construct an evaluation system that reproduces cell or organ reactions in artificial environments such as a test tube.

Industrial Metrology Business Unit

Tomohide Hamada
Senior Vice President
General Manager of
Industrial Metrology Business Unit

Overview of the Fiscal Year Ended March 31, 2018

The Industrial Metrology Business Unit was successful in growing sales, primarily of X-ray and CT inspection systems and CNC video measuring systems in the fiscal year ended March 31, 2018. In addition, we strategically reviewed our product lineup to strengthen portfolio management. As a result, we decided to sell our CMM (Coordinate Measuring Machine) business, which included development, manufacturing, sales, and service operations pertaining to CMM. The transfer of these operations to Italy's ASF Metrology s.r.l. was completed within a short period of time.

During the fiscal year under review, we also set up two demonstration facilities for non-destructive inspection and non-contact sensor 3D metrology systems. In June 2017, we opened a facility in India (Bangalore), a country where numerous automotive manufacturers have been setting up businesses, while we established the other facility near Nikon's Yokohama Plant in October 2017. Together with existing facilities in Indonesia, Thailand, and other locations, these new facilities will provide customers in Japan and Asia with opportunities to experience the capabilities of Nikon products. We will be utilizing these facilities to increase presence of Nikon products boasting world-leading performance, and to stimulate demand for these products.

Strategies and Goals for the Fiscal Year Ending March 31, 2019

As a short-term goal, the Industrial Metrology Business Unit will continue to increase its earnings power by growing sales of its strong-performing X-ray and CT inspection systems. Our medium-term goal will be to develop a solution proposal-based business with a lineup centered on non-destructive inspection and non-contact sensor 3D metrology systems, which are expected to see higher demand from a wide range of industries. By developing this business, we will accurately respond to market needs and thereby achieve ongoing growth.

The Industrial Metrology Business Unit has a wide range of products and serves customers in various industries and regions. Previously, we had devoted our resources equally to each product line, customer, and region. Going forward, however, we will adopt a strategy of selection and concentration by assessing our technological advantages and market potential. Those product segments in which we can anticipate growth will be allocated greater resources. As a reflection of this new policy, we completed a substantial reorganization in April 2018. Furthermore, we will seek to cultivate an organizational culture in which domestic and overseas Nikon employees actively communicate with each other to drive business activities as a united team.

CNC video measuring system
NEXIV VMZ-H3030

X-ray / CT inspection system
XT H 450

Automated, non-contact large
volume inspection system
Laser Radar MV331

Directors and Officers

(As of July 1, 2018)

DIRECTORS

Kazuo Ushida 1

President
Representative Director

1975 Joined the Company
2003 Corporate Vice President, General Manager of Development Headquarters, Precision Equipment Company
2005 Managing Director, Member of the Board & Executive Vice President, President of Precision Equipment Company
2007 Director, Member of the Board & Executive Vice President, President of Precision Equipment Company
2009 Director, Member of the Board & Executive Vice President, Officer in charge of Intellectual Property Headquarters, President of Precision Equipment Company
2013 Representative Director, Member of the Board & Senior Executive Vice President, Officer in charge of Intellectual Property Headquarters, President of Precision Equipment Company, Vice Officer in charge of Corporate Planning Headquarters
2014 President and Representative Director, Overseeing Medical Business Development Division and Business Development Division
2015 President and Representative Director, Overseeing Corporate Strategy Division, Medical Business Development Division and Business Development Division
2016 President and Representative Director, Officer in charge of Business Development Division
2017 President and Representative Director, Officer in charge of Business Development Division, Optical Engineering Division and Research & Development Division (to present)

Takumi Odajima 4

Senior Vice President
Director

1981 Joined the Company
2012 Corporate Vice President, General Manager of Planning Headquarters, Precision Equipment Company
2014 Corporate Vice President, Corporate Strategy Division
2016 Corporate Vice President, Corporate Strategy Division and Deputy General Manager of Human Resources & Administration Division
2017 Senior Vice President, Director, General Manager of Human Resources & Administration Division
2018 Senior Vice President, Director, General Manager of Human Resources & Administration Division, Officer in charge of Risk Management (to present)

Masashi Oka 2

Senior Executive Vice President, CFO
Representative Director

1979 Joined The Mitsubishi Bank, Ltd.
2004 General Manager and Global Head, Syndicated Finance Division of The Bank of Tokyo-Mitsubishi, Ltd.
2005 Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd. (Director & Vice Chairman, UnionBanCal Corporation & Union Bank of California, N.A.)
2008 Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. General Manager, Corporate & Investment Banking Strategy Division
2009 Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd., Group Head, Corporate & Investment Banking Group
2010 Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (President and CEO, UnionBanCal Corporation and Union Bank, N.A.)
2012 Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd., CEO for the Americas (President and CEO, UnionBanCal Corporation and Union Bank, N.A.)
2013 Senior Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd., CEO for the Americas (President and CEO, UnionBanCal Corporation and Union Bank, N.A.)
2014 Special Advisor to the President & CEO of The Bank of Tokyo-Mitsubishi UFJ, Ltd., Executive Chairman, MUFG Americas Holdings Corporation and MUFG Union Bank, N.A.
2015 Special Advisor to the President & CEO of The Bank of Tokyo-Mitsubishi UFJ, Ltd.
2016 Counselor, the Company
2016 Senior Executive Vice President, CFO and Representative Director, Officer in charge of Internal Audit Department, Corporate Strategy Division and Finance & Accounting Division
2017 Senior Executive Vice President, CFO and Representative Director, Officer in charge of Internal Audit Department, Officer in charge of Corporate Strategy Division and General Manager of the division, Officer in charge of Finance & Accounting Division and Intellectual Property Division (to present)

Yasuyuki Okamoto 3

Senior Vice President
Director

1978 Joined the Company
2005 Corporate Vice President, General Manager of Marketing Management Department, Imaging Company
2006 Corporate Vice President, General Manager of Marketing Headquarters, Imaging Company
2007 Corporate Vice President, President & CEO of Nikon Inc.
2009 Senior Vice President, President & CEO of Nikon Inc.
2010 Director, Member of the Board & Senior Vice President, President of Imaging Company
2014 Senior Vice President and Director, Overseeing Business Support Division and Imaging Business Unit
2015 Senior Vice President and Director, Overseeing Business Support Division, Imaging Business Unit, Microscope Solutions Business Unit and Industrial Metrology Business Unit
2016 Senior Vice President and Director, Officer in charge of Healthcare Business
2017 Senior Vice President and Director, Officer in charge of Healthcare Business Unit (to present)

Satoshi Hagiwara 5

Senior Vice President
Director

1985 Joined the Company
2015 Corporate Vice President, General Manager of Finance & Accounting Division
2017 Senior Vice President, Director, General Manager of Finance & Accounting Division, Deputy General Manager of Corporate Strategy Division (to present)

Akio Negishi 6

External Director

1981 Joined Meiji Life Insurance Company
2009 Executive Officer of Meiji Yasuda Life Insurance Company
2012 Managing Executive Officer of Meiji Yasuda Life Insurance Company
2013 Director, President, Representative Executive Officer of Meiji Yasuda Life Insurance Company (to present)
2016 External Director, the Company (to present)

Haruya Uehara 9

External Director
Audit and Supervisory Committee Member

1969 Joined Mitsubishi Trust and Banking Corporation
1996 Director of Mitsubishi Trust and Banking Corporation
2004 President of Mitsubishi Trust and Banking Corporation
2005 President of Mitsubishi UFJ Trust and Banking Corporation
2008 Chairman of Mitsubishi UFJ Trust and Banking Corporation
2011 External Corporate Auditor, the Company
2012 Senior Advisor of Mitsubishi UFJ Trust and Banking Corporation
2016 External Director, Audit and Supervisory Committee Member, the Company (to present)
2018 Special Advisor of Mitsubishi UFJ Trust and Banking Corporation (to present)

Takaharu Honda 7

Director
Full-Time Audit and Supervisory Committee Member

1977 Joined the Company
2008 Corporate Vice President, General Manager of Business Planning Department, Imaging Company
2011 Senior Vice President, Officer in charge of Corporate Communications & IR Department, General Manager of Corporate Planning Headquarters
2014 Senior Vice President and Director, General Manager of Human Resources & Administration Division, Overseeing Information Security Division and Information System Division
2016 Senior Vice President and Director, General Manager of Human Resources & Administration Division, Overseeing Information Security Division and IT Solutions Division
2016 Senior Vice President and Director, General Manager of Human Resources & Administration Division
2017 Director, Full-Time Audit and Supervisory Committee Member (to present)

Hiroshi Hataguchi 10

External Director
Audit and Supervisory Committee Member

1967 Registered as attorney at law
1967 Joined Export-Import Bank of Japan
1972 Joined Otsuka General Legal Office
1987 Professor of Legal Training and Research Institute, Supreme Court of Japan
1990 Lecturer of Faculty of Law, Hosei University
1994 Vice President of Daiichi Tokyo Bar Association
1996 Governor of Japan Federation of Bar Associations
2010 Established Hataguchi Legal Office (to present)
2011 External Corporate Auditor, the Company
2016 External Director, Audit and Supervisory Committee Member, the Company (to present)

Atsushi Tsurumi 8

Director
Full-Time Audit and Supervisory Committee Member

1982 Joined the Company
2012 General Manager of Finance Department, Finance & Accounting Division
2014 Department Manager of Internal Audit Department
2018 Director, Full-Time Audit and Supervisory Committee Member (to present)

Kunio Ishihara 11

External Director
Audit and Supervisory Committee Member

1966 Joined The Tokio Marine and Fire Insurance Co., Ltd.
2001 President of The Tokio Marine & Fire Insurance Co., Ltd.
2002 President of Millea Holdings, Inc.
2004 President of Tokio Marine & Nichido Fire Insurance Co., Ltd.
2007 Chairman of the Board of Tokio Marine & Nichido Fire Insurance Co., Ltd.
2007 Chairman of the Board of Millea Holdings, Inc.
2008 Chairman of the Board of Tokio Marine Holdings, Inc.
2013 Counsellor of Tokio Marine & Nichido Fire Insurance Co., Ltd. (to present)
2016 External Director, Audit and Supervisory Committee Member, the Company (to present)

OFFICERS

Officers who are not directors are listed below.

Toshikazu Umatate
Senior Vice President
General Manager of Semiconductor Lithography Business Unit, Officer in charge of Technology Strategy and Precision Components & Modules Business Unit

Tomohide Hamada
Senior Vice President
General Manager of Industrial Metrology Business Unit, Officer in charge of Customized Products Business Unit and Encoder Business Unit

Nobuyoshi Gokyu
Senior Vice President
General Manager of Imaging Business Unit

Kiyoyuki Muramatsu
Senior Vice President
General Manager of FPD Lithography Business Unit

Toru Iwaoka
Corporate Vice President
President of Nikon Europe B.V.

Kenji Yoshikawa
Corporate Vice President
Deputy General Manager of Corporate Strategy Division

Jun Nagatsuka
Corporate Vice President
General Manager of Production Technology Division

Hiroyuki Hiraiwa
Corporate Vice President
General Manager of Glass Business Unit

Naoya Sugimoto
Corporate Vice President
Corporate Strategy Division

Tadashi Nakayama
Corporate Vice President
Deputy General Manager of Industrial Metrology Business Unit

Makoto Shintani
Corporate Vice President
Deputy General Manager of Healthcare Business Unit

Masato Hamatani
Corporate Vice President
General Manager of Healthcare Business Unit

Hiroyuki Suzuki
Corporate Vice President
General Manager of Information Security Division and IT Solutions Division

Hiroyuki Ikegami
Corporate Vice President
Sector Manager of Development Sector, Imaging Business Unit

Tetsuya Morimoto
Corporate Vice President
Department Manager of Business Planning Department, Imaging Business Unit

Juro Kimpara
Corporate Vice President
Deputy General Manager of FPD Lithography Business Unit

Corporate Governance

Basic Views

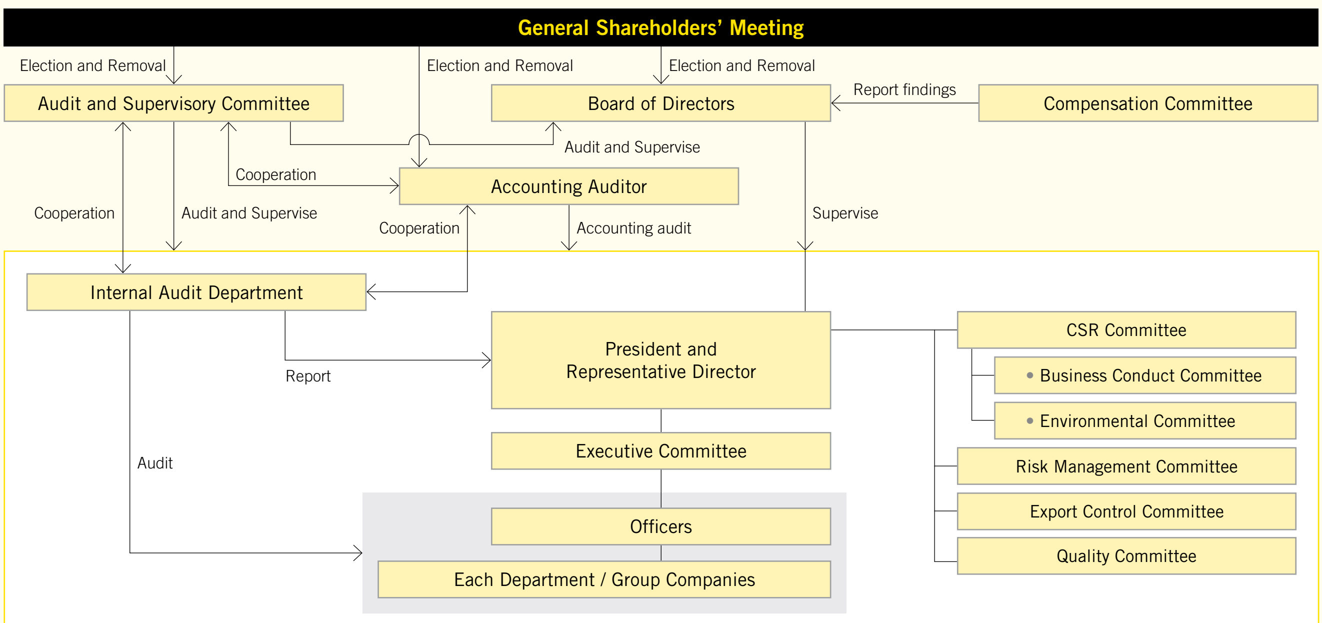
Based on its corporate philosophy, the Nikon Group will carry out highly transparent management through fulfilling its fiduciary responsibilities towards shareholders as well as responsibilities towards stakeholders including customers, employees, business partners, and society, etc., with a sincere and diligent attitude.

The Nikon Group will strive to achieve sustainable growth and enhancement of its corporate value over the medium to long term, through improving management efficiency and transparency and further strengthening the supervisory function over management in light of the purpose of Japan's Corporate Governance Code.

System

Aiming to further enhance corporate governance, Nikon adopted a company with an Audit and Supervisory Committee. This position further strengthens the supervisory function of the Board of Directors as it strives to streamline decision-making and clarify management responsibility arising through delegation of authority.

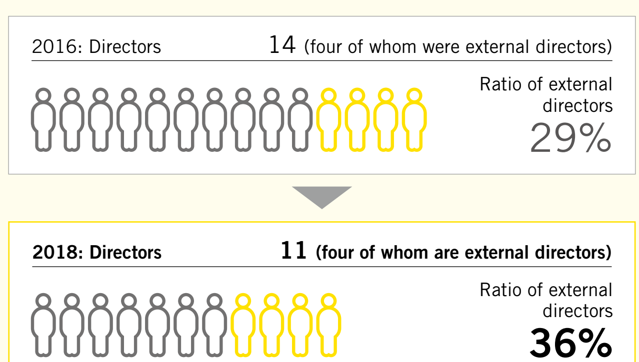
Nikon's Corporate Governance Organization (As of June 28, 2018)



Board of Directors

The Board of Directors supervises management by directors and assumes the decision-making functions on the matters prescribed under laws and regulations, and the Articles of Incorporation of the Company, as well as the important matters concerning the Nikon Group. For the purpose of clarifying the scope of delegation to the executive directors and officers while ensuring prompt decision-making and management by the executive directors and officers, the Company specifically sets out the matters subject to deliberation at the Board of Directors in the criteria for matters subject to deliberation and report at the Board of Directors. For example, the Board of Directors makes decisions on matters concerning important management, including the basic management policies, the Medium-Term Management Plan, the annual plan, the basic policy on Internal Control System, and investments and loans exceeding a certain amount. Moreover, in order to further strengthen the supervisory function of the Board of Directors, the Company has appointed four independent external directors (including three Audit and Supervisory Committee members).

Evolution of the Board of Directors



Audit and Supervisory Committee

The Audit and Supervisory Committee audits and supervises the status of management by directors other than those who are Audit and Supervisory Committee members, and officers as an independent body. For such purpose, Audit and Supervisory Committee members regularly attend the important meetings such as the meetings of the Board of Directors and the Executive Committee, and conducts audits and supervision over the management and directors. In addition, to further enhance independence and neutrality of the audit system, the Audit and Supervisory Committee shall consist of five Audit and Supervisory Committee members including three independent external directors.

Compensation Committee

The Company has a Compensation Committee which consists of representative directors as well as external directors and external experts who comprise a majority. The Compensation Committee deliberates and makes proposals for policy regarding executive compensation as well as various related systems so as to ensure objectivity, transparency and linkage with performance in the process of determining executive compensation.

Executive Committee

The Executive Committee, as the highest decision-making body of the management, swiftly and decisively makes decisions on individual major management issues delegated by the Board of Directors, in accordance with basic management policies, etc. as determined by the Board of Directors.

External Directors

In the appointment of its external directors, the Company attaches importance to ensuring their independence.

The Company appoints external director candidates from among those with either a wealth of knowledge and experience, etc., as executives of other companies, or those with expertise and experience, etc., as specialists such as attorneys and certified public accountants, who are qualified to take part in a management supervision function from a fair and objective standpoint independent from management.

Criteria for Determining Independence of External Directors

In addition to the requirement for external directors under the Companies Act, the Company judges that an external director candidate is independent if he/she does not fall into any of the following requirements.

a) The candidate serves or had served the Group in the past.
b) The candidate is a “major client or supplier*” of the Company or an executive thereof.
c) The candidate is a major shareholder of the Company or an executive of the said major shareholder.
d) The candidate had served in the past at a company whose directors are concurrently serving as the Company’s external director and vice versa.
e) The candidate is a person who belongs to a company or organization that receives a donation from the Company or a person who had served in the past at said company or organization.
f) The candidate’s relative within the second degree of kinship serves as an important executive of a “major client or supplier” of the Group or the Company.

* “Major client or supplier” refers to a client or supplier that fall into either of the following.
(1) A client or supplier with whom the Company has transaction that falls into the following, in any of the past three years
- a party which receives payment from the Company equivalent to 2% of the party’s consolidated net sales or ¥100.0 million, whichever the greater
- a party which makes payments to the Company equivalent to 2% of the Company’s consolidated net sales or ¥100.0 million, whichever the greater

(2) A consultant, an accounting professional, or a legal professional who receives compensation from the Company in excess of ¥10.0 million per year (average over the past three fiscal years)

Reasons for Appointment

Reasons for Appointment of External Director other than those who are Audit and Supervisory Committee Members

Name	Reasons for Appointment
Akio Negishi	Akio Negishi serves as President, Representative Executive Officer of Meiji Yasuda Life Insurance Company, and possesses many years of management experience and exceptional knowledge, and we believe that he will be able to contribute to our management overall from a big-picture perspective.

Reasons for Appointment of External Directors Who Are Also Audit and Supervisory Committee Members

Name	Reasons for Appointment
Haruya Uehara	Haruya Uehara has a career as Representative Director of Mitsubishi UFJ Trust and Banking Corporation and possesses long years of management experience and outstanding insight, and we believe that he will be able to contribute to securing the soundness and appropriateness of management, as well as to increasing transparency.
Hiroshi Hataguchi	Hiroshi Hataguchi has expertise and experience concerning compliance, etc. as an attorney at law, and we believe that he will be able to contribute to securing the soundness and appropriateness of management, as well as to increasing transparency.
Kunio Ishihara	Kunio Ishihara has a career as Representative Director of Tokio Marine & Nichido Fire Insurance Co., Ltd., etc. and possesses long years of management experience and outstanding insight, and we believe that he will be able to contribute to securing the soundness and appropriateness of management, as well as to increasing transparency.

Attendance at Meetings of the Board of Directors, and Audit and Supervisory Committee (Fiscal year ended March 31, 2018)

Name	Category	Board of Directors	Audit and Supervisory Committee
Akio Negishi	Director	13 of 14	—
Haruya Uehara	Director (Audit and Supervisory Committee member)	13 of 14	10 of 11
Hiroshi Hataguchi	Director (Audit and Supervisory Committee member)	14 of 14	11 of 11
Kunio Ishihara	Director (Audit and Supervisory Committee member)	13 of 14	9 of 11

Compensation for Directors and Officers

Compensation for Directors (Fiscal year ended March 31, 2018)

Category	Monthly compensation (yearly amount)		Subscription rights to shares granted as stock-related compensation		Bonuses		Total	
	Number of persons	Amount of compensation	Number of persons	Amount of compensation	Number of persons	Amount of compensation	Number of persons	Amount of compensation
Directors other than those who are Audit and Supervisory Committee members (of which External directors)	11 (1)	¥247 million (¥11 million)	9 (—)	¥94 million (—)	5 (—)	¥132 million (—)	11 (1)	¥473 million (¥11million)
Directors who are Audit and Supervisory Committee members (of which External directors)	6 (3)	¥83 million (¥32 million)	—	—	—	—	6 (3)	83 million (¥32 million)
Total	17	¥330 million	9	¥94 million	5	¥132 million	17	556 million

Notes:
1 The above number of Directors other than those who are Audit and Supervisory Committee Members includes five Directors other than those who are Audit and Supervisory Committee Members (none of whom are External Directors) who retired at the conclusion of the 153rd Annual General Shareholders' Meeting held on June 29, 2017.
2 The above number of Directors who are Audit and Supervisory Committee Members includes one Director who is an Audit and Supervisory Committee Member (none of whom is External Director) who retired at the conclusion of the 153rd Annual General Shareholders' Meeting held on June 29, 2017.
3 The amount of subscription rights to shares granted as stock-related compensation shown above indicates the amount of compensation, etc. concerning subscription rights to shares granted to directors other than those who are Audit and Supervisory Committee members (excluding non-executive directors) recorded as expenses during the fiscal year.

Compensation System

Basic policies regarding compensation	Executive compensation will be determined to satisfy the following basic matters. • Executive compensation should motivate executives to sustainably improve values of companies and shareholders, as well as enhance willingness and morale • Executive compensation should keep, cultivate and reward excellent personnel • The decision process for the compensation system should be objective and transparent

Compensation system and performance-based structure	A) The compensation system for executive directors and officers is comprised of the following items. The distribution ratio for compensation is determined by changing the percentages of fixed monthly compensation and performance-based compensation according to positions and duties. • "Fixed monthly compensation" Monetary compensation not based on performance. • "Bonuses" This monetary compensation is based on the degree of accomplishment and qualitative assessment of the capital efficiency and profitability of the Group as a whole and departments in charge on a single-year basis, and is determined within the range of 0% to 200% of the standard payment. • "Performance-based stock compensation" Stock compensation is determined within the range of 0% to 150% in accordance with achievement of consolidated operating income, etc. for the final fiscal year of the Medium-Term Management Plan to be resolved per each three fiscal years with the aims of sharing value with shareholders and enhancing willingness and morale for improvement of medium-to-long-term performance. • "Subscription rights to shares granted as stock-related compensation" Subscription rights to shares are granted with the aims of sharing value with shareholders and enhancing willingness and morale for improvement of long-term performance, within the range not exceeding 5% of the share dilution ratio. B) The compensation system for non-executive directors consists only of "fixed monthly compensation."
Method for determining compensation level and amount	The Compensation Committee discusses and advises on related systems in order to determine the level and system appropriate to the duties on account of compensation levels of major Japanese companies that globally develop their businesses so as to determine the compensation amount consistent with the performance of the Group and its business scale. The Compensation Committee consists of the representative directors as well as external directors and external experts who comprise a majority, and discusses the establishment of executive compensation policies, consideration of the compensation system, and specific calculation method. Based on the results of the discussions, compensation for directors other than those who are Audit and Supervisory Committee members is determined by a resolution of the Board of Directors, and compensation for directors who are Audit and Supervisory Committee members is determined by consultation among directors on the Audit and Supervisory Committee.

