

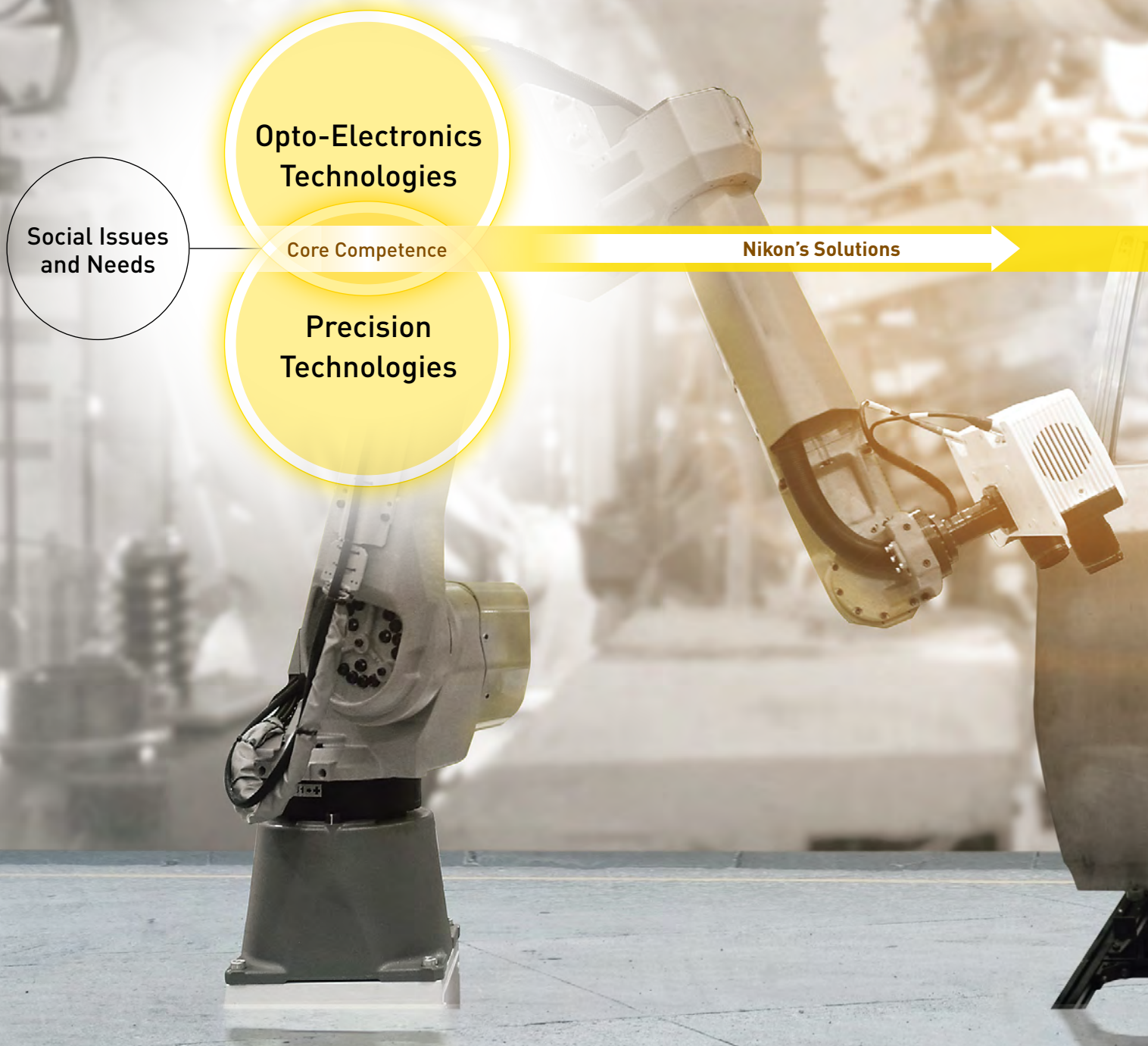


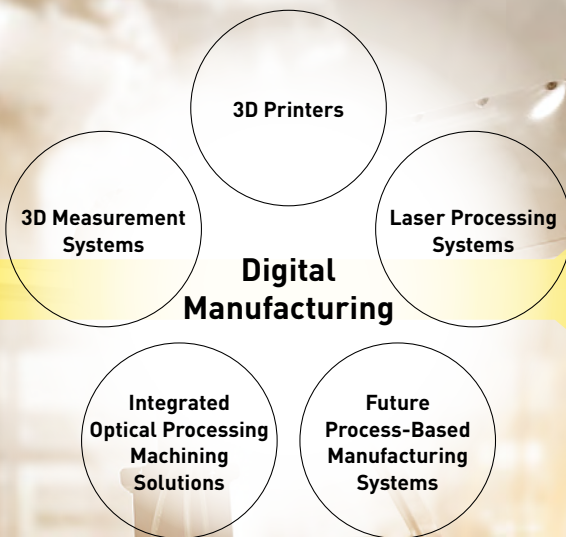
NIKON REPORT 2019

Year Ended March 31, 2019

Innovating *Monozukuri* Processes

Further automation and mass-customization are proceeding at manufacturing sites. Nikon widens the industrial possibilities by innovating *Monozukuri* (manufacturing) processes to higher level and more diverse within the Digital Manufacturing field.





In the Future

Eco-Friendly Factories

Building efficient production systems with fewer resources and less energy

High Level of Manufacturing Technologies

Realizing higher quality and precision manufacturing

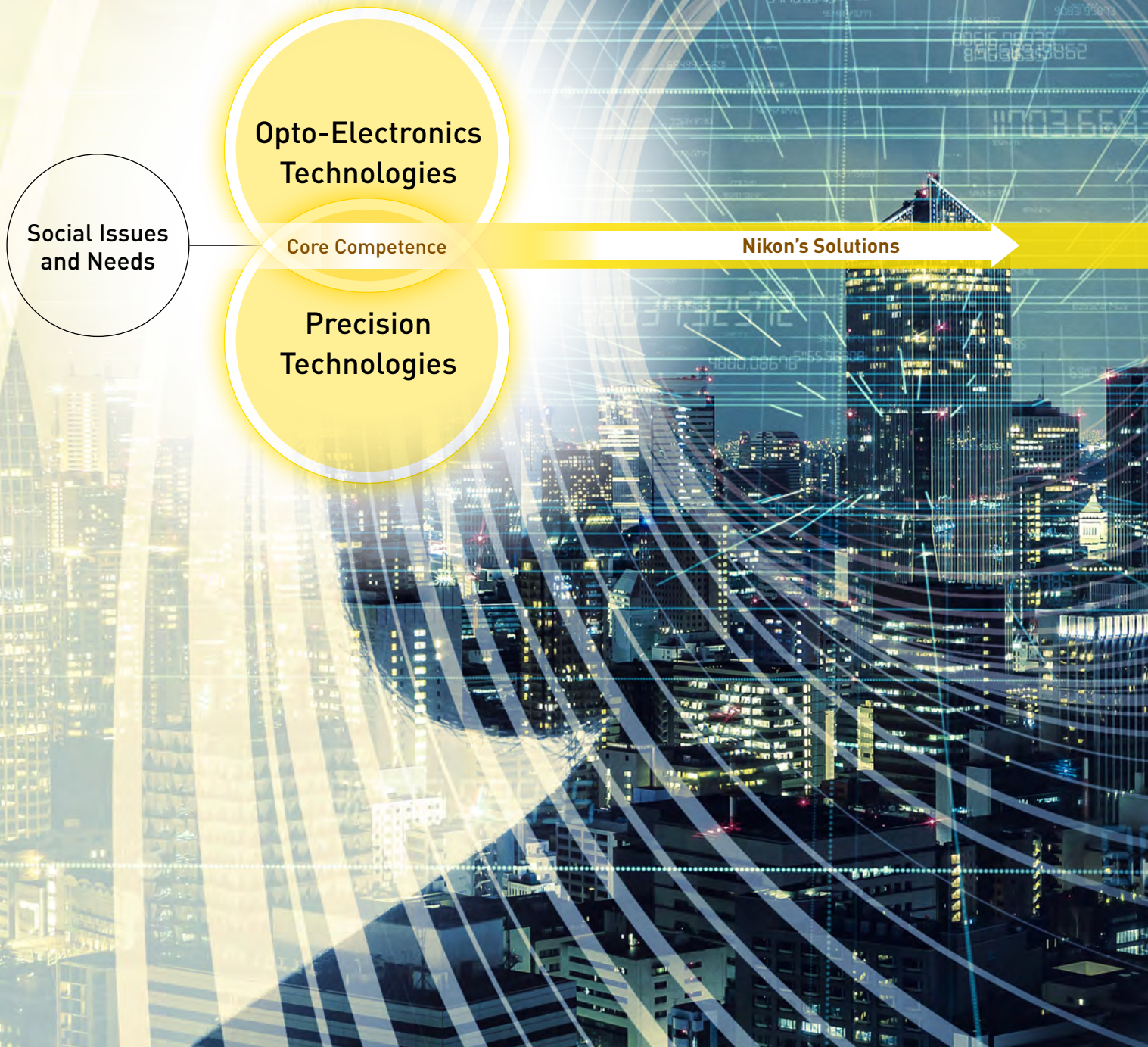
Smart Factories

Promoting further automation and efficiency at factories

COVER STORY

Making a Better Society through Imaging and Sensing Technologies

Through Vision Systems / Robotics, Nikon brings the features of eyes to society, from factories to public spaces and our homes, leading to a more exciting future with safety and comfort.



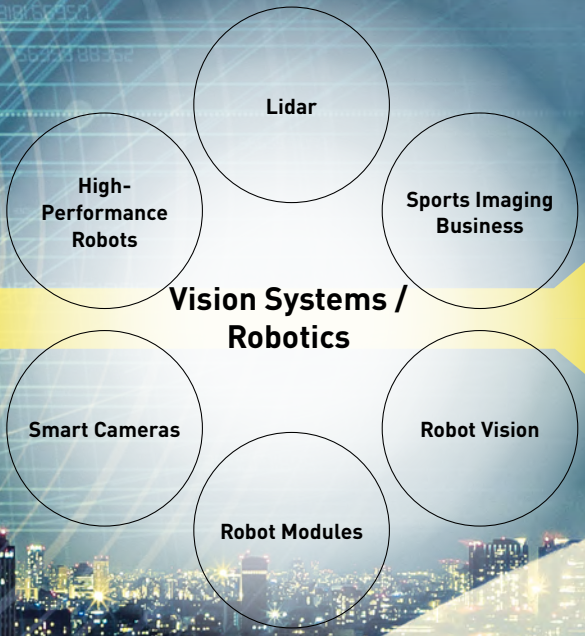
Opto-Electronics Technologies

Core Competence

Precision Technologies

Nikon's Solutions

Social Issues and Needs



In the Future

Coexistence of Humans and Robots

Realizing sophisticated and safe manufacturing sites

Cities with Safety and Security

Building smart city and better transportation systems

Expansion of Imaging Experiences

Providing the joy of watching sports and exercising to people around the world



Contributing to People's Health and QOL

To realize people's desire to stay healthy, Nikon supports the advancement of life sciences and medicine in the Healthcare field with the vision of improving people's QOL (Quality of Life).





In the Future

Realization of Drug Discovery and Regenerative Medicines for Intractable Diseases

Contribution to Early Detection of Diseases

Provision of New Diagnosis Technologies

Management Message

Nikon will endeavor to advance the new Medium-Term Management Plan, establish foundations for growth, and become a “Leading Company in Precision and Optics” in order to achieve sustainable improvements in enterprise value over the medium to long term.

Nikon Report 2019 features clear and concise explanations from us and business unit representatives on the new Medium-Term Management Plan and other medium- to long-term growth strategies. This report also compiles important information pertaining to the value creation and foundation-building initiatives aimed at realizing sustainable growth.

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



Toshikazu Umatate
Representative Director
President & CEO

Masashi Oka
Representative Director
Senior Executive Vice President & CFO

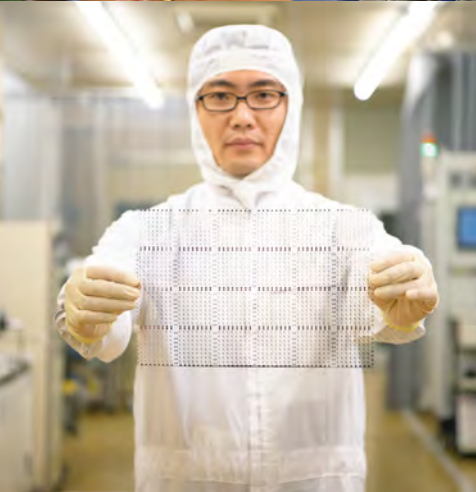
CONTENTS

INTRODUCTION	8 Our Philosophy / Our Vision / Our Qualities of Mind 10 Nikon's Value Creation Process (Sustainability Strategy)
BUSINESS STRATEGY	12 Message from the President & CEO 18 Overview of the Restructuring 20 New Medium-Term Management Plan —Establishing a Foundation for Sustainable Growth 24 Message from the CFO 26 Performance Highlights
SPECIAL FEATURE	32 Evolutions of Products and Services Based on Opto-Electronics and Precision Technologies 34 Goal of Becoming a Leading Company in Precision and Optics
BUSINESS PERFORMANCE	40 Nikon's Business Structure 42 Overview of Business Units 42 Imaging Business Unit 44 FPD Lithography Business Unit 46 Semiconductor Lithography Business Unit 48 Healthcare Business Unit
CORPORATE GOVERNANCE	50 Directors and Officers 52 Corporate Governance 57 Message from the Chairman of the Board 58 Interviews with External Directors
SUSTAINABILITY	62 Management Resources That Support Nikon's Value Creation
FINANCIAL AND CORPORATE DATA	68 Management's Discussion and Analysis 72 Financial Information 131 Organization of the Nikon Group 132 Corporate Data / Investor Information 133 Independent Practitioner's Assurance / ESG External Ratings

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.

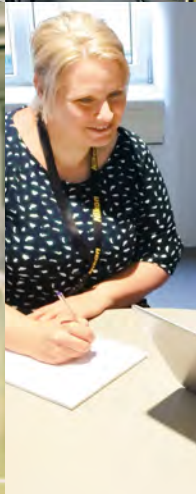
This report covers the activities of domestic and overseas Nikon Group companies, centered on Nikon Corporation. In principle, the terms "the Company," "Nikon Corporation," and "Nikon" refer to Nikon Corporation, while "the Group" and "the Nikon Group" refer to Nikon Corporation and its Group companies.

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.



Based on our philosophy of "Trustworthiness and Creativity," we continue to provide products and services that make people happy.

Trustworthiness and Creativity





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

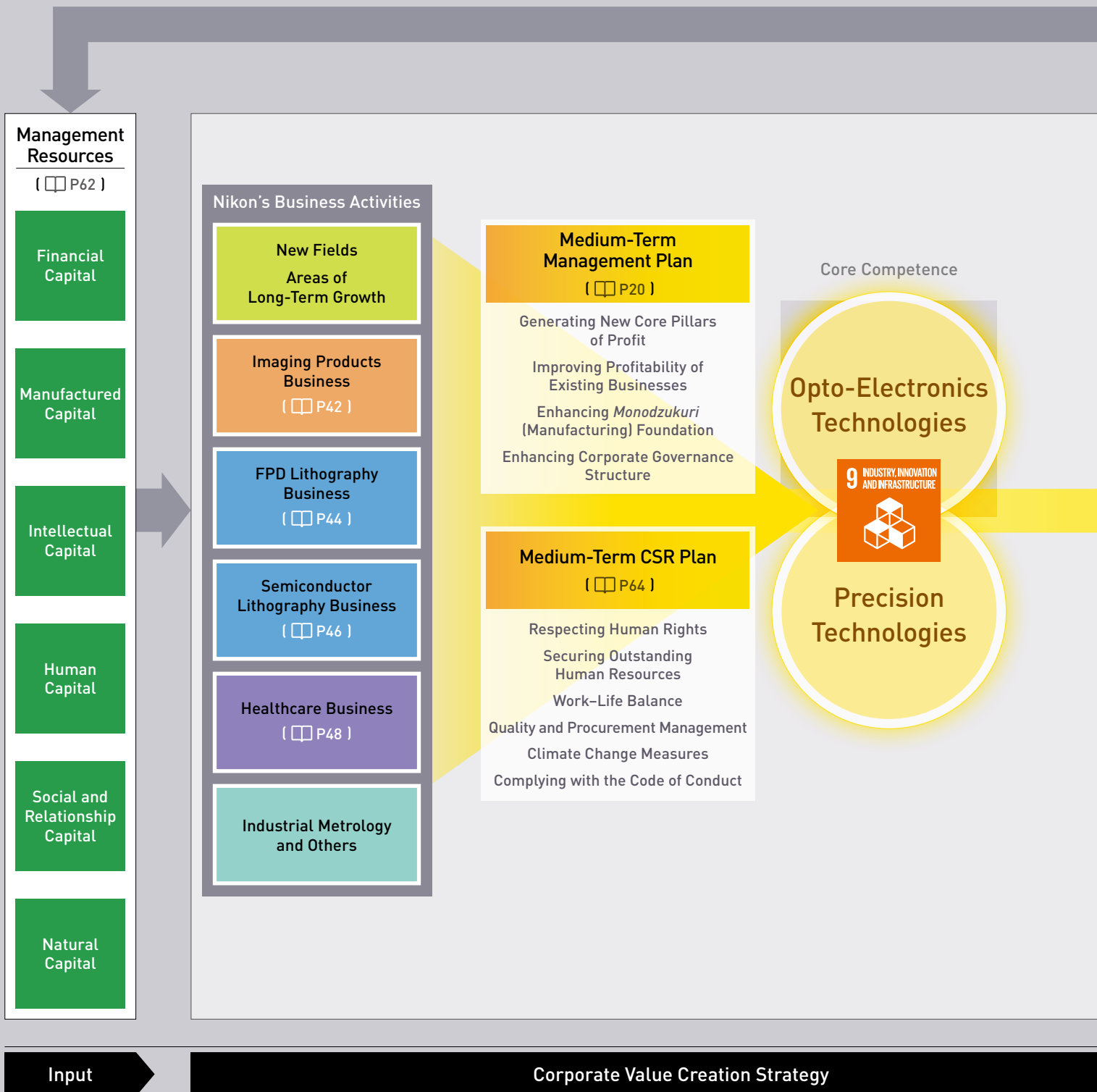
We warmly embrace diverse ideas and delight in differences among people and cultures.

