Agenda

1. Financial results for the first half of the year ending March 2017

2. Existing medium-term management plan

3. Restructuring plan

4. Forecast for the year ending March 2017
Assessment of situation and motivation for restructuring

Nikon’s current situation

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

Change in mindset/assessment

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

Future direction

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

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

Objective of restructuring:

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

Basic principles:

- Create a company-wide focus on “high value-add businesses” to improve profitability
- Optimize R&D, sales, and manufacturing structure on a global basis
- Streamline HQ function to match scale of restructured businesses

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

We will prioritize the restructuring of Semiconductor Lithography, Imaging Products and HQ functions
Semiconductor Lithography Business:
Assessment of situation and key points of restructuring

Assessment of current situation

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

Key points of restructuring

- **Reassess ArF Immersion Scanner strategy to stop losses**
  - **Reduce the extent of R&D** in ArF Immersion Scanners
  - **Shift focus** from “increasing revenue/sales volume” to **“securing profitability”**
  - **Minimize inventory write-down/write-off risk** by reassessing the sales approach

- **Reduce fixed costs related to ArF Immersion Scanner business** by headcount rationalization and re-assignments of **1,000 employees**

- **Target Semiconductor Lithography Business break-even** by FY2018/3
**Semiconductor Lithography Business: Key restructuring initiatives**

1. **Reassess R&D strategy**
   Reduce R&D and related expenses of ArF Immersion Scanners

2. **Reassess sales approach**
   Focus on profitability and minimize inventory write-down/write-off risk

3. **Optimize manufacturing structure**
   Reduce costs by optimizing manufacturing structure and scale

4. **Reassess business organization and structure**
   Reduce fixed costs by reassessing headcount and expenses
Imaging Products Business:
Assessment of situation and key points of restructuring

**Assessment of current situation**

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

**Key points of restructuring**

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

1. **Create focus in product portfolio**
   Further focus on high value-add products

2. **Increase focus and efficiency of R&D**
   Focus on high value-add products and enhance efficiency by increasing commonalities across products and categories

3. **Optimize sales and manufacturing structure**
   Revise structure and improve efficiency to match market scale

4. **Reassess business organization and structure**
   Optimize organization and structure to new strategy
Headquarters/Manufacturing Functions of Optical Components: Key points of restructuring

**Streamline HQ Structure**

- **Streamline** HQ structure as part of overall restructuring
  - Redefine HQ role and function
  - Simplify organization and improve productivity

- Reduce fixed costs through headcount rationalization and re-assignment of 200 employees in HQ and other departments

**Strengthen Manufacturing Technology of Optical Components**

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

- **One-time costs:** ￥48 billion during FY2017/3

- **Reduction of fixed costs:** ￥20 billion annually by FY2018/3

- **Headcount reduction:** approximately **1,000** during FY2017/3 (excluding re-assignments, etc.)
  - Voluntary retirement plan for domestic employees will be announced

- **Impact to performance in FY2017/3**
  - Q1 earnings guidance → **New earnings guidance**
    - Net Sales: ￥820 billion → **￥800 billion**
    - Operating Income: ￥46 billion → **￥49 billion**
    - Net Income: ￥30 billion → **￥-6 billion**
Upon restructuring, the following changes will be applied to clarify management responsibility

- For Representative directors and officers:

  ‣ **Bonuses** related to the fiscal year ending March 31, 2017 will be forfeited

  ‣ **Monthly remuneration** will be partially reduced from November 2016 for a given period

  ‣ **Performance-based Stock Remuneration linked to the existing medium-term management plan** will be fully forfeited

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

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

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

- Shift to portfolio-based management
  - Redefine role of each business in portfolio and optimize resource allocation

- Implement targets linked to shareholder value
  - Introduce new company-wide target metrics and achieve improvements (e.g., ROE/ROIC)

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