Number of Females and Non-Japanese Appointed as Nikon Group Directors / Officers and Corporate Auditors

(As of March 31, 2018)

Nikon Corporation	Number of females: 0 Number of non-Japanese: 0

Group companies	Number of females: 4* Number of non-Japanese: 30*

* Cases of concurrent posts are counted as one individual. For overseas Group companies, all local positions equivalent to director, officer and corporate auditor are included in the total.

Internal Audits

Acting independently from each business execution division, based on the annual audit plan duly approved by the president, the Internal Audit Department performs audits of the institutional and operational status of the Nikon Group, and then makes recommendations for improvement. In addition, it conducts the assessments of the company to be made for the Internal Control Report System (J-SOX) and evaluates the effectiveness of internal control from the standpoint of the Companies Act.

For audits of Group companies outside Japan, the internal audit sections that have been established at each of the regional holding companies perform audits and J-SOX evaluations of their local companies from an independent standpoint, supervised by the Internal Audit Department of Nikon Corporation.

The results of the Nikon Group's internal audits are reported to the president and all directors concerned. In addition, between the Audit and Supervisory Committee and the Internal Audit Department, close cooperation is achieved by means of sharing the audit results, holding regular meetings, and others.

Risk Management

To properly respond to risks that might critically impact corporate management, the Nikon Group has set up the Risk Management Committee, which is chaired by the senior executive vice president, as a supervisory body of risk management. The Risk Management Committee supervises risks overall, and specialist subcommittees are in charge of risks requiring specialized support and handle detailed matters. Business-specific risks are tackled at the respective business division level.

The Nikon Group conducts risk identification surveys to gain an overall insight into the risks potentially affecting the Group. Taking a Companywide perspective, a risk assessment is then conducted to identify, analyze, and evaluate risks, based on which we maintain up-to-date risk maps that show the level of influence and probability of each risk. This process enables us to track changes in risks on a year-by-year basis and submit reports to the Risk Management Committee in this regard. At overseas Group companies, competition law training programs are conducted to ensure compliance with competition laws and to otherwise combat risks of violation of local laws as well as to cultivate awareness with regard to the danger of such violations.

Interview with an External Director

I will fulfill my role by supporting the implementation of growth strategies while driving the reinforcement of corporate governance.

Haruya Uehara
External Director
Audit and Supervisory Committee Member

What do you see to be your role as an external director?

I am an external director, but I feel that it is important for me to have no hesitation in being open with management. I had the opportunity to interact with outside individuals in the reverse capacity when I was chairman of Mitsubishi UFJ Trust and Banking Corporation. Based on this experience, I endeavor to voice questions and opinions without hesitation, always remaining mindful of the perspectives of shareholders, investors, customers, business partners, industry peers, employees, and various other stakeholders as I do this. I hope to contribute to more lively discussion at meetings of the Board of Directors through this approach.

What is your opinion about the atmosphere of the Board of Directors?

I think Board meetings have an atmosphere that makes it easy to engage in frank discussions. The chairman of the Board of Directors moderates discussions well, and external directors are supplied with the necessary explanations for sufficiently understanding proposals from relevant officers. This style of procedure is most beneficial. I am also an Audit and Supervisory Committee member. This position grants me access to a wide range of opportunities to visit Group factories and other frontline operating sites. Turning an ear to employee voices enables me to better understand the atmosphere of actual workplaces, such as the conditions frontline employees face and how they perceive messages from management. This understanding is a useful asset in meetings of the Board of Directors.

What would you say are the characteristics of corporate governance at Nikon and what challenges are faced in this regard?

It is hard to give a simple answer to that question. Nikon has both business-to-business and business-to-consumer operations. The requirements for compliance, for example, are different for each of these types of operations, thus creating difficulties in terms of corporate governance. The Company faces a wide range of requirements in terms of quality control and risk management, and effective governance is needed to ensure that each of these requirements is addressed properly. Given those characteristics and challenges, I think that what Nikon needs is a governance structure that can view matters from a cross-business perspective. In terms of risk management specifically, it is crucial for personnel with insight into numerous businesses to be cultivated within the Company.

How would you evaluate the progress of the restructuring?

I evaluate highly the progress of the restructuring. A sense of devotion to making the changes needed to save Nikon from its crisis is palpable throughout the Company. This powerful sense of devotion is not only present in the explanations of individual projects at meetings of the Board of Directors but also in the conversations I have with employees when I visit frontline worksites. The restructuring has primarily been focused on reforming Nikon's current mainstay businesses. Regardless, this undertaking has no doubt sent a strong message to those employees working in businesses that have not felt the knife of the restructuring. In completing the restructuring, the degree to which senior management as well as the management of worksites can internalize the goals of the restructuring and work toward their accomplishment will be key. Luckily, on-site management has demonstrated a clear awareness of this fact.

What is your opinion with regard to the recent adoption of return on equity (ROE) and return on invested capital (ROIC) as management indicators?

Manufacturers such as Nikon tend to think that they will be successful so long as they make quality products. For this reason, there is a tendency for efforts related to schedules and costs to be lacking. Nikon adopted ROE and ROIC in conjunction with the restructuring. I think that this move was a positive development indicating the Company's decision to turn its attention to a previously neglected aspect of operations and practice a newfound discipline. I suspect that this new approach will enable Nikon to act with greater speed and prudence in its efforts going forward.

Looking ahead, what challenges will Nikon face in implementing its growth strategies and achieving ongoing growth?

That is a difficult question. I think that there is a limit to the growth that Nikon can achieve with only the technologies and customer base it has cultivated thus far. Fortunately, Nikon has a sound financial base. Moving forward, it will be necessary for the Company to utilize the capital created through this financial base, always seeking to ensure maximum efficiency, in order to advance its growth strategies. Sometimes, the Company may even need to allocate that capital to outside resources. Furthermore, there may be times at which it is necessary to make management decisions that entail risks for the sake of future growth. To ensure that such decisions ultimately produce the desired outcomes, it will be absolutely essential to cultivate a sense of commitment to seeing efforts through to the end Companywide and to strengthen the systems for executing such decisions. The role of frontline employees will be pivotal to our ability to accomplish these objectives. Again, this is a case in which Nikon is prepared; the Company has a corporate culture of valuing human resources and management and is well aware of the importance of aligning management and frontline employees along the same vector.

Do you have a message for Nikon's shareholders and other investors?

The restructuring has reignited Nikon's dedication to earnestly responding to the desires of all shareholders and other investors and changing accordingly. This dedication is, of course, present in management, and it is taking hold among employees. As an external director, I too will fulfill my role by supporting the implementation of growth strategies while driving the reinforcement of corporate governance.

TOPIC Evaluation of the Board of Directors' Effectiveness

In the fiscal year ended March 31, 2018, Nikon asks a third-party organization to analyze and evaluate the effectiveness of its Board of Directors in order to further improve its functions. A summary of this evaluation for the year ended March 31, 2018 is provided below.

Evaluation Method	• A third-party organization conducted a survey and individual interviews of all directors on general matters related to the Board of Directors, composition, prior preparations and details of deliberations, etc., to evaluate Board effectiveness and identify issues • Based on the evaluation results, discussions were held at a meeting of the Board of Directors on how to improve its functions
Evaluation Results	• Significant improvements in the functions of the Board of Directors have been made following discussions of the "restructuring" announced in November 2016, and board effectiveness is steadily increasing • The "restructuring" led by senior management is progressing steadily and forward progress is being made in "management reforms" by the executive directors and officers, indicating that the Board of Directors is fulfilling appropriate supervising functions • At the same time, reforms of the Board of Directors have only just begun, and the governance system needs to be further strengthened
Main Issues and Future Response	• **Strengthening of secretariat function:** reinforce the functions of the secretariat and executive departments supporting the Board of Directors • **Comprehensive restructuring and realization of growth strategy:** seek to further invigorate the Board of Directors, by carrying out discussions from the early draft stages of the Medium-Term Management Plan • **Enhancement of the Board of Directors and its complementary functions:** consider establishment of a voluntary nominating committee

Taking into account the issues raised by this evaluation, Nikon plans on implementing measures to further enhance board effectiveness going forward by enhancing deliberations by the Board of Directors.

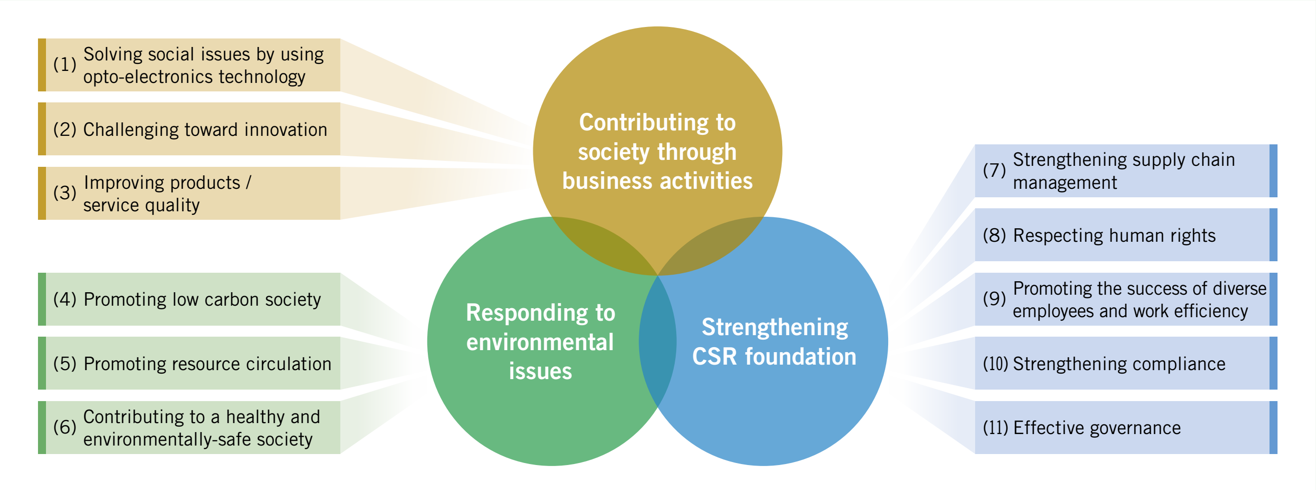
Management Resources That Support Nikon's Growth

Only companies capable of optimally allocating management resources and strengthening those resources achieve rapid growth. Recognizing this fact, the Nikon Group is continuously strengthening its management resources.

Nikon's CSR Priority Issues

Based on its belief that fulfilling its corporate social responsibility will in turn strengthen its management resources and increase its sustainability, the Nikon Group has selected CSR Priority Issues in line with its management vision. Specifically, the Nikon Group identified 11 CSR Priority Issues falling within the three areas of "Contributing to society through business activities," "Responding to environmental issues," and "Strengthening CSR foundation." Each of these issues will be addressed as we pursue targets that have been set in conjunction with our business strategies. The acceleration of initiatives for addressing those issues that pertain to our human resources (issue 9), our technological prowess (issues 2 and 3), and environmental actions (issues 4, 5, and 6) will be vital to driving restructuring efforts.

The Nikon Group's CSR Priority Issues



Development of Human Resources

The cultivation of human resources capable of bringing about innovation and the fostering of an empowering corporate culture will be essential to ensuring that Nikon can continue growing over the next century. We recognize the necessity of accepting diversity and cultivating workplaces in which employees can fully exercise their skills in accomplishing those objectives. In fact, we view these tasks as important social responsibilities for the Nikon Group.

Introduction of New Human Resource Management Systems

Nikon drastically reformed its human resource systems to transition systems focused on enhancing performance in April 2018. Specifically, we abolished the ability-based grade system to introduce a job grade system in which evaluations and treatment are based on roles and responsibilities.

This system is designed to evaluate and reward individuals who take on difficult roles and produce results in these roles. Moreover, the system is not dependent on age and therefore allows for the possibility of employees in their 20s or 30s being promoted to important positions.

By expanding the range of opportunities for talented and ambitious employees to excel, we aim to strengthen the Company overall. We will examine the possibility of introducing this job grade system at Group companies based on the circumstances at said companies.

Contributions from Diverse Human Resources

As the values of society grow more diverse, continuing to provide value will require a workplace environment in which diverse human resources can exercise their talents to the fullest. The Nikon Group promotes diversity and seeks to develop a workplace environment in which employees of all ethnicities, beliefs, genders, educational backgrounds, nationalities, religions, and ages are respectful of each other's individuality and human rights and are able to feel motivated in their work. We are also proactive in recruiting diverse human resources, and the Nikon Group of today is home to diverse employees of various nationalities as a result.

Number of Nikon Group Employees by Region (Consolidated)

	Year ended March 31, 2018
Total	21,029
Nikon	4,444
Japan (including Nikon)	8,725
Europe	2,017
Americas	989
Asia / Oceania	9,298

Empowerment of Female Employees

The Nikon Group is actively empowering its female employees. We are aware that the ratio of female employees to total employees is relatively low at the Nikon Group in Japan when compared with global averages, and we recognize that this situation represents a serious issue. Accordingly, Nikon has set a target to reach a ratio of 25% or more female employees hired during regular hiring between the fiscal year ended March 31, 2017, and the fiscal year ending March 31, 2023. In addition, it participates in several joint job fairs for women and also holds events such as informal gatherings with its female engineers aimed at increasing female hires.

Moreover, the Company established the target of having 5% of all its management positions occupied by women by March 31, 2023. Efforts to accomplish this goal are focused on career development support and the cultivation of comfortable workplace environments.

Career development training for female employees

Childcare and Long-Term Care Support

The Nikon Group has implemented various systems to support employees raising young children or providing long-term care to family members in balancing these responsibilities with their work.

For example, overseas Group companies Nikon (Thailand) Co., Ltd., and Nikon Lao Co., Ltd., have implemented measures that allow female employees to continue working with peace of mind even when pregnant.

At Nikon (Thailand), where 80% of employees are female, pregnant employees are assigned to component sorting and other duties that can be performed while sitting, are allowed to change their workplace to a location closer to their home, and are prohibited from working night shifts or overtime. The insight gained through these measures has been applied to Nikon Lao, where 90% of employees are female, to reassign pregnant employees to tasks that are not directly related to production and otherwise create a workplace environment that does not place undue burden on such employees.

Pregnant employees working at Nikon Lao Co., Ltd.

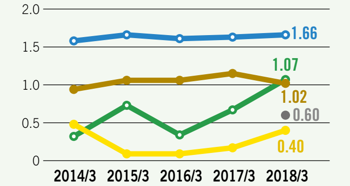
Occupational Health and Safety

The Nikon Group Health and Safety Activity Policies have been established to protect employee health and safety, which form the very foundation for our business activities, and to improve employee productivity while also promoting work-life balance.

As part of our efforts to manage safety, we provide health and safety training during orientations for new hires and management training, dispatch employees to perform training at domestic Group companies, and carry out other activities. In the fiscal year ended March 31, 2018, the frequency of occupational accidents increased due to a higher number of lost time accidents, but we were able to limit the overall number of accidents. Through these efforts, we are working toward our goal for the year ending March 31, 2019, of reducing occupational accidents at the Nikon Group in Japan that are attributed to or related to work to less than 40.

As for occupational accidents at Group companies outside Japan, we monitor the situation at each company by conducting a survey at the end of every fiscal year. We also strive to share information with and raise awareness at Group companies.

Frequency Rates of Lost Time Accidents



All industries in Japan (calendar year)
Manufacturing industry in Japan (calendar year)
Nikon
Group companies in Japan
Group companies outside Japan

* Group companies in Japan include non-consolidated group companies (26 companies in the year ended March 31, 2018).

Enhancement of Technological Prowess

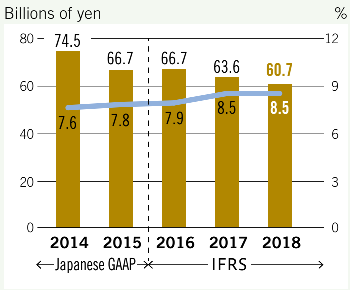
The technological prowess of the Nikon Group is the driving force behind its growth, and the enhancement of this prowess will therefore have a direct effect on the growth of the Group. Recognizing this fact, we have consolidated optical-related design functions and optical component production functions in order to generate synergies in each of these areas. In addition, we are creating frameworks that will enable us to respond swiftly and accurately should new needs arise, while developing other systems and frameworks to enable us to continuously enhance our technological prowess.

Research and Development

At Nikon, research and development is carried out within relevant divisions (such as the Research and Development Division) and business units (such as the Imaging Business Unit). In the relevant divisions, research and development is carried out on technologies common to multiple business units and future technologies. On the other hand, the business units are engaged in specialized types of research and development on projects to achieve specific product specifications. At the same time, Nikon is promoting its Technology Hub. This is an effort to bridge the organizational structures of the R&D-related divisions and business units, and to share technologies across the whole company.

In November 2017, the Nikon established the Technology Strategy Committee. After exploring and confirming Nikon's core competence and taking into account the future trends of society and markets, Nikon is aiming to build a medium- to long-term technology strategy for developing new target areas and improving the competitiveness of existing businesses.

R&D Expenditures*1 / Ratio of R&D Expenditures to Revenue*2



R&D expenditures*1 (left scale)
Ratio of R&D expenditures to revenue*2 (%) (right scale)
*1 "R&D costs" under Japanese GAAP
*2 "Ratio of R&D costs to net sales" under Japanese GAAP

Intellectual Property Management

The Nikon Group protects its advanced technologies, designs, and trademarks by engaging in various efforts related to intellectual property in order to support the brand value of Nikon products in the marketplace.

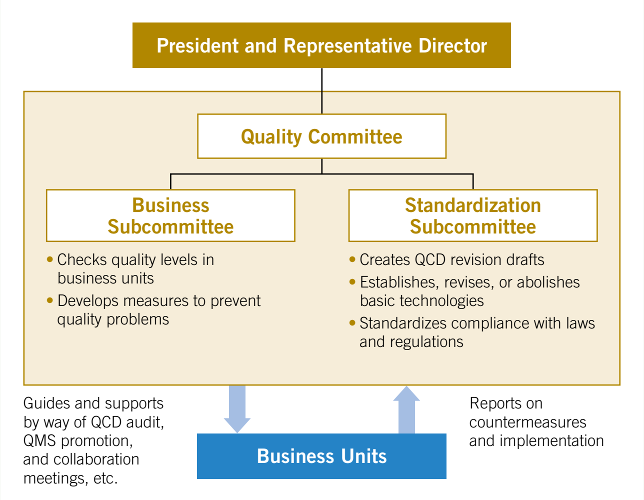
Intellectual property is recognized as an extremely valuable asset to the Nikon Group because it is a driving force behind the long-term and stable continuation of business activities and contributes to shaping Nikon's brand value. In the event that a third party infringes on the intellectual property rights of the Nikon Group, we will take strict action. In this manner, we strive to prevent any harm to customers, other stakeholders, or the Group itself.

Quality Management

The Nikon Group's mission is to contribute to the healthy development of society through creative and efficient manufacturing. To support us in accomplishing this mission, we established the Production Technology Division in June 2017 and began implementing Companywide manufacturing reforms. In these reforms, ensuring quality, which includes guaranteeing safety and friendliness toward the environment, is a theme of utmost importance.

In September 2017, we established the Quality Committee, which is chaired by a director who is also a senior vice president and membered by the general managers of business units, along with two subcommittees positioned under this committee: the Business Subcommittee and the Standardization Subcommittee. Through these subcommittees, we are enhancing functions related to the prevention of quality-related incidents, legal compliance, and safety. Other efforts to strengthen our quality assurance frameworks include human resource development programs for means such as heightening the specialized skills of individuals involved with these organizations.

Diagram of Quality Management System



Acceleration of Measures to Address Environmental Issues

The Nikon Group has formulated the Nikon Long-Term Environmental Vision, which aims to achieve three goals: a low-carbon society, a resource-circulating society, and a healthy and environmentally-safe society. Various activities are being advanced to achieve these goals.

Realization of a Low-Carbon Society

The Nikon Group recognizes that, in order to realize the goal of building a low-carbon society, it is important to implement measures not just within the Group, but along the supply chain as well.

Based on this recognition, we are pursuing CO_2 reductions through initiatives at each stage of the product life cycle.

As a concrete target, we are working to reduce CO_2 emissions throughout the entire supply chain by 26% compared with the level from the fiscal year ended March 31, 2014, by 2030.

Creation of a Resource-Circulating Society

The Nikon Group is striving to conserve resources through efforts such as reducing the size and weight of products and the volume and weight of packaging.

We are also focusing on initiatives implemented through business activities, such as waste reduction and the effective use of water resources. Moreover, the Nikon Group is working tirelessly to reduce the total environmental impact of its products and services by reusing and recycling used products.

Development of a Healthy and Environmentally-Safe Society

The Nikon Group aspires to contribute to the development of a healthy and environmentally safe society by managing chemical substances and helping preserve the natural environment in local communities. We have also set environmental targets for initiatives pertaining to products and business facilities. The Group recognizes that accomplishing these targets will require management across the entire supply chain and is therefore working together with its stakeholders to achieve these targets.

Total CO_2 Emissions from the Nikon Group

(Year ended March 31, 2018)

Versus. fiscal year ended March 31, 2014

ACTUAL	TARGET
–13.4%	–5.85% by fiscal year ending March 31, 2020

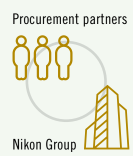
Waste Production of Nikon Group in Japan

(Year ended March 31, 2018)

ACTUAL	TARGET
3,187 tons	3,363 tons or less

Number of Procurement Partners Certified as Nikon Environmental Partners* (Cumulative Total)

(Year ended March 31, 2018)



ACTUAL	TARGET
450 companies	415 companies

* Procurement partners that, through audits by the Nikon Group, have been confirmed to meet the requirements for environmental management systems described in the Nikon Green Procurement Standards

Strengthening Relationship with Stakeholders

In the strengthening of management resources, it is important to receive input from outside experts and engage in ongoing communication with stakeholders and then reflect the insight gained through these efforts in activities.

CUSTOMERS

Imaging Products Business repair facilities and customer service counters

More than 300 locations in 70 countries and regions worldwide

Nikon's manufacturing activities are based upon the concepts of "quality first" and "customer focus," and we therefore value opportunities for direct contact with customers. In the Imaging Products Business, for example, we have established repair facilities and customer service counters around the world that enable us to collect feedback from customers along with information on use patterns for utilization in improving services and enhancing future products.

SHAREHOLDERS AND OTHER INVESTORS

Dividend payout ratio

40% and above

Nikon's fundamental approach to shareholder returns is to pay a steady dividend that reflects the perspective of shareholders. It is thus the Group's policy to provide shareholder returns while targeting a dividend payout ratio of at least 40%. In addition, the Group maintains its focus on the total return ratio when determining returns in order to better reflect business performance.

EMPLOYEES

Global employee retention rate

92.6%

Enabling all employees to exercise their skills and create results as a team requires a comfortable workplace environment. The Nikon Group strives to provide such an environment by appropriately managing work hours and bolstering systems for supporting work-life balance.

BUSINESS PARTNERS

Procurement partners subject to CSR procurement surveys and audits

661 companies

The Nikon Group sees its suppliers as partners with whom it works together to contribute to the ongoing development of society. For this reason, we are dedicated to practicing earnest and fair material procurement based on mutual understanding and trust. At the same time, we ask procurement partners that are crucial to our business, namely, those partners among our approximately 1,700 partners that account for 80% of transaction amounts, to cooperate with CSR procurement surveys and audits.

SOCIETY

Community contribution expenses

¥707 million

As a member of society and the communities it serves, the Nikon Group strives to build strong relationships with these stakeholders and to contribute to their ongoing development through good corporate citizenship. With a focus on the environment, education, the arts, science, and health, we partner with NGOs and other organizations to advance activities based on the needs of specific communities.

(Fiscal year ended March 31, 2018)

Management's Discussion and Analysis

Nikon Corporation and Consolidated Subsidiaries
For the year ended March 31, 2018

Overview of the Fiscal Year Ended March 31, 2018

During the consolidated fiscal year ended March 31, 2018, the Japanese economy saw a gradual growth trend, backed by global economic growth and domestic demand. In the global economy, recovery continued in the United States and Europe on the back of strong consumer spending while China also continued to show signs of recovery.

Looking at performance by business segment, in the Imaging Products Business, the digital camera–interchangeable lens type market and the compact digital camera market continued to shrink. In the Precision Equipment Business, capital investments were strong both in the FPD-related field and in the semiconductor-related field. In the Healthcare Business, while the bioscience field was sluggish due to factors including delays in government budget execution overseas, the retinal diagnostic imaging equipment market was brisk in the ophthalmic diagnosis field.