Inspirational Power

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

Nikon's Value Creation Process (Sustainability Strategy)

Nikon strives to be a “Leading Company in Precision and Optics” by utilizing its core competence and assets cultivated to date and continues to pursue innovation. We thereby hope to achieve ongoing business growth and contributions to society in order to realize sustainable improvements in both enterprise value and social value.



Stakeholder Engagement



Goal

A Leading Company in Precision and Optics

Contribute to an affluent and fulfilling society by driving innovation in various industries with products and services utilizing opto-electronics and precision technologies



Contributing to Society through Business Activities

Innovating *Monozukuri* (Manufacturing) Processes

Making a Better Society through Imaging and Sensing Technologies

Contributing to People's Health and QOL (Quality of Life)

Corporate Philosophy

Trustworthiness and Creativity

Continue to provide products and services that make people happy

Products and Services

Outcome

Message from the President & CEO



Toshikazu Umatate

Representative Director
President & CEO

To Our Stakeholders

We strive to be a “Leading Company in Precision and Optics” that realizes sustainable enterprise value growth in the medium to long term.

Mission as the Helmsman of the Nikon Group

I am Toshikazu Umatate, and I assumed the position of Representative Director, President and CEO of Nikon Corporation on June 27, 2019. The fiscal year ending March 31, 2020 will be a crucial year as it will represent our transition from the prior phase of restructuring to a new phase of growth strategies. Stepping into my new role at this time, I am keenly aware of the significance of my mission and the momentousness of my responsibilities.

Since entering Nikon in 1980, I have devoted my entire career to the Semiconductor Lithography Business. When I joined, we launched the NSR-1010G, the first domestically manufactured commercial stepper, heralding a new era for Nikon. Back then, the lithography business was new to Nikon, and naturally the size of our development team was very small. Because of that, I found myself placed in charge of important projects from my first year at Nikon. This exposed me to wide-ranging experiences and fostered in me a sense of determination and responsibility to follow through. In retrospect, I feel fortunate that I was given the opportunity to acquire these crucial strengths, which I still call upon today, at such an early point in my career.

My most important mission as the helmsman of the Nikon Group is to build the foundation for our future growth. To accomplish this, I first plan to clearly define the vision for the Group that we should pursue. I then want to devote myself to making Nikon into an energetic and empowered company that inspires its employees to march toward that vision. I do not want Nikon to be a place where we are overly focused on current conditions and results. Rather, I want us to be an organization where everyone is united in our pursuit of future growth based on solid situational analyses and projections.

The restructuring tested us and was painful, and we never forget what we went through. However, it is also a fact that, through this, we gained invaluable experience that united us in pursuit of overcoming the challenges that had plagued us for years. The corporate culture that emerged during the period is a major strength for the Nikon Group and is something that gives us confidence in

our ability to advance our growth strategies going forward.

As we move ahead with our growth strategies, I want to emphasize the importance of always putting ourselves in the customer’s shoes. The Nikon Group boasts unparalleled opto-electronics and precision technologies, the core technologies, it has continued to refine throughout its long history. These technologies have won much praise from customers around the world. Nevertheless, we must recognize that the pace of social change is swift, and technologies are progressing on a daily basis. User needs are constantly diversifying as well. It will therefore be crucial for us to be close to our customers and be agile in responding to changes in the operating environment and other conditions in order to grow further.

Next Phase after Completion of the Restructuring

It was in November 2016 when Nikon chose to discontinue its Medium-Term Management Plan 2015 and enter into a restructuring phase. The greater-than-anticipated degree of market contraction in core businesses and the divergence from our expectations with regard to progress in growth businesses led us to decide to preemptively restructure while we have a sound financial base. Our goal was to complete the restructuring by the fiscal year ended March 31, 2019. With the focus on improving enterprise value, enhancing management DNA fundamentally underpinned the restructuring that aimed to increase profitability dramatically.

In the Semiconductor Lithography Business, which was suffering from chronic losses, we drastically revised our operations by dedicating ourselves to practicing build-to-order manufacturing and implementing revisions to development policies. Steps taken in the Imaging Products Business included the selection and concentration on high-value-added products with the focus on profitability and the optimization of development, production, and sales structures. We also undertook head count optimization to reduce fixed costs, introduced management indicators linked to capital markets, and built a foundation for portfolio-based management. These efforts resulted



in the steady improvements to profitability and management DNA that we envisioned. At the same time, however, the uncertainty in the operating environment surrounding the Nikon Group is growing. We must therefore remain vigilant and continue to implement improvements and reforms in the future.

I will never forget the struggle that accompanied this undertaking and we are indebted to the stakeholders that supported us throughout the restructuring. I am committed to using this experience to remain vigilant in focusing on operations and the ongoing growth for the Nikon Group.

Quest to Become a “Leading Company in Precision and Optics”

While we were able to improve profitability and enhance our management DNA through the restructuring, Nikon continues to face a difficult operating environment. It was against this background that we unveiled our new Medium-Term Management Plan in May 2019. Keeping true to the principles of our corporate philosophy of “Trustworthiness and Creativity” and our vision of “Unlock the future with the power of light,” this plan calls on us to pursue the medium- to long-term goal of becoming a “Leading Company in Precision and Optics.” Guided by this plan, we will work to achieve sustainable improvements in enterprise value over the medium to long term by concentrating resources on the precision and optics field businesses in which we boast significant scale and a leadership position.

The new Medium-Term Management Plan defines the three years beginning with the fiscal year ending March 31, 2020, as a period for “Establishing a Foundation for Sustainable Growth” to achieve sustained improvements in enterprise value after the conclusion of the plan. Our top priority is establishing this foundation for sustainable growth, and we look to steadily enhance Nikon’s long-term profit-generating capability.

Creation of New Markets and Industries Leveraging Strengths

One of the most important strategies for becoming a “Leading Company in Precision and Optics” is the creation of new core pillars of profit, that is, the swift acquisition of new growth engines. Nikon has defined three areas of long-term growth, namely, Digital Manufacturing, Vision Systems / Robotics, and Healthcare. During the period of the new Medium-Term Management Plan, one of our focuses is the launch of a Material Processing Business, which will revolve around 3D printers and laser processing systems. We anticipate the rise in social needs for manufacturing automation and mass-customization to stimulate the material processing market to grow. Moreover, there are many manufacturers that seek to reduce the burden of set-up, process design, and prototyping in order to overcome the limitations of manufacturing technologies and achieve higher levels of speed, simplicity, and freedom in manufacturing. Nikon takes pride in its high-precision control and non-contact 3D metrology technologies and in its opto-electronics technologies cultivated through its Precision Equipment Business and Industrial Metrology Business. I am confident in Nikon’s ability to create new markets and industries in the manufacturing field through the provision of “Optics-based machine tools” that leverage the strengths of these technologies and our relevant expertise. If we can evolve conventional metal processing equipment, those that use blades and drills, to instead use light as lasers, the result will be fast, low-cost, and high-precision material processing. Furthermore, it should be possible to develop systems that can freely create almost any shape by combining the molding and additive manufacturing capabilities of a 3D metal printer with the marking, welding, and polishing functions of laser technologies.

We established a beachhead for the creation of new markets, by taking orders for the optical processing machine Lasermeister 100A, the first metal processing machine launched with proprietary Nikon technologies, in

We will work to achieve sustainable improvements in enterprise value over the medium to long term by concentrating resources on the precision and optics field businesses in which we boast significant scale and a leadership position.
Our top priority is establishing foundation for sustainable growth, and we look to steadily enhance Nikon's long-term profit-generating capability.

April 2019. The compact design of this machine makes it viable for installation in company and school research facilities and even in standard offices. Recently, we have been seeing the global emergence of a new business model known as a fabrication laboratory. This business model entails offering facilities equipped with digital fabrication equipment that can be used by anyone to manufacture products so long as they provide the data. Nikon looks to provide an option for simple and open manufacturing by developing such easy-to-use facilities.

Up until now, we have adopted an approach of carefully crafting products through prolonged development periods contained in-house. In the Material Processing Business, however, we intend to employ a new approach. This approach will see us first launch entry models to get a foothold in the market. Thereafter, we will use these models as a tool for engagement with customers to determine the best course for future development activities, so that we can evolve our products in line with customer needs. Open innovation and collaboration with machine tool manufacturers will be options considered in this engagement as we seek to flexibly incorporate external insight and technologies as necessary. Through these initiatives, we look to evolve our Material Processing Business to hold a leadership position in the global market.

Improvement of Profitability of Existing Businesses

Improving profitability of existing businesses is another important strategy of the Medium-Term Management Plan. This strategy will target our Imaging Products Business, Precision Equipment Business, and the areas where we already entered in the Healthcare Business. They will have a role to play in generating stable cash flows over the medium to long term. Nikon needs to be able to reliably produce earnings, even when faced with a highly volatile market. The restructuring helped us make strides in reducing fixed costs to an appropriate level. Nonetheless, I believe there is still room to improve them by making work processes simpler. At the same time, we will further

advance the optimization of supply chains and sales and production structures as well as the revision of related processes as facets of Companywide cost reforms, and we seek to raise product competitiveness in all of the aforementioned businesses.

I would now like to discuss these businesses respectively. In the Imaging Products Business, we will improve profitability by bolstering our lineup of Z series and other mid-range and high-end cameras. We will also enhance coordination with social media and imaging applications and proactively propose ways to enjoy images beyond shooting. Turning to the Precision Equipment Business, we anticipate stable growth in FPD lithography systems and semiconductor lithography systems over the medium to long term. Nonetheless, these are competitive and highly volatile markets. We need to listen to the voices of our customers, accurately capture their needs and offer them optimal solutions both in terms of tools and services, and, in doing so, we will maintain the selection and concentration measures emphasizing profitability. For the Healthcare Business, we need to carefully assess market trends in such fields as biological microscopes and ultra-widefield retinal imaging devices, where we already entered, so that we can timely launch products without missing opportunities. At the same time, we will endeavor to reduce costs while improving our earnings power so that we can further strengthen our structure to generate more cash flows.

Enhancement of Nikon Group's *Monodzukuri* (Manufacturing) Foundation

Enhancing our *Monodzukuri* foundation is one of the strategic initiatives put forth in the new Medium-Term Management Plan to support operations in growth fields and existing businesses. Our goal through this initiative is to evolve fundamental aspects of our manufacturing in preparation for the operating environment changes indicated by the advent of digital manufacturing. I anticipate that the increased efficiency and processing speeds now seen throughout manufacturing procedures, largely due

I am convinced that the Nikon Group will successfully attain sustainable growth when everyone at Nikon unites together and focuses on pursuing higher levels of profitability and provide new value to society through innovation.

to the adoption of IoT and AI, will bring about substantial changes in the elements of manufacturing that define competitiveness. Responding to this trend and supplying products that meet customer needs in terms of QCD (quality, cost, and delivery) will require various reforms in our *Monozukuri*.

The Nikon Group established the Technology Strategy Committee in 2017 to facilitate the drafting of cross-business technology strategies. In my capacity as the chairman of this committee and substantive CTO, I visited design, development, and production divisions throughout the Group. These visits gave me an opportunity to reaffirm the number of unique strengths of the Nikon Group, such as its solid technological prowess and commitment to quality. These strengths are something that our competitors cannot emulate.

Conversely, I also saw a failure to form connections between these technologies, which resulted in a lack of overall cohesion, as well as insufficient forethought regarding future product development efforts. By objectively analyzing the state of Nikon, I hope to quickly remedy deficiencies while also aggressively investing in the augmentation of our strengths.

We will also be stepping up our efforts to further improve upon the quality behind our strong reputation for delivering reliable products. Many of the initiatives taken in the past were closed and completed within an individual business unit. However, during restructuring, we have installed frameworks for cross-business initiatives and boosted the overall level of our quality management initiatives. I hope to build upon these efforts going forward.

New Stage for Corporate Governance

Various corporate governance reforms were conducted during the course of the restructuring, such as increasing the ratio of external directors on the Board of Directors and commissioning third-party organizations to conduct evaluations of the Board's effectiveness. Looking ahead, we aim to further strengthen our corporate governance structure by

invigorating the Board of Directors and formulating a succession plan for the CEO. To invigorate the Board of Directors, we have made the diversification of external directors a priority measure, which led us to welcome a new external director who previously held important positions in manufacturing industry. We anticipate that this individual will be more than capable of exercising his deep insight and expertise to the benefit of the Nikon Group. Meanwhile, the Nominating Committee was established in May 2019 to help with the formulation of a succession plan.

Contributing to Society through Business Activities

Recently, an increasing amount of attention has been levied toward corporations' efforts to act upon and deliver the SDGs as well as other social issues. Corporations are members of society, and the survival and growth of corporations are contingent on the sustainable development of society.

Recognizing this, I believe it is a fundamental part of corporate management to contribute to efforts toward sustainability and deliver on the SDGs and other initiatives, and that contributing to society through business activities should be a natural part of operations.

I have no doubt that the process of exercising our responsibilities and accomplishing our targets will lead to sustainable growth for both the Nikon Group and society. To date, our business has played a substantial role in contributing to society, and I suspect that there will be plenty of opportunities for us to fulfill a similar role in the future.

For example, the cameras and lenses that are one of the mainstay products of the Nikon Group are indispensable in showing people the truth behind various events around the world and in sharing the feeling of inspiration from sports events. Meanwhile, FPD and semiconductor lithography systems are vital to the manufacturing processes for devices essential to the current digital society, such as displays and the various semiconductors used for memory, MPU, image sensors, and other applications.

Our competitiveness in these existing businesses is



underpinned by Nikon's core technologies, most notably its opto-electronics and precision technologies. As we continue to develop our existing businesses, we intend to also apply our core technologies to a variety of fields. I believe Nikon has the potential to create new businesses that help mitigate or resolve social issues through these undertakings.

The new Medium-Term Management Plan puts forth three areas of long-term growth: Digital Manufacturing, Vision Systems / Robotics, and Healthcare. Of these areas, Vision Systems / Robotics has massive potential for contributing to society. Eyes and hands will be important components of robot development going forward. If we can endow robots with vision as well as with precision multifunctional hands, that will lead to substantial progress and evolution for robots, which will surely have a significant impact on society. Such superior robots will be a culmination of the opto-electronics, precision, and other processing and control technologies as well as the software development technologies we have refined to date.

Goal 9 of the SDGs is "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation." It is our value creation process (sustainability strategy) to accomplish this goal by utilizing the core technologies and assets we have fostered to relentlessly pursue innovation, and thereby deliver an impact on the SDGs and other social issues to continue growing our businesses and contributing to society.

The Nikon Group will seek to create sustainable improvements in enterprise and social value through the continued implementation of the cycle indicated in this value creation process.

"Trustworthiness and Creativity" and the Nikon Brand

The Nikon brand embodies our corporate philosophy of "Trustworthiness and Creativity." We have won the trust of customers and society through real-life episodes such as the one where Nikon's camera being the only camera that survived and remained functional in the frigid environment

when all the other brands failed. Over the years, we have created new features and reached new pinnacles of performance in response to customer needs. Our history of living up to the expectations of customers while maintaining their trust, or even earning higher levels of trust, and creating new offerings is an embodiment of the Nikon brand and the point of origin for our corporate philosophy of "Trustworthiness and Creativity." Going forward, I am committed to further enhancing the Nikon brand through our products and services that truly exhibit "Trustworthiness and Creativity."

Message to Our Stakeholders

Having closed a two-and-a-half-year period of restructuring, Nikon has begun establishing a foundation for growth to continuously increase its enterprise value. We are also moving ahead with the construction of frameworks for creating new businesses. Putting ourselves in customer's shoes is always a beginning of our development. It is my mission to define the future of Nikon and lead the entire Nikon Group toward this future based on this guiding principle of putting customers first. I am convinced that the Nikon Group will successfully attain sustainable growth when everyone at Nikon unites together and focuses on pursuing higher levels of profitability and provide new value to society through innovation.

I am dedicated to living up to the expectations of our stakeholders. I hope you will continue to support us in our endeavors.