The Nikon Group positioned the fiscal year ended March 31, 2018, as Phase 2 of the restructuring announced in November 2016, adopting the three management policies: "Strengthen the profit structure of the Imaging Products Business," "Achieve break-even of the Semiconductor Lithography Business," and "Initiate the full-scale enhancement of management DNA." Based on these policies, the Group has implemented various initiatives. In the Imaging Products Business, the Group continued its selection and concentration of high-value-added products while working to optimize its development, production, and sales structures. In the Semiconductor Lithography Business, the Group fundamentally revised its business strategy and sought to strengthen its business foundation in order to establish a profitable structure. Companywide measures included the promotion of portfolio-based management, reforms to our management DNA and business performance processes based on management indices such as ROE and ROIC, and enhancements to the corporate governance structure.

As a result of the above, on a consolidated basis, revenue for the fiscal year ended March 31, 2018, decreased ¥32,196 million (4.3%) year on year, to ¥717,078 million. However, due to the decline in restructuring costs from the previous fiscal year, operating profit increased ¥55,463 million (7,166.6%), to ¥56,236 million, and profit attributable to owners of the parent increased ¥30,805 million (776.6%), to ¥34,772 million.

Profit (Loss) Analysis

Years ended March 31, 2017 and 2018

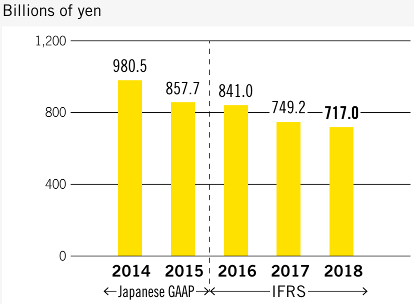
% of revenue

	2017	2018
Revenue	100.0%	100.0%
Cost of sales	(59.1)	(56.4)
Gross profit	40.9	43.6
SG&A expenses	(33.0)	(34.7)
Other income (expenses)—net	(7.7)	(1.1)
Operating profit	0.1	7.8
Finance income (cost)—net	0.2	0.0
Profit before income taxes	0.4	7.8
Income tax expenses	0.1	(3.0)
Profit for the year	0.5	4.9
Profit attributable to owners of the parent	0.5	4.8

Note: Expenses, losses, and subtractive amounts are in parentheses.

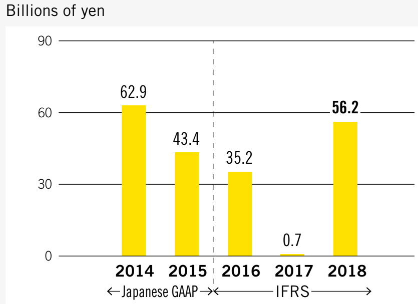
Revenue

Billions of yen



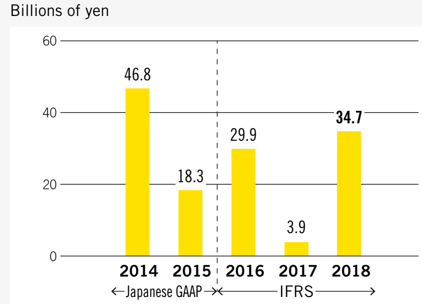
Operating Profit

Billions of yen



Profit Attributable to Owners of the Parent

Billions of yen



Performance by Business Segment

Imaging Products Business

For digital cameras–interchangeable lens type, overall sales volumes were down, but sales were strong for the D850 digital SLR camera, which features an ideal combination of high-resolution and high-speed performance. These sales boosted the sales of high-end cameras significantly. For compact digital cameras, we concentrated our efforts on sales of high-value-added products such as the high-performance outdoor model COOLPIX W300, but sales volumes decreased significantly due to the shrinking market.

As a result, revenue for the Imaging Products Business decreased 5.8% year on year, to ¥360,703 million. Operating profit, however, rose 76.2%, to ¥30,222 million due to the efforts to improve profitability through the restructuring. These efforts included the shift to a business strategy of selection and concentration and the discontinuation of operations at Nikon Imaging (China) Co., Ltd., a manufacturing subsidiary.

Precision Equipment Business

In the FPD lithography system field, revenue and profits declined due to a decrease in sales volumes of equipment for small and medium-sized panels. However, sales of the FX-103SH and the FX-103S systems, both of which were released in third quarter of the fiscal year ended March 31, 2018, were in line with targets. These products support the generation 10.5 plate size and are suitable for the mass production of LCD panels and organic EL panels used in 4K televisions as well as in 8K televisions for which use is expected to become more widespread.

In the semiconductor lithography system field, we pursued efficiency through the restructuring measures while shifting to an operating approach emphasizing profitability. As a result, we were able to successfully enact the management policy of "Achieve break-even in the Semiconductor Lithography Business."

Consequently, revenue for the Precision Equipment Business decreased 8.7% year on year, to ¥226,334 million. Operating profit, meanwhile, was up 296.6%, to ¥53,393 million, a substantial increase in comparison with the previous fiscal year, when restructuring costs were recorded.

Healthcare Business

In the bioscience field, revenue fell due to delays in government budget execution overseas. However, cost reduction efforts proved to be beneficial, with biological microscopes maintaining a degree of profitability, although increases in new business start-up expenses resulted in a decrease in profits.

In the ophthalmic diagnosis field, amidst robust global market conditions, revenue rose as a result of sales promotion measures, but up-front investment in new business led to a decline in profits.

As a result, revenue for the Healthcare Business increased 1.8% year on year, to ¥56,818 million, but operating loss of ¥3,263 million was recorded (compared with operating loss of ¥660 million in the previous fiscal year).

In the Healthcare Business, a manufacturing service agreement with U.S.-based Athersys, Inc., was concluded with the aim of commercializing MultiStem®,* a stem cell therapy treatment currently being evaluated in a clinical trial with regard to ischemic stroke in Japan. In addition, we commenced strategic business cooperation with U.S.-based Berkeley Lights, Inc., in order to strengthen our operations in cell-related fields.

* MultiStem® is a registered trademark or trade name of Athersys, Inc., in the United States and other countries.

Industrial Metrology Business and Others

In the Industrial Metrology Business, revenue increased centered on CNC video measuring systems and X-ray inspection systems owing to a recovery in the global market.

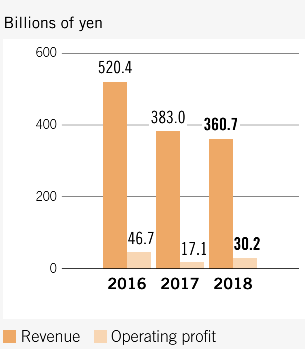
In the Customized Products Business, revenue of optical components and customized equipment increased while revenue of solid-state lasers declined.

In the Glass Business, revenue increased due to sales promotions of photomask substrates for FPD and optical materials.

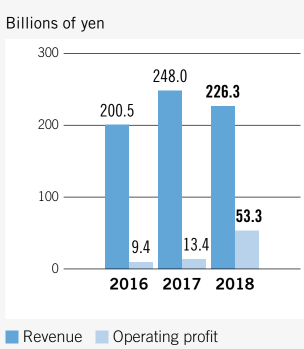
As a result, total revenue from these businesses increased 17.3% year on year, to ¥73,222 million, and operating profit rose 35.1%, to ¥5,026 million.

Product lines were strategically reviewed and revised as part of the restructuring, and the CMM (coordinate measuring machines) business was transferred to Italy-based ASF Metrology s.r.l. as a result.

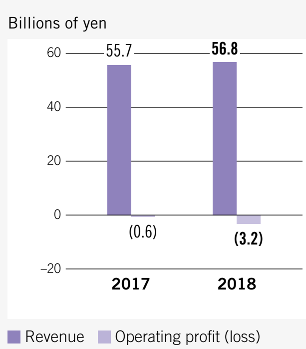
Imaging Products Business



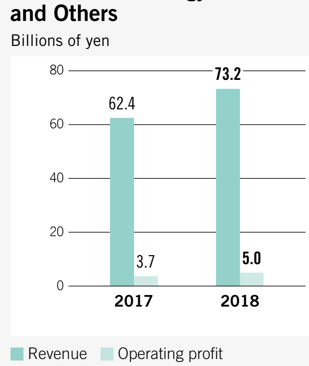
Precision Equipment Business



Healthcare Business



Industrial Metrology Business and Others



Business Climate and Issues for the Fiscal Year Ending March 31, 2019

With regard to the business climate surrounding the business segments of the Group, in the Imaging Products Business, conditions are expected to remain harsh for the digital camera–interchangeable lens type market and the compact digital camera market. In the Precision Equipment Business, capital investment in the FPD-related field is expected to remain at the same level as in the fiscal year ended March 31, 2018. However, long-term conditions remain uncertain due to factors such as potential changes in panel demand. Capital investment in the semiconductor-related field is expected to remain robust. For the Healthcare Business, in the bioscience field, overseas market conditions are anticipated to take an upturn, and sales of cell manufacturing services and new stem cell-related business are forecasted to grow. In the ophthalmic diagnosis field, the retinal diagnostic imaging equipment market is projected to remain strong.

The fiscal year ending March 31, 2019, will be the final year of the restructuring, and the Group will continue with the following fundamental restructuring efforts.

- Promotion of portfolio-based management
- Business performance management based on management indicators emphasizing capital efficiency and its deployment at workplaces
- Reform of corporate governance

Through these efforts, the Group will strive to create sustainable corporate value.

Furthermore, a new medium-term management plan that incorporates growth strategies is planned to be announced, which is scheduled to begin in April 2019 following the completion of the restructuring.

Financial Position

Total current assets as of March 31, 2018, were ¥754,182 million, an increase of ¥95,169 million from the previous fiscal year-end. This is primarily because of an increase of ¥69,392 million in cash and cash equivalents and an increase of ¥15,153 million in inventories.

The balance of total non-current assets decreased ¥15,177 million from the previous fiscal year-end, to ¥344,161 million. This outcome was a result of a decrease of ¥9,528 million in deferred tax assets and a decrease of ¥6,766 million in goodwill and intangible assets.

The balance of total current liabilities as of March 31, 2018, was ¥389,756 million, up ¥47,838 million from the end of the previous fiscal year. This result can be attributed to an increase of ¥65,237 million in advances received, which outweighed a decrease of ¥11,401 million in bonds and borrowings under current liabilities that resulted from the redemption of bonds.

The balance of total non-current liabilities declined ¥3,237 million from the previous fiscal year-end, to ¥135,046 million. This decline was primarily due to a decrease of ¥1,337 million in bonds and borrowings under non-current liabilities.

The balance of total equity increased ¥35,391 million, to ¥573,541 million. The main factor behind this result was a ¥28,080 million increase in retained earnings due to recording profit attributable to owners of the parent.

The ratio of equity attributable to owners of the parent to total assets was 52.2%, down 0.6 percentage point from the previous fiscal year-end.

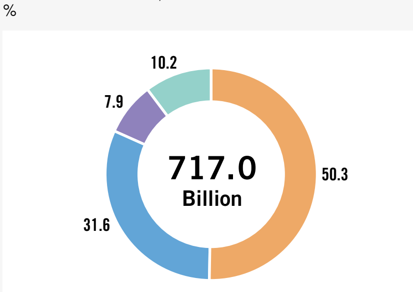
Analysis of Financial Position

As of March 31, 2017 and 2018

	% of total assets		
	2017	**2018**	YoY Change
Total assets	100.0%	100.0%	
Total current assets	64.7	68.7	+ 4.0
Inventories	21.6	21.4	– 0.2
Total non-current assets	35.3	31.3	– 4.0
Property, plant and equipment	12.0	10.8	– 1.2
Other non-current assets	23.3	20.5	– 2.8
Total current liabilities	33.6	35.5	+ 1.9
Bonds and borrowings (current)	2.3	1.1	– 1.2
Total non-current liabilities	13.6	12.3	– 1.3
Bonds and borrowings (non-current)	11.2	10.3	– 0.9
Total equity	52.8	52.2	– 0.6

Revenue by Business Segment

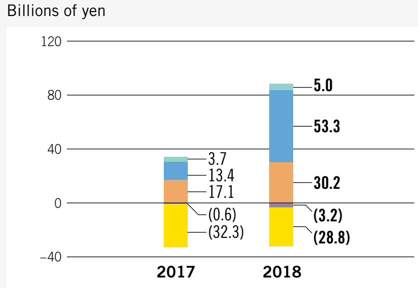
(Year ended March 31, 2018)
%



Imaging Products Business
Precision Equipment Business
Healthcare Business
Industrial Metrology Business and Others

Operating Profit (Loss) by Business Segment

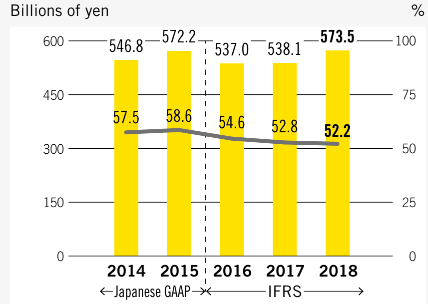
Billions of yen



Imaging Products Business
Precision Equipment Business
Healthcare Business
Industrial Metrology Business and Others
Corporate expenses

Total Equity / Ratio of Equity Attributable to Owners of the Parent to Total Assets

Billions of yen %



Total equity (left scale)
Ratio of equity attributable to owners of the parent to total assets (right scale)

Cash Flow Analysis

Net cash provided by operating activities for the fiscal year ended March 31, 2018, was ¥125,082 million, compared with ¥97,342 million in the previous fiscal year. Major factors increasing cash included profit before income taxes of ¥56,257 million and an increase of ¥65,970 million in advances received attributable to the large amount of incoming orders for FPD lithography systems. These factors outweighed major factors decreasing cash, which included payments of additional benefits in relation to the voluntary retirement program in Japan as well as to the discontinuation of operations at a Chinese manufacturing subsidiary.

Net cash used in investing activities amounted to ¥34,808 million, compared with ¥40,693 million in the previous fiscal year. The primary outflows were for purchase of property, plant and equipment.

Net cash used in financing activities of ¥19,970 million was recorded, compared with net cash provided by financing activities of ¥15,522 million in the previous fiscal year. This outcome was mainly due to the repayment of the 18th unsecured bond that matured in January 2018 as well as to the payment of dividends.

Liquidity and Funding Sources

The Company's basic policy is to secure the funds needed for working capital or capital expenditures through on-hand cash and deposits as well as through operating cash flows. In addition, the Company has implemented a cash management system (CMS) for efficiently managing the funds held by domestic and overseas Group companies. This system allows all funds within the Group to be effectively utilized as working capital or capital expenditures by Group companies.

In the fiscal year ending March 31, 2019, the Company plans to conduct capital expenditures to the extent of ¥30.0 billion primarily for augmenting production capacities and rationalizing facilities. These capital expenditures are expected to be largely contained within the scope of operating cash flows.

Capital Expenditures and R&D Expenditures

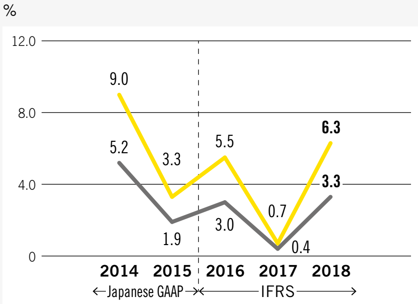
Capital expenditures were ¥33,472 million in the fiscal year ended March 31, 2018, an increase of 3.8% from the previous fiscal year. By business segment, expenditures were ¥6,465 million in Imaging Products, ¥4,460 million in Precision Equipment, ¥5,049 million in Healthcare, and ¥12,825 million in Industrial Metrology and Others. The Group made investments of ¥4,673 million in corporate assets that are not allocated to reportable segments.

R&D expenditures were ¥60,704 million, down 4.6% year on year, and the ratio of R&D expenditures to revenue was 8.5%, unchanged year on year. By business segment, expenditures were ¥23,460 million in Imaging Products, ¥14,300 million in Precision Equipment, ¥7,951 million in Healthcare, and ¥14,992 million in Industrial Metrology and Others. Development costs that satisfied certain conditions were capitalized.

Basic Policy on Shareholder Returns and Dividends

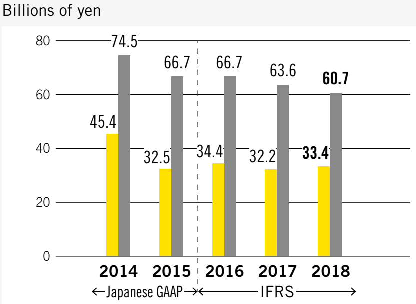
The Group's basic policy on shareholder returns is as follows: "Along with expanding investment (in capital and in development) in business and technology development to ensure future growth and enhance competitiveness, our fundamental approach to shareholder returns is to pay a steady dividend that reflects the perspective of shareholders." It is thus the Group's policy to provide shareholder returns while targeting a dividend payout ratio of more than 40%. In addition, the Group maintains its focus on the total return ratio when determining returns in order to better reflect business performance. For the fiscal year ended March 31, 2018, the Group set the year-end dividend at ¥22 per share. When combined with the interim dividend of ¥14 per share, the full-year dividend amounted to ¥36 per share.

ROE / ROA*



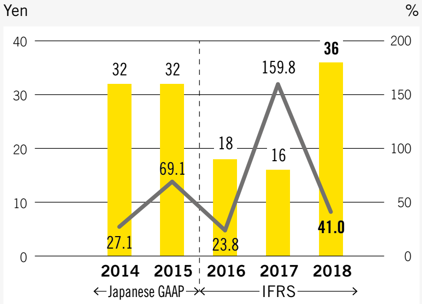
ROE — ROA

Capital Expenditures / R&D Expenditures



Capital expenditures ■ R&D expenditures

Cash Dividends per Share / Dividend Payout Ratio



Cash dividends per share (left scale)
Dividend payout ratio (right scale)

* ROE is computed by dividing profit (loss) attributable to owners of the parent by the average of equity attributable to owners of the parent at the beginning and end of the given fiscal year. ROA is computed by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the given fiscal year.

FINANCIAL INFORMATION

1. Preparation of Consolidated Financial Statements

The consolidated financial statements of Nikon Corporation (hereinafter referred to as the “Company”) and its subsidiaries (together hereinafter referred to as the “Group”) were prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976) (hereinafter referred to as the “Ordinances on Consolidated Financial Statements”).

2. Audit

The Company’s consolidated financial statements for the fiscal year ended March 31, 2018 have been audited by Deloitte Touche Tohmatsu LLC in accordance with Article 193-2-1 of the Financial Instruments and Exchange Act.

3. Special Measures to Ensure the Accuracy of Consolidated Financial Statements and a Framework to Ensure Consolidated Financial Statements are Appropriately Prepared in Accordance with IFRS

The Company has taken special measures to ensure the appropriateness of the consolidated financial statements and has established a framework to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS. The details of these are as follows:

(1) In order to establish a framework capable of comprehending accounting standards properly and adapting changes in accounting standards appropriately, the Company has joined the Financial Accounting Standards Foundation and also participates in seminars and training programs organized by associations providing professional information.

(2) In order to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS, the Company formulated group accounting policies in compliance with IFRS and has been conducting accounting practices accordingly. The Company obtains the press releases and accounting standards published by the International Accounting Standards Board, learns the latest standards, assesses the relevant possible impacts on the Company, and updates the group accounting policies in a timely manner.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	2017	2018
ASSETS		
Current assets:		
Cash and cash equivalents (Note 7)	¥ 319,046	**¥ 388,438**
Trade and other receivables (Note 8)	96,221	**104,526**
Inventories (Note 9)	220,400	**235,553**
Other current financial assets (Notes 10 and 35)	9,163	**10,958**
Other current assets (Note 11)	14,183	**12,430**
(Subtotal)	659,013	**751,905**
Non-current assets held for sale (Note 12)	—	**2,277**
Total current assets	659,013	**754,182**
Non-current assets:		
Property, plant and equipment (Note 13)	121,827	**118,761**
Goodwill and intangible assets (Note 14)	67,752	**60,985**
Net defined benefit assets (Note 24)	5,489	**5,706**
Investments accounted for using the equity method (Note 16)	11,696	**9,387**
Other non-current financial assets (Notes 10 and 35)	85,343	**91,841**
Deferred tax assets (Note 18)	62,883	**53,355**
Other non-current assets (Note 11)	4,349	**4,126**
Total non-current assets	359,338	**344,161**
Total assets	¥1,018,351	**¥1,098,343**

Millions of yen

	2017	2018
LIABILITIES / EQUITY		
LIABILITIES		
Current liabilities:		
Trade and other payables (Note 19)	¥ 112,870	**¥ 118,701**
Bonds and borrowings (Notes 20 and 35)	23,601	**12,200**
Income tax payable (Note 18)	3,567	**11,567**
Advances received	111,395	**176,631**
Provisions (Note 21)	6,926	**6,820**
Other current financial liabilities (Notes 22 and 35)	31,213	**28,879**
Other current liabilities (Note 23)	52,347	**34,959**
Total current liabilities	341,918	**389,756**
Non-current liabilities:		
Bonds and borrowings (Notes 20 and 35)	114,477	**113,140**
Net defined benefit liabilities (Note 24)	8,624	**7,995**
Provisions (Note 21)	4,131	**4,844**
Deferred tax liabilities (Note 18)	5,193	**3,978**
Other non-current financial liabilities (Notes 22 and 35)	2,991	**2,490**
Other non-current liabilities (Note 23)	2,868	**2,599**
Total non-current liabilities	138,283	**135,046**
Total liabilities	480,201	**524,802**
EQUITY		
Capital stock (Note 25)	65,476	**65,476**
Capital surplus (Note 25)	81,163	**81,333**
Treasury stock (Note 25)	(13,215)	**(13,152)**
Other components of equity	(25,381)	**(18,310)**
Retained earnings (Note 25)	429,481	**457,561**
Equity attributable to owners of the parent	537,524	**572,908**
Non-controlling interests	626	**633**
Total equity	538,150	**573,541**
Total liabilities and equity	¥1,018,351	**¥1,098,343**

Consolidated Statement of Profit or Loss

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	2017	2018
Revenue (Note 27)	¥ 749,273	**¥ 717,078**
Cost of sales (Note 9)	(443,153)	**(404,170)**
Gross profit	306,121	**312,908**
Selling, general and administrative expenses (Note 29)	(247,548)	**(248,683)**
Other income (Note 28)	3,606	**3,714**
Other expenses (Note 28)	(61,404)	**(11,702)**
Operating profit	774	**56,236**
Finance income (Note 30)	5,781	**6,535**
Finance costs (Note 30)	(4,006)	**(6,295)**
Share of the profit of investments accounted for using the equity method (Note 16)	518	**(219)**
Profit before income taxes	3,068	**56,257**
Income tax benefit (expense) (Note 18)	990	**(21,422)**
Profit for the year	4,057	**34,835**
Attributable to:		
Owners of the parent	3,967	**34,772**
Non-controlling interests	91	**63**
Total	¥ 4,057	**¥ 34,835**
Earnings per share:		
Basic earnings per share (Yen) (Note 31)	¥10.01	**¥87.76**
Diluted earnings per share (Yen) (Note 31)	9.98	**87.49**

Consolidated Statement of Comprehensive Income

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	2017	2018
Profit for the year	¥ 4,057	**¥34,835**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Gain on financial assets measured at fair value through other comprehensive income (Note 32)	7,338	**6,036**
Remeasurement of defined benefit pension plans (Notes 24 and 32)	3,307	**(196)**
Share of other comprehensive income (loss) of investments accounted for using the equity method (Note 32)	(17)	**(16)**
Total of items that will not be reclassified subsequently to profit or loss	10,628	**5,824**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Note 32)	(4,248)	**1,635**
Effective portion of the change in fair value on cash flow hedges (Note 32)	(363)	**330**
Share of other comprehensive loss of investments accounted for using the equity method (Note 32)	(337)	**(249)**
Total of items that may be reclassified subsequently to profit or loss	(4,948)	**1,716**
Other comprehensive income, net of taxes	5,680	**7,540**
Total comprehensive income for the year	¥ 9,737	**¥42,375**
Attributable to:		
Owners of the parent	9,676	**42,294**
Non-controlling interests	61	**82**
Total comprehensive income for the year	¥ 9,737	**¥42,375**

Consolidated Statement of Changes in Equity

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	Equity attributable to owners of the parent												
				Other components of equity									
	Capital stock	Capital surplus	Treasury stock	Gain (loss) on financial assets measured at fair value through other comprehensive income	Remeasurement of defined benefit pension plans	Share of other comprehensive income (loss) of investments accounted for using the equity method	Exchange differences on translation of foreign operations	Effective portion of the change in fair value on cash flow hedges	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2016	¥65,476	¥81,234	¥(13,255)	¥ 2,300	¥ —	¥(218)	¥(27,804)	¥ 201	¥(25,522)	¥428,622	¥536,555	¥523	¥537,078
Profit for the year	—	—	—	—	—	—	—	—	—	3,967	3,967	91	4,057
Other comprehensive loss (Note 32)	—	—	—	7,338	3,307	(354)	(4,218)	(363)	5,710	—	5,710	(30)	5,680
Total comprehensive income (loss) for the year	—	—	—	7,338	3,307	(354)	(4,218)	(363)	5,710	3,967	9,676	61	9,737
Dividends (Note 26)	—	—	—	—	—	—	—	—	—	(8,729)	(8,729)	(45)	(8,774)
Acquisition and disposal of treasury stock	—	(0)	(4)	—	—	—	—	—	—	—	(5)	—	(5)
Share-based payments (Note 34)	—	(71)	44	—	—	—	—	—	—	52	26	—	26
Incorporation of new subsidiaries	—	—	—	—	—	—	—	—	—	—	—	88	88
Transfer from other components of equity to retained earnings	—	—	—	(2,278)	(3,307)	16	—	—	(5,569)	5,569	—	—	—
Total transactions with owners	—	(71)	40	(2,278)	(3,307)	16	—	—	(5,569)	(3,108)	(8,708)	43	(8,665)
As of March 31, 2017	65,476	81,163	(13,215)	7,360	—	(557)	(32,022)	(162)	(25,381)	429,481	537,524	626	538,150
Profit for the year	—	—	—	—	—	—	—	—	—	34,772	34,772	63	34,835
Other comprehensive income (loss) (Note 32)	—	—	—	6,036	(196)	(265)	1,616	330	7,521	—	7,521	19	7,540
Total comprehensive income (loss) for the year	—	—	—	6,036	(196)	(265)	1,616	330	7,521	34,772	42,294	82	42,375
Dividends (Note 26)	—	—	—	—	—	—	—	—	—	(7,142)	(7,142)	(57)	(7,199)
Acquisition and disposal of treasury stock	—	(8)	3	—	—	—	—	—	—	—	(5)	—	(5)
Share-based payments (Note 34)	—	146	60	—	—	—	—	—	—	—	206	—	206
Incorporation of new subsidiaries	—	32	—	—	—	—	—	—	—	—	32	(18)	14
Transfer from other components of equity to retained earnings	—	—	—	(669)	196	24	—	—	(450)	450	—	—	—
Total transactions with owners	—	170	63	(669)	196	24	—	—	(450)	(6,692)	(6,909)	(75)	(6,984)
As of March 31, 2018	¥65,476	¥81,333	¥(13,152)	¥12,726	¥ —	¥(799)	¥(30,406)	¥ 169	¥(18,310)	¥457,561	¥572,908	¥633	¥573,541

Consolidated Statement of Cash Flows

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	2017	2018
Cash flows from operating activities:		
Profit before income taxes	¥ 3,068	**¥ 56,257**
Depreciation and amortization	33,972	**31,706**
Impairment losses	5,351	**1,397**
Interest and dividend income	(3,245)	**(4,395)**
Share of the profit of investments accounted for using the equity method	(518)	**219**
Gains on sale of property, plant and equipment	(39)	**(120)**
Interest expenses	1,314	**1,440**
Decrease (increase) in trade and other receivables	7,432	**(6,999)**
Decrease (increase) in inventories	42,229	**(14,476)**
Increase (decrease) in trade and other payables	(13,130)	**6,132**
Increase (decrease) in advances received	5,719	**65,970**
Increase (decrease) in provisions	(1,104)	**(919)**
Increase (decrease) in net defined benefit assets and liabilities	302	**(235)**
Other, net	23,252	**13,621**
Subtotal	104,603	**149,598**
Interest and dividend income received	4,671	**6,110**
Interest expenses paid	(1,248)	**(1,400)**
Additional retirement benefits paid (Note)	—	**(19,968)**
Payment for loss on Competition Law	(1,307)	**—**
Income taxes paid	(9,377)	**(9,258)**
Net cash provided by operating activities	97,342	**125,082**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(21,295)	**(28,062)**
Proceeds from sale of property, plant and equipment	271	**921**
Purchases of intangible assets	(9,119)	**(7,672)**
Purchases of investment securities	(8,835)	**(6,625)**
Proceeds from sale of investment securities	5,851	**8,328**
Transfers to time deposits	(8,867)	**(5,670)**
Proceeds from withdrawal of time deposits	5,822	**4,110**
Payments for acquisition of shares of subsidiaries resulting in changes in the consolidation scope	(1,100)	**—**
Other, net	(3,420)	**(137)**
Net cash used in investing activities	(40,693)	**(34,808)**
Cash flows from financing activities:		
Net decrease in short-term borrowings (Note 33)	—	**(1,400)**
Proceeds from long-term borrowings (Note 33)	38,780	**—**
Repayment of long-term borrowings and bonds (Note 33)	(12,903)	**(10,095)**
Cash dividends paid (Note 26)	(8,734)	**(7,153)**
Cash dividends paid to non-controlling interests	(45)	**(57)**
Other, net	(1,576)	**(1,265)**
Net cash (used in) provided by financing activities	15,522	**(19,970)**
Effect of exchange rate changes on cash and cash equivalents	(4,335)	**(913)**
Net increase (decrease) in cash and cash equivalents	67,836	**69,392**
Cash and cash equivalents at the beginning of the year	251,210	**319,046**
Cash and cash equivalents at the end of the year (Note 7)	¥319,046	**¥388,438**

Note: "Additional retirement benefits paid" includes payments related to voluntary retirement in Japan and payments related to discontinuation of operations in a Chinese manufacturing subsidiary.

Notes to Consolidated Financial Statements

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2018

1. Reporting Entity

The Company is located in Japan and listed on the First Section of the Tokyo Stock Exchange. The address of the registered headquarters is 2-15-3, Konan, Minato-ku, Tokyo, Japan.

The Company, its consolidated subsidiaries (herein after referred to as the "Group") and associates operate the Imaging Products Business, Precision Equipment Business, Healthcare Business, and the businesses of Industrial Metrology and Others. The Group's main businesses are disclosed in Note 6. Segment Information.

The consolidated financial statements are composed of the portion attributable to the Group and associates. The fiscal year-end of the Company is March 31.

The Company's major subsidiaries and associates are described in the appendix of Note 37. Subsidiaries and Associates.

2. Basis of Preparation

(1) Compliance with IFRS

Since the Company is classified as a "Specified Company under Designated IFRS" as provided in Article 1-2 of the Ordinance on Consolidated Financial Statements, the consolidated financial statements have been prepared in accordance with IFRS.

(2) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments, which are described in Note 3. Significant Accounting Policies.

(3) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All amounts have been rounded to the nearest million of yen.

(4) Approval of the Consolidated Financial Statements

The consolidated financial statements were approved for issuance by Kazuo Ushida, President and Representative Director, and Masashi Oka, Senior Executive Vice President, CFO and Representative Director on June 28, 2018.

(5) Early Adoption of New Standards

The Group has prepared the accompanying consolidated financial statements in accordance with IFRS that were effective as of March 31, 2018, and has early adopted IFRS 9 Financial Instruments, which was amended in July 2014.

(6) Adoption of New Standards and Interpretations

The Group has adopted the following new standard and interpretation from the year ended March 31, 2018.

Standard	Title	Reporting period beginning on or after which the applications are required	Reporting periods of application by the Group (the reporting period ended)	Summaries of new IFRS and amendments
IAS 7 (Note)	Statement of Cash Flows	January 1, 2017	March 31, 2018	Disclosure of changes in liabilities arising from financing activities

The impact of the adoption of the aforementioned new standard and interpretation on the consolidated financial statements is not material.

Note: International Accounting Standard (hereinafter referred to as "IAS")

3. Significant Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. When the Group has more than a majority of the voting rights of an investee, it is considered that the Group controls the investee as a subsidiary. Even if the Group has less than a majority of the voting rights of an investee, it is also considered that the Group controls the investee when it is exposed, or has rights, to variable returns from involvement with the investee and has an ability to affect those returns through power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Company obtains control of a subsidiary until the date when it loses control of the subsidiary. If the Group loses control of a subsidiary, the gain or loss resulting from the loss of control is recognized in profit or loss. Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control of the subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the parent.

In cases where the accounting policies of subsidiaries are different from those of the Group, the financial statements of subsidiaries are adjusted to bring their accounting policies consistent with the Group's accounting policies. All intragroup transaction amounts, balances, income, and expenses are eliminated in full upon consolidation.

Fiscal year-ends of some subsidiaries are different from that of the Company, as it is impracticable to unify the fiscal year-ends due to those subsidiaries' requirements under local laws and regulations to prepare financial statements with different fiscal year-ends from that of the Company. When the fiscal year-ends of subsidiaries are different from that of the Company, the financial statements that are prepared provisionally as of the consolidated fiscal year-end for such subsidiaries are used for the consolidated financial statements.

2) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies. If the Group holds 20% or more of the voting rights but no more than 50% of an investee, in principle, it is determined that the Group has significant influence over the investee.

A joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results, as well as assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements of the Group using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of profit or loss and other comprehensive income of the associate or joint venture.

The consolidated financial statements include the financial statements of the associates or joint ventures, which have different fiscal year-ends from that of the Company. Necessary adjustments are made for the effects of significant transactions or events that occur between the fiscal year-ends of such associates or joint ventures and that of the Company.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration is measured as the sum of the acquisition-date fair values of the assets transferred in exchange for control of the acquiree, the liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are measured at their fair value, except for the following:

- deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income Taxes;*
- assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits;*
- assets (or disposal groups) that are classified as held-for-sale are measured in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations;* and
- liabilities related to share-based payment arrangements are measured in accordance with IFRS 2 *Share-based Payment.*

Goodwill is recognized as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree; over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The Group retrospectively adjusts the provisional amounts recognized at acquisition when new information is obtained during the measurement period, within 12 months from the acquisition date, if known, which would have affected the amounts recognized at the acquisition date.

Acquisition-related costs attributable to a business combination are expensed as incurred. Additional acquisition costs of non-controlling interests after the acquisition of control by the Group are accounted for as an equity transaction, and goodwill is not recognized.

(3) Foreign Currencies

1) Functional Currency and Presentation Currency

The separate financial statements of each group entity are presented in such entity's functional currency, the currency of the primary economic environment in which the entity operates. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

2) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of the transaction or at the foreign exchange rate that approximates the spot exchange rate at the date of the transaction.

Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate as of the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Non-monetary items measured at fair value that are denominated in foreign currencies are translated into the functional currency at the exchange rate at the date when the fair value is measured. Exchange differences arising from the translation or settlement are recognized in "Finance income" and "Finance costs" in the consolidated statement of profit or loss, except for those recognized in other comprehensive income.

3) Foreign Operations

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising from the acquisition of foreign operations are translated into Japanese yen using the exchange rate at the end of each reporting period. Income and expenses are translated into Japanese yen at the average exchange rate for the period, unless exchange rates fluctuate significantly during that period. Exchange differences on translation of foreign operations are initially recognized in other comprehensive income and accumulated in "Other components of equity."

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are accounted for as assets and liabilities of the foreign operation and translated at the exchange rate at the end of each reporting period.

(4) Financial Instruments

1) Non-derivative Financial Assets

(i) Initial recognition and measurement

Financial assets other than derivative financial instruments are classified as those measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is determined at the initial recognition.

a) Financial assets measured at amortized cost

The Group classifies its financial assets as those measured at amortized cost only if both of the following conditions are met:

- the financial asset is held within a business model with an objective of collecting contractual cash flows, and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value, including transaction costs that are directly attributable to the acquisition. The carrying amount of financial assets measured at amortized cost is calculated by the effective interest method in subsequent measurement. Interest income from these financial assets measured at amortized cost is included in finance income in the consolidated statement of profit or loss.

b) Financial assets measured at fair value through other comprehensive income

For certain equity instruments held primarily for the purpose of maintaining or strengthening the business relationship with investees, the Group designates these instruments mainly as fair value through other comprehensive income at initial recognition.

Financial assets measured at fair value through other comprehensive income are initially measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred to retained earnings. Dividends from the financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the Group's right to receive payment of the dividend is established.

c) Financial assets measured at fair value through profit or loss

Financial instruments that are not designated as those measured at fair value through other comprehensive income and debt instruments that do not meet the criteria for those measured at amortized cost are classified as those measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are initially measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(ii) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another party.

(iii) Impairment of financial assets measured at amortized cost

Allowance for doubtful accounts in respect of financial assets measured at amortized cost is recognized for expected credit losses.

At the end of each reporting period, the Group evaluates whether there has been a significant increase in credit risk of a financial asset since initial recognition. Specifically, if the credit risk of a financial asset has not significantly increased since initial recognition, an allowance for doubtful account is measured at an amount equal to the 12-month expected credit losses. However, if the credit risk has significantly increased since initial recognition, it is measured at an amount equal to the expected credit losses over the remaining term of the financial asset. An allowance for doubtful account for trade receivables without any significant financing components is measured at an amount equal to the lifetime expected credit losses since initial recognition.

Whether the credit risk has significantly increased or not depends on changes in default risk. The following factors are considered to determine if there has been a change in default risk:

- Financial condition of debtors
- Actual credit losses occurring in prior years
- Overdue information in prior years

Provision or reversal of allowance for doubtful accounts is recognized in profit or loss as "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

2) Non-derivative Financial Liabilities

Financial liabilities other than derivative financial instruments are classified as either those measured at amortized cost or at fair value through profit or loss. The classification is determined at initial recognition.

(i) Financial liabilities measured at amortized cost

The Group classifies its financial liabilities other than those measured at fair value through profit or loss as those measured at amortized cost.

Financial liabilities measured at amortized cost are initially measured at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method whereby interest expenses are recognized as "Finance costs" in the consolidated statement of profit or loss.

(ii) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are initially measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation is discharged, canceled, or has expired.

3) Presentation of Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when the Group has a legally enforceable right to offset the recognized amounts and it intends either to settle them on a net basis or to realize the assets and settle the liabilities simultaneously.

4) Fair Value Measurement of Financial Instruments

The fair values of financial instruments are measured based on quoted prices in an active market at the end of each reporting period. When a market for financial instruments is not regarded as active, or when it does not exist, the Group uses appropriate valuation techniques for fair value measurement. The financial instruments that are measured at fair value are categorized into the three levels of the fair value hierarchy determined with reference to the observability of inputs used in the valuation techniques.

The definition of each level of the fair value hierarchy is as follows:

Level 1 – Fair value measured using a quoted price in an active market for an identical asset or liability;

Level 2 – Fair value measured using inputs that are composed of observable prices, either directly or indirectly; and

Level 3 – Fair value measured using inputs that are unobservable for the assets or liabilities.

(5) Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, including foreign exchange forward contracts, interest rate swaps, cross currency swaps, and currency options, to manage its exposure to foreign exchange rate and interest rate risks.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

At the inception of a hedge, the Group documents the relationships between hedging instruments and hedged items, along with its risk management objectives and strategies for undertaking various hedge transactions. Furthermore, the Group evaluates whether a hedging instrument is highly effective in offsetting changes in fair values or cash flows of the relevant hedged item on an ongoing basis during the underlying period.

Derivatives are initially recognized at the fair value on the date when the derivative contracts are entered into, and are subsequently remeasured to their fair values at the end of each reporting period. Changes in fair value of derivatives subsequent to initial recognition are accounted for as follows:

1) Fair Value Hedges

Changes in fair value of derivatives as a hedging instrument are recognized in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

2) Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualifying as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the significantly ineffective portion is recognized immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or when the hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the gain or loss previously recognized in other comprehensive income and accumulated in equity is directly transferred from equity and included in the initial costs or other carrying amount of the asset or liability. For other cash flow hedges, amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same period or periods when the hedged forecast cash flows affect profit or loss. However, if the amount is a loss that is not expected to be recoverable partially or entirely in the future, the amount that is expected to be unrecoverable is reclassified immediately to profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is reclassified to profit or loss when the transaction of the hedged item is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is reclassified immediately to profit or loss.

(6) Share Capital

1) Ordinary Shares

Proceeds from the issuance of equity instruments by the Company are recognized in capital stock and capital surplus. Transaction costs directly attributable to the issuance of ordinary shares are recognized as a deduction from capital surplus on a post-tax basis.

2) Treasury Stock

When treasury stock is repurchased, it is recognized at the acquisition cost and such amount is recognized as a deduction from equity. Transaction costs directly attributable to the repurchase of treasury stock are deducted from equity. When treasury stock is sold, the consideration received is recognized as an increase in equity, and the difference between the carrying amount and the consideration received is included in capital surplus.

(7) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at banks, demand deposits with banks and other financial institutions, and short-term and highly liquid investments that are readily convertible into known amounts of cash and are not subject to significant risk of changes in value with a maturity of three months or less from the acquisition date.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are mainly calculated by the average method and comprise all costs of purchasing and processing as well as other costs incurred in bringing the inventories to their present location and condition. Fixed and variable overhead costs are allocated appropriately and included in the processing costs.

Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(9) Property, Plant and Equipment

The Group applies the cost model for measurement of property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Costs of property, plant and equipment include costs directly attributable to the acquisition of property, plant and equipment; the initial estimated costs related to removing the asset and restoring the site; and borrowing costs for qualifying assets. Property, plant and equipment, except for land and construction in progress, are depreciated using the straight-line method over the depreciable amount, which is determined as the costs less their residual values, over the estimated useful lives from the date when they are available for their intended use.

The estimated useful lives of property, plant and equipment are mainly as follows:

Buildings	30 to 40 years
Machinery and equipment	5 to 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period.

The gain or loss arising from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is recognized in profit or loss.

(10) Intangible Assets

The Group applies the cost model for subsequent measurement of intangible assets. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

1) Intangible Assets Acquired Separately

Intangible assets acquired separately are measured at cost at initial recognition.

2) Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are measured at their fair value at the acquisition date.

3) Internally Generated Intangible Assets

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

Expenditures on development (or in the development phase of an internal project) are recognized as assets only if all of the following have been demonstrated:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b) the intention to complete the intangible asset and use or sell it;
c) the ability to use or sell the intangible asset
d) how the intangible asset will generate probable future economic benefits;
e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The other expenditures are recognized as expenses as incurred.

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

Intangible assets with finite useful lives are amortized by the straight-line method over their estimated useful lives from the date when they are available for their intended use. Amortization methods, useful lives, and residual values are reviewed at the end of each reporting period.

The estimated useful lives of intangible assets are as follows:

Technology-related assets	13 years
Software	5 years

Intangible assets with infinite useful lives and intangible assets not yet available for use are not amortized, and are tested for impairment at least annually, and whenever there is an indication that the intangible asset may be impaired.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

(11) Goodwill

With respect to the initial measurement of goodwill, please see (2) Business Combinations. After initial recognition, goodwill is stated at cost less accumulated impairment losses.

Goodwill has been allocated to cash-generating units or groups of cash-generating units, and it is tested for impairment at least annually and whenever there is an indication that a cash-generating unit to which goodwill has been allocated may be impaired. If the recoverable amount of the cash-generating unit or the group of cash-generating units is less than its carrying amount, an impairment loss for goodwill is recognized in profit or loss. The impairment loss recognized for goodwill is not reversed in subsequent periods.

Regarding impairment of goodwill, please see (13) Impairment of Non-financial Assets and Investments Accounted for Using the Equity Method.

(12) Leases

The Group determines whether an arrangement, comprising a transaction, is or contains a lease based on an evaluation of the substance of the arrangement at the commencement of the lease term. The substance of the arrangement is determined based on whether the performance of the arrangement depends on a right to use a specific asset or assets, or whether a right to use the leased assets is entitled according to the lease arrangement.

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) Finance Leases (the Group as Lessee)

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Assets held under finance leases are depreciated using the straight-line method over the shorter of the lease term and their estimated useful lives.

Minimum lease payments are apportioned between an interest portion and a principal portion. The interest portion is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the lease term.

2) Operating Leases (the Group as Lessee)

Operating lease payments are recognized as expenses on a straight-line basis over the lease terms.

(13) Impairment of Non-financial Assets and Investments Accounted for Using the Equity Method

At the end of each reporting period, the Group assesses whether there is any indication that non-financial assets may be impaired.

If any impairment indication exists, the recoverable amount of the asset is estimated. However, goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment at least annually regardless of whether there is any indication of impairment.

Moreover, when there is objective evidence of impairment, the investments accounted for using the equity method are tested for impairment by treating the carrying amount of the entire investments as a single asset.

The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs of disposal or value in use. When the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit or the group of cash-generating units to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Since corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the cash-generating unit or the group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units, unless the asset has been determined to be disposed of.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or the cash-generating unit is reduced to its recoverable amount, and an impairment loss is recognized.

When there are indications that an impairment loss recognized in prior periods may no longer exist or may have decreased since the last recognition of the impairment loss, the impairment loss recognized in prior years for an asset or a cash-generating unit other than goodwill is reversed. The reversal of an impairment loss is recognized to the extent where the carrying amount of the asset or the cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the cash-generating unit in prior years.

(14) Non-current Assets Held for Sale

A non-current asset (or a disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An asset is classified as held for sale only when the asset (or the disposal group) is available for immediate sale, and when management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized.

(15) Employee Benefits

1) Post-employment Benefits

The Group has defined benefit pension plans and defined contribution pension plans as post-employment benefit plans.

The primary defined benefit plans adopted by group entities in Japan are contract-type defined benefit corporate pension plans and a retirement lump sum payment plan. Certain group entities in Japan have joined the Smaller Enterprise Retirement Allowance Mutual Aid Scheme. Certain overseas group entities have adopted defined benefit plans and defined contribution plans.

i) Defined benefit plans

The present value of defined benefit obligations, relevant current service cost, as well as past service costs of each plan, are determined using the projected unit credit method. The present value is measured at the discounted expected future payments. The discount rate is determined by reference to market yields at the fiscal year-end on high quality corporate bonds for the corresponding period in which the retirement benefits are to be paid. The net defined benefit liability or asset is recognized as a liability or an asset in the consolidated financial statements, and is measured at the present value of defined benefit obligation net of the fair value of plan assets (including the effect of the asset ceiling of defined benefit plans and adjustment for minimum funding requirements, if necessary). Current service cost and net interest expense or income on the net defined benefit liability (or asset) are recognized in profit or loss. Remeasurements of the defined retirement benefit plans are recognized in other comprehensive income in the period when they occur and transferred immediately to retained earnings. Past service cost is recognized in profit or loss as incurred.

ii) Defined contribution plans

Contributions to defined contribution retirement plans are recognized as expenses in the period in which the associated services are rendered by employees.

2) Other Long-term Employee Benefits

Liabilities recognized in respect of other long-term employee benefits, such as long-term paid absences, are measured at the present value of the estimated future benefits that are expected to be paid by the Group in exchange for the services rendered by employees up to the reporting date.

3) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses when the associated services are rendered by employees at undiscounted amounts.

A liability is recognized for the expected benefit payments when the Group has a present legal or constructive obligation to pay for employee benefits as a result of the services rendered by employees, and when a reliable estimate can be made for the obligation.

(16) Share-based Payment

1) Stock Option Scheme

The Company has introduced equity-settled share-based payment schemes (hereinafter referred to as “stock options”) as remuneration granted to directors (other than external directors) and executive officers.

Stock options are measured at fair value at the grant date and recognized as an expense on a straight-line basis over the vesting period, taking into account the probability that the options may forfeit without satisfying vesting conditions, with a corresponding increase in equity. The fair value at the grant date is measured using the Black–Scholes model.

2) Performance- and Share-based Payment Scheme

The Company has introduced a performance- and share-based payment scheme for directors of the Company, namely, the Executive Compensation Board Incentive Plan (BIP) Trust (hereinafter referred to as the “executive compensation BIP trust”) in order to further enhance incentives for realizing the business prospects indicated in the medium-term management plan and for sustainably improving corporate value. The executive compensation BIP trust is an incentive plan granting the shares of the Company or the equivalent cash as the granted shares would be sold as directors’ remuneration in the last year of three-year medium-term management plans, depending on the achievement of business performance for each three years.

Considerations for the services rendered are measured based on the fair value of the granted shares of the Company and recognized as an expense with a corresponding increase in a capital reserve within equity.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligations at the end of each reporting period.

When the impact of the time value of money is material, provisions are stated at the present value of the estimated future cash flows, which is discounted using a pre-tax rate reflecting the time value of money and the specific risks of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as “Finance costs.”

1) Provision for Product Warranties

The Group recognizes and measures the provision for future product warranties based on actual sales recorded and warranty costs incurred in prior years, whereby repair expenses can be covered for products sold in the period that the Group guarantees to provide free repair services in the contracts. The Group estimates that the outflows of the expected economic benefits will occur within a one-year period from the end of each fiscal year.