August 2019

Toshikazu Umatate

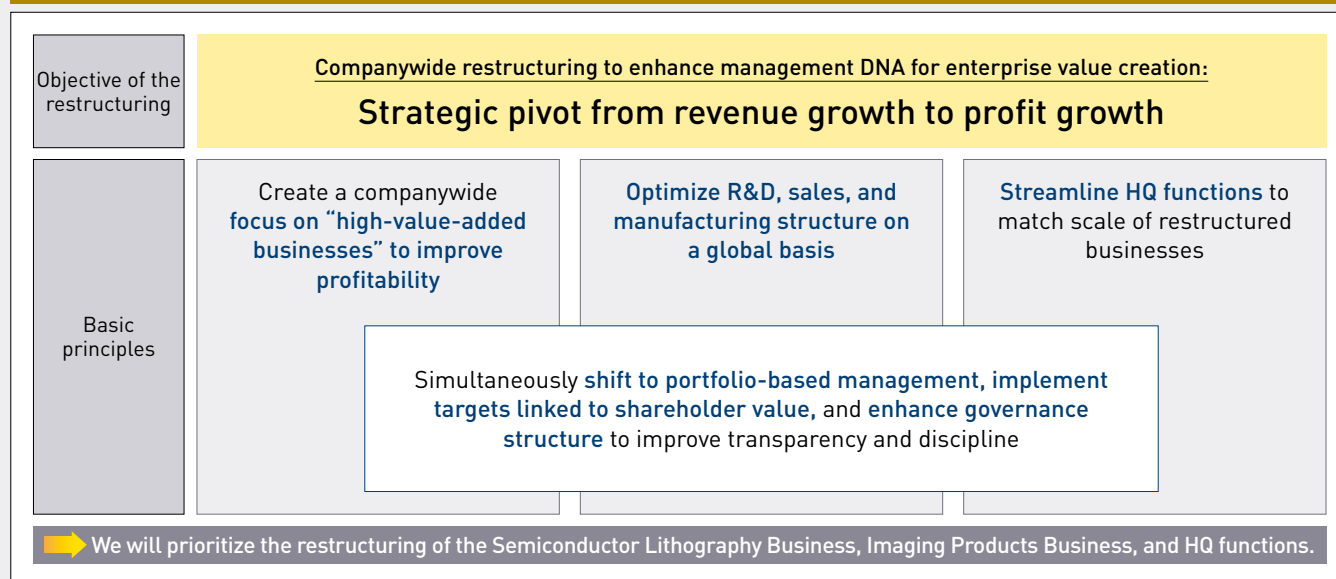
Representative Director
President & CEO

Overview of the Restructuring

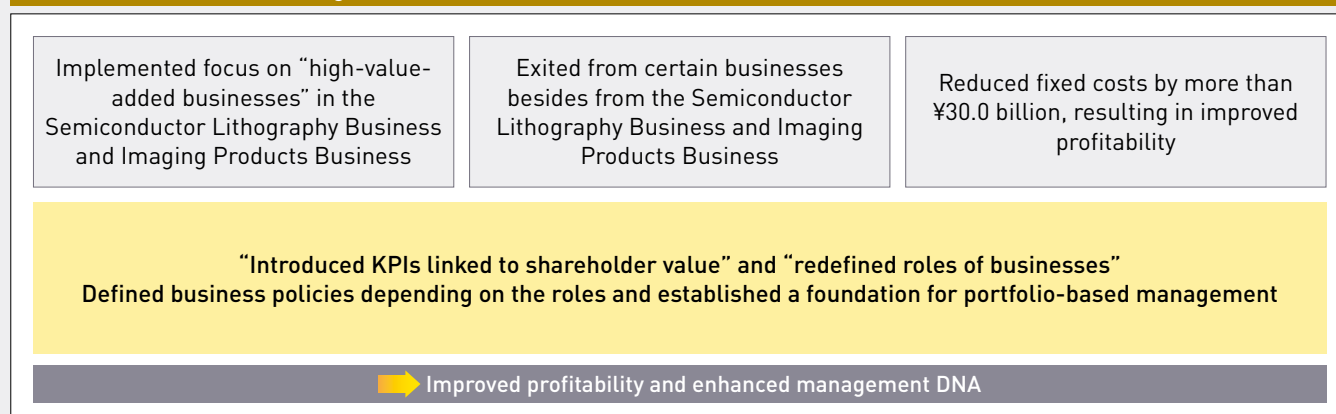
The Nikon Group steadily undertook a Companywide restructuring to increase profitability and enhance its management DNA in order to improve enterprise value.

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 was set to conclude in the fiscal year ended March 31, 2019, during which, while we had a sound financial base, we proceeded with preemptive Companywide restructuring measures that entailed drastically increased profitability and enhanced management DNA. However, the uncertainty in the operating environment surrounding the Nikon Group is growing. Therefore the Group remain vigilant and continue to implement improvements and reforms.

Goals and Basic Principles of the Restructuring



Overview of the Restructuring



Specific Measures and Results

Business and Headquarters Function Reforms

- Dedication to practicing build-to-order manufacturing, revision of development policies, and other drastic revisions to business strategies in the Semiconductor Lithography Business
- Selection and concentration on high-value-added products, ceasing of operation of Chinese manufacturing subsidiary, and other measures for optimizing development, production, and sales structures in the Imaging Products Business
- Transference of CMM business* in the Industrial Metrology Business
- Consolidation of optical engineering functions and optical component production and technology functions
- Enhancement of coordination between Research & Development Division and business units
- Narrowing of scope of basic and applied research themes
- Head count optimization

* Development, manufacturing, sale, and service of Coordinate Measuring Machines

Enhancement of Management DNA and Corporate Governance Structure

- Introduction of KPIs linked to shareholder value and redefinition of business roles
- Definition of business policies depending on roles and establishment of foundation for portfolio-based management
- Introduction of executive compensation emphasizing capital efficiency
- Commencement of third-party analyses and evaluations of Board of Directors' effectiveness
- Increase in ratio of external directors
- Establishment of Nominating Committee

➔

- Realization of enhanced profitability in existing businesses, especially in the Semiconductor Lithography Business and Imaging Products Business
- Reduction of more than ¥30.0 billion in fixed costs
- Enhancement of management DNA

CLOSE UP Financial Results Attained through the Restructuring (Years Ended March 31)

	Before Restructuring (2016)	After Restructuring (2019)
Revenue	¥841.0 billion	¥708.6 billion
Operating Profit	¥35.2 billion	¥82.6 billion (¥67.6 billion)
Operating Margin	4.2%	11.7% (9.5%)
ROE	5.5%	11.2% (9.4%)

Note: Figures in parentheses show amount excluding approx. ¥15.0 billion in temporary profit from litigation settlement.

As Restructuring Completed

<p>Imaging Products Business</p> <p>The market contraction is expected to continue for the Imaging Products Business.</p>	<p>FPD Lithography Business</p> <p>The FPD Lithography Business, which has had several years of strong performance, is also expected to plateau.</p>	<p>Semiconductor Lithography Business</p> <p>Harsh competition is expected to continue for the Semiconductor Lithography Business, which underwent significant profitability improvement. Nikon will focus on business opportunities that will ensure profitability exceeds capital cost for the business.</p>	<p>Other growth driver candidates (incl. Healthcare Business)</p> <p>Nikon will continue to cultivate high growth potential businesses such as the Healthcare Business from a long-term perspective.</p>
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The greatest challenge in sustainably increasing enterprise value is generating new core pillars of profit while improving the profitability of existing businesses.

New Medium-Term Management Plan—Establishing a Foundation for Sustainable Growth

In May 2019, the Nikon Group announced its new Medium-Term Management Plan. This plan is designed to guide the Group in building a foundation for achieving sustainable improvements in enterprise value over the medium to long term amid a challenging and uncertain operating environment.

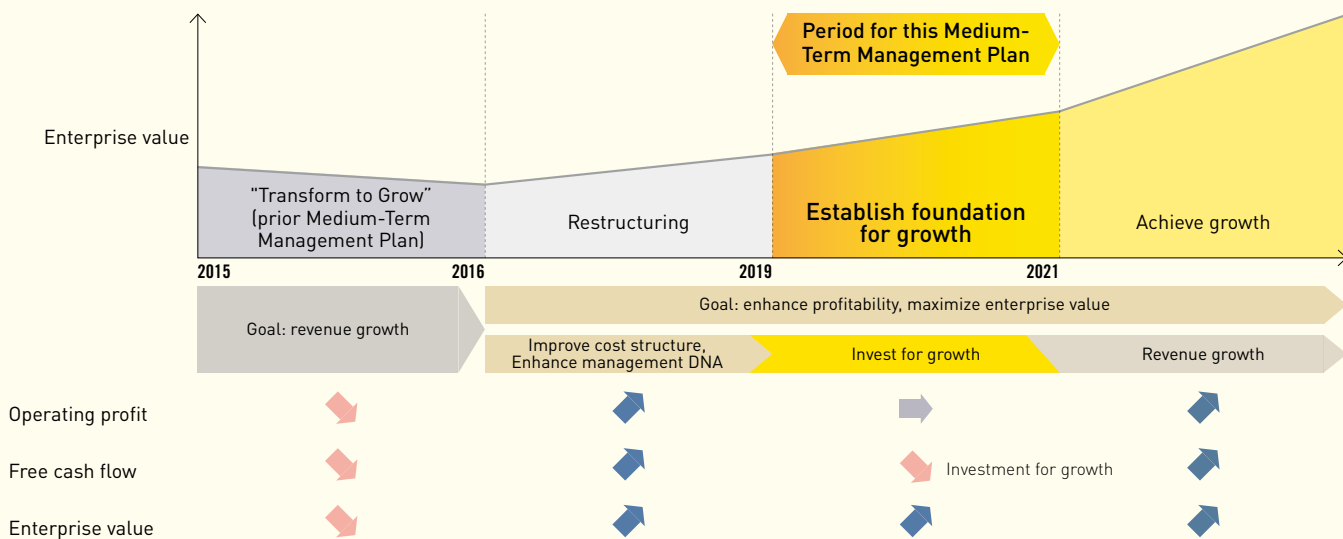
Our Goal

“Leading Company in Precision and Optics”

Nikon will focus on businesses with scale and leadership position in the fields of precision and optics to realize sustainable growth in enterprise value in the medium to long term.

Positioning of the Medium-Term Management Plan

Nikon will actively make investments in order to establish a foundation for sustainable improvement in enterprise value.



Overview of Strategic Initiatives

Generate New Core Pillars of Profit

Develop new growth engines through active investment in new fields (Establish Material Processing Business)

Improve Profitability of Existing Businesses

Enhance profitability of the three main existing businesses (Imaging Products, FPD, Semiconductor Lithography)

Reform cost structure

Enhance *Monodzukuri* (Manufacturing) Foundation

Establish “*monodzukuri* structure” through digital manufacturing

Enhance Corporate Governance Structure

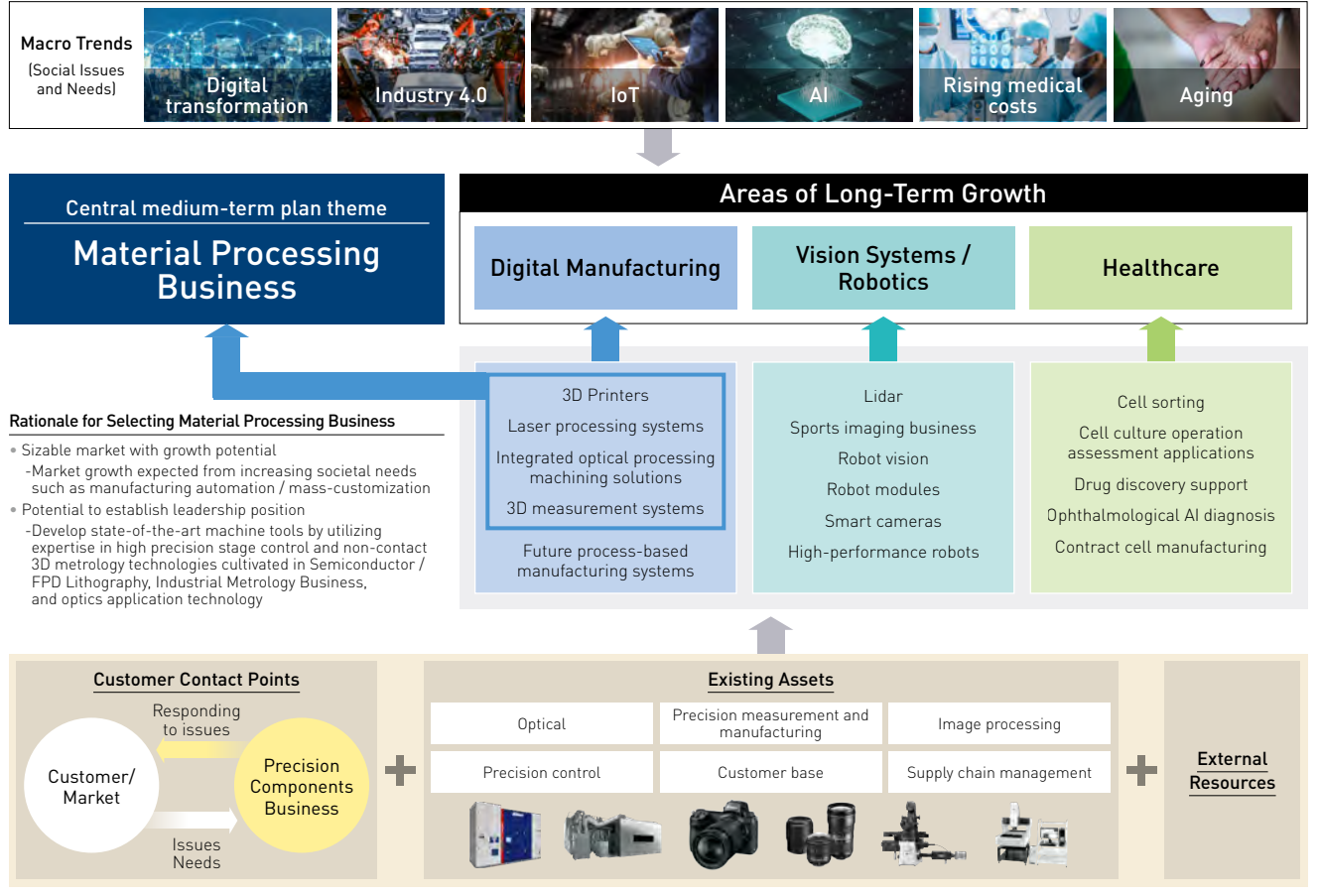
Appointment of executive management, succession planning

System where monitoring and evaluation of management’s strategic decision-making can be implemented effectively

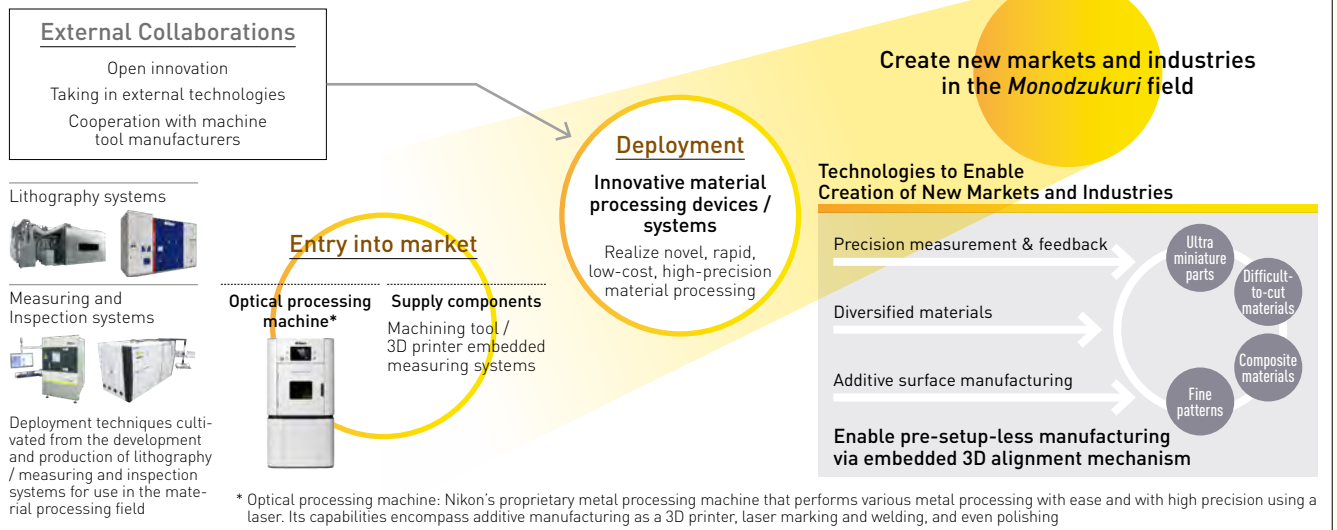
Details of Strategic Initiatives

1. Generate New Core Pillars of Profit

■ Areas of Growth



■ Goal and strategies of Material Processing Business: The central medium-term plan theme