2) Asset Retirement Obligations

The Group recognizes and measures the provisions for asset retirement obligations based on past experiences, whereby the Group incurred an obligation for the restoration of leased premises, such as office buildings, and for the removal of harmful substances related to property, plant and equipment. The Group expects that the majority of the payments of these obligations will be made after one year from the end of each fiscal year.

(18) Revenue Recognition

The Group's revenue is generated mainly from sales of goods in the Imaging Products Business, Precision Equipment Business, Healthcare Business, and businesses of Industrial Metrology and Others, and from auxiliary repair and maintenance services that are associated with the products sold.

1) Sale of Goods

Revenue from sale of goods is recognized when goods are delivered and all the following conditions are satisfied:

a) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c) the amount of revenue can be measured reliably;
d) it is probable that the economic benefits associated with the transaction will flow to the Group; and
e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable taking into account any rebates and discounts.

2) Services Rendered

Revenue from providing services is recognized by reference to the stage of completion, when the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group; and the stage of completion and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(19) Government Grants

Government grants are not recognized until there is a reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. If property, plant, and equipment are acquired with the government grant, the grant is recognized as deferred revenue and reclassified to profit or loss on a systematic basis over the useful lives of the related assets.

(20) Income Taxes

Income taxes for the year comprise current tax and deferred income taxes. Income taxes are recognized in profit or loss except to the extent that they arise from items recognized in other comprehensive income or directly in equity, or from a business combination.

Current tax is measured at the expected tax payable or tax receivable on taxable income for the year due to or due from the tax authorities, applying the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax expenses are determined based on the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax bases at the end of the reporting period. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unused tax losses, and unused tax credits can be utilized. Deferred tax liabilities are recognized for taxable temporary differences, in principle.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, based on tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit (loss) at the time of the transaction;
- Deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, for which it is probable that the temporary difference will not reverse in the foreseeable future or when it is less probable that taxable profit will be available against which the temporary difference can be utilized; or
- Taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, for which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if the Group has the legally enforceable right to offset current tax assets against current tax liabilities, and if income taxes are levied by the same taxation authority on the same taxable entity.

The Company and certain subsidiaries apply the consolidated tax payment system.

(21) Earnings per Share

Basic earnings per share are calculated by dividing the profit for the reporting period attributable to ordinary equity stockholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the effect of all potential dilutive ordinary shares.

4. Use of Estimates and Judgment

The preparation of consolidated financial statements requires selecting the application of accounting policies and use of estimates based on assumptions, which is grounded on the management's judgment to use the estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, available information and other factors that are reasonably assessed at the end of the reporting period according to management's best judgments. However, actual results may differ from these estimates and associated assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period of the revision and future periods.

The following are the critical judgments the management has made in the process of the Group's accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements.

- Scope of subsidiaries, associates, and joint ventures (see (1) Basis of Consolidation in Note 3. Significant Accounting Policies)
- Revenue recognition (see (18) Revenue Recognition in Note 3. Significant Accounting Policies)

The following are the key estimates and associated assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the subsequent reporting period:

- The useful lives of property, plant and equipment and intangible assets (see Note 3. Significant Accounting Policies (9) Property, Plant and Equipment and (10) Intangible Assets)
- Significant assumptions used in the calculation of the expected discounted cash flows for the impairment test of non-financial assets (see Note 15. Impairment Losses of Non-financial Assets)
- Recoverability of deferred tax assets (see Note 18. Income Taxes)
- Accounting treatment and valuation of provisions (see Note 21. Provisions)
- Fair value measurement for financial instruments (see Note 35. Financial Instruments)
- Measurement of inventories (see Note 9. Inventories)
- Employee benefits (see Note 24. Employee Benefits)
- Share-based payments (see Note 34. Share-based Payment)
- The possibility of an outflow of economic resources of contingent liabilities (see Note 38. Contingent Liabilities)

5. New Standards and Interpretations Not Yet Adopted by the Group

The new standards, interpretations, and amendments that have been issued as of March 31, 2018 were as follows. The Group has not early adopted these for the year ended March 31, 2018.

Due to the application of IFRS 15 "Revenue from Contracts with Customers," certain items that have previously been recognized under the selling, general and administrative expenses are deducted from revenue. In accordance with this application, the revenue of the consolidated statements of profit or loss is expected to decrease approximately ¥3,000 million for the first half ending September 30, 2018 and ¥7,000 million for the year ending March 31, 2019. The impact on the profit for the current reporting period is not material.

For the application of IFRS 16 "Leases," the Group is currently evaluating the potential impact that the application of these standards and interpretations will have on the consolidated financial statements.

Standards	Title	Reporting period beginning on or after which the applications are required	Reporting periods of application by the Group (the reporting period ended)	Summaries of new IFRS and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Accounting for recognition of revenue and relevant disclosure requirements
IFRS 16	Leases	January 1, 2019	March 31, 2020	Accounting for recognition of leases and relevant disclosure requirements

6. Segment Information

(1) Outline of Reportable Business Segments

The business segments that the Group reports are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine the distribution of management resources and evaluate the Group's business results.

In consideration of the similarity of economic characteristics, the Group integrated its business divisions into three reportable segments consisting of the Imaging Products Business, the Precision Equipment Business, and the Healthcare Business.

The Imaging Products Business provides products and services of imaging products and its peripheral domains, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products and services with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products and services for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices.

(Regarding the Revision of Reportable Segments)

Until the three months ended June 30, 2017, the Group had four reportable segments: the Precision Equipment Business, the Imaging Products Business, the Instruments Business, and the Medical Business. However, from the first half ended September 30, 2017, the Group abolished the Instruments Business and the Medical Business, and integrated its business divisions into three reportable segments consisting of the Imaging Products Business, the Precision Equipment Business, and the newly established Healthcare Business.

Since June 29, 2017, the Microscope Solutions Business Unit that was formerly included in the Instruments Business and the Medical Business Development Division has been integrated into the newly established Healthcare Business Unit in order to enable the Company to integrate and optimize organizations and functions rapidly. In addition, the Company will be able to create business synergy, and boost existing businesses as well as accelerate the creation and nurturing of new businesses in the healthcare, medical, and biological fields, which are anticipated to grow in the future. In relation to this reorganization, the Healthcare Business has newly been established as a reportable business segment from the first half ended September 30, 2017.

In addition, the Industrial Metrology Business Unit formerly included in the Instruments Business has been included in the Industrial Metrology and Others, by taking into consideration its business scale against the Group.

The segment information for the year ended March 31, 2017, has been prepared based on the revised reportable segments.

(2) Information about Reportable Segments

The accounting policies for reportable segments are consistent with those described in Note 3. Significant Accounting Policies. Profit or loss of the reportable segments is based on operating profit.

The intersegment revenues are based on current market prices.

The information about reportable segments is as follows:

Millions of yen

For the year ended March 31, 2017	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note3)
Revenue							
External customers	383,024	248,026	55,797	62,426	749,273	—	749,273
Intersegment sales or transfers	747	312	622	27,516	29,198	(29,198)	—
Total	383,771	248,339	56,419	89,942	778,471	(29,198)	749,273
Segment profit (loss) (Note 4)	17,150	13,463	(660)	3,720	33,672	(32,898)	774
Finance income							5,781
Finance costs							(4,006)
Share of the profit of investments accounted for using the equity method							518
Profit before income taxes							3,068
Segment assets	158,348	154,969	90,206	122,521	526,044	492,306	1,018,351
Others							
Impairment losses (Note 5)	728	4,183	—	440	5,351	—	5,351
Depreciation and amortization	16,168	2,931	3,198	7,022	29,319	4,653	33,972
Increase in property, plant and equipment, goodwill and intangible assets	8,519	7,511	3,443	12,544	32,017	4,220	36,237

Notes: 1. The “Industrial Metrology and Others” category consists of operations not included in the reportable segments such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.

2. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥(523) million and corporate profit (loss) of ¥(32,375) million. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other income or expenses that cannot be attributed to any segments. In addition, reconciliation of segment assets includes corporate assets of ¥ 506,179 million that cannot be attributable to any reportable segments, and elimination of intersegment transactions of ¥(13,873) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some property, plant and equipment used in common.

3. Reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss.

4. The restructuring costs recognized in the segment profit (loss) are ¥(10,971) million for the Imaging Products Business, ¥(34,723) million for the Precision Equipment Business, ¥(556) million for the Healthcare Business, and ¥(1,806) million for Industrial Metrology and Others. The corporate profit (loss) that cannot be attributable to any segment and recognized in segment profit (loss) is ¥(5,313) million.

5. The main components of the impairment losses are described in Note 15. Impairment Losses of Non-financial Assets.

Millions of yen

For the year ended March 31, 2018	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note3)
Revenue							
External customers	360,703	226,334	56,818	73,222	717,078	—	717,078
Intersegment sales or transfers	839	246	267	58,048	59,400	(59,400)	—
Total	361,542	226,581	57,085	131,270	776,478	(59,400)	717,078
Segment profit (loss) (Note 4)	30,222	53,393	(3,263)	5,026	85,377	(29,140)	56,236
Finance income							6,535
Finance costs							(6,295)
Share of the (loss) of investments accounted for using the equity method							(219)
Profit before income taxes							56,257
Segment assets	134,993	185,150	95,973	139,639	555,755	542,588	1,098,343
Others							
Impairment losses (Note 5)	1,080	6	293	18	1,397	—	1,397
Depreciation and amortization	13,950	2,681	3,103	7,615	27,348	4,358	31,706
Increase in property, plant and equipment, goodwill and intangible assets	6,465	4,460	5,728	14,195	30,848	4,673	35,521

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.
2. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥(281) million and corporate profit (loss) of ¥(28,859) million. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other income or expenses that cannot be attributed to any segments. In addition, reconciliation of segment assets includes corporate assets of ¥557,572 million that cannot be attributable to any reportable segments, and elimination of intersegment transactions of ¥(14,984) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some property, plant and equipment used in common.
3. Reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss.
4. The restructuring costs recognized in the segment profit (loss) are ¥(5,899) million for the Imaging Products Business and ¥(2,833) million for Industrial Metrology and Others.
5. The main components of the impairment losses are described in Note 15. Impairment Losses of Non-financial Assets.

(3) Geographic Information

Revenue to external customers

Millions of yen

	2017	2018
Japan	126,347	102,893
United States	181,715	177,701
Europe	124,609	122,486
China	148,997	162,786
Others	167,605	151,212
Total	749,273	717,078

Notes: Revenue is based on the geographic locations of customers, which are categorized either by country or region.
Except for Japan, the United States, and China, the countries or regions are primarily categorized as follows:
1. Europe: United Kingdom, France, and Germany
2. Others: Canada, Asia other than Japan and China, the Middle East, Oceania, and Latin America

Non-current assets

Millions of yen

	2017	2018
Japan	101,574	105,016
North America	4,755	4,660
Europe	52,009	48,200
China	8,571	1,228
Thailand	24,700	22,751
Others	2,318	2,017
Total	193,927	183,872

Notes: Non-current assets are based on the geographic locations of assets, which are categorized either by country or region.
Except for Japan, China, and Thailand, the countries or regions are primarily categorized as follows:
1. North America: the United States and Canada
2. Europe: United Kingdom, France, and Germany
3. Others: Asia other than Japan, China, and Thailand, the Middle East, Oceania, and Latin America
Financial instruments, deferred tax assets, and net defined benefit assets are not included in the above.

(4) Information about Major Customers

This information is not shown as there is no single customer who contributed 10% or more to the consolidated revenues for the years ended March 31, 2017 and 2018.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	2017	2018
Cash and cash equivalents		
Cash and bank deposits	228,689	**327,332**
Time deposits with maturities within three months at acquisition	90,357	**61,106**
Total	319,046	**388,438**

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of yen

	2017	2018
Notes and accounts receivable	93,595	**102,711**
Other receivables	4,921	**3,319**
Less: allowance for doubtful accounts	(2,295)	**(1,504)**
Total	96,221	**104,526**

Note: Trade and other receivables are classified as financial assets measured at amortized cost.
As for allowance for doubtful accounts, please see (5) Credit Risk Management in Note 35. Financial Instruments.

9. Inventories

The breakdown of inventories is as follows:

Millions of yen

	2017	2018
Finished goods	111,820	**112,334**
Work in progress	81,602	**95,870**
Raw materials and supplies	26,977	**27,349**
Total	220,400	**235,553**

The amounts of inventories that were expensed for the years ended March 31, 2017 and 2018 were ¥476,586 million and ¥404,148 million, respectively.

The write-downs of inventories to their net realizable value for the years ended March 31, 2017 and 2018 were ¥52,193 million and ¥11,964 million, respectively. The write-downs of inventories for the year ended March 31, 2017 include the losses on write-downs and disposal of the products whose development had been shrinking as a result of a review on product development strategies for the Semiconductor Lithography Business, as well as the losses on write-downs and disposal of the products for which commercialization had been terminated in the Imaging Products Business and that are recognized as “Restructuring costs” in “Other expenses.”

10. Other Financial Assets

(1) The Breakdown of Other Financial Assets is as Follows:

Millions of yen

	2017	2018
Derivative financial assets	2,467	**1,955**
Equity securities	72,447	**78,699**
Others	19,592	**22,145**
Total	94,506	**102,799**
Other current financial assets	9,163	**10,958**
Other non-current financial assets	85,343	**91,841**

As for the classification of financial assets, please see (2) Classification of Financial Instruments in Note 35. Financial Instruments.

Derivative financial assets other than those applying hedging accounting are classified as financial assets measured at fair value through profit or loss. Equity securities are mainly classified as financial assets measured at fair value through other comprehensive income.

(2) The Name and Fair Value of Major Financial Assets Measured at Fair Value through Other Comprehensive Income

Since the shares held by the Group are primarily for the purpose of maintaining or strengthening business relationships with investees, these instruments are designated at initial recognition as at fair value through other comprehensive income.

Millions of yen

Name of Shares	2017	2018
JEOL Ltd.	5,091	**8,419**
Kirin Holdings Company, Limited	8,777	**5,921**
MITSUBISHI ESTATE CO., LTD.	4,929	**4,367**
Mitsubishi Corporation	3,603	**4,287**
Citizen Watch Co., Ltd.	3,574	**3,824**
HEALIOS K.K.	2,766	**3,059**
Mitsubishi Electric Corporation	2,820	**3,005**
Mebuki Financial Group, Inc.	3,162	**2,906**
Tokio Marine Holdings, Inc.	2,792	**2,816**
Mitsubishi Logistics Corporation	3,547	**2,613**

(3) The Fair Value at the Date of Derecognition and the Accumulated Gain or Loss Recognized as Other Comprehensive Income in Equity
For the year ended March 31, 2017

Millions of yen

Fair value	Accumulated gain or loss recognized as other comprehensive income in equity
5,851	2,278

For the year ended March 31, 2018

Millions of yen

Fair value	Accumulated gain or loss recognized as other comprehensive income in equity
6,827	**669**

Accumulated gain or loss recognized as other comprehensive income in equity was reclassified to retained earnings upon derecognition.

11. Other Assets

The breakdown of other current assets and other non-current assets is as follows:

	Millions of yen	
	2017	2018
Consumption taxes receivable	4,341	**2,553**
Prepaid expenses	7,417	**9,420**
Refundable income taxes	2,895	**1,045**
Others	3,878	**3,539**
Total	18,531	**16,556**
Other current assets	14,183	**12,430**
Other non-current assets	4,349	**4,126**

12. Non-current Assets Held for Sale

The breakdown of non-current assets held for sale is as follows:

	Millions of yen	
	2017	2018
Buildings and structures	—	**2,213**
Others	—	**64**
Total	—	**2,277**

Non-current assets held for sale as of March 31, 2018 represent buildings and structures held by Nikon Imaging (China) Co., Ltd. that were determined to be sold as part of the discontinuation of its operations, and have been classified to non-current assets held for sale.

13. Property, Plant and Equipment

(1) Statement of Changes in Property, Plant and Equipment

Details of changes in acquisition costs, accumulated depreciation, and accumulated impairment losses of property, plant and equipment are as follows:

Acquisition costs

	Millions of yen					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of April 1, 2016	135,000	217,290	15,681	5,203	92,486	465,660
Acquisition	477	923	—	22,624	1,974	25,999
Acquisitions through business combinations	68	70	50	—	9	197
Disposals	(4,570)	(14,603)	—	(4)	(6,792)	(25,969)
Transfer from other accounts	7,499	8,174	21	(22,711)	4,023	(2,995)
Effect of foreign currency exchange differences	(233)	(812)	(25)	8	(680)	(1,742)
As of March 31, 2017	138,240	211,042	15,727	5,120	91,020	461,150
Acquisition	**1,218**	**866**	**—**	**23,181**	**1,992**	**27,257**
Transfer to non-current assets held for sale	**(4,084)**	**—**	**—**	**—**	**—**	**(4,084)**
Disposals	**(1,699)**	**(16,370)**	**—**	**(29)**	**(10,651)**	**(28,749)**
Transfer from other accounts	**4,627**	**5,430**	**—**	**(20,957)**	**3,289**	**(7,611)**
Effect of foreign currency exchange differences	**656**	**2,075**	**(1)**	**(16)**	**1,131**	**3,845**
As of March 31, 2018	**138,959**	**203,043**	**15,726**	**7,299**	**86,782**	**451,809**

Accumulated depreciation and impairment losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of April 1, 2016	86,855	178,896	—	1,637	70,870	338,257
Depreciation	4,242	11,418	—	—	7,493	23,153
Impairment losses	8	3,925	—	418	600	4,951
Disposals	(4,550)	(14,442)	—	—	(6,732)	(25,724)
Transfer from other accounts	262	901	—	(1,185)	(238)	(260)
Effect of foreign currency exchange differences	(146)	(440)	—	—	(469)	(1,055)
As of March 31, 2017	86,671	180,258	—	870	71,525	339,323
Depreciation	**4,472**	**8,891**	**—**	**—**	**7,817**	**21,180**
Impairment losses	**60**	**613**	**—**	**—**	**424**	**1,098**
Transfer to non-current assets held for sale	**(1,855)**	**—**	**—**	**—**	**—**	**(1,855)**
Disposals	**(1,491)**	**(15,903)**	**—**	**(29)**	**(10,590)**	**(28,013)**
Transfer from other accounts	**(0)**	**(46)**	**—**	**(149)**	**(985)**	**(1,181)**
Effect of foreign currency exchange differences	**213**	**1,451**	**—**	**—**	**832**	**2,496**
As of March 31, 2018	**88,070**	**175,263**	**—**	**692**	**69,024**	**333,049**

With respect to impairment losses, please see Note15. Impairment Losses of Non-financial Assets.

Depreciation of property, plant and equipment is recognized in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

Carrying amount

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of March 31, 2017	51,569	30,785	15,727	4,250	19,496	121,827
As of March 31, 2018	**50,889**	**27,780**	**15,726**	**6,607**	**17,758**	**118,761**

Leased assets held under finance leases

The carrying amounts of the leased assets under finance leases recognized in non-current assets as of March 31, 2017 and 2018 were as follows:

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Others
As of March 31, 2017	1,932	153	1,155
As of March 31, 2018	**1,687**	**114**	**1,050**

(2) Assets Pledged as Collateral

There were no material property, plant and equipment pledged as collateral as of March 31, 2017 and 2018.

(3) Commitments

The commitments to acquire property, plant and equipment as of March 31, 2017 and 2018 were ¥7,303 million, and ¥6,680 million, respectively.

14. Goodwill and Intangible Assets

(1) Statement of Changes in Goodwill and Intangible Assets

Details of changes in acquisition costs, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

Acquisition costs

Millions of yen

	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of April 1, 2016	23,120	20,023	428	73,328	26,898	13,186	1,215	158,199
Additions through acquisition	—	—	—	5,909	386	—	182	6,477
Additions through internal development	—	—	—	—	—	2,522	—	2,522
Acquisitions through business combinations	608	192	242	—	—	—	—	1,042
Disposals	—	—	—	(2,744)	(51)	(1,681)	(85)	(4,561)
Transfer from other accounts	—	—	—	(1,541)	(1)	—	210	(1,332)
Effect of foreign currency exchange differences	(45)	(36)	22	(115)	(122)	(694)	30	(960)
As of March 31, 2017	23,683	20,179	692	74,837	27,111	13,334	1,553	161,388
Additions through acquisition	**—**	**—**	**—**	**5,071**	**1,077**	**—**	**67**	**6,215**
Additions through internal development	**—**	**—**	**—**	**—**	**—**	**2,049**	**—**	**2,049**
Transfer to assets held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**(74)**	**(74)**
Disposals	**—**	**—**	**—**	**(3,541)**	**—**	**(3,877)**	**(26)**	**(7,444)**
Transfer from other accounts	**—**	**—**	**—**	**(1,042)**	**(245)**	**—**	**6**	**(1,281)**
Effect of foreign currency exchange differences	**(1,018)**	**(1,082)**	**16**	**(166)**	**155**	**944**	**(4)**	**(1,155)**
As of March 31, 2018	**22,665**	**19,097**	**708**	**75,158**	**28,099**	**12,450**	**1,521**	**159,698**

Accumulated amortization and accumulated impairment losses

Millions of yen

	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of April 1, 2016	—	1,284	238	55,401	21,234	8,835	588	87,579
Amortization expenses	—	1,488	179	6,728	1,177	1,144	103	10,818
Impairment losses	—	—	—	350	—	—	—	350
Disposals	—	—	—	(2,731)	(51)	(1,681)	(81)	(4,543)
Transfer from other accounts	—	—	—	(207)	0	—	205	(2)
Effect of foreign currency exchange differences	—	85	16	(54)	(101)	(533)	22	(565)
As of March 31, 2017	—	2,856	433	59,486	22,259	7,765	837	93,636
Amortization expenses	**—**	**1,529**	**—**	**6,432**	**1,019**	**1,415**	**131**	**10,525**
Impairment losses	**—**	**—**	**—**	**65**	**—**	**233**	**—**	**298**
Transfer to assets held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**(10)**	**(10)**
Disposals	**—**	**—**	**—**	**(3,513)**	**—**	**(2,999)**	**(26)**	**(6,539)**
Transfer from other accounts	**—**	**—**	**—**	**360**	**3**	**—**	**(3)**	**360**
Effect of foreign currency exchange differences	**—**	**(249)**	**—**	**(182)**	**127**	**757**	**(11)**	**442**
As of March 31, 2018	**—**	**4,136**	**433**	**62,648**	**23,408**	**7,169**	**918**	**98,713**

With regard to impairment losses, please see Note 15. Impairment Losses of Non-financial Assets.

Amortization of intangible assets is recognized in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

Carrying amount

Millions of yen

	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of March 31, 2017	23,683	17,323	259	15,351	4,852	5,569	716	67,752
As of March 31, 2018	**22,665**	**14,960**	**275**	**12,511**	**4,690**	**5,281**	**603**	**60,985**

(2) Assets Pledged as Collateral
There were no goodwill and intangible assets pledged as collateral as of March 31, 2017 and 2018.

(3) Commitments
The commitments to acquire intangible assets as of March 31, 2017 and 2018 were ¥1,398 million, and ¥1,092 million, respectively.

(4) Significant Intangible Assets
As of March 31, 2018, the Group's major intangible assets were those related to technology.

The carrying amount of technology-related intangible assets acquired through the acquisition of Optos was ¥17,125 million and ¥14,764 million as of March 31, 2017 and 2018, respectively. The remaining useful life of the intangible assets is 10 years.

15. Impairment Losses of Non-financial Assets

(1) Impairment Losses
The Group has grouped the smallest group of assets that generate largely independent cash inflows as well as material idle assets based on the business segments.

If the carrying amount of an asset exceeds its recoverable amount, such carrying amount is written down to the recoverable amount and an impairment loss is recognized. Impairment losses are included in "Other expenses" in the consolidated statement of profit or loss.

The breakdown of impairment losses by asset category is as follows:

Millions of yen

	2017	2018
Property, plant and equipment	4,951	**1,098**
Intangible assets	350	**298**
Others	51	**1**
Total	5,351	**1,397**

With regard to the breakdown of impairment losses by segment, please see Note 6. Segment Information.

(2) Impairment Losses Recognized and the Underlying Events that Led to the Recognition of Impairment Losses

For the year ended March 31, 2017

With regard to the Semiconductor Lithography Business Unit, as a result of estimating future cash flows based on the current circumstances, the Group reduced the carrying amount of the machinery, equipment and vehicles used for business operations, whose investments were unlikely to be recovered to their recoverable amount, and recorded this reduction as an impairment loss. The recoverable amount was determined based on fair value less costs of disposal and the fair value is based on real estate appraisal. These fair value measurements are categorized within the Level 3 category of the fair value hierarchy.

In addition, the Group carried out an investigation on the utilization status of the non-current assets held by the Group and future prospects. As a result of the investigation, the Group recognized impairment losses for idle assets mainly located in Japan, China and Thailand that did not have an expected specific use in the future. Of the total impairment losses of ¥5,351 million, the impairment losses of ¥204 million for idle assets which are not expected to be used in the future due to termination of product commercialization are recognized as "Restructuring costs" in "Other expenses."

For the year ended March 31, 2018

For the year ended March 31, 2018, as a result of investigating the utilization status and future prospects for the non-current assets held by the Group, the Group recognized impairment losses for idle assets and non-current assets held for sale in which the recoverable amount is lower than the carrying amount mainly located in Japan, China and Europe that did not have an expected specific use in the future. The recoverable amount was determined based on fair value less costs of disposal and the fair value is based on disposal price. The fair value measurements are categorized within the Level 3 category of the fair value hierarchy.

Of the total impairment losses of ¥1,397 million, the impairment losses of ¥793 million for the discontinuation of operations of a subsidiary in China are recognized as "Restructuring costs" in "Other expenses."

(3) Impairment Test of Goodwill

The carrying amount of goodwill allocated to a cash-generating unit or a group of cash-generating units is as follows:

Millions of yen

	2017	2018
Imaging Products Business	650	**691**
Healthcare Business	19,957	**18,898**
Industrial Metrology and Others	3,076	**3,076**
Total	23,683	**22,665**

The principal goodwill of those allocated to each cash-generating unit or group of cash-generating units is the one arisen from the business combination with Optos Plc, of which the cash-generating unit is included in the Healthcare Business.

(Healthcare Business)

The recoverable amount is measured at the fair value less costs of disposal. The fair value less costs of disposal is calculated by discounting the future cash flows (post-tax) for the next 10 years to present value. The future cash flows are estimated based on the growth rate and the business plan approved by management reflecting past experience and external inputs. (Income Approach)

The growth rate used in the calculation is 2.0% (2.2% for the year ended March 31, 2017), and the post-tax discount rate is 7.0% (7.3% for the year ended March 31, 2017) based on the weighted average cost of capital of the cash-generating unit. This fair value measurement is categorized within Level 3 of the fair value hierarchy in accordance with the material inputs to valuation techniques used.

(Businesses other than Healthcare)

The recoverable amount is measured at the value in use. The value in use is calculated by discounting the future cash flows less than 5 years to present value. The future cash flows are estimated based on the growth rate and the business plan approved by management reflecting past experience and external inputs.

The growth rate used in the calculation is 0.0% – 2.0% (0.0% – 2.0% for the year ended March 31, 2017), and the pre-tax discount rate is 6.2% – 6.8% (7.3% – 7.5% for the year ended March 31, 2017) based on the weighted average cost of capital of the cash-generating unit or the group of cash-generating units.

As a result of these impairment tests of goodwill, the recoverable amount is higher than the carrying amount of each cash-generating unit or group of cash-generating units. Furthermore, the Group believes it is barely probable that impairment losses will incur, even if there are reasonable possible changes in the key assumptions (i.e. growth rate and discount rate) used as the basis for the recoverable amount.

16. Investments Accounted for Using the Equity Method

(1) Interest in Associates

The carrying amount of interest in associates that are not individually material is as follows:

Millions of yen

	2017	2018
Carrying amount in total	8,315	**5,591**

(Impairment Loss of Investments Accounted for Using the Equity Method)

Although the Company aimed to strengthen product competitiveness and to develop a new market in the X-ray non-destructive testing field through development and sales support of a U.S. affiliated company engaged in X-ray analyzers, it became apparent that there was no prospect of commercialization, and the Company decided to discontinue its investment for the fiscal year ended March 31, 2018.

As a result, an impairment loss of ¥1,793 million was recognized. The impairment loss is included under “Share of the profit (loss) of investments accounted for using the equity method.”

The share of comprehensive income of associates that are not individually material is as follows:

Millions of yen

	2017	2018
Share of profit (loss) for the year	(120)	**(940)**
Share of other comprehensive income	(354)	**(265)**
Share of comprehensive income	(475)	**(1,205)**

(2) Interest in Joint Ventures

The carrying amount of interest in joint ventures that are not individually material is as follows:

Millions of yen

	2017	2018
Carrying amount in total	3,381	**3,796**

The share of comprehensive income of joint ventures that are not individually material is as follows:

Millions of yen

	2017	2018
Share of profit for the year	638	**720**
Share of other comprehensive income	—	**—**
Share of comprehensive income	638	**720**

17. Leases

(1) Finance Leases (the Group as Lessee)

The breakdown of finance lease obligations is as follows:

Millions of yen

	Minimum lease payments		Present value of minimum lease payments	
	2017	2018	2017	2018
Within 1 year	870	**741**	864	**736**
After 1 year but within 5 years	2,418	**1,546**	2,395	**1,526**
After 5 years	159	**716**	158	**712**
Total	3,448	**3,003**	3,417	**2,974**
Less: future interest expenses	(31)	**(29)**		
Present value of minimum lease payments	3,417	**2,974**		
Amount in the consolidated statements of financial position:				
Lease obligations (current)	864	**736**		
Lease obligations (non-current)	2,553	**2,238**		

Some lease contracts contain options to renew the leases. There are no escalation clauses or restrictions on dividends, additional borrowings and additional leases provided by the lease contracts.

(2) Operating Leases (the Group as Lessee)

The Group has operating lease contracts mainly in respect of land, buildings and office equipment.

Lease payments recognized as expenses for the years ended March 31, 2017 and 2018 were ¥11,575 million and ¥11,556 million, respectively.

(3) Non-cancellable Operating Leases

The breakdown of future minimum lease payments under non-cancelable operating leases according to payment due dates are as follows:

Millions of yen

	Minimum lease payments	
	2017	2018
Within 1 year	2,788	**2,827**
After 1 year but within 5 years	4,484	**4,036**
After 5 years	107	**179**
Total	7,380	**7,042**

Some lease contracts contain options to renew the leases. There are no escalation clauses or restrictions on dividends, additional borrowings, and additional leases provided by the lease contracts.

18. Income Taxes

(1) Deferred Taxes

Deferred tax assets and liabilities are attributable to the following temporary differences:

Millions of yen

	2017	2018
Deferred tax assets:		
Unused tax losses	4,318	**1,505**
Impairment losses	6,636	**4,810**
Inventories	32,656	**27,587**
Accrued bonuses	3,007	**3,611**
Provision for product warranties	1,898	**1,631**
Net defined benefit liabilities	2,655	**2,097**
Depreciation and amortization	13,487	**15,315**
Others	19,976	**22,881**
Total deferred tax assets	84,633	**79,437**
Deferred tax liabilities:		
Equity instruments	(7,125)	**(9,213)**
Undistributed profits of foreign subsidiaries	(10,116)	**(9,795)**
Net defined benefit assets	(490)	**(2,527)**
Business combination	(4,578)	**(3,324)**
Others	(4,635)	**(5,203)**
Total deferred tax liabilities	(26,944)	**(30,060)**
Net deferred tax assets (liabilities)	57,689	**49,377**

The carrying amount of deferred tax assets and liabilities in the consolidated statement of financial position is as follows:

Millions of yen

	2017	2018
Deferred tax assets	62,883	**53,355**
Deferred tax liabilities	5,193	**3,978**
Net deferred tax assets (liabilities)	57,689	**49,377**

Details of changes in deferred tax assets and liabilities are as follows:

Millions of yen

	2016	2017
Opening balance	54,816	**57,689**
Amount recognized in profit or loss	7,763	**(5,926)**
Amount recognized in other comprehensive income		
Remeasurement of defined benefit pension plans	(1,503)	**(765)**
Gain (loss) on financial assets measured at fair value through other comprehensive income	(4,153)	**(2,789)**
Share of other comprehensive income of investments accounted for using the equity method	8	**7**
Effective portion of the change in fair value on cash flow hedges	163	**(138)**
Impact of business combination	2	**—**
Others	594	**1,299**
Closing balance	57,689	**49,377**

With regard to the income tax recognized in profit or loss for the year, please see (3) Income Tax Expenses in Note 18. Income Taxes.

The Group recognizes deferred tax assets by taking into account the possibility that all or part of deductible temporary differences or unused tax losses will be used against future taxable income. Recoverability of deferred tax assets is reassessed by considering the expected reversal of deferred tax liabilities, future taxable income, and tax planning. Based on the levels of taxable income in prior years and projected taxable income over the future period for which the deferred tax assets are allowed to be recognized, the Group has determined that it is probable that tax benefits of the recognized deferred tax assets will be realized.

The following are the details of unused tax losses and tax credits and deductible temporary differences for which deferred tax assets are not recognized.

Unused tax losses and tax credits are presented on a tax basis.

Millions of yen

	2017	2018
Unused tax losses	2,475	**8,152**
Unused tax credits	443	**258**
Deductible temporary differences	46,619	**55,760**

The following are the amounts of unused tax losses for which deferred tax assets are not recognized and their expiry period:

Millions of yen

	2017	2018
1st year	—	**—**
2nd year	—	**—**
3rd year	—	**—**
4th year	—	**—**
5th year	—	**1**
After 5th year	2,475	**8,151**
Total	2,475	**8,152**

(2) Unrecognized Deferred Tax Liabilities

The following are the amounts of taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized.

Deferred tax liabilities are not recognized on the temporary differences for which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

Millions of yen

	2017	2018
Temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized	3,958	**5,518**

(3) Income Tax Expenses

The breakdown of income taxes is as follows:

Millions of yen

	2017	2018
Current tax expense	6,773	**15,496**
Deferred tax expense (benefit)	(7,763)	**5,926**
Total	(990)	**21,422**

With regard to deferred tax expenses, please see (1) Deferred Taxes in Note 18. Income Taxes.

(4) Reconciliation of Effective Tax Rate

Reconciliations between the statutory and actual effective tax rate for each fiscal year are presented as shown below. The actual effective tax rate represents the ratio of income tax expenses to profit before income taxes.

	2017	2018
Statutory effective tax rate	30.9	**30.9**
Tax rate differences of consolidated subsidiaries	(40.3)	**(3.6)**
Research and development tax credits	(2.7)	**(3.4)**
Impact of unrecognized deferred tax assets arising from unused tax losses or temporary differences	(3.1)	**7.7**
Changes in deferred tax liabilities related to undistributed profit of foreign subsidiaries	(33.9)	**(0.6)**
Reduction of the carrying amount of deferred tax assets at the end of fiscal year due to the change in the corporate tax rate	(3.5)	**4.9**
Reversal of deferred taxes due to expiry of unused foreign tax credits	9.8	**0.3**
Foreign withholding tax arising from dividends from foreign subsidiaries	5.0	**1.0**
Others	5.6	**0.9**
Actual effective tax rate	(32.3)	**38.1**

For the year ended March 31, 2017

With respect to the “Act on the Partial Revision of the Act on Partial Revision of Consumption Tax Act for the Fundamental Reform on Tax System for Securing Firm Financial Resources of Social Security” (Act No. 85 of 2016) and “Act on the Partial Revision of the Act on Partial Revision of Local Tax Act and Local Allocation Tax Act for the Fundamental Reform on Tax System for Securing Firm Financial Resources of Social Security” (Act No. 86 of 2016) on November 18, 2016, the Japanese Diet passed the bills to postpone the consumption tax rate increase from 8% to 10% from April 1, 2017 to October 1, 2019. Therefore, the implementation of the abolition of the special local corporation tax and the corresponding restoration of the corporate enterprise tax, the revision of the local corporate tax rate and the revision of the corporate resident tax rate was postponed from the fiscal years beginning on or after April 1, 2017 to the fiscal years beginning on or after October 1, 2019. There is no change in the statutory effective tax rate used in the calculation of deferred tax assets and liabilities. However, the allocation of tax rates between national and local taxes has been adjusted, although the impact of the adjustment on deferred tax assets (after offsetting deferred tax liabilities) and deferred tax expense is immaterial.

For the year ended March 31, 2018

On December 22, 2017, the “Tax Cuts and Jobs Acts” was approved in the United States, and the federal income tax rate was lowered from consolidated fiscal years starting on or after January 1, 2018. As a result of this, the federal income tax rate applied to the Company’s subsidiaries in the United States changed from 35% to 21%.

Due to the aforementioned change of tax rate, the amount of deferred tax assets (less deferred tax liabilities) decreased ¥2,747 million, and the deferred income tax has increased ¥2,226 million.

19. Trade and Other Payables

The breakdown of trade and other payables is as follows:

Millions of yen

	2017	2018
Notes and accounts payable	104,207	**107,765**
Other payables	8,663	**10,935**
Total	112,870	**118,701**

Trade and other payables are classified as financial liabilities measured at amortized cost.

20. Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

	Millions of yen 2017	2018	Average interest rate (%) (Note 1)	Repayment deadline
Current				
Short-term borrowings	13,607	**12,200**	0.29	—
Current portion of bonds (Note 2)	9,994	**—**	—	—
Total	23,601	**12,200**		
Non-current				
Long-term borrowings	84,573	**83,218**	0.92	November 2019– July 2028
Bonds (Note 2)	29,903	**29,921**	—	—
Total	114,477	**113,140**		

Notes: 1. The weighted average interest rate is used to determine the average interest rate. The Group used the interest rate and the balance as of the end of each reporting period to calculate the average interest rate.
2. Conditions for issuance of the bonds are summarized as follows:

Corporate name	Issue	Date of issuance	Millions of yen 2017	2018	Interest rate (%)	Collateral	Maturity
NIKON CORPORATION	18th unsecured bond	January 28, 2011	9,994	**—**	0.996	None	January 26, 2018
NIKON CORPORATION	19th unsecured bond	January 28, 2011	9,978	**9,984**	1.434	None	January 28, 2021
NIKON CORPORATION	20th unsecured bond	March 14, 2014	9,964	**9,971**	0.652	None	March 14, 2022
NIKON CORPORATION	21st unsecured bond	March 14, 2014	9,961	**9,967**	0.864	None	March 14, 2024

The breakdown of bonds and long-term borrowings by scheduled repayment due date is described in Note 35. Financial Instruments.

21. Provisions

Details of changes in provisions are as follows:

Millions of yen

	Provision for product warranties	Asset retirement obligations	Others	Total
As of April 1, 2016	7,067	4,102	903	12,072
Current liabilities	7,067	—	903	7,970
Non-current liabilities	—	4,102	—	4,102
Additions during the period	5,835	134	372	6,342
Decrease during the period due to settlement for intended purposes	(5,341)	(100)	(709)	(6,150)
Decrease during the period due to reversal	(884)	—	(132)	(1,016)
Effect of foreign currency exchange differences	(158)	(1)	(31)	(190)
As of March 31, 2017	6,519	4,134	404	11,057
Current liabilities	6,519	4	404	6,926
Non-current liabilities	—	4,131	—	4,131
Additions during the period	5,147	848	249	6,244
Decrease during the period due to settlement for intended purposes	(4,235)	(93)	(217)	(4,545)
Decrease during the period due to reversal	(955)	(32)	(143)	(1,130)
Effect of foreign currency exchange differences	27	13	(1)	38
As of March 31, 2018	**6,503**	**4,870**	**291**	**11,664**
Current liabilities	**6,503**	**25**	**291**	**6,820**
Non-current liabilities	**—**	**4,844**	**—**	**4,844**

22. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	2017	2018
Derivative financial liabilities	1,224	**855**
Other payables	26,864	**24,778**
Lease obligations	3,417	**2,974**
Others	2,699	**2,762**
Total	34,204	**31,369**
Other current financial liabilities	31,213	**28,879**
Other non-current financial liabilities	2,991	**2,490**

23. Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	2017	2018
Accrued expenses	47,591	**30,364**
Accrued consumption tax	2,361	**2,478**
Others	5,263	**4,716**
Total	55,215	**37,558**
Other current liabilities	52,347	**34,959**
Other non-current liabilities	2,868	**2,599**

24. Employee Benefits

(1) Summary of Retirement Benefit Plans

The Company has a contract-type defined benefit plan (cash balance plan) and a defined contribution plan for a part of the future portion of its retirement benefit plans.

Domestic group entities have a contract-type defined benefit pension plan and a lump-sum retirement benefit plan. Certain group entities have joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain overseas group entities have adopted the defined benefit plans and defined contribution plans. Extra payments may be contributed upon retirement of employees.

In order to ensure the funding of sufficient contributions for the pension benefits and lump-sum retirement benefits in the future, the Group has selected an asset management trust institution as a trustee for the management of the plans' pension assets. An asset management trust institution gives top priority to the interest of the plan participants, which is required by laws and decrees, and is responsible for managing the plan assets based on prescribed investment policies.

Under the defined contribution plans, the Company and certain subsidiaries are only responsible for contributions stipulated in the regulations on retirement benefits of each company.

The Group is exposed to the risks arising from the changes in interest rates and other actuarial assumptions in which the defined benefit obligation is measured. Plan assets primarily consist of marketable shares and bonds as well as other interest-bearing securities, which are exposed to stock price and interest rate risks.

(2) Defined Benefit Plans

The level of benefits contributed in the defined benefit plan depends on the length of service, expected salary levels in the final years leading up to retirement and other factors.

The amounts recognized in the consolidated statement of financial position are as follows:

Millions of yen

	2017	2018
Present value of defined benefit obligations	139,287	**133,427**
Fair value of plan assets	(141,762)	**(138,068)**
Subtotal	(2,475)	**(4,640)**
Impact of asset ceiling	3,262	**4,080**
Present value of defined benefit obligations of unfunded plans	2,348	**2,849**
Total	3,134	**2,289**
Carrying amounts presented in the consolidated statement of financial position		
Net defined benefit liabilities	8,624	**7,995**
Net defined benefit assets	(5,489)	**(5,706)**
Net liability or asset presented in the consolidated statement of financial position	3,134	**2,289**

Movements in the present value of the defined benefit obligations over the years are as follows:

Millions of yen

	2017	2018
Opening balance of present value of defined benefit obligations	147,534	**141,635**
Current service cost	3,503	**3,409**
Interest expenses	1,502	**1,634**
Remeasurement		
Actuarial gain or loss from changes in demographic assumptions	(1,820)	**1,317**
Actuarial gain or loss from changes in financial assumptions	(1,603)	**359**
Benefits paid	(6,794)	**(12,327)**
Past service cost	61	**(57)**
Effect of foreign currency exchange differences	(799)	**(380)**
Others	50	**687**
Closing balance of present value of defined benefit obligations	141,635	**136,277**

Movements in the fair value of plan assets over the years are as follows:

		Millions of yen
	2017	2018
Opening balance of fair value of plan assets	140,332	**141,762**
Interest income	1,244	**1,464**
Remeasurement		
Return on plan assets other than interest income	4,124	**3,169**
Contributions by the employer	3,333	**3,944**
Benefits paid	(6,635)	**(12,329)**
Effect of foreign currency exchange differences	(705)	**(295)**
Others	69	**353**
Closing balance of fair value of plan assets	141,762	**138,068**

The contributions for defined benefit plans over the next fiscal year are estimated at ¥2,492 million.

Movements in impact of the asset ceiling over the years are as follows:

		Millions of yen
	2017	2018
Opening balance	524	**3,262**
Changes in net plan assets due to the effect of the asset ceiling	2,737	**818**
Closing balance	3,262	**4,080**

The fair value of plan assets is as follows:

				Millions of yen
	2017		2018	
	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets
Life insurance company general accounts	—	5,349	**—**	**5,269**
Shares (Japan)	61	21,554	**—**	**21,200**
Shares (Overseas)	6,242	21,101	**7,970**	**18,704**
Bonds (Japan)	—	43,803	**—**	**41,558**
Bonds (Overseas)	1,721	21,435	**384**	**21,514**
Alternatives	—	16,002	**—**	**16,703**
Others	447	4,047	**368**	**4,398**
Total	8,471	133,291	**8,722**	**129,346**

The plan assets of the investment in joint trusts are classified as assets that do not have quoted prices in active markets.

Life insurance company general accounts represent investment of pension funds through general accounts for which the life insurance companies mainly guarantee both principal and interest.

Plan assets

The Group manages its plan assets to ensure the payment of pension benefits and lump-sum retirement benefits to its beneficiaries through the Group's investment policies, which are designed for long-term stable earnings against the risks of changes in share prices and interest rates.

The Group performs actuarial revaluation periodically to adjust contributions and assumed rate of interest, and subsequently reviews the proportion of the strategic asset portfolio. In addition, the proportion is reviewed as necessary when the investment environment and other factors change significantly.

Based on the strategic asset portfolio as set above, the Group reviews its investment portfolio and fund management method periodically to decentralize investment risks against changes in the market environment.

Since the year ended March 31, 2017, the proportion of the strategic asset portfolio has been adjusted, primarily shifting from investment in domestic bonds to alternative investments. The investment in alternatives is exposed to low risk and can enhance the diversification effect and make the asset portfolio at the low correlation with traditional assets.

The significant actuarial assumption used in the calculation of the present value of defined benefit obligations is as follows:

	2017	2018
Discount rate	1.20%	**1.10%**

The following table is a sensitivity analysis for significant actuarial assumptions.

The sensitivity analysis indicates the impact on the present value of retirement benefit obligations when the value of the significant actuarial assumption increases or decreases 0.5% while all other assumptions are constant. The methods and types of assumptions used in preparing the sensitivity analysis did not change from to the prior year.

Millions of yen

		2017	2018
Impact	When increased 0.5%	(8,116)	**(8,410)**
	When decreased 0.5%	9,033	**8,954**

The weighted average life of the defined benefit obligations for the year ended March 31, 2018 is 12.2 years, and there is no significant bias in distribution.

The Group's funding policy to the defined benefit plans is based on several factors including tax deductibility due to contributions, funded status of plan assets and actuarial calculations.

(3) Defined Contribution Plans

The amounts of expenses incurred for defined contribution plans for the years ended March 31, 2017 and 2018 are ¥2,294 million and ¥2,171 million, respectively.

(4) Employee Benefit Expenses

The employee benefit expenses recognized in "Cost of sales," "Selling, general and administrative expenses," and "Other expenses" in the consolidated statement of profit or loss for the years ended March 31, 2017 and 2018 were ¥165,776 million and ¥148,924 million, respectively. Expenses related to salary, bonus, statutory benefits and post-employment benefits are included in employee benefit expenses.

25. Equity

(1) Capital Stock and Treasury Stocks

The total number of shares authorized to be issued and the total number of outstanding shares of the Company are as shown below. All the shares issued by the Company are ordinary shares without par value and are fully paid up.

Numbers of shares

	2017	2018
Shares authorized to be issued		
Ordinary shares	1,000,000,000	**1,000,000,000**
Shares outstanding		
Opening balance	400,878,921	**400,878,921**
Changes during the period	—	**—**
Closing balance	400,878,921	**400,878,921**
Treasury stocks		
Opening balance	4,687,767	**4,675,654**
Increase during the period	2,794	**2,688**
Decrease during the period	(14,907)	**(22,866)**
Closing balance	4,675,654	**4,655,476**

Notes: 1. The closing balance of treasury stocks includes 576,900 shares of those held by the executive compensation BIP trust as of March 31, 2017 and 2018, respectively.
2. The increase in the number of treasury stocks of ordinary shares for the year ended March 31, 2017 of 2,794 shares is due to the increase in shares less than one unit arising from a purchase request.
The increase in the number of treasury stocks of ordinary shares for the year ended March 31, 2018 of 2,688 shares is due to the increase in shares less than one unit arising from a purchase request.
3. The decrease in the number of treasury stocks of ordinary shares for the year ended March 31, 2017 of 14,907 shares is due to a decrease in shares less than one unit arising from a purchase request of 107 shares and a decrease of 14,800 shares arising from the exercise of stock options.
The decrease in the number of treasury stocks of ordinary shares for the year ended March 31, 2018 of 22,866 shares is due to a decrease in shares less than one unit arising from a purchase request of 66 shares and a decrease of 22,800 shares arising from the exercise of stock options.

(2) Capital Surplus

The Companies Act of Japan requires that 50% or more of the proceeds from the issuance of share capital shall be credited to capital stock, and the remaining proceeds shall be credited to capital reserve incorporated in capital surplus. The capital reserve may be transferred back to capital stock upon the approval of the general meeting of shareholders.

(3) Retained Earnings

The Companies Act of Japan requires that a 10% dividend of the profit for the year attributable to shareholders shall be appropriated as a legal reserve (a component of either capital surplus or retained earnings) until the aggregate amount of capital reserve and the legal reserve is equal to 25% of capital stock. The legal reserve may be used to reduce deficit or be transferred to retained earnings upon approval of the general meeting of shareholders.

(4) Other Components of Equity

1) Gain (loss) on financial assets measured at fair value through other comprehensive income

The account represents cumulative gains or losses on financial instruments measured at fair value through other comprehensive income.