2. Improve Profitability of Existing Businesses

Visions, Strategies, and Measures for Three Main Existing Businesses

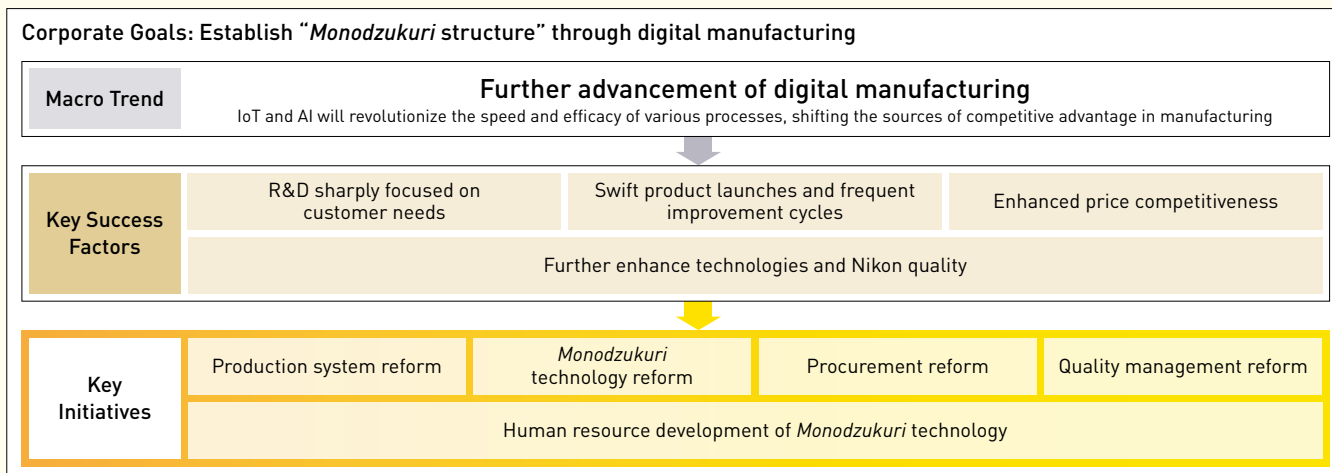
Imaging Products Business	FPD Lithography Business	Semiconductor Lithography Business
Vision		
Stably secure ¥20.0 billion or more in operating profit as a base cash flow for Nikon	Keep leadership position in markets where stable demand is expected in the medium to long term	Continue stable generation of cash flows through a profitability-first business strategy
Strategy Direction		
Focus on products of full-frame systems to take hold of mid-range and high-end model users Acquire new photo and video hobbyists such as smartphone users In light of market shrinkage, take further steps to continue cost structure reform	Increase profit by effectively capturing customer needs and producing new lithography systems and services Reduce the total cost of the lithography process, and accelerate reinvigoration of the market	Continuously implement "high-value-added business" to focus on securely profitable ones - Optimize production quantities, including handling increased production according to customer demand Utilize the installed base to its maximum to expand the service business
Primary Initiatives		
<ul style="list-style-type: none"> Complete lineup of the Z mount system Launch strategic mid-range and high-end digital SLR products Enhance coordination with social media and imaging apps to offer unique imaging experiences that stretch beyond shooting Review production and marketing structure, improve sales expense and R&D efficiency 	<ul style="list-style-type: none"> Correspond to evolution of FPD lithography systems and premium displays <ul style="list-style-type: none"> Increase the resolution and productivity of G10.5 / G8 / G6 lithography systems Uncover customer needs and enhance service business <ul style="list-style-type: none"> Utilize the installed base to develop businesses that grasp latent needs of customers (Reduce the cost of peripherals, operational support business) 	<ul style="list-style-type: none"> Drive development toward expanding existing device platforms <ul style="list-style-type: none"> Support for the 5 nm generation: immersion lithography systems Utilize technologies cultivated through the lithography systems for the marketing of "Litho Booster" measurement device <ul style="list-style-type: none"> Litho Booster: Enables higher process controls through groundbreaking measurement capabilities

Cost Structure Reforms

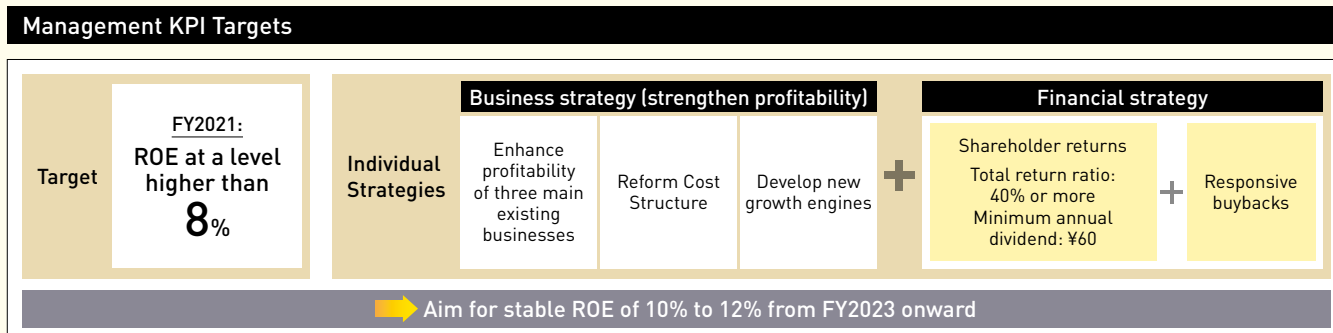
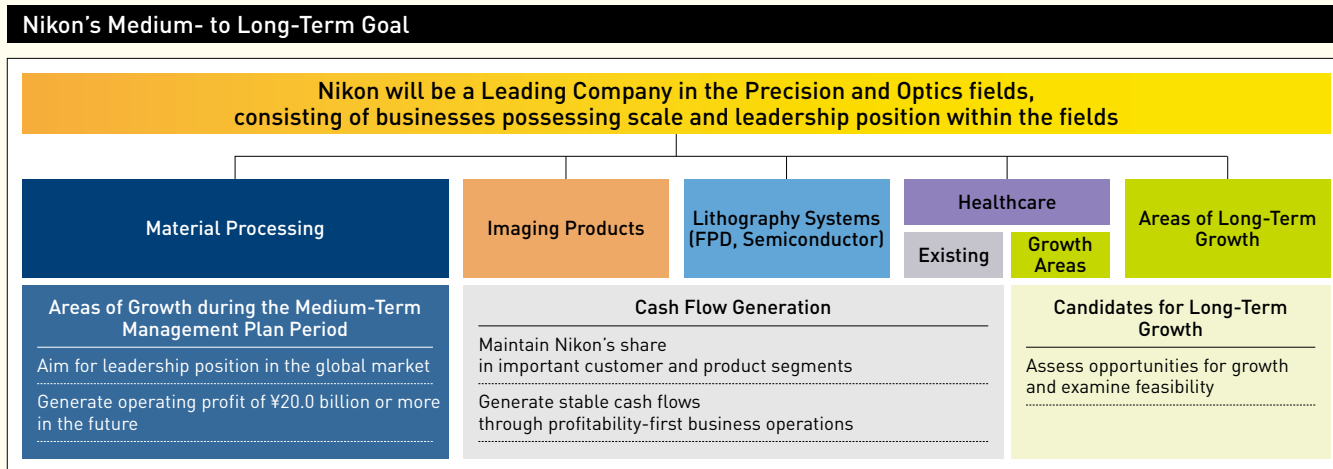
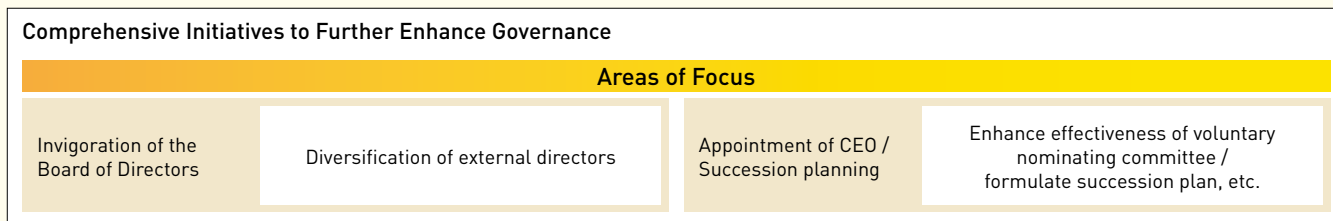
Cost Reductions	Total three-year cost reductions:	Optimize supply chain management
	¥18.0 billion	Zero-based review of the functions, duties, and costs of management and back-office departments
		Optimize marketing and production systems
		Reform manufacturing processes and shorten lead time

3. Enhance *Monodzukuri* (Manufacturing) Foundation

Corporate Goals: Establish "*Monodzukuri* structure" through digital manufacturing



4. Enhance Corporate Governance Structure



Basic Medium- to Long-Term Capital Allocation

Focus Resources on New Fields to Establish New Core Pillars of Profit, without Emphasizing Short-Term Free Cash Flow

	Strategic Investments	R&D	Capital Investment	Dividends and Other	Proportion
New businesses (Material processing business, areas of long-term growth)	Max 40%	10%	5%		40% to 50%
Existing businesses		25%	10%		30% to 40%
Returns to shareholders				10% or more Total return ratio of 40% or more	10% or more
Total	40%	35%	15%	10% or more	100%

Scope: Funds on hand - working capital + 5-year cumulative operating cash flows (before deducting R&D)

Message from the CFO

Nikon is committed to building a solid foundation for growth, by developing new growth engines through bold strategic investments, while strengthening the profitability of existing businesses.

Masashi Oka

Representative Director
Senior Executive Vice President & CFO



Improved Profitability and Enhanced Management DNA through the Restructuring

In November 2016, Nikon made the decision to rescind its existing Medium-Term Management Plan 2015 and instead enter a phase of restructuring. Faced with a challenging operating environment and the diminishing profitability of our core businesses, we made this decision based on the need for preemptive restructuring on a Companywide basis while we have the advantage of a sound financial foundation. With our focus on enhancing enterprise value, we began to re-encode our management DNA across the entire Company to improve profitability.

Two-and-a-half years have passed since we made this decision. Over this period, we have navigated a challenging operating environment where our core businesses' markets shrunk more than we had anticipated and the competition grew even fiercer. In spite of this, we maintained our resolve to press forward with the restructuring, while tackling various new challenges as well.

In the Semiconductor Lithography Business, where we were suffering chronic losses, we took measures to significantly improve profitability, including strengthening our relationships with core customers and migrating to a "build-to-order" model. Through these efforts, we were able to return this business to profitability in the fiscal year ended March 31, 2018. The Imaging Products Business also improved profitability by optimizing its development, manufacturing, and sales structures, and by concentrating on high-value-added products.

We also optimized the head count at headquarters, and reduced fixed costs by more than ¥30.0 billion on a consolidated basis. As a result, Nikon's post-restructuring operating profit improved to ¥67.6 billion in the fiscal year ended March 31, 2019, from a pre-restructuring operating profit of ¥35.2 billion in the fiscal year ended March 31, 2016. ROE grew to 9.4% from 5.5%.*

At the same time, we focused on re-encoding our management DNA. Switching our focus from revenue growth to profitability, we established performance metrics for management that emphasize profitability and capital efficiency (ROE and ROIC). We also built frameworks for portfolio-based management, and are programmatically raising employees' awareness of how important it is to put themselves in the customer's shoes. In addition to Nikon's proven technologies and quality of hardware products, we are making an array of software and services available to customers. We have been consistently asking ourselves, "How can we internalize the customer's perspective so that we can provide what they need?" This mind-set has unleashed us from our belief in vertical integration ("do everything in-house rather than use external resources") and allowed us to focus on speeding up our business operations.

This was one of the major fruits of our restructuring.

* Figures for the fiscal year ended March 31, 2019, exclude temporary profit from litigation settlement.

Financial Results Attained Through Restructuring (Years Ended March 31)

Realized enhanced profitability in existing businesses, especially the Semiconductor Lithography Business and Imaging Products Business

	Pre-restructuring (2016)	Post-restructuring (2019)
Revenue	¥841.0 billion	¥708.6 billion
Operating profit	¥35.2 billion	¥82.6 billion (¥67.6 billion)
Operating margin	4.2%	11.7% (9.5%)
ROE	5.5%	11.2% (9.4%)

Note: Figures in parentheses show amount excluding approx. ¥15.0 billion in temporary profit from litigation settlement.

Commitment to Strategic Capital Allocations for Sustainable Growth in Enterprise Value in the Medium to Long Term

One important responsibility of a CFO is to determine how to allocate the capital entrusted to us by our shareholders. We view the three-year period of the new Medium-Term Management Plan, spanning the fiscal years ending March 31, 2020 to 2022, as preparation for laying the foundation for ongoing, sustainable growth of our enterprise value. Accordingly, our focus during this period will not be on accumulating short-term free cash flow but rather on decisively allocating capital to generate new core pillars of profit.

More precisely, we intend to apportion up to 40% of available capital, from on-hand funds and medium- to long-term operating cash flow forecasts, to strategic investments mainly in new areas of business. One particular area where we plan to allocate concentrated management resources will be the Material Processing Business. We believe this business portends a market with substantial scale and growth potential, and is also where Nikon can establish a leadership position by leveraging our strengths. Our Material Processing Business will be a top priority for management as we aim for noteworthy profits within the next few years. We also intend to make investments in other businesses with the potential for long-term growth, based on objective evaluation. We will safeguard these investments with effective risk management measures.

Nikon will also be working to strengthen the profitability of our existing businesses, so we can consistently generate the cash flows necessary to fund strategic investments. Our basic policy is to maintain our solid share with key customers and core product lines, and to ensure that the Company is run with a primary focus on profitability. The initiatives we are examining in this regard include cost optimization through automation, other manufacturing technology innovations,

and procurement cost reductions. We will further streamline operations through zero-based review of the functions, work, and costs of the back-office administration divisions that support frontline operations.

Enhancing shareholder return will continue to be an important management task.

To allocate capital appropriately over the medium to long term and to improve flexibility in shareholder returns, we changed our quantitative target, which was previously Dividend payout ratio of 40% or more, to Cumulative total return ratio of 40% or more over the period of the new Medium-Term Management Plan. In accordance with this policy, the Company repurchased ¥10.0 billion of its own shares over a five-week period leading up to June 20, 2019. Meanwhile, our target of a full-year dividend of ¥60 per share or more will be maintained over the period of the new Medium-Term Management Plan as we aim to provide steady dividends.

Basic Policy for Capital Allocation

Focus resources on new fields to establish new core pillars of profit, without emphasizing short-term free cash flow

	Strategic Investments	R&D	Capital Investment	Dividends and Other	Proportion
New fields (Material Processing Business, and other long-term growth areas)	Max 40%	10%	5%		40% to 50%
Existing fields		25%	10%		30% to 40%
Returns to Shareholders				10% or more Total return ratio of 40% or more	10% or more
Total	40%	35%	15%	10% or more	100%

Scope: On-hand funds – working capital + 5-year cumulative operating cash flows (before deducting R&D)

Valuing Communication with Investors to Live Up to Their Expectations on an Ongoing Basis

Since assuming the position of CFO in June 2016, I have continued to value reciprocal communication with investors, and I have no intention of changing this approach. Through these communications, I will continue to convey Nikon's management policies to investors and relay their feedback to management, helping enhance enterprise value on a sustainable basis. At the same time, we will employ the portfolio-based management framework we have built through the restructuring as we periodically assess whether each business and product line is fulfilling its assigned role, determine whether changes to those roles are called for, and execute swift business portfolio revisions and fine-tune resource allocations.

Also, we will make decisions expeditiously to execute strategic investments with optimal timing in order to generate new core pillars of profit and maximize enterprise value.

The new Medium-Term Management Plan targets ROE at a level 8% or above in the fiscal year ending March 31, 2022. However, I see this figure as the absolute minimum target, considering our planned strategic investments and growth investments. In the fiscal year ending March 31, 2024 and onward, we will look to achieve stable ROE of 10% to 12%. Accomplishing this goal will require that we build a solid foundation for growth over the three-year period beginning with the fiscal year ending March 31, 2020. I will continue my robust communication with investors to gain their uniquely valuable input to accelerate us toward this goal.

Performance Highlights

Financial Highlights

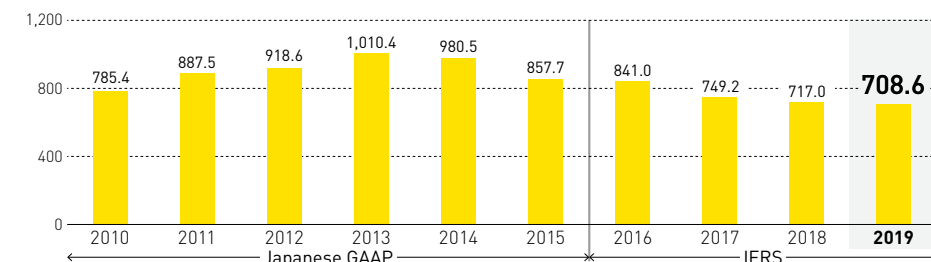
Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

Note: Figures for the fiscal 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 / Profitability

Revenue*

Billions of yen

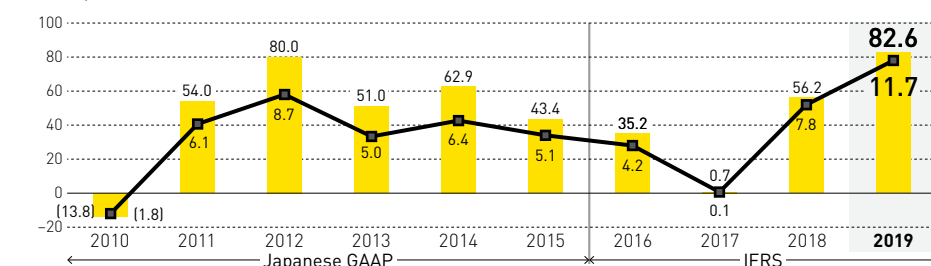


* "Net sales" under Japanese GAAP

Revenue in the Precision Equipment Business increased ¥48.2 billion year on year and ¥8.6 billion increased in the Healthcare Business, while ¥64.6 billion decreased in the Imaging Products Business due to the shrinking market of digital camera-interchangeable lens type and compact digital cameras. As a result, consolidated revenue in the fiscal year ended March 31, 2019, decreased ¥8.4 billion year on year, to ¥708.6 billion.