2) Remeasurement of defined benefit pension plans

The account represents the impacts arising from the difference between actuarial assumptions and their actual results and arising from changes in actuarial assumptions. It is recognized as other comprehensive income as incurred and immediately reclassified from other components of equity to retained earnings.

3) Share of other comprehensive income of investments accounted for using the equity method

The account includes gains or losses on financial assets measured at fair value through other comprehensive income, remeasurement of defined benefit pension plans, and exchange differences on translation of foreign operations.

4) Exchange differences on translation of foreign operations

The account represents translation differences arising from the translation of the financial statements of foreign operations of the Group from foreign functional currencies into Japanese yen, which is the presentation currency of the Group.

5) Effective portion of changes in the fair value on cash flow hedges

The account represents the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges.

26. Dividends

The details of dividends are as follows:

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
For the year ended March 31, 2017					
General Meeting of Shareholders held on June 29, 2016	Ordinary shares	3,968	10.00	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 8, 2016	Ordinary shares	4,761	12.00	September 30, 2016	December 1, 2016
For the year ended March 31, 2018					
General Meeting of Shareholders held on June 29, 2017	Ordinary shares	1,587	4.00	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 7, 2017	Ordinary shares	5,555	14.00	September 30, 2017	December 1, 2017

Notes: 1. The dividends approved according to the resolution of the general meeting of shareholders held on June 29, 2016 included the dividends for the shares held by the executive compensation BIP Trust of ¥6 million.
2. The dividends approved according to the resolution of the Board of Directors' meeting held on November 8, 2016 included the dividends for the shares held by the executive compensation BIP Trust of ¥7 million.
3. The dividends approved according to the resolution of the Board of Directors' meeting held on June 29, 2017 included the dividends for the shares held by the executive compensation BIP Trust of ¥2 million.
4. The dividends approved according to the resolution of the Board of Directors' meeting held on November 7, 2017 included the dividends for the shares held by the executive compensation BIP Trust of ¥8 million.

Dividends with effective date in the following fiscal year are as follows:

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
For the year ended March 31, 2018					
General Meeting of Shareholders held on June 28, 2018	Ordinary shares	8,730	22.00	March 31, 2018	June 29, 2018

Note: The dividends approved according to the resolution of the general meeting of shareholders held on June 28, 2018 included the dividends for the shares held by the executive compensation BIP Trust of ¥13 million.

27. Revenue

The analysis of revenue generated from continuing operations of the Group is as follows:

Millions of yen

	2017	2018
Revenue from sale of goods	688,432	**649,987**
Revenue from services rendered and others	60,842	**67,091**
Total revenue	749,273	**717,078**

28. Other Income and Expenses

(1) Other Income

The breakdown of other income is as follows:

Millions of yen

	2017	2018
Income from insurance	670	**875**
Gain on sales of property, plant and equipment	124	**364**
Income from rents	380	**221**
Grant income	835	**227**
Others	1,596	**2,026**
Total	3,606	**3,714**

(2) Other Expenses

The breakdown of other expenses is as follows:

Millions of yen

	2017	2018
Impairment losses (Note 1)	5,148	**604**
Loss on sales of property, plant and equipment	85	**245**
Restructuring costs (Notes 1, 2 and 3)	53,370	**8,732**
Loss on Competition Law	1,307	**—**
Others	1,494	**2,121**
Total	61,404	**11,702**

Notes: 1. With regard to impairment losses and restructuring costs, please see Note 15. Impairment Losses of Non-financial Assets.

2. Restructuring costs for the year ended March 31, 2017 are as follows:
The Group has been carrying out a fundamental restructuring to improve the Group's corporate value and shifting from the strategy of pursuing revenue growth to pursuing profit enhancement.

Breakdown	Millions of yen
The write-downs and write-offs of the products of the Semiconductor Lithography Business Unit	27,447
Additional retirement benefits associated with solicitation for voluntary retirement from group entities in Japan	16,655
Loss on termination of product commercialization	7,472
Others	1,796
Total	53,370

3. Restructuring costs for the year ended March 31, 2018 are as follows:
Since the announcement of restructuring in November 2016, the Group has been carrying out measures to improve its corporate value by optimizing the manufacturing and sales structure, and by improving the efficiency as well as strengthening the headquarter initiatives. As part of such measures, for the year ended March 31, 2018, the Group has decided on the discontinuation of operations of a manufacturing subsidiary in China, and the business transfer of the CMM business (Note) from Nikon Metrology NV, a subsidiary located in Belgium (hereinafter referred to as "NMNV").

Breakdown	Millions of yen
Additional retirement benefits	3,719
Expenses of transferring manufacturing equipment	1,723
Losses from impairment and disposal of non-current assets	1,670
Others	1,620
Total	8,732

Note: CMM Business: Development, manufacture, sales, and services of Coordinate Measuring Machines.

29. Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consist of the following items.

Millions of yen

	2017	2018
Depreciation and amortization	12,635	**13,402**
Research and development expenses	61,114	**58,655**
Employee benefit expenses	56,680	**58,588**
Advertising and sales promotion expenses	47,491	**42,807**
Others	69,628	**75,231**
Total	247,548	**248,683**

30. Finance Income and Finance Costs

The breakdown of finance income and finance costs is as follows:

Millions of yen

	2017	2018
Finance income:		
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note 1)	1,402	**2,132**
Interest income		
Financial assets measured at amortized cost	1,844	**2,263**
Gain on remeasurement of derivatives (Note 2)	2,136	**—**
Others	400	**2,140**
Total	5,781	**6,535**
Finance costs:		
Interest costs		
Financial liabilities measured at amortized cost	1,314	**1,440**
Foreign exchange losses	2,299	**3,829**
Loss on remeasurement of derivatives (Note 2)	—	**662**
Others	393	**363**
Total	4,006	**6,295**

Notes: 1. Dividend incomes arising from financial assets measured at fair value through other comprehensive income that were derecognized in the years ended March 31, 2017 and 2018 were ¥96 million and ¥83 million, respectively. With respect to financial assets measured at fair value through other comprehensive income, please see Note 10. Other Financial Assets.
2. Gain on remeasurement of derivatives was recognized in respect of foreign currency forward contracts, currency swaps, interest rate, and currency options.

31. Earnings per Share

The basis for the calculation of basic earnings per share and diluted earnings per share attributable to owners of the parent is as follows:

	2017	2018
Basis for the calculation of basic earnings per share		
Profit for the year attributable to owners of the parent (Millions of yen)	3,967	**34,772**
Profit not attributable to ordinary equity holders of the parent (Millions of yen)	—	**—**
Profit for the year used in the calculation of basic earnings per share (Millions of yen)	3,967	**34,772**
Weighted average number of ordinary shares outstanding during the period (Thousands of shares)	396,195	**396,213**
Basic earnings per share (Yen)	10.01	**87.76**
Basis for the calculation of diluted earnings per share		
Profit for the year used in the calculation of basic earnings per share (Millions of yen)	3,967	**34,772**
Adjustments to profit for the year (Millions of yen)	—	**—**
Profit for the year used in the calculation of diluted earnings per share (Millions of yen)	3,967	**34,772**
Weighted average number of ordinary shares outstanding during the period (Thousands of shares)	396,195	**396,213**
Increase in number of ordinary shares in respect of stock options (Thousands of shares)	1,124	**1,232**
Weighted average number of dilutive ordinary shares outstanding during the period (Thousands of shares)	397,319	**397,445**
Diluted earnings per share (Yen)	9.98	**87.49**
Summary of dilutive potential ordinary shares that are antidilutive and excluded from the weighted average number of dilutive ordinary shares	—	**—**

Note: In the computation of basic earnings per share and diluted earnings per share, the number of the Company's shares held by the executive compensation BIP trust is included in the number of treasury stocks that are deducted from the weighted average number of ordinary shares outstanding during the period. For the years ended March 31, 2017 and 2018, the number of shares was 576,900.

32. Reclassifications in Other Comprehensive Income and the Impact of Deferred Tax

The breakdown of other comprehensive income for the years ended March 31, 2017 and 2018, including the reclassifications and the impact of deferred tax is as follows:

Millions of yen

	2017	2018
Items that will not be reclassified to profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income		
Amount arising during the period	11,491	**8,825**
Deferred tax	(4,153)	**(2,789)**
After deferred tax adjustment	7,338	**6,036**
Remeasurement of defined benefit pension plans		
Amount arising during the period	4,810	**570**
Deferred tax	(1,503)	**(765)**
After deferred tax adjustment	3,307	**(196)**
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	(25)	**(22)**
Deferred tax	8	**7**
After deferred tax adjustment	(17)	**(16)**
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations		
Amount arising during the period	(4,248)	**1,635**
Effective portion of changes in the fair value of cash flow hedges		
Amount arising during the period	1,746	**(1,121)**
Reclassification adjustments	(2,272)	**1,589**
Before deferred tax adjustment	(526)	**468**
Deferred tax	163	**(138)**
After deferred tax adjustment	(363)	**330**
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	(337)	**(249)**
Total other comprehensive income (loss)	5,680	**7,540**

33. Changes in Liabilities Arising from Financing Activities

The changes in liabilities arising from financial activities are as follows:

For the year ended March 31, 2017

Millions of yen

	As of April 1, 2016	Cash flows	Non-cash changes Acquisition	Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	As of March 31, 2017
Bonds and borrowings (Note)	110,569	25,877	85	—	1,505	—	40	138,077
Lease obligations	2,072	(930)	11	2,262	2	—	—	3,417
Derivative financial assets	—	—	—	—	—	(2,045)	—	(2,045)

Note: The amount is the sum of “Bonds and borrowings” of current and non-current liabilities under the Consolidated Statement of Financial Position.

The cash flows of “Bonds and borrowings” is the net amount of “Net decrease in short-term borrowings,” “Proceeds from long-term borrowings,” and “Repayment of long-term borrowings and bonds” under the Consolidated Statement of Cash Flows. “Others” includes items such as interest expenses.

For the year ended March 31, 2018

Millions of yen

	As of April 1, 2017	Cash flows	Non-cash changes Acquisition	Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	As of March 31, 2018
Bonds and borrowings (Note)	**138,077**	**(11,495)**	**—**	**—**	**(1,287)**	**—**	**44**	**125,340**
Lease obligations	**3,417**	**(889)**	**—**	**447**	**(1)**	**—**	**—**	**2,974**
Derivative financial assets	**(2,045)**	**—**	**—**	**—**	**—**	**1,109**	**—**	**(936)**

Note: The amount is the sum of “Bonds and borrowings” of current and non-current liabilities under the Consolidated Statement of Financial Position.

The cash flows of “Bonds and borrowings” is the net amount of “Net decrease in short-term borrowings,” “Proceeds from long-term borrowings,” and “Repayment of long-term borrowings and bonds” under the Consolidated Statement of Cash Flows. “Others” includes items such as interest expenses.

34. Share-based Payment

The Group has a stock option share-based payment scheme and performance- and share-based payment scheme aiming to improve performance and enhance corporate value in the medium and long term.

(1) Stock Option Share-based Payment Scheme

(i) Outline of stock option share-based payment scheme

The exercise period of stock options is 30 years from the grant date.

If a member terminates his or her employment prior to the vesting date, only the portion equivalent to the period of service will vest.

The Company's stock option share-based payment scheme is accounted for as the equity settlement type of share-based payment.

Details of stock option schemes that are outstanding for the years ended March 31, 2017 and 2018 were as follows:

No.	Number of shares (Shares)	Grant date	Exercise date	Exercise price (Yen)	Fair value at grant date (Yen)
5	26,100	August 27, 2007	August 27, 2037	1	3,259
6	117,900	November 25, 2008	November 25, 2038	1	734
7	68,100	August 10, 2009	August 10, 2039	1	1,408
8	66,800	July 14, 2010	July 14, 2040	1	1,527
9	99,700	March 19, 2012	March 19, 2042	1	2,037
10	108,300	August 23, 2012	August 23, 2042	1	1,726
11	119,600	August 1, 2013	August 1, 2043	1	1,632
12	177,400	August 1, 2014	August 1, 2044	1	1,183
13	207,000	July 28, 2015	July 28, 2045	1	1,040
14	198,600	July 29, 2016	July 29, 2046	1	1,213
15	115,500	July 27, 2017	July 27, 2047	1	1,681

(ii) Fair value measurement of stock options

Stock options granted are measured at fair value using the Black–Scholes model.

Expected volatility is calculated based on recent historical data of the share prices.

The basic data and assumptions used in the Black–Scholes model are mainly as follows:

	2017	2018
	No.14	**No.15**
Share price at the date of grant (Yen)	1,461	**1,907**
Exercise price (Yen)	1	**1**
Expected volatility (%)	42.078	**40.064**
Expected remaining option life (Years)	15	**15**
Expected dividends yield (Yen)	18	**16**
Risk-free rate (%)	0.006	**0.299**

(iii) Number of stock options and average exercise prices

Details of stock options are as follows:

	2017		2018	
	Number of options (Shares)	Weighted average exercise price (Yen)	Number of options (Shares)	Weighted average exercise price (Yen)
Opening outstanding balance	1,030,400	176	**1,152,200**	**1**
Granted during the period	198,600	1	**115,500**	**1**
Forfeited or expired during the period	62,000	2,902	—	—
Exercised during the period	14,800	1	**22,800**	**1**
Ending outstanding balance	1,152,200	1	**1,244,900**	**1**
Exercisable outstanding options at the end of the years	1,152,200	1	**1,244,900**	**1**

Stock options exercised during the year ended March 31, 2017 were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
5	5,700	April 1, 2016 to March 31, 2017	1,541
6	9,100	April 1, 2016 to March 31, 2017	1,634
Total	14,800		1,598

Stock options exercised during the year ended March 31, 2018 were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
5	2,100	April 1, 2017 to March 31, 2018	1,927
6	16,100	April 1, 2017 to March 31, 2018	1,928
7	4,600	April 1, 2017 to March 31, 2018	1,950
Total	22,800		1,932

The exercise price of the outstanding options for the year ended March 31, 2017 was ¥1. The weighted average remaining option life for the year ended March 31, 2017 was 26.3 years.

The exercise price of the outstanding options for the year ended March 31, 2018 was ¥1. The weighted average remaining option life for the year ended March 31, 2018 was 25.8 years.

(2) Performance- and Share-based Payment Scheme

The performance- and share-based payment scheme (“incentive plan”) is an incentive plan granting the shares of the Company or the equivalent cash as the granted shares that would be sold as directors’ remuneration in the last year of three-year medium-term management plans depending on the achievement of business performance for each of the three years. Each incentive plan formulated based on this scheme applies to every three years, commencing in the year when a trust is established or a trust period is extended. This compensation scheme is known as “Executive Compensation Board Incentive Plan Trust” (hereinafter referred to as “BIP Trust”). Under BIP Trust, the shares of the Company acquired by BIP Trust are granted to executive directors of the Company based on the attainment of performance targets, which are recognized as an equity-settled share-based payment.

Along with the implementation of the fundamental restructuring announced in November 2016, the Company has withdrawn the Medium-Term Management Plan Update in the three-year period beginning from April 1, 2015 through March 31, 2018 and determined not to grant the performance- and share-based payments.

(3) Share-based Compensation Expenses

Millions of yen

	2017	2018
Stock option share-based payment	228	**206**
Performance- and share-based payment	(209)	**—**
Total	20	**206**

Share-based compensation expenses are included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

FINANCIAL AND CORPORATE DATA

35. Financial Instruments

(1) Capital Management

Under the premise that a certain level of financial stability is maintained, the Group decides its capital management policies to realize the maximization of corporate value by emphasizing operational efficiency of invested capital and utilizing funds for investments (in capital investment, research and development, M&A and others) that provides expected revenue exceeding its capital cost to enable sustainable growth. At the same time, the policies seek to meet the demands of shareholders by providing stable returns to shareholders. In order to maintain or adjust the capital structure, necessary funds will be raised essentially through cash flows from operating activities generated from maintaining and enhancing the Group's earnings power, in addition to borrowings from banks and the issuance of corporate bonds and so on, which will be carried out if needed.

The Group aims to improve its capital structure by setting ROE (return on equity attributable to owners of the parent) targets as its key performance indicator and pursuing capital efficiency.

(%)

	2017	2018
ROE	0.7	**6.3**

ROE is computed by dividing profit for the year attributable to owners of the parent by the equity attributable to owners of the parent (average of opening and closing balances).

The Company is not subject to any external capital regulations except for the requirements of retained earnings in accordance with the Companies Act of Japan.

(2) Classification of Financial Instruments

Financial instruments are classified as follows:

Millions of yen

	2017	2018
Financial assets:		
Cash and cash equivalents (Note 7)	319,046	**388,438**
Financial assets measured at amortized cost		
Trade and other receivables (Note 8)	96,221	**104,526**
Other financial assets (Note 10)	12,746	**14,008**
Financial assets measured at fair value through profit or loss		
Other financial assets (Note 10)	10,189	**14,951**
Financial assets measured at fair value through other comprehensive income		
Other financial assets (Note 10)	71,571	**73,840**
Total	509,773	**595,763**
Financial liabilities:		
Financial liabilities measured at amortized cost		
Trade and other payables (Note 19)	112,870	**118,701**
Bonds and borrowings (Note 20)	138,077	**125,340**
Other financial liabilities (Note 22)	32,980	**30,514**
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities (Note 22)	863	**633**
Financial liabilities measured at fair value through other comprehensive income		
Other financial liabilities (Note 22)	361	**222**
Total	285,151	**275,409**

(3) Financial Risk Management Objectives

Financial instruments held by the Group are exposed to various risks comprising market risks (i.e., foreign currency risk, interest rate risk, and stock price risk), credit risk, and liquidity risk. In order to mitigate the aforementioned risks, the Group takes measures depending on the nature of transaction contents and trade size, as well as the geographic characteristics.

(4) Market Risk Management

The Group is exposed to market risk of changes in foreign currency exchange rates and in the price of equity instruments.

The Group uses derivative financial instruments such as forward exchange contracts to hedge these risks. Derivatives are held or issued based on the Group's policies on financial instruments for the exposure to foreign currency translation risk, interest rate risk, price risk, derivatives or other financial instruments. The compliance of the Group's policies is being continuously monitored by internal auditors.

(i) Foreign Currency Risk

Trade receivables denominated in foreign currencies arising from the expansion of the Group's business worldwide are exposed to foreign currency fluctuation risk. Some trade payables, such as notes and accounts payable mainly arising from imports of materials, are denominated in foreign currencies and are also exposed to foreign currency fluctuation risk. However, the amounts of such payables are within the range of outstanding accounts receivable denominated in the same foreign currencies. Thus, the Group principally enters into forward exchange contracts mainly to hedge the position after offsetting foreign currency-denominated trade payables. Hedging transactions that qualify for hedge accounting are accounted for by applying hedge accounting. Depending on the foreign currency market condition, forward exchange contracts within nine-month maximum contract terms are made against the expected amount of foreign currency denominated trade receivables that are deemed certain to arise based on forecast transactions of imports and exports.

a) Foreign currency sensitivity analysis

With regard to foreign currency denominated financial instruments held by the Group as of each fiscal year-end, the following table shows the impact on profit before income taxes and other comprehensive income before netting of income taxes that would result from 1% appreciation of the yen against the U.S. dollar and euro with the assumption that the exchange rates for other currencies are constant.

Millions of yen

	USD		EUR	
	2017	2018	2017	2018
Profit before income taxes	13	**(233)**	49	**47**
Other comprehensive income before deferred tax adjustment	—	**7**	122	**139**

b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

Millions of yen

	2017			2018		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
USD	21,618	—	55	**15,160**	**—**	**380**
EUR	7,399	—	(19)	**6,778**	**—**	**69**
Others	7,208	—	(144)	**8,092**	**—**	**26**
Long position						
USD	19,009	—	(147)	**13,904**	**—**	**(548)**
Total	55,234	—	(255)	**43,934**	**—**	**(73)**
Currency swap contracts:						
Received in JPY, and paid in THB	1,825	—	(310)	**—**	**—**	**—**
Total	1,825	—	(310)	**—**	**—**	**—**

Derivative transactions accounted for using hedge accounting

Millions of yen

	2017			2018		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
USD	—	—	—	**773**	**—**	**39**
EUR	12,168	—	(21)	**14,179**	**—**	**316**
Others	781	—	(4)	**5,150**	**—**	**22**
Long position						
GBP	643	—	(16)	**577**	**—**	**27**
Total	13,592	—	(41)	**20,679**	**—**	**404**

The Group has entered into forward exchange contracts with financial institutions to hedge the changes in the currency market affecting foreign currency-denominated assets and liabilities. All the forward exchange contracts in relation to foreign currency-denominated accounts receivable and accounts payable as well as forward exchange contracts for foreign currency-denominated transactions will mature within one year.

Currency swap contracts are entered into to minimize the Group's risk of loss arising from foreign exchange rates in relation to corresponding borrowings.

(ii) Interest Rate Risk

The Group is exposed to interest rate risk arising from the borrowings with both fixed and floating interest rates.

Most of the interest-bearing liabilities consist of bonds and borrowings at fixed interest rates. For floating-rate borrowings, the Group has entered into interest rate swap contracts to hedge exposures to achieve an effect of fixed-rate borrowings.

a) Interest rate sensitivity analysis

Regarding long-term floating-rate borrowings that are exposed to interest rate risk, the risk is mitigated by fixed cash flows using interest rate swap contracts. As the Group's exposure to interest rate risks is limited, the impact from changes in interest rates is immaterial.

b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

Millions of yen

	2017			2018		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate and currency swap contracts:						
Received in floating rate and paid in fixed rate	22,952	22,952	2,045	**22,952**	**22,952**	**936**
Total	22,952	22,952	2,045	**22,952**	**22,952**	**936**

Derivative transactions accounted for using hedge accounting

Millions of yen

	2017			2018		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate swap contracts:						
Received in floating rate and paid in fixed rate	5,300	5,300	(196)	**5,300**	**5,300**	**(167)**
Total	5,300	5,300	(196)	**5,300**	**5,300**	**(167)**

(iii) Other Price Risks

Investments in securities are exposed to share price risk. The Group regularly obtains information on current market prices or the financial condition of the issuer (counterparty) and reviews the status of the securities held by the Group on an ongoing basis taking into consideration the relationship with the counterparty.

The following sensitivity analysis is performed based on the exposure to share price risk at the end of the reporting periods.

For the years ended March 31, 2017 and 2018, assuming a 5% change in the stock price, other comprehensive income before deferred tax adjustments would fluctuate ¥3,467 million and ¥3,584 million, respectively, as a result of fluctuations in the fair value of equity instruments designated as those measured at fair value through other comprehensive income.

(5) Credit Risk Management

The Group is exposed to credit risk (i.e., the risk that a counterparty will default on its contractual obligations of a financial asset held by the Group, resulting in a financial loss to the Group) arising from trade and other receivables including notes receivables, accounts receivables, and other receivables.

Trade receivables, including notes and accounts receivable, are exposed to customer credit risk. With respect to this risk, the Group manages the due dates and account balances of each customer in accordance with the Group's policies concerning settlement conditions, and it also obtains information about doubtful accounts that are mainly caused by deterioration in the financial conditions of customers at an early stage so as to mitigate credit risk. In addition, the Group also mitigates credit risk by accepting advances and utilizing transaction credit insurance according to the nature of transaction contents and trade size. Credit risk is not concentrated on certain specific customers.

Other receivables are also exposed to the credit risk of counterparties, but they are generally settled in a short period of time.

Derivatives are exposed to credit risk arising from default by counterparties. With respect to the execution and management of derivatives transactions, the Group operates the transactions according to internal policies for trade authorization, and enters into derivatives transactions only with highly rated financial institutions to mitigate credit risk.

The carrying amount of the financial assets after deducting impairment losses as presented in the consolidated financial statements represents the Group's maximum exposure to credit risk without considering the valuation of the related collateral obtained.

(i) Credit Risk Exposure with Respect to Trade and Other Receivables

The Group's credit risk exposure with respect to trade and other receivables is as follows:

Regarding trade and other receivables, allowance for doubtful accounts is recognized and measured based on future expected credit losses, taking into account the recoverability and a significant increase in credit risk. The Group assesses and determines whether credit risk has significantly increased based on changes in the debtor's default risk, which is based on the debtor's financial condition and historical records of actual credit loss and past due. Allowance for doubtful accounts associated with trade receivables is always measured at lifetime expected credit losses. Further, lifetime expected credit losses may be estimated individually or collectively, according to the nature of the transaction and its size.

Although lifetime expected credit losses are measured collectively, if one or more of the following events adversely affect the estimated future cash flows of trade receivables, an expected credit loss of the trade receivables is measured individually as an impairment of credit of trade receivables:

- Significant financial difficulties of debtors
- Contractual breach including default or delinquencies
- The increase in the possibility of bankruptcy or other financial restructuring of debtors

Trade and other receivables

Millions of yen

Carrying amount	Financial assets of which expected credit losses are always measured at its expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets	Total
As of March 31, 2017	91,595	2,000	93,595
As of March 31, 2018	**101,435**	**1,275**	**102,711**

Other receivables are financial assets of which allowance for doubtful accounts are measured based on 12-months expected credit losses. The allowance for doubtful accounts of other receivables as of March 31, 2017 and 2018 were ¥4,921 million and ¥3,319 million, respectively.

Other financial assets

Millions of yen

Carrying amount	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at its expected lifetime as allowance for doubtful accounts		Total
		Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of March 31, 2017	282	10	—	291
As of March 31, 2018	**116**	**10**	**—**	**125**

(ii) Analysis of Allowance for Doubtful Accounts

The Group accounts for the impairment of financial assets through allowance for doubtful accounts rather than writing off the carrying amount of the assets. Changes in the allowance for doubtful accounts are as follows:

Trade and other receivables

Millions of yen

Allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets	Total
As of April 1, 2016	429	2,014	2,443
Increase during the period	—	308	308
Decrease during the period due to settlement for intended purposes	(10)	(82)	(92)
Decrease during the period due to reversal	(103)	(312)	(415)
Exchange differences on translation of foreign operations	34	16	50
As of March 31, 2017	350	1,945	2,295
Increase during the period	**—**	**236**	**236**
Decrease during the period due to settlement for intended purposes	**(47)**	**(495)**	**(543)**
Decrease during the period due to reversal	**(1)**	**(417)**	**(418)**
Exchange differences on translation of foreign operations	**6**	**(72)**	**(66)**
As of March 31, 2018	**308**	**1,196**	**1,504**

There was no allowance of doubtful accounts of other receivables as of March 31, 2017 and 2018, respectively.

Other financial assets

Millions of yen

Allowance for doubtful accounts	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets of which expected credit losses are measured at their expected lifetime as allowance for doubtful accounts		Total
		Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of April 1, 2016	—	11	—	11
Increase during the period	—	—	—	—
Decrease during the period due to settlement for intended purposes	—	(0)	—	(0)
Decrease during the period due to reversal	—	(1)	—	(1)
Exchange differences on translation of foreign operations	—	—	—	—
As of March 31, 2017	—	10	—	10
Increase during the period	**—**	**—**	**—**	**—**
Decrease during the period due to settlement for intended purposes	**—**	**(0)**	**—**	**(0)**
Decrease during the period due to reversal	**—**	**—**	**—**	**—**
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**
As of March 31, 2018	**—**	**10**	**—**	**10**

(6) Liquidity Risk Management

Trade and other payables, borrowings, and other financial liabilities are exposed to liquidity risk that they cannot be paid for by the due dates.

The Group manages its liquidity risk by monitoring the liquidity on hand and by maintaining and ensuring appropriate cash reserves according to conditions using a medium- and long-term cash management system, which is updated on a regular basis.

In addition, the Group has established a global cash management system to work on reducing liquidity risk by centralizing its group wide cash management of cash reserves held by domestic and overseas subsidiaries.

Liquidity and interest risk table

The following table details the Group's remaining contractual maturity for its financial liabilities and repayment periods.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The table includes both interest and principal cash flows.

Millions of yen

	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but within 5 years	After 5 years
As of March 31, 2017					
Non-derivative financial liabilities					
Long-term borrowings (including current portion)	84,573	88,866	753	16,178	71,934
Bonds (including current portion)	39,897	41,555	10,377	21,009	10,169
Short-term borrowings	13,607	13,644	13,644	—	—
Lease obligations	3,417	3,448	870	2,418	159
Trade and other payables	112,870	112,870	112,870	—	—
Derivative financial liabilities					
Derivative liabilities	1,224	1,224	1,028	68	127
As of March 31, 2018					
Non-derivative financial liabilities					
Long-term borrowings (including current portion)	**83,218**	**89,063**	**921**	**30,753**	**57,389**
Bonds (including current portion)	**29,921**	**31,178**	**295**	**20,800**	**10,083**
Short-term borrowings	**12,200**	**12,235**	**12,235**	**—**	**—**
Lease obligations	**2,974**	**3,003**	**741**	**1,546**	**716**
Trade and other payables	**118,701**	**118,701**	**118,701**	**—**	**—**
Derivative financial liabilities					
Derivative liabilities	**855**	**855**	**688**	**93**	**74**

Amounts of gross commitment lines of credit and balances of used borrowings as of March 31, 2017 and 2018 are as follows:

Millions of yen

	2017	2018
Gross commitment lines of credit	203,000	**50,500**
Balances of used borrowing	—	**—**
Unused balances	203,000	**50,500**

(7) Fair Value Measurement of Financial Instruments

1) Financial Instruments Measured at Fair Value

Fair value hierarchies of financial instruments measured at fair value are as follows:

Millions of yen

As of March 31, 2017	Level 1	Level 2	Level 3	Total
Derivatives	—	2,467	—	2,467
Shares	69,330	—	3,117	72,447
Others	—	657	6,189	6,846
Total assets	69,330	3,123	9,306	81,759
Derivatives	—	1,224	—	1,224
Total liabilities	—	1,224	—	1,224

Millions of yen

As of March 31, 2018	Level 1	Level 2	Level 3	Total
Derivatives	**—**	**1,955**	**—**	**1,955**
Shares	**71,662**	**17**	**7,020**	**78,699**
Others	**—**	**696**	**7,441**	**8,137**
Total assets	**71,662**	**2,669**	**14,461**	**88,791**
Derivatives	**—**	**855**	**—**	**855**
Total liabilities	**—**	**855**	**—**	**855**

The fair value measurement in respect of major financial instruments measured at fair value is as follows:

(i) Derivatives

Certain derivative assets and liabilities with respect to foreign exchange forward contracts, interest rate swaps, currency swaps, and currency options measured at fair value using appropriate valuation techniques with reference to market prices quoted by financial institutions that enter into these contracts and to other available information are categorized as Level 2.

(ii) Shares

Shares with active markets are measured at fair value using quoted market prices in the stock exchange and are categorized as Level 1. Regarding the shares that do not have active markets, the items are categorized as Level 2 if the fair value is estimated using observable inputs, and if the fair values are measured using the market approach or the income approach that is determined by discounted future cash flows using other unobservable inputs, such items are categorized as Level 3.

(iii) Others

Other instruments without active markets are categorized as Level 2 if the fair value is estimated using observable inputs. Assets are categorized as Level 3 if the fair value is estimated using the market approach or the income approach that is determined by discounted future cash flows using unobservable inputs.

The movements of financial instruments during the years ended March 31, 2017 and 2018 measured at fair value on a recurring basis using Level 3 inputs were as follows:

Millions of yen

	2017	2018
Opening balance	8,273	**9,306**
Total gain or loss		
In profit or loss (Note 1)	20	**664**
In other comprehensive income (Note 2)	(2,037)	**(262)**
Purchases	5,336	**6,186**
Disposals or Settlements	(144)	**(1,320)**
Effects of exchange rate fluctuations	(120)	**(54)**
Transfer out of Level 3 to other categories (Note 3)	(2,022)	**(60)**
Closing balance	9,306	**14,461**

Notes: 1. Gain or loss recognized in profit or loss is generated from the financial assets measured at fair value through profit or loss as of the closing date, which were recognized in "Finance income" and "Finance costs."
2. Gain or loss recognized in other comprehensive income was generated from the financial assets measured at fair value through other comprehensive income as of the closing date, which were recognized in "Gain (loss) on financial assets measured at fair value through other comprehensive income."
3. Transfers out of Level 3 to other categories for the years ended March 31, 2017 and 2018 were due to certain shares acquired additionally and transferred from other financial assets to investments accounted for using the equity method.

2) Financial Assets Measured at Amortized Cost

The carrying amount and the fair value of those financial instruments are as follows:

Millions of yen

	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	39,897	41,138	**29,921**	**30,895**
Long-term borrowings	84,573	84,971	**83,218**	**83,927**
Total	124,470	126,109	**113,140**	**114,822**

Current portion of bonds and borrowings is included.

With respect to bonds and borrowings, please see Note 20. Bonds and Borrowings.

The fair value measurement in respect of major financial instruments measured at amortized cost is as follows:

Fair value of bonds is calculated based on quoted market prices, and the fair value hierarchy is categorized as Level 1. Fair value of long-term borrowings is calculated by discounting future cash flows at an interest rate equal to an appropriate index such as the yield of government bonds plus credit spread, and the fair value hierarchy of long-term borrowings is categorized as Level 3.

Other than bonds and long-term borrowings, the fair values of financial assets and liabilities are measured at amortized cost, which is approximate to their carrying amounts.

36. Related Party Transactions

(1) Related Party Transactions and Outstanding Balances

For the year ended March 31, 2017

Not applicable.

For the year ended March 31, 2018

Not applicable.

(2) Key Management Personnel Remuneration

Key management personnel remuneration is as follows:

Millions of yen

	2017	2018
Basic remuneration and bonuses	374	**462**
Share-based stock options	117	**94**
Total	491	**556**

37. Subsidiaries and Associates

Regarding the material subsidiaries and associates of the Group as of March 31, 2018, please refer to the Appendix.

38. Contingent Liabilities

(1) Guarantee Obligations

Guarantee obligations have mainly arisen due to guarantees for bank borrowings, and the details are as follows:

Millions of yen

	2017	2018
Employees (for their mortgage loans and others)	250	**200**
Total	250	**200**

(2) Litigation

For the year ended March 31, 2018

The Company and its group companies are exposed throughout their business activities to the possibility of being involved in a contentious case, becoming a defendant in a lawsuit, and being the object of inquiries by government agencies, in Japan and overseas. The Company and its group companies examine the possibility of recognizing a provision for the obligation arising from a contentious case or a lawsuit, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Company's subsidiary in India (hereinafter referred as "Subsidiary in India") was inquired by the Indian Tax Authority regarding the import of the Company's digital cameras, and in October 2016, the imposition was confirmed in relation to the customs duty, interest, and penalty concerning those products. In January 2017, the Subsidiary in India appealed to the Customs, Excise and Service Tax Appellate Tribunal; however, the appeal was dismissed in December 2017. To object to this decision, in January 2018, the Subsidiary in India filed an appeal to the Supreme Court of India, which was admitted in March 2018 for the final hearing and decision. As it is currently unable to forecast the final decision, the provision is not recognized in accordance with the aforementioned accounting policy.

In regard to any other cases, no significant impact on the Company's consolidated performance and financial position is expected at this point in time.

39. Significant Subsequent Event

The Group has evaluated subsequent events from March 31, 2018 through June 28, 2018. There were no significant subsequent events that would require recognition or disclosure in the consolidated financial statements.

Information on Subsidiaries and Associates

Company name	Location	Business segment	Voting right ownership (%)
(Consolidated Group companies)			
Tochigi Nikon Corporation	Japan	Industrial Metrology and Others	100.0
Tochigi Nikon Precision Co., Ltd.	Japan	Precision Equipment	100.0
Sendai Nikon Corporation	Japan	Imaging Products	100.0
Miyagi Nikon Precision Co., Ltd.	Japan	Precision Equipment	100.0
Nikon Tec Corporation	Japan	Precision Equipment	100.0
Nikon Imaging Japan Inc.	Japan	Imaging Products	100.0
Nikon Instech Co., Ltd.	Japan	Healthcare Industrial Metrology and Others	100.0
Nikon Vision Co., Ltd.	Japan	Imaging Products	100.0
Nikon Systems Inc.	Japan	Industrial Metrology and Others	100.0
Nikon Business Service Co., Ltd.	Japan	Industrial Metrology and Others	100.0
Hikari Glass Co., Ltd.	Japan	Industrial Metrology and Others	100.0
Nikon Precision Inc.	U.S.A.	Precision Equipment	100.0 (100.0)
Nikon Inc.	U.S.A.	Imaging Products	100.0 (100.0)
Nikon Instruments Inc.	U.S.A.	Healthcare	100.0 (100.0)
Nikon Americas Inc.	U.S.A.	Industrial Metrology and Others	100.0
Nikon Canada Inc.	Canada	Imaging Products Healthcare	100.0
Nikon Precision Europe GmbH	Germany	Precision Equipment	100.0 (100.0)
Nikon Europe B.V.	The Netherlands	Imaging Products	100.0 (100.0)
Nikon Instruments Europe B.V.	The Netherlands	Healthcare	100.0 (100.0)
Nikon U.K. Ltd.	United Kingdom	Imaging Products Healthcare	100.0 (100.0)
Nikon France S.A.S.	France	Imaging Products Healthcare	100.0 (100.0)
Nikon GmbH	Germany	Imaging Products Healthcare	100.0 (100.0)
Nikon CEE GmbH	Austria	Imaging Products Healthcare	100.0 (100.0)
Nikon Metrology NV	Belgium	Industrial Metrology and Others	100.0
Nikon Holdings Europe B.V.	The Netherlands	Industrial Metrology and Others	100.0
Nikon (Russia) LLC.	Russian Federation	Imaging Products	100.0 (100.0)
Optos Plc	United Kingdom	Healthcare	100.0
Nikon Hong Kong Ltd.	China	Imaging Products	100.0 (100.0)
Nikon Holdings Hong Kong Limited	China	Industrial Metrology and Others	100.0

Company name	Location	Business segment	Voting right ownership (%)
Nikon Singapore Pte. Ltd.	Singapore	Imaging Products Precision Equipment Healthcare Industrial Metrology and Others	100.0 (1.4)
Nikon Australia Pty Ltd.	Australia	Imaging Products	100.0 (100.0)
Nikon India Pvt Ltd.	India	Imaging Products	100.0 (100.0)
Nikon (Thailand) Co., Ltd.	Thailand	Imaging Products	100.0
Nikon Precision Korea Ltd.	South Korea	Precision Equipment	100.0
Nikon Imaging Korea Co., Ltd.	South Korea	Imaging Products	100.0
Nikon Precision Taiwan Ltd.	R.O.C	Precision Equipment	100.0 (10.0)
Nikon Imaging (China) Sales Co., Ltd.	China	Imaging Products	100.0 (100.0)
Nikon Precision Shanghai Co., Ltd.	China	Precision Equipment	100.0 (100.0)
Nikon Lao Co., Ltd.	Lao P.D.R.	Imaging Products	100.0 (100.0)
Nikon Middle East FZE	UAE	Imaging Products	100.0 (100.0)
Others (41 Companies)			
(Associates accounted for using the equity method)			
Nikon-Essilor Co., Ltd.	Japan	Industrial Metrology and Others	50.0
Nikon-Trimble Co., Ltd.	Japan	Industrial Metrology and Others	50.0
Others (14 Companies)			

Note: The percentages in parentheses under “Voting right ownership (%)” indicate the indirect ownership out of total ownership noted above.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NIKON CORPORATION:

We have audited the accompanying consolidated statement of financial position of NIKON CORPORATION and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

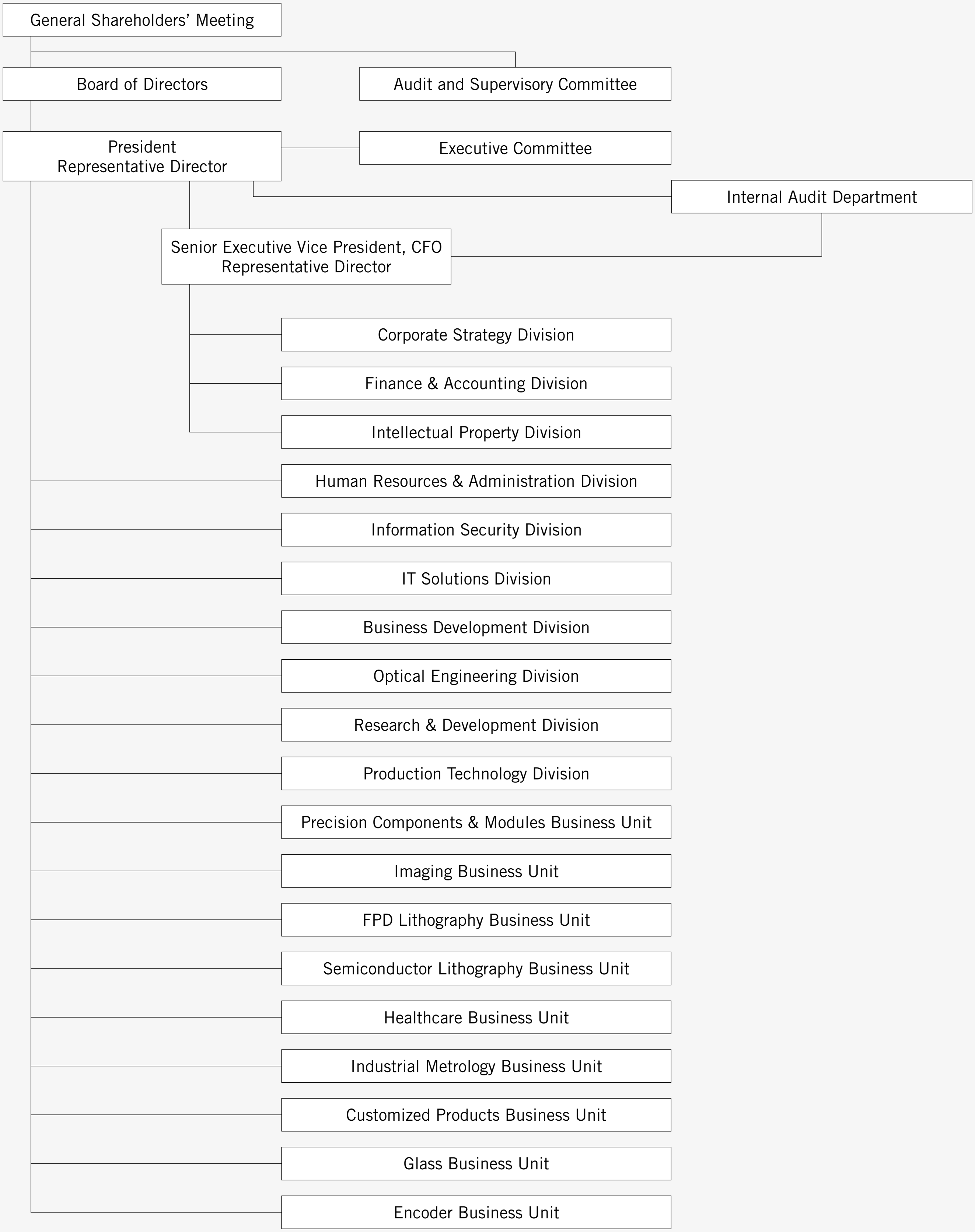
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIKON CORPORATION and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 28, 2018

Organization of the Nikon Group

(As of June 28, 2018)



Corporate Data / Investor Information

(As of March 31, 2018)

Nikon Corporation
Shinagawa Intercity Tower C,
2-15-3, Konan, Minato-ku,
Tokyo 108-6290, Japan

Date of Establishment
July 25, 1917

Number of Employees
21,029 (Consolidated)

Capital
¥65,476 million

Stock Status
Total number of shares authorized to be issued: 1,000,000,000 shares
Number of shares issued:
400,878,921 shares

Number of Shareholders
25,879

Financial Instruments Exchange Listing
Tokyo Stock Exchange
(Ticker Symbol: 7731)

Share Registrar
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

For further information or additional copies of this report, please contact:

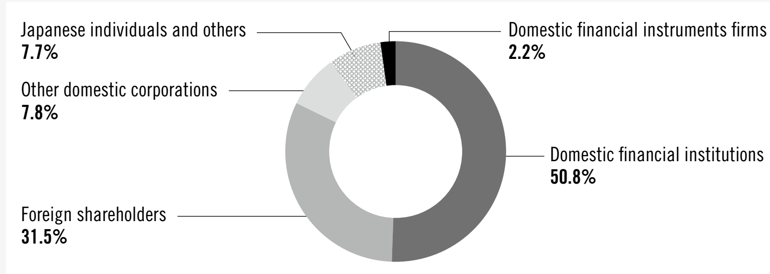
Shinagawa Intercity Tower C, 2-15-3, Konan, Minato-ku, Tokyo 108-6290, Japan
Tel. +81-3-6433-3600

Website

Please refer to the Nikon website for a variety of additional information, including financial results and presentation materials.

Investor Relations ....
https://www.nikon.com/about/ir/

Composition of Shareholders



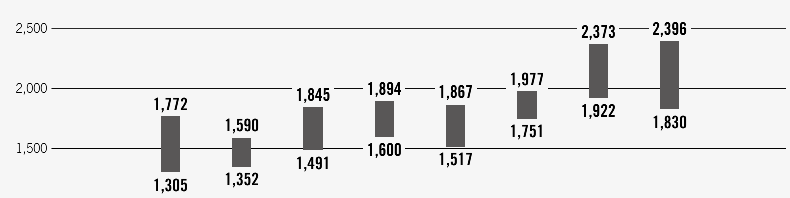
Major Shareholders

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	40,453	10.2
Japan Trustee Services Bank, Ltd. (Trust Account)	31,379	7.9
Meiji Yasuda Life Insurance Company	19,537	4.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,378	1.9
STATE STREET BANK AND TRUST COMPANY 505001	7,285	1.8
The Joyo Bank, Ltd.	6,801	1.7
STATE STREET BANK WEST CLIENT – TREATY 505234	6,723	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,659	1.7
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	6,274	1.6
Tokio Marine & Nichido Fire Insurance Co., Ltd.	6,042	1.5

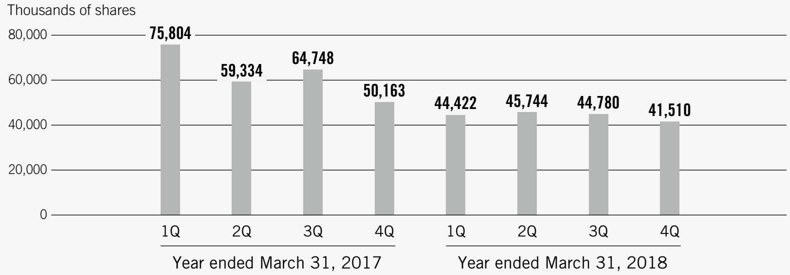
Notes:
1 The ratio of shareholding is calculated by deducting treasury stock of 4,078,576 shares.
Displayed amounts are rounded to the unit indicated.
2 Effective April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd., changed its name to MUFG Bank, Ltd.

Stock Price Range and Trading Volume

Stock Price
Yen



Trading Volume*
Thousands of shares



* Trading volume is the average of monthly performance.

For Additional Sustainability Information

Sustainability Report 2018

Nikon Corporation makes detailed reports on its CSR activities available on its website and *Sustainability Report 2018*.

In conjunction with reading this report, we would be grateful if you would visit the site mentioned below to gain a deeper understanding of the Nikon Group's CSR activities.

Sustainability page of Nikon website:
https://www.nikon.com/about/sustainability/

Independent Practitioner's Assurance of Environment-Related Data

Deloitte.
デロイト トーマツ

Independent Practitioner's Assurance Report

To the President and Representative Director of Nikon Corporation

We have undertaken a limited assurance engagement of the environment-related data indicated with ★ for the year ended March 31, 2018 (the "Environment-related data"), included in the "Nikon Report 2018" (the "Report") of Nikon Corporation (the "Company").

The Company's Responsibility

The Company is responsible for the preparation of the Environment-related data in accordance with the calculation and reporting standard adopted by the Company (indicated with the Environment-related data). CO_2 quantification is subject to inherent uncertainty for reasons such as incomplete scientific knowledge used to determine emissions factors and numerical data.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. We apply International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Environment-related data based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements ("ISAE") 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board ("IAASB"), ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, issued by the IAASB and *the Practical Guideline for the Assurance of Sustainability Information*, issued by the Japanese Association of Assurance Organizations for Sustainability Information.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. These procedures also included the following:

・Evaluating whether the Company's methods for estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or reperforming the estimates.

・Undertaking site visits to assess the completeness of the data, data collection methods, source data and relevant assumptions applicable to the sites.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Environment-related data is not prepared, in all material respects, in accordance with the calculation and reporting standard adopted by the Company.

Deloitte Tohmatsu Sustainability Co., Ltd.
Deloitte Tohmatsu Sustainability Co., Ltd.
Tokyo, Japan
September 5, 2018

Member of
Deloitte Touche Tohmatsu Limited

Subjects of Assurance

- CO_2 emissions from Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan
- Water use by Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan

Period of Assurance

Fiscal year ended March 31, 2018
(April 1, 2017, to March 31, 2018)

NIKON CORPORATION
Shinagawa Intercity Tower C, 2-15-3, Konan, Minato-ku, Tokyo 108-6290, Japan
www.nikon.com

Printed in Japan