Operating Profit (Loss) / Operating Margin

Billions of yen



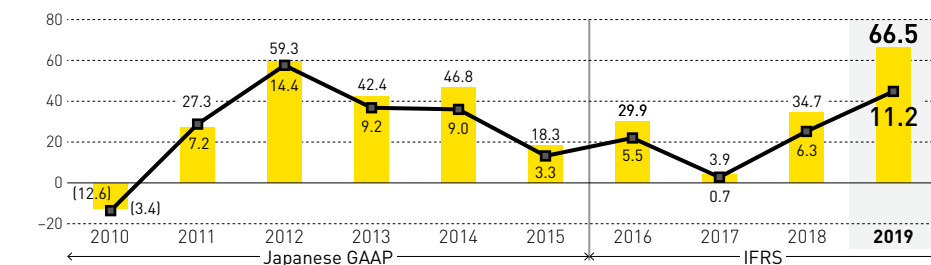
■ Operating profit (loss) (left scale) ■ Operating margin (%) (right scale)

%

In the fiscal year ended March 31, 2019, operating profit increased ¥26.4 billion year on year, to ¥82.6 billion, while the operating margin rose 3.9 percentage points to 11.7%. Factors behind these improvements included strong sales of large-size panels in the FPD Lithography Business as well as improved profitability realized through the restructuring.

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

Billions of yen



■ Profit (loss) attributable to owners of the parent (left scale) ■ ROE (%) (right scale)

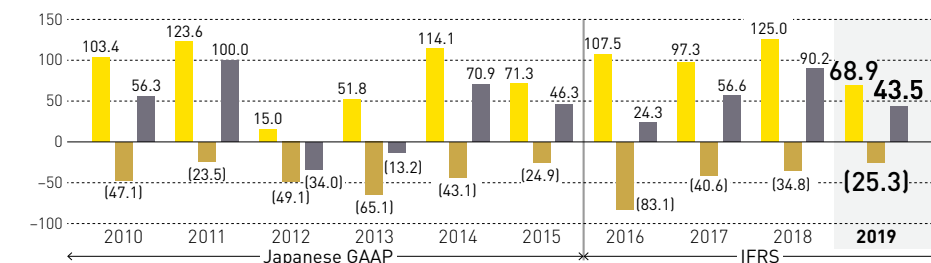
* "Net income (loss) attributable to owners of the parent" under Japanese GAAP

%

Profit attributable to owners of the parent increased ¥31.8 billion year on year, to ¥66.5 billion, in the fiscal year ended March 31, 2019, due in part to the benefits of promoting a management shift to emphasize profitability. Accordingly, ROE rose 4.9 percentage points to 11.2%.

Cash Flows

Billions of yen

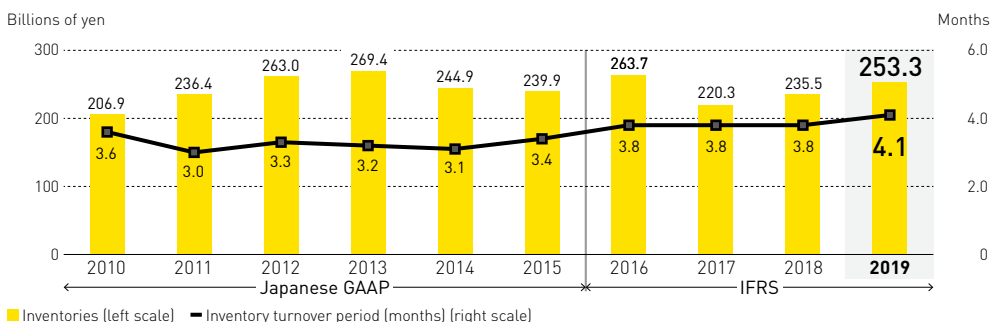


■ Net cash provided by operating activities ■ Net cash used in investing activities ■ Free cash flow

In the fiscal year ended March 31, 2019, net cash provided by operating activities was ¥68.9 billion while net cash used in investing activities was ¥25.3 billion. Net cash provided by operating activities decreased ¥56.1 billion year on year due to the rebound from the significant increase in advances received attributable to the large amount of incoming orders for FPD lithography systems in the previous fiscal year.

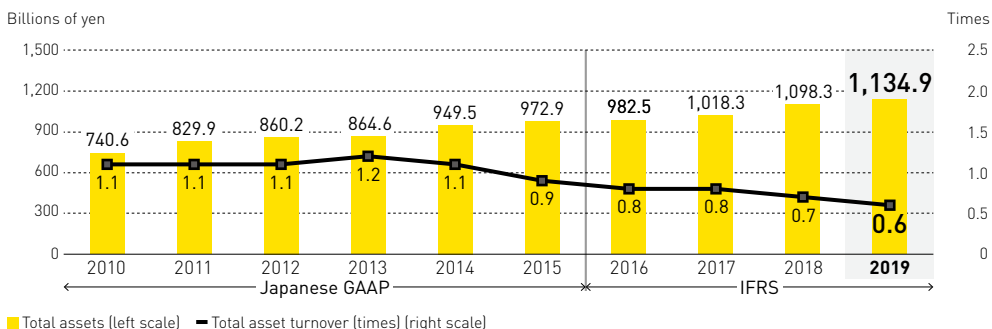
Efficiency

Inventories / Inventory Turnover Period



The balance of inventories as of March 31, 2019, was ¥253.3 billion, an increase of ¥17.8 billion from the end of the previous fiscal year, and the inventory turnover period was 4.1 months. Emphasizing efficiency in invested capital, the Group continues to manage inventory assets appropriately.

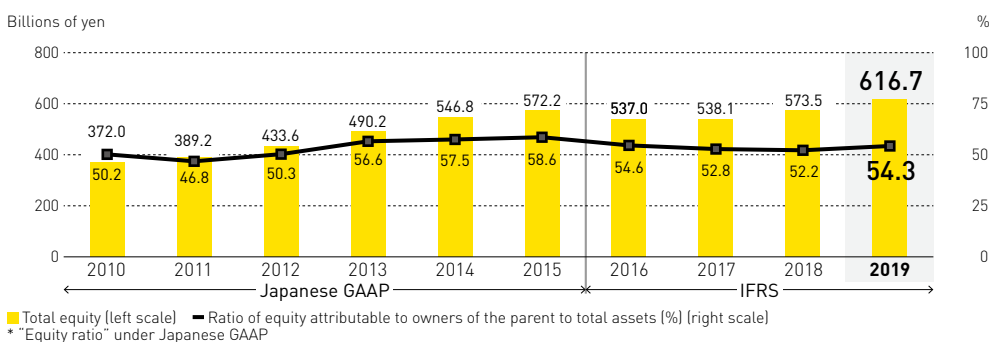
Total Assets / Total Asset Turnover



The balance of total assets as of March 31, 2019, increased ¥36.6 billion from the end of the previous fiscal year, to ¥1,134.9 billion. This was mainly due to increase of ¥22.6 billion in cash and cash equivalents and of ¥17.8 billion in inventories. The total asset turnover was 0.6 times.

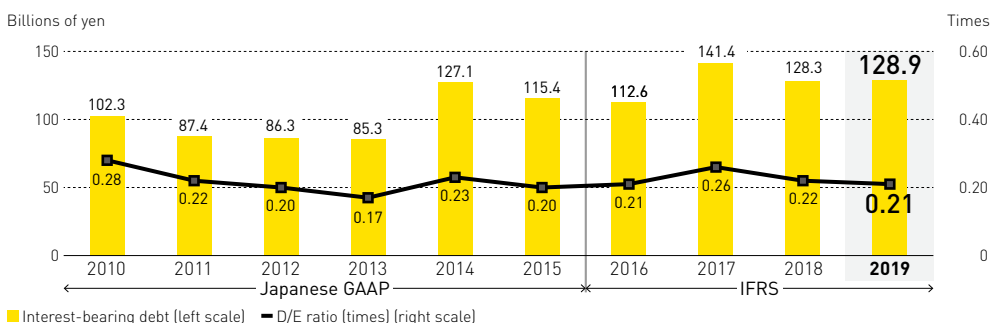
Safety

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



The balance of total equity as of March 31, 2019, increased ¥43.2 billion from the end of the previous fiscal year to ¥616.7 billion. This was primarily driven by the increase of retained earnings by ¥44.5 billion as a result of posting profit attributable to owners of the parent despite dividends paid. The ratio of equity attributable to owners of the parent to total assets was 54.3%.

Interest-Bearing Debt / D/E Ratio

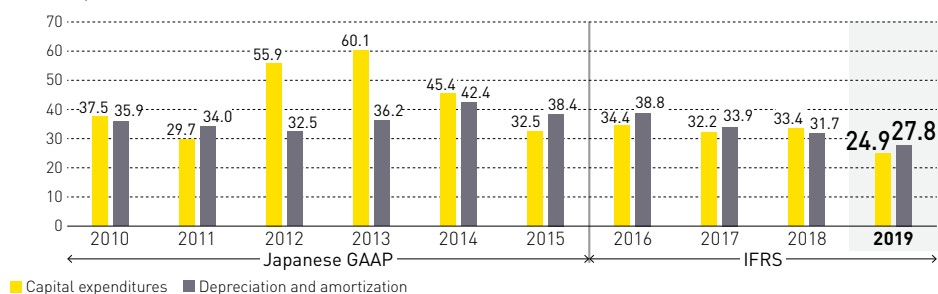


Interest-bearing debt as of March 31, 2019, was relatively unchanged year on year to ¥128.9 billion, and the D/E ratio was 0.21 times. The Group is committed to maintain sound financial conditions in funding.

Growth Investments

Capital Expenditures / Depreciation and Amortization

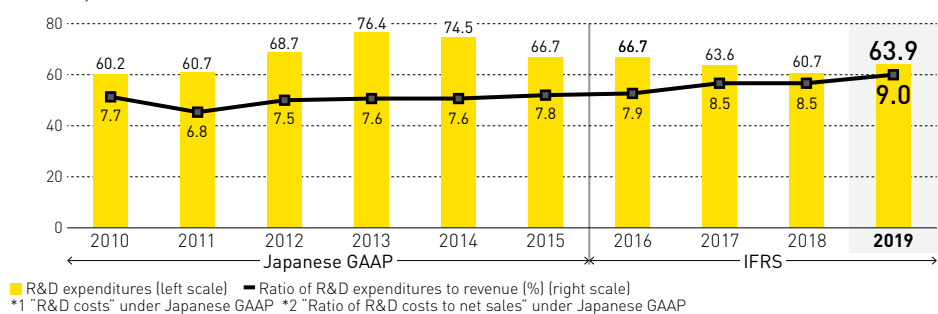
Billions of yen



Capital expenditures were ¥24.9 billion in the fiscal year ended March 31, 2019, with an emphasis on investment effectiveness in keeping with the Group's portfolio-based management policy. Going forward, the Group will continue to conduct capital expenditures for advancing its growth strategies by achieving compatibility with new products, boosting R&D capabilities, and enhancing *Monodzukuri* (manufacturing) foundation. Depreciation and amortization was ¥27.8 billion.

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

Billions of yen



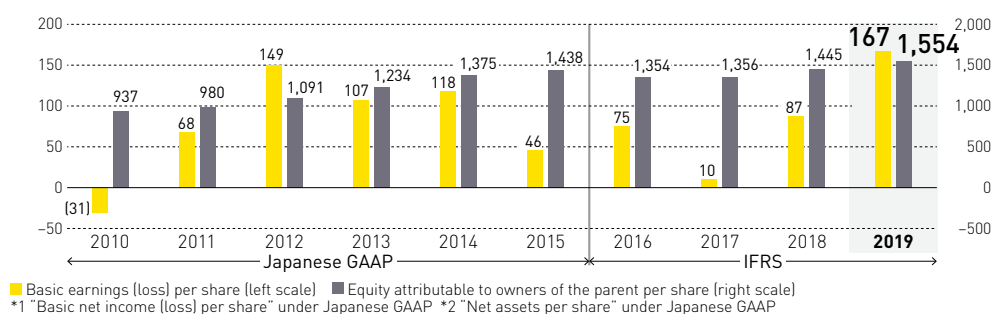
%

R&D expenditures in the fiscal year ended March 31, 2019, totaled ¥63.9 billion, an increase of ¥3.2 billion year on year. Major targets of expenditures included the development of optical processing machines that apply technologies of lithography system to new fields, and the development for areas of medium- to long-term growth. The ratio of R&D expenditures to revenue rose 0.5 percentage point to 9.0%.

Shareholder Returns

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

Yen

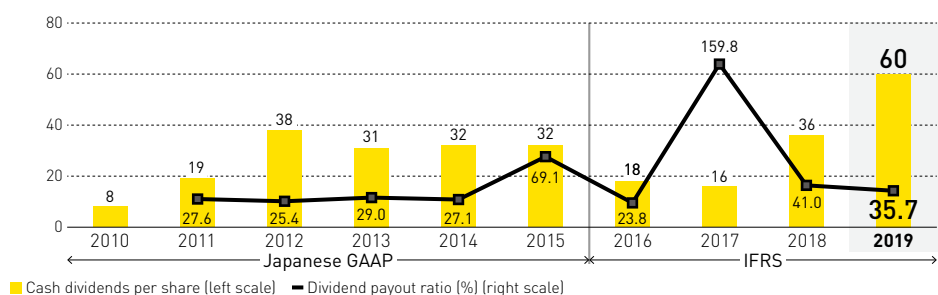


Yen

Basic earnings per share rose ¥80, to ¥167, in the fiscal year ended March 31, 2019. Equity attributable to owners of the parent per share also rose ¥109, to ¥1,554.

Cash Dividends per Share / Dividend Payout Ratio

Yen



%

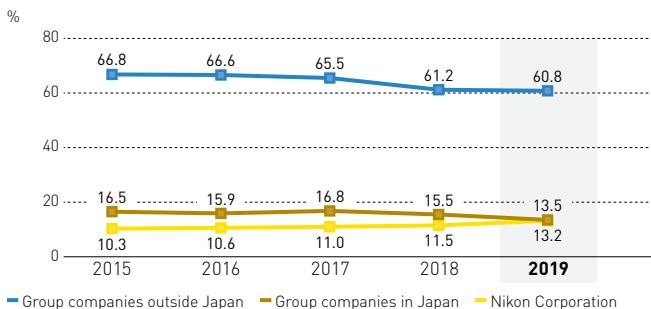
Cash dividends per share in the fiscal year ended March 31, 2019, amounted to ¥60 increased by ¥24 from the previous fiscal year, while the dividend payout ratio was 35.7%. The Company's fundamental policy is to distribute a steady dividend that reflects the perspective of shareholders and simultaneously realizing appropriate capital allocation flexibly from a medium- to long-term perspective. Based on this policy, during the cumulative period of the new Medium-Term Management Plan, the Company will carry out shareholder returns targeting a total return ratio of 40% or more and maintain a full-year dividend of more than ¥60 per share.

Non-Financial Highlights

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

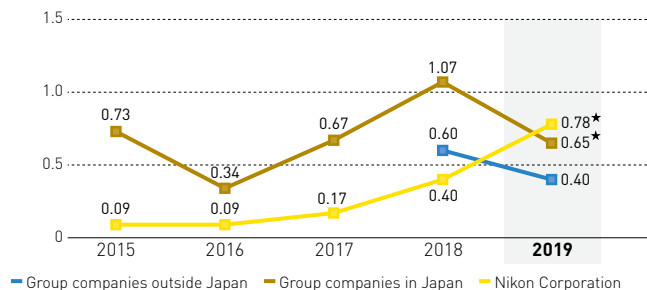
Ratio of Female Employees*1

The consolidated ratio of female employees declined due to head count reductions at manufacturing subsidiaries outside Japan involving large numbers of female employees. This ratio is on the rise at Nikon Corporation, however, due to initiatives for promoting the empowerment of female employees.



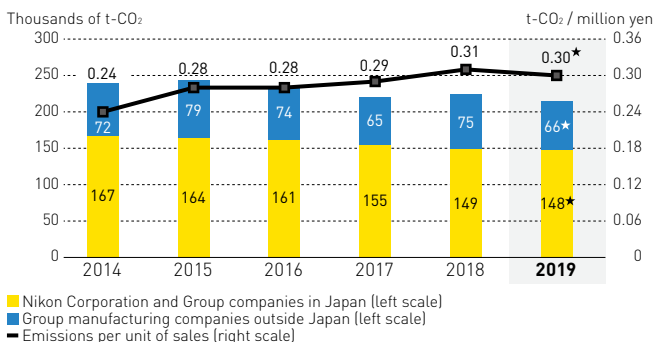
Frequency Rate of Lost Time Accidents (1 or more days)*2,3

In the fiscal year ended March 31, 2019, the Company achieved its target of reducing occupational accidents in all the Nikon Group in Japan attributed / related to work to less than 40, despite a number of lost time accidents increased at Nikon Corporation.



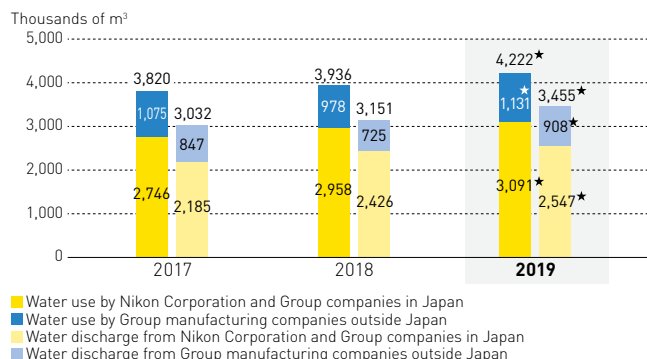
CO₂ Emissions from Energy Consumption*4

In the fiscal year ended March 31, 2019, the Nikon Group achieved its target of reducing CO₂ emissions from its business facilities by at least 14.4% compared with levels in the fiscal year ended March 31, 2014 (based on comparisons made using the scope of data collected when the target was set).



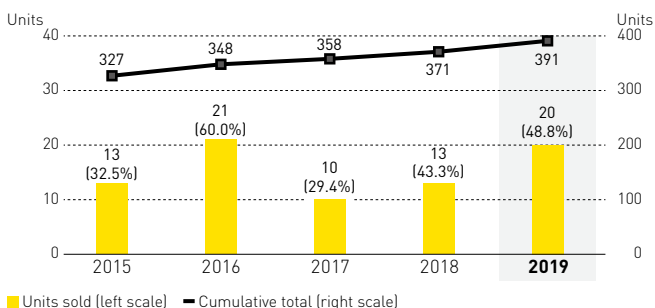
Water Use and Discharge

Water use and discharge showed year-on-year increases due to circumstances pertaining to the Precision Equipment Business. However, the Nikon Group is actively promoting water recycling, and recycled water use is rising rapidly.



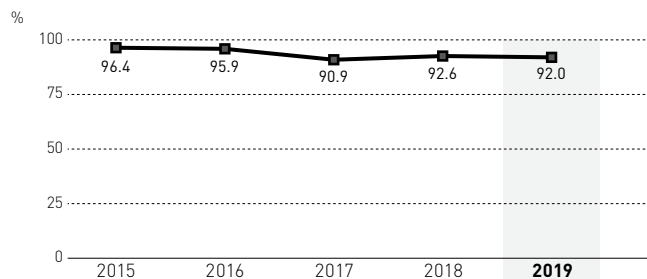
Sales Trends of Refurbished Semiconductor Lithography systems

Nikon Group is promoting the reuse of its products. Nikon Group has sold a cumulative total of 391 refurbished semiconductor lithography systems as of March 31, 2019, resulting in a reduction in waste of more than 3,600 tons.



Employee Retention Rate*5

Nikon Group has been able to maintain an employee retention rate consistently higher than 90%, despite the decline in the retention rate seen in the fiscal year ended March 31, 2017, as a result of the restructuring that commenced in November 2016.



*1 Permanent employees and non-regular staff of the Nikon Group (consolidated). From the fiscal year ended March 31, 2015 to 2018, employees who were seconded to affiliates are counted as those of their original companies. In the fiscal year ended March 31, 2019, employees seconded to affiliates are counted as those of the affiliates.
 *2 Frequency rate: The number of deaths and injuries resulting from occupational accidents per million hours worked, which is used as an index for the frequency of occupational accidents.
 *3 Group companies in Japan include non-consolidated Group companies (24 companies in the fiscal year ended March 31, 2019).
 *4 The following values were used for CO₂ conversion factors.
 Electric power: [In Japan] The CO₂ emission factors without adjustment for each electric power utility noted in the "List of Basic Emissions Factors by Electric Power Utility" specified in the Act on Promotion of Global Warming Countermeasures; [UK] Residual mix; [US] NERC regional residual mix; [Other countries outside Japan] Individual country factor in International Energy Agency (IEA) factors. However, no conversion factor for Laos, so Thailand factor used.
 City gas: [Japan] 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 by 44/12; [UK] Factors from the Report on Greenhouse Gases; [Other countries outside Japan] Same value as a typical Japanese gas company
 Heat and other fuels: The factors 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.
 *5 Figures for the fiscal years ended March 31, 2015 to 2017, exclude Nikon (Thailand) Co., Ltd.; Nikon Lao Co., Ltd.; Nikon Imaging (China) Co., Ltd.; and Hikari Glass (Changzhou) Optics Co., Ltd. Figures for the fiscal years ended March 31, 2018 and 2019, exclude Nikon Imaging (China) Co., Ltd. Permanent employees and non-regular staff of the Nikon Group (consolidated). Employees who were seconded to affiliates are counted as those of their original companies.
 ★: Values assured by the independent practitioner (see page 133 for more information on the independent practitioner's assurance).

10-Year Financial and Non-Financial Data Summary

Nikon Corporation and Consolidated Subsidiaries
Years ended March 31

Note: IFRS have been adopted to prepare the consolidated financial statements of Nikon Corporation and its consolidated subsidiaries since the fiscal year ended March 31, 2017, whereas Japanese GAAP were previously adopted until the fiscal year ended March 31, 2016.

Japanese GAAP

	2010	2011	2012	2013	2014	2015
Profit or loss (for the year):						
Net sales	¥ 785,499	¥ 887,513	¥ 918,652	¥1,010,494	¥ 980,556	¥ 857,782
Cost of sales	(552,409)	(575,536)	(567,000)	(663,509)	(630,568)	(532,383)
Selling, general and administrative expenses	(246,944)	(257,924)	(271,571)	(295,983)	(287,046)	(281,987)
Operating income (loss)	(13,854)	54,053	80,081	51,002	62,942	43,412
Income (loss) before income taxes	(17,672)	46,506	86,168	61,857	74,692	35,153
Net income (loss) attributable to owners of the parent	(12,615)	27,313	59,306	42,459	46,825	18,364
Financial position (fiscal year-end):						
Total assets	740,632	829,909	860,230	864,668	949,515	972,945
Total equity	372,070	389,220	433,617	490,218	546,813	572,201
Interest-bearing debt	102,388	87,476	86,367	85,348	127,132	115,498
Cash flows (for the year):						
Net cash provided by operating activities	103,497	123,614	15,073	51,891	114,185	71,309
Net cash used in investing activities	(47,108)	(23,589)	(49,145)	(65,110)	(43,194)	(24,945)
Free cash flow	56,389	100,024	(34,071)	(13,219)	70,991	46,364
Net cash (used in) provided by financing activities	(31,477)	(20,122)	(15,150)	(18,198)	31,869	(24,955)
Per share of common stock*1 (yen):						
Basic net income (loss)	(31.82)	68.90	149.57	107.07	118.06	46.29
Diluted net income	—	68.83	149.41	106.92	117.88	46.21
Cash dividends paid	8.00	19.00	38.00	31.00	32.00	32.00
Financial indicators:						
Equity ratio (%)	50.2	46.8	50.3	56.6	57.5	58.6
Debt equity [D/E] ratio (times)	0.28	0.22	0.20	0.17	0.23	0.20
Return on equity [ROE]*2 (%)	(3.4)	7.2	14.4	9.2	9.0	3.3
Return on assets [ROA]*2 (%)	(1.7)	3.5	7.0	4.9	5.2	1.9
Capital expenditures	37,525	29,776	55,915	60,158	45,472	32,550
Depreciation and amortization	35,956	34,034	32,570	36,226	42,477	38,458
R&D costs	60,261	60,767	68,701	76,497	74,552	66,730

	2010	2011	2012	2013	2014	2015
Non-financial data:						
Number of consolidated subsidiaries	69	68	68	71	70	75
Number of employees	26,125	24,409	24,348	24,047	23,859	25,415
Ratio of female employees*6 (%)	50.1	46.2	43.2	41.0	40.4	44.6
Ratio of employees outside Japan*7 (%)	63.7	61.4	59.3	58.2	57.4	60.5
Number of employees participating in corporate citizenship activities (total)	—	—	—	—	—	2,627
CO ₂ emissions from energy consumption*8 (thousands of t-CO ₂)	—	—	—	—	239	243
Energy consumption*9 (TJ)	—	—	—	—	4,283	4,283
Waste generation*10 (tons)	—	—	—	—	—	—
Number of procurement partners certified as Nikon Environmental Partners [Cumulative total]	—	16	21	36	172	258

* Values assured by the independent practitioner (see page 133 for more information on the independent practitioner's assurance).

- *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 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.

- *4 U.S. dollar figures are translated for reference only at ¥110.99 = \$1, the exchange rate on March 31, 2019.
- *5 R&D expenditures include the portion of development costs that are capitalized as intangible assets.
- *6 Permanent employees and non-regular staff of the Nikon Group (consolidated). From the fiscal year ended March 31, 2015 to 2018, employees who were seconded to affiliates are counted as those of their original companies. In the fiscal year ended March 31, 2019, employees seconded to affiliates are counted as those of the affiliates.
- *7 Permanent employees, non-regular staff of the Nikon Group (consolidated) and officers of Group companies. Employees seconded to affiliates are counted as those of the affiliates.
- *8 The following values were used for CO₂ conversion factors.
Electric power: [In Japan] The CO₂ emission factors without adjustment for each electric power utility noted in the "List of Basic Emissions Factors by Electric Power Utility"

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

IFRS

	Millions of yen				Thousands of U.S. dollars*4	
	2016*3	2016	2017	2018	2019	
Profit or loss (for the year):						
Revenue	¥ 819,388	¥ 841,040	¥ 749,273	¥ 717,078	¥ 708,660	\$ 6,384,900
Cost of sales	(506,773)	(522,232)	(443,153)	(404,170)	(405,250)	(3,651,230)
Selling, general and administrative expenses	(280,917)	(276,988)	(247,548)	(248,683)	(238,561)	(2,149,392)
Other income (expenses)	31,699	(6,554)	(57,798)	(7,988)	17,805	160,420
Operating profit (loss)	28,579	35,266	774	56,236	82,653	744,689
Profit (loss) before income taxes	18,254	39,546	3,068	56,257	87,915	792,098
Profit (loss) attributable to owners of the parent		29,947	3,967	34,772	66,513	599,270
Financial position (fiscal year-end):						
Total assets	966,578	982,564	1,018,351	1,098,343	1,134,985	10,226,011
Total equity	528,280	537,078	538,150	573,541	616,726	5,556,591
Interest-bearing debt	112,772	112,642	141,494	128,314	128,992	1,162,195
Cash flows (for the year):						
Net cash provided by operating activities	105,215	107,512	97,342	125,082	68,901	620,786
Net cash used in investing activities	(80,881)	(83,178)	(40,693)	(34,808)	(25,304)	(227,985)
Free cash flow	24,334	24,334	56,649	90,275	43,597	392,801
Net cash (used in) provided by financing activities	(18,174)	(18,174)	15,522	(19,970)	(21,583)	(194,459)
Per share of common stock*1 (yen and U.S. dollars):						
Basic earnings	46.05	75.55	10.01	87.76	167.86	1.51
Diluted earnings	45.94	75.37	9.98	87.49	167.30	1.51
Cash dividends paid	18.00	18.00	16.00	36.00	60.00	0.54
Financial indicators:						
Ratio of equity attributable to owners of the parent to total assets (%)	54.5	54.6	52.8	52.2	54.3	
D/E ratio (times)	0.21	0.21	0.26	0.22	0.21	
ROE*2 (%)	3.4	5.5	0.7	6.3	11.2	
ROA*2 (%)	1.9	3.0	0.4	3.3	6.0	
Capital expenditures	34,498	34,498	32,234	33,472	24,938	224,687
Depreciation and amortization	37,739	38,811	33,972	31,706	27,805	250,518
R&D expenditures*5	66,781	66,781	63,636	60,704	63,963	576,295
		2016	2017	2018	2019	
		84	82	81	81	
		25,729	25,031	21,029	20,917	
		45.1	44.1	40.5	41.0	
		61.6	60.7	58.5	57.8	
		4,477	3,302	3,591	3,629	
		235	220	224	214*	
		4,301	4,157	4,386	4,268*	
		7,384	7,619	7,664	7,009*	
		347	407	450	476	

specified in the Act on Promotion of Global Warming Countermeasures; [UK] Residual mix; [US] NERC regional residual mix; [Other countries outside Japan] Individual country factor in International Energy Agency (IEA) factors. However, no conversion factor for Laos, so Thailand factor used.

City gas: [Japan] 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 by 44/12; [UK] Factors from the Report on Greenhouse Gases; [Other countries outside Japan] Same value as a typical Japanese gas company

Heat and other fuels: The factors 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.

*9 The following values were used for calorific-value conversion factors.
Electric power: The factors given in the guidance document for Periodical Report pursuant to the Act on the Rational Use of Energy (Energy Conservation Act).
City gas: [Japan] Gas company-specific factors under the guidance document for Periodical Report pursuant to the Act on the Rational Use of Energy (Energy Conservation Act); [UK] Value calculated from the factors for the Report on Greenhouse Gases; [Other countries outside Japan] Same value as a typical Japanese gas company
Heat and other fuels: Factors given in the guidance document for Periodical Report pursuant to the Act on the Rational Use of Energy (Energy Conservation Act).

*10 Values exclude resources with economic value.

Evolutions of Products and Services Based on Opto-Electronics and Precision Technologies

Ever since its establishment in 1917, Nikon has been unlocking new potential for the future to create revolutionary products in response to people's changing needs. The values of people are projected to grow more diverse in the future. Nonetheless, Nikon will continue to contribute to the better society through the provision of various products and services that utilize its core competence such as opto-electronics technologies and precision technologies.

Opto-Electronics Technologies

Core Competence

Precision Technologies

1921
Ultra-small-prism binocular
MIKRON 6x



1948
Small-sized camera
Nikon Model I



1959
SLR camera
Nikon F

1986
Large substrate exposure system
NSR-L7501G



1925
JOICO Microscope



1947
Surveying instrument
Tilting Level E

1949
Surveying instrument
Transit G2

1980
Step-and-Repeat System (stepper)
for manufacturing VLSIs
NSR-1010G



1948
Model I profile projector



1995
CNC video measuring system
NEXIV

2018
Mirrorless camera
Z 7



2019
Optical processing machine
Lasermeister 100A

2017
Binocular
WX 7x50 IF



2018
FPD lithography system
FX-103SH
FX-103S



Areas of Long-Term Growth



2017
Digital SLR camera
D850

Progressing to a New Stage

Continue to provide products and services that make people happy



2018
ArF immersion scanner
NSR-S635E



2018
Super resolution microscope
N-SIM S



2018
CNC video measuring system
NEXIV VMZ-H3030



2019
Ultra-widefield retinal imaging device with integrated OCT
Monaco

Goal of Becoming a Leading Company in Precision and Optics

Under its new Medium-Term Management Plan, Nikon has defined three areas of long-term growth as targets of our initiatives for generating new core pillars of profit while pursuing the goal to become a “Leading Company in Precision and Optics.” We will work to realize sustainable improvements in enterprise value over the medium to long term by contributing to industrial development and improved quality of life for people with the opto-electronics and precision measurement and control technologies that represent our strength.

Areas of Long-Term Growth ①

Digital Manufacturing

Background for Focus on the Area

Digital Manufacturing is an area in which substantial market growth is expected over the medium to long term buoyed by progress in the automation and mass customization trends. In this area, the global machine tool market is currently estimated to have a scale of around ¥4.0 trillion, and average annual growth of about 5% is anticipated in the markets of both developed and emerging countries. The 3D printer market, meanwhile, is projected to enjoy strong annual

growth rates of approximately 20%, growing to the scale of ¥550.0 billion by 2026.

Nikon has cultivated precision measurement and control technologies in its semiconductor lithography system and FPD lithography system operations and contactless 3D measurement technologies and expertise in its Industrial Metrology Business. We believe that these assets are highly applicable to the machine tool and 3D printer markets.

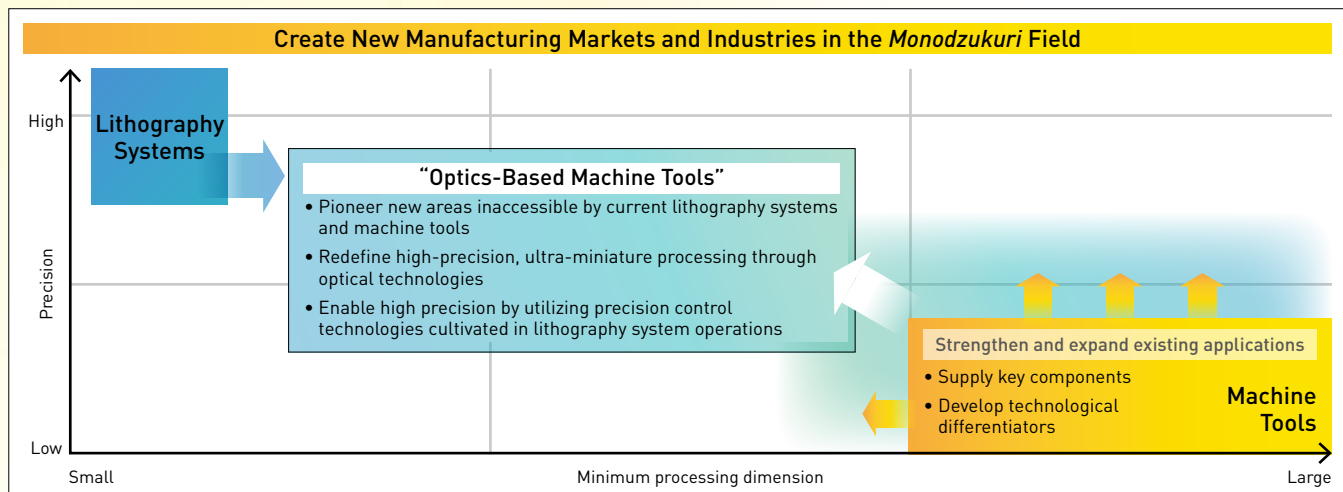
Strategies for Achieving Goals in This Area

A major focus for Nikon in the area of Digital Manufacturing will be to develop a Material Processing Business as a new growth engine. In this business, we will utilize and apply 3D printers, laser processing systems, and 3D measurement systems to realize sophisticated processing procedures.

For example, Nikon’s core competence can be incorporated into existing machine tools in order to realize novel, rapid, low-cost, and high-precision material processing. In this area,

we will look beyond completed products to also contribute to improved productivity in machine tools through the provision of components. We see significant room for the development of our operations through this approach, which should enable Nikon to establish a leading position in this field.

The Company is also eyeing the substantial potential in fields that have thus far been inaccessible by current lithography systems and machine tools. In these fields, Nikon will



launch products based on the new concept of “optics-based machine tools.” By applying the opto-electronics and precision control technologies developed in lithography system

operations, Nikon will seek to create new manufacturing markets and industries by realizing high-precision, ultra-miniature processing.

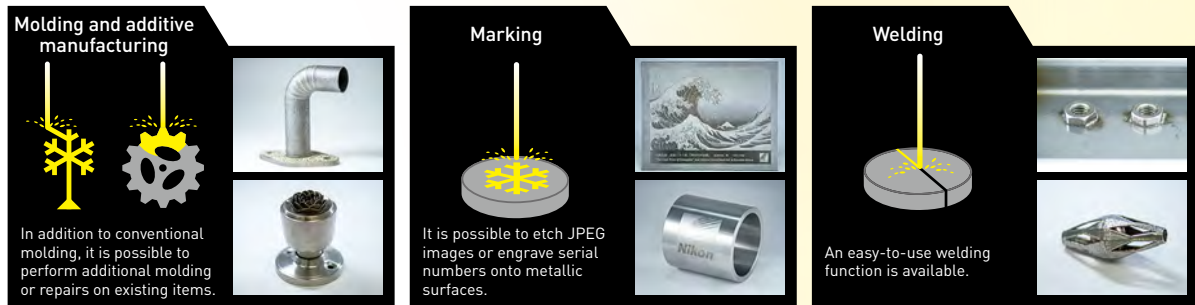
Initiative Examples

Nikon released the optical processing machine Lasermeister 100A in April 2019. The optical processing machine is Nikon’s proprietary metal processing machine that uses lasers to perform various metal processing operations with ease and high precision. This machine has capabilities encompassing everything from the molding and additive manufacturing functions of a 3D printer to marking, welding, and polishing functions.

The optical processing machine Lasermeister 100A is designed to overwrite the previous stereotypes of metal

processing machines, namely, that they are large, expensive, and difficult to operate.

Nikon has years of experience in the development, manufacture, and sale of semiconductor lithography systems, which are considered to be among the most precise machines ever developed. The sophisticated opto-electronics and precision control technologies developed in our semiconductor lithography system operations have enabled us to create metal processing machine that is high in quality, compact, and affordable.



Metal processing made possible with the optical processing machine Lasermeister 100A



Examples of metals processed using the optical processing machine Lasermeister 100A



Lasermeister Technology Center, at which customers can experience metal processing using the optical processing machine Lasermeister 100A (located inside Nikon’s Kumagaya Plant)

Vision and Value Provided to Society

Nikon believes it is possible to adapt for use in manufacturing the 3D alignment mechanism, which entails performing precise measurements and positioning and highly detailed processing in an integrated manner without using conventional tools. This innovation can be realized through the opto-electronics and precision measurement, and control technologies developed in the Company.

By adapting this innovation to manufacturing, it will be possible to process ultra-miniature components, difficult-to-cut materials, composite materials, and intricate patterns, substantially reducing the burden of set up, process design,

and prototyping for customers. Moreover, this innovation would put the vision of a direct transition from computer-aided design to manufacturing within sight.

Going forward, Nikon will refrain from becoming overly focused on self-sufficiency and adopt a policy of exploring open innovation, collaboration with existing machine tool manufacturers, and a wide range of other external partnership and co-creation options. Always considering the possibility of decisive allocations of management resources, we aspire to revolutionize the *Monodzukuri* (manufacturing) field.

Areas of Long-Term Growth ②

Vision Systems / Robotics

Background for Focus on the Area

Recently, demand for industrial robots has been growing globally to facilitate automation and labor-saving measures at factories. In addition, the application of robots will not be limited to factories. Robots will no doubt come to permeate public spaces and even our homes, becoming familiar fixtures throughout society as autonomous driving systems, customer service robots, robotic pets, and caregiving robots.

Regardless, the automated control technologies of robots still pale in comparison with humans when it comes to sight,

touch, and other senses, meaning that substantial progress is still possible. We also anticipate significant social needs with regard to vision systems, that function as the eyes of equipment, and control technologies, which are vital to realizing more precise handling. Vision Systems / Robotics are therefore an area in which Nikon can truly capitalize on the strengths of its optical, image processing, and precision technologies.

Strategies for Achieving Goals in This Area

To achieve growth in the Vision Systems / Robotics area, Nikon will commercialize modules for industrial robots, which will be created through progress in our existing Encoders Business, and develop image-related robot control solutions. At the same time, Nikon's optical and precision technologies will be merged with lidar sensor technologies to contribute to

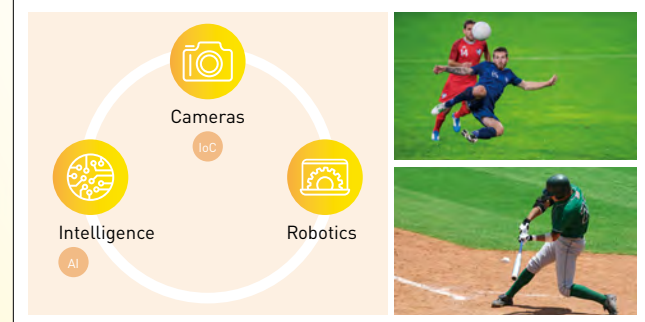
the advent of autonomous driving. Our medium- to long-term goal will be to provide new solutions that cater to various applications and issues by raising our equipment sensing technologies to unprecedented levels. Accelerating in-house development and aggressive external collaboration will be the methods through which we accomplish this goal.

Initiative Examples

We have recently been witnessing a rise in the need for automation solutions that use robotics technologies to increase efficiency and uniqueness in the imaging industry. In response to this trend, Nikon acquired all of the shares of Mark Roberts Motion Control Limited, a provider of robotic motion control solutions of imaging equipment, in October 2016. Looking ahead, we will seek to simultaneously fortify this company's leading position in the film and broadcast sectors while combining its automatic tracking shooting solutions with Nikon's imaging-related technologies and its broad sales channels to explore new markets.

In addition, in 2019, a manufacturing agreement was concluded with Velodyne Lidar, Inc. (Velodyne), a leading developer and manufacturer of lidar sensors, which are a core technology in autonomous driving. Subsidiary Sendai Nikon Corporation is scheduled to begin mass production of lidar sensors for Velodyne in the second half of the fiscal year ending March 31, 2020.

Provision of Automatic Tracking Shooting Solutions for Major Sports



Vision and Value Provided to Society

Nikon is committed to contributing to the development of industrial infrastructure through the supply of vision systems that provide the functionality of eyes to robots and other types of equipment. We also anticipate that the future will see increased use of AI and IoT technologies. Our role against

this background will be to help realize a more comfortable society by supporting the evolution of robots and delivering new solutions to society pertaining to labor shortages and coexistence of humans and robots.



Areas of Long-Term Growth 3

Healthcare

Background for Focus on the Area

Healthcare and medicine are important themes for society and therefore represent markets expected to continue growing over the long term. Over the roughly one century since Nikon released its first microscope, we have dedicated ourselves to the observation of the micro world. In addition, subsidiary

Optos Plc offers ultra-widefield retinal imaging devices that have claimed a large share of the global market. There are significant business growth opportunities for the Nikon Group to capture by utilizing its wealth of technologies and expertise to contribute to the medical and bioscience fields.

Initiative Examples

Nikon has been taking part in an ongoing joint research project with CiRA (Center for iPS Cell Research and Application at Kyoto University) on cultivation processes and cell quality during the cultivation of iPS cells. The Company has also developed an iPS cell quality assay system that allows for objective assessment of cells and culture techniques while performing visual evaluations, which are prone to inconsistency, in an integrated manner. We have been supporting researchers in making cell cultures and observing cells since 2007 by supplying BioStation CT, a cell culture observation system that allows for microscopic observation of cells as they are being cultured, and BioStudio, a cell observation system that can be installed in an incubator. Nikon's iPS cell quality assay system combines such cell observation systems with software that acts in place of the

eyes and brains of humans. We have thus been able to provide this system as a solution that realizes consistent cell cultivation with stable levels of quality without relying on the techniques and judgment of humans.

Furthermore, Nikon embarked on a strategic business cooperation in cell-related fields with Berkeley Lights, Inc. (BLI), in 2018. Through this cooperation, we will combine Nikon's live cell imaging technologies with BLI's Beacon®, which utilizes this company's OptoSelect technology, and broaden the range of solutions Nikon can offer in antibody agent, regenerative medicine, and other cell-related fields.

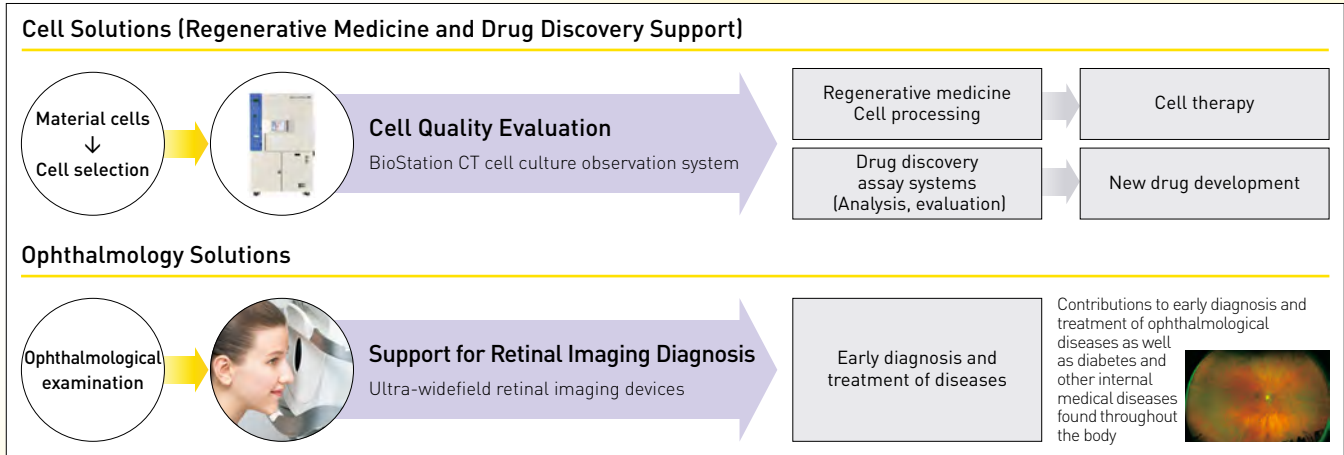


Multi-purpose cell research and development platform Beacon®

Vision and Value Provided to Society

Nikon looks to grow its Healthcare Business as a core business over the medium to long term and develop it into a core pillar of profit. As we expand this business, we will evolve its

Cell Solutions and Ophthalmology Solutions to support early detection and treatment of diseases and contribute to improved quality of life for various people.



Enhancing *Monodzukuri* (Manufacturing) Foundation

The new Medium-Term Management Plan calls for Nikon to enhance its *Monodzukuri* foundation with digital manufacturing toward its goal of becoming a “Leading Company in Precision and Optics.”

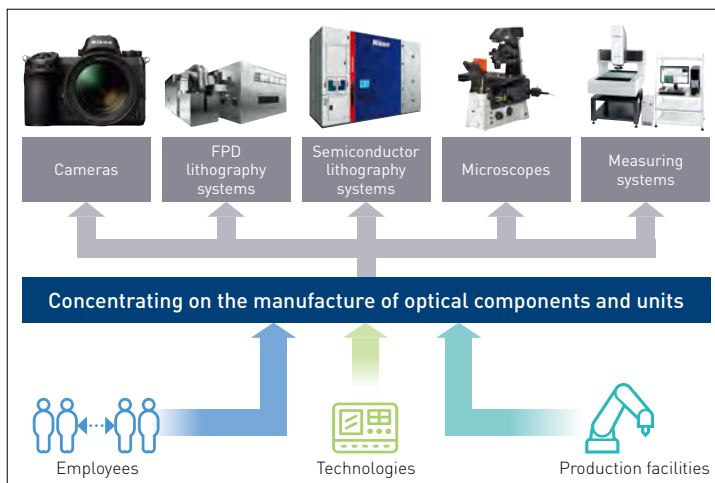
In this section, we will introduce the four reforms geared toward the enhancement of Nikon’s *Monodzukuri* foundation along with its measures for developing the human resources that will support these reforms.

Production System Reform

Initiatives to Date

Monodzukuri Reforms Centered on Cross-Business Unit Organizations

Utilizing its unrivaled optical technologies, Nikon has provided the world with various products and services. However, we recognize that the Company will need to further heighten its strength in optical technologies and thereby develop a structure that will allow for more efficient creation of value in order to accomplish the goals of the new Medium-Term Management Plan and realize further improvements in enterprise value. As part of its efforts, the Company established the Production Technology Division as a cross-business unit organization. In addition, the optical engineering functions that had previously been dispersed throughout the different business units were consolidated within the Optical Engineering Division, while the similarly dispersed optical component production functions were concentrated within subsidiary Tochigi Nikon Corporation. The resulting technical and technological synergies will be utilized to drive improvements in productivity and quality as we implement *Monodzukuri* reforms aimed at creating optical products that deliver new value.

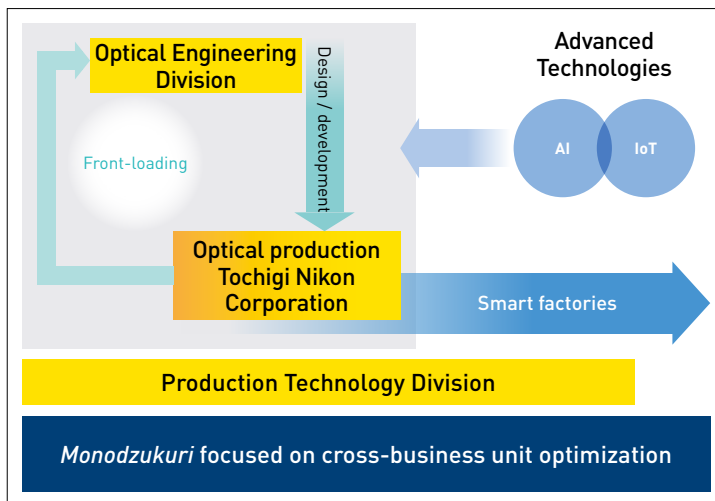


Initiatives Going Forward

Promotion of Smart Factories

Nikon is promoting the realization of smart factories as one facet of its efforts to further heighten production efficiency and quality and to adopt digital manufacturing methodologies. Specifically, we will seek to achieve more ideal manufacturing by front-loading simulations to the design phase in order to minimize costs from quality losses during production. We will also employ AI and IoT technologies to utilize digital data in the optimization of production plans and the quick identification and remediation of defects.

By realizing smart factories, we aim to expedite product launches, boost cost competitiveness, and ultimately provide powerful production-side support to become a “Leading Company in Precision and Optics.”



Monodzukuri Technology Reform

Nikon has continuously dedicated itself to enhancing *monodzukuri* technologies to improve productivity. Going forward, the Company will be oriented toward developing digital data utilization, automation, and other innovative manufacturing technologies. These reforms will be advanced through a joint effort between four different divisions, the Optical Engineering Division, the Research & Development Division, the IT Solutions Division, and the Production Technology Division, which will be united under the smart factory concept promoted through production system reforms. Through these efforts, we will establish production processes with even fewer inefficiencies to achieve substantial increases in production efficiency in order to manufacture high-quality products at optimal costs and lead times, even while high-mix, variable-volume production is entrenched as a standard practice.

Procurement Reform

Nikon's new Medium-Term Management Plan targets an aggregate total of ¥18.0 billion for three-year cost reductions. Procurement reforms will be a crucial element of our efforts for achieving the prescribed cost reductions.

To this end, a cost-reduction perspective will be adopted as we swiftly advance measures for formulating and executing procurement strategies, bolster relations with key partners, and improve upon the specialties of procurement staff.

We will, of course, look to reduce direct costs, including those for the materials and components necessary for production. At the same time, we will also go further to implement ground-up revisions of functions and work processes to address expenses, equipment, and other indirect costs.

By ramping up initiatives on these fronts, we will boost cost competitiveness while optimizing cost structures.

Quality Management Reform

The Nikon Group views quality, encompassing the safety and environmental friendliness of products and services, as the utmost priority in its operations. This recognition prompted us to establish the Quality Committee in September 2017. This committee spearheads initiatives for reinforcing quality management structures and preventing quality issues. No matter how quickly AI, IoT, or other technologies may evolve, they will not erase the necessity of ensuring high levels of safety and other aspects of quality. Moreover, we see a need to improve quality in terms of not only safety but also responsiveness to customer needs, including those arising from changes in lifestyles and values. The Nikon's Basic Quality Policy was formulated to encapsulate these beliefs. In addition, the Quality Control Directive has been drawn up to guide the execution of this policy and to ensure consistent "Made by Nikon" product quality worldwide, no matter what production base is used for manufacturing. Going forward, we will continue to reinforce our quality management structures in order to realize further reductions in costs from quality losses and in environmental impacts.

Human Resource Development of *Monodzukuri* Technology to Support Four Reforms

Nikon takes steps to maintain and enhance its manufacturing capabilities through effective training designed to help employees acquire the necessary techniques and knowledge for manufacturing. Also for this purpose, we have established the Technical College program. This college program is designed to foster the human resources necessary for supporting digital manufacturing by heightening their ability to adopt overarching perspectives and to perform engineering in a manner that takes manufacturing into account. The Technology Strategy Committee and the Human Resources & Administration Division have been assigned responsibility for implementing programs in this college in order to bolster the Company's fundamental technological capabilities. Through a joint effort between business units and the Optical Engineering Division, the Research & Development Division, the IT Solutions Division, and the Production Technology Division, we have tailored this program to facilitate systematic, organization-driven learning to endow employees with the engineering, technology, quality, and other knowledge necessary for manufacturing. This program also includes hands-on learning opportunities and will be utilized to foster the human resources who will support Nikon's manufacturing foundation in the future.

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-widefield retinal imaging devices; and the Industrial Metrology Business, which handles industrial microscopes and metrology systems.

IMAGING PRODUCTS BUSINESS



Imaging Business Unit P42

The Imaging Products Business continues to expand the potential of imaging with cameras and interchangeable lenses born of the expertise and technologies refined over Nikon's long history, and applications and online services for sharing images.

PRECISION EQUIPMENT BUSINESS

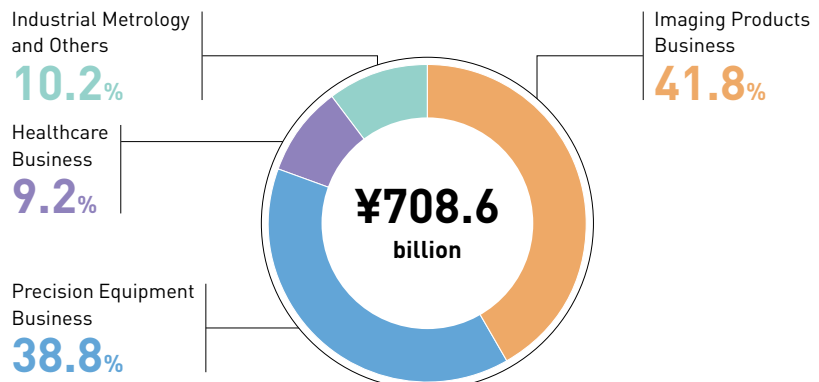


FPD Lithography Business Unit P44

Semiconductor Lithography Business Unit P46

The Precision Equipment Business supports the realization of a super-smart society through the development and manufacture of FPD lithography systems for producing LCD and organic light-emitting diode (OLED) panels and semiconductor lithography systems for producing semiconductors.

Revenue by Business Segment (Year ended March 31, 2019)



HEALTHCARE BUSINESS



Healthcare Business Unit  P48

The Healthcare Business contributes to better quality of life for people all over the world by providing microscope solutions, cell solutions (regenerative medicine and drug discovery support), and ophthalmology solutions in the life science and medical fields.

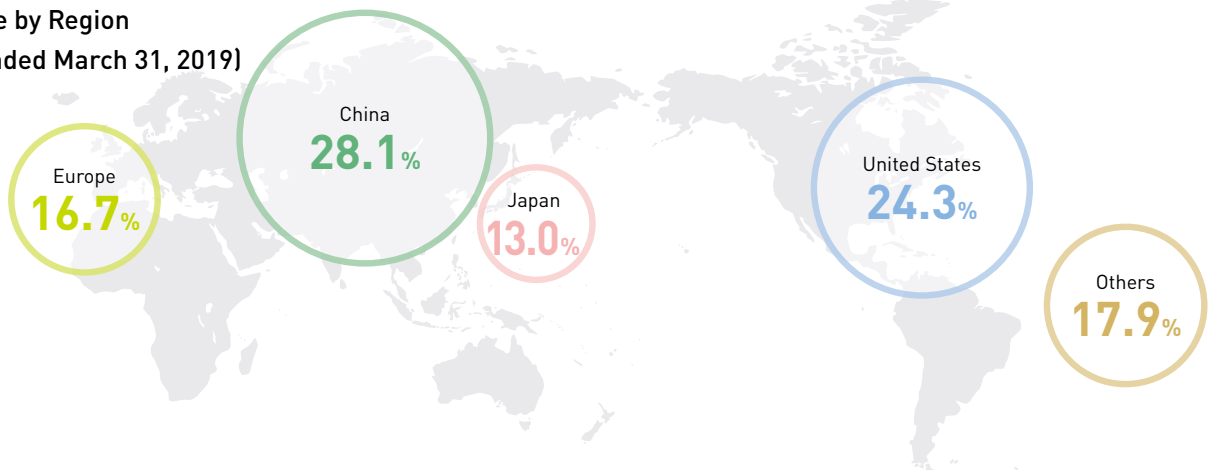
INDUSTRIAL METROLOGY AND OTHERS



Industrial Metrology Business Unit / Others

In the Industrial Metrology Business, Nikon supports cutting-edge manufacturing processes with total measurement solutions for responding to a diverse range of measurement demands. Meanwhile, other businesses contribute to the evolution of science, technology, industry and society through state-of-the-art technologies, ophthalmic lenses, and space-related products.

Revenue by Region
(Year ended March 31, 2019)



Overview of Business Units

Imaging Business Unit



We will provide precious imaging experiences to customers and build sustainable business structures.

Nobuyoshi Gokyu

Senior Vice President
General Manager of Imaging Business Unit

Overview of the Fiscal Year Ended March 31, 2019

In the fiscal year ended March 31, 2019, we focused on high-value-added products, which led to the release of the Z 7 and Z 6 mirrorless cameras. We thereby worked to maintain positive operating profit in the midst of the shrinking camera market. Unfortunately, the level of contraction in the market exceeded our expectations. Sales of entry and mid-range digital SLR cameras and interchangeable lenses missed their targets by a wide margin, which resulted in substantial decreases in revenue and profit.

Winning various major awards, our Z series cameras won high praise in the market. Nonetheless, it is apparent that these cameras have not yet reached the high expectations of our customers when compared with our lineup



Digital SLR camera
D850



Mirrorless camera
Z 7

of digital SLR cameras. Going forward, we will seek to enhance the appeal of our Z series products by incorporating users' input to an even greater degree, and to furnish our lineup of NIKKOR Z lenses in order to grow as a core pillar of profit.

Through the restructuring, we ceased operations at a factory in China and pursued reductions in fixed costs while moving forward with the selection and concentration of resources on high-value-added products from the perspective of profitability.

Operating Environment Outlook

The camera market is forecast to continue to shrink. While the market shift to mirrorless cameras accelerates, the overall scale of the interchangeable lens camera market, especially entry model digital SLR cameras, is predicted to decrease to half of its current size in the medium to long term.

Conversely, imaging experiences including post-recording activities will remain popular hobbies. We see substantial business opportunities in the coordination with social media, video applications, and other uses of video, which will continue to grow.

Medium- to Long-Term Vision

Nikon is synonymous with its Imaging Products Business, and we hope to ensure that this business can remain the core pillar of the Nikon brand. To this end, we aspire to provide customers with distinctive products of Nikon and provide unique imaging experiences, and to build sustainable business structures that maintain revenue.

Priority Strategies and Initiatives of the New Medium-Term Management Plan

We are carefully and objectively evaluating the operating environment and our position therein while strengthening our Nikon Z mount system. To enhance this offering, which delivers a diverse range of image expressions, we will swiftly enhance our lineup of NIKKOR Z lenses that boast superior imaging capabilities. At the same time, we seek to launch new products including SLR cameras that will be irresistible to professionals, hobbyists, and other users of mid-range and high-end cameras while accelerating the selection and concentration of resources on the high-value-added products we have promoted so far.

One of the key strategies of the Imaging Business Unit is to acquire new hobbyist customers in order to broaden our user base. For example, we are expanding our lineup of imaging services targeting smartphone users. Enhancing coordination with social media and imaging apps to offer unique imaging experiences that stretch beyond shooting with the use of AI will be our new proposal. Therefore, we are committed to rebuilding the foundation of Nikon fans and Nikon brand with pride in being the only business unit of Nikon Group that engages in business-to-consumer operations. We also see significant room for the growth of imaging services in the business-to-business market. Through subsidiary Mark Roberts Motion Control Limited, we deploy automatic tracking shooting solutions for use of filming baseball, soccer, and other major sports. These solutions will provide immersive imaging experiences of an unprecedented nature to audiences.

Another key strategy is to implement more extensive reforms of our production and sales structures while continuing to restructure cost performance by streamlining sales and development expenses. We thereby aim to create profit structures capable of generating operating profit of more than ¥20.0 billion consistently in the medium to long term.

There will be no change to the Imaging Products Business' position as the foundation unit supporting the

Nikon brand. We are therefore committed to swiftly developing our business structure with the capability of generating profit steadily even in this rapidly shrinking market.

Furthermore, we still need to reform our corporate culture in order to complete the restructuring. Our current structure suffers from isolated organizations. Our first step in these reforms will thus be to forge connections between organizations so that we can create a structure capable of swift decisions and actions to ensure we are able to keep up with the pace of change in the market.

Focuses of the New Medium-Term Management Plan

- ① Gross profit margin
- ② Ratio of cameras purchased together with interchangeable lenses
- ③ Cash conversion cycle
- ④ Market share of Nikon Z mount system

Contributing to Society through Business Activities

We believe that it is natural to want to record a variety of images and information from small moments in daily life to momentous occasions or even precious discoveries that will be passed on to the next generation. Seeking to fulfill this aspiration, we have continued to evolve our technologies to make it possible to record previously impossible-to-capture subjects—those too small, too far away, or in too harsh environment such as in space or in the North Pole. We are proud of developing an imaging culture, and also recognize our responsibility to continue supporting it in the future.

We think this basic mission will not change. Remaining keenly aware of our fundamental role, we will continue to fulfill our mission as a central proponent of an imaging culture.



Judging at Nikon Photo Contest 2018–2019, the latest iteration of the photo contest hosted by Nikon since 1969

FPD Lithography Business Unit



We will strengthen FPD lithography systems and respond to new demand in order to maintain our leadership position.

Tomohide Hamada

Senior Vice President
General Manager of FPD Lithography Business Unit

Overview of the Fiscal Year Ended March 31, 2019

In the fiscal year ended March 31, 2019, the FPD Lithography Business Unit was able to mark its highest revenue thanks to robust demand for displays for large-screen TVs and other application, and to Chinese government policy of proactive investments. We see this success as a result of our efforts to deliver products to customers as promised. Shortening the production lead time and increasing coordination with relevant divisions and representatives after installing system, were the key factors of this achievement. Although sales volume for small and medium-sized panels decreased because some major manufacturers suppressed their investments for organic light-emitting diode (OLED) panels, and the price competition in China intensified, we could see a massive increase in sales volume for large panel systems in G 10.5 plate sizes, which Nikon holds strong product competitiveness. Also, cost reductions realized through efforts to

shorten construction time and lower workloads led to substantial improvements in profit.

Operating Environment Outlook

In the fiscal year ending March 31, 2020, the overall display panel market is forecast to enter into a period of production adjustment due to the rebound from the aggressive and large-scale investments in China over the past three years. Accordingly, our performance outlook for small and medium-sized panels in the FPD Lithography Business is not optimistic. Conversely, we anticipate the continuation of strong performance for large panel systems in G 10.5 plate sizes as we thankfully have got significant number of orders for them. Despite this outlook, we believe that the markets for LCD, OLED, and other displays will see consistent levels of demand going forward, since these displays continue to play key roles in expressing images and communication. We also



FPD lithography system
FX-103SH / 103S



FPD lithography system
FX-86SH2 / 86S2



FPD lithography system
FX-68S

anticipate market growth to be driven by the high expectations for new display applications including foldable panels, automotive panels, VR/AR, and digital signage as well as displays with new methods such as quantum dot light-emitting diodes (QLED) and micro light-emitting diodes (μ LED). Demand for Nikon's FPD lithography systems already exists in some of those fields, and we keep monitoring the market trends carefully. In addition, more than half of the FPD lithography systems we have shipped to date are still in operation. Accordingly, we look forward to growing our operations as well as our services and solutions to a substantial scale in the future.

Medium- to Long-Term Vision

We are committed to developing the display industry through accurate responses to the customers who have new demand for premium displays as well as the desire to invest in expanding existing panels. Our focus is not purely on market share. Rather, we seek to strike a balance with profitability, and we strive to create a reliable business structure that will become a core business pillar for Nikon.

Priority Strategies and Initiatives of the New Medium-Term Management Plan

One of the priority measures under the new Medium-Term Management Plan is to evolve current FPD lithography systems and promote systems for premium displays. We look to respond accurately to customers' requests and realize higher levels of resolution and productivity of lithography systems for G 6, 8, and 10.5 plate sizes, in order to meet the demand for 4K and 8K displays and also for the use of high resolution seen in the medical and other fields.

The other priority measure is to enhance our service business. As a part of this process, we will build closer relationships with customers by co-working on their issues and needs, sharing future aspirations and goals, and thinking together. These strong bonds with customers will enable us to not only provide operation support and consumables at the ideal timing but also to provide the solutions that contribute to improving the productivity of customers' development processes. We have already deployed the systems that support improvements in equipment operation ratios for customers as well as proposals for lowering cost of ownership.*

Furthermore, we are reforming our own business structures and work processes in the pursuit of higher profitability. Through cost reductions and efficiency improvements, we aim to transform to a stronger business structure.

Finally, we are currently preparing for operations in new growth fields with a long-term perspective. For roughly 20 years, we have continued to provide value in terms of both panel size and high resolution by the strengths of Nikon's proprietary multi-lens systems. Going forward, we will further strengthen our technology and accelerate our initiatives in order to respond flexibly to new market in the future.

* The total cost to a customer including system introduction, running, and maintenance costs

Focuses of the New Medium-Term Management Plan

- 1 Profitability of lithography systems achieved through cost reductions
- 2 Profit from service businesses
- 3 Delivery management

Contributing to Society through Business Activities

We believe that the expanding prevalence of higher-resolution displays compatible with a wide range of devices will give rise to new forms of telecommunication that enable people to emulate the experience of face-to-face communication more effectively. These new communication forms make it possible to share people's expressions with difficult nuances that are lost via telephone and e-mail, and build closer communication between people over long distance. It is also valuable for teleworking which supports flexible workstyles and remotework. Driving these evolutions, we can make substantial contributions to the diversity of the society. Furthermore, our efforts to improve the productivity of customers can reduce the environmental damage across this industry, which has significant meaning to the society.

Nikon is a company that has contributed to both the development of society and to the reduction of environmental damage. We aspire to pursue this progress and contribute to the better society.

Semiconductor Lithography Business Unit



We will generate consistent cash flows through exhaustive “high-value-added businesses.”

Masato Hamatani

Senior Vice President
General Manager of Semiconductor Lithography Business Unit

Overview of the Fiscal Year Ended March 31, 2019

Since Capital expenditures by customers were brisk in the fiscal year ended March 31, 2019, the Semiconductor Lithography Business Unit was able to achieve operating profit for the second consecutive year, even when excluding the one-time income movements associated with settlement income from litigations over patents. In addition to the strong market, the other major factor behind this impressive performance was the efficiency of development and production realized through an exhaustive focus on build-to-order manufacturing and the concentration of resources on principal customers. Used equipment sales as well as equipment relocation, renovation, and other service businesses continued to perform well



ArF immersion scanner
NSR-S635E



Alignment station
Litho Booster

from the previous fiscal year, indicating that these operations have grown into major pillars of business earnings. In this last year of the restructuring, we moved forward with the initiatives implemented thus far while rebuilding production structures that allow for more efficient and reliable deliveries of equipment. One of the major successes of the restructuring was that it realized increased traceability in operations. There is a substantial amount of time between the order of a semiconductor lithography system and its delivery. During the process of the restructuring, we made it possible to track real-time status of system sales, production, and post-delivery installation with better accuracy. This has enhanced our ability to detect issues at the early stages and to control resources at the ideal timing, which increased our capability to respond to customer needs, improved quality, and reduced the amount of costs stemming from losses.

As for new products, we launched the Litho Booster, which was developed to realize unparalleled levels of productivity and precision in semiconductor lithography systems. This product performs multi-point alignment measuring of pre-exposure wafers to improve overlay accuracy without reducing throughput.

Operating Environment Outlook

Steady growth in the semiconductors market is forecast in the medium to long term as various applications evolve in conjunction with the advancement of AI, IoT, 5G, autonomous driving, and other technologies. In addition, we

anticipate strong growth in the market for immersion lithography systems as the transition toward miniaturization continues. In this circumstance, we see a major business opportunity as principal customers look to bolster their production capacity amid increased demand for CPUs for data centers. Another opportunity we foresee is the increased demand among memory manufacturers in the next few years. Conversely, we predict the major risks in reduced demand for semiconductors stemming from trade friction and the resulting limited capital expenditures among principal customers as well as decreased demand for lithography system following delays in development and production.

Medium- to Long-Term Vision

We aim to continue generating consistent cash flows without being overly influenced by demand fluctuations in the semiconductor market. We believe that the Semiconductor Lithography Business has amassed technologies and expertise that will be vital to become a “Leading Company in Precision and Optics” put forth by Nikon’s management. Maintaining and developing our strengths, we grow our business unit into a core business pillar that strongly supports the rise of the Nikon Group.

Priority Strategies and Initiatives of the New Medium-Term Management Plan

We will prioritize profitable business through exhaustive “high-value-added business.” Fortunately, we have received a substantial amount of orders from principal customers. One important objective of the new Medium-Term Management Plan is to respond to customer desires to the greatest degree and deliver lithography systems at the ideal timing. To this end, we will drive development toward expanding existing device platforms and launch immersion lithography systems compatible with 5nm-generation devices. By realizing the reliable production, supply, installation, and operation of these systems, we look to enable our customers to use these systems with peace of mind. This reliability has been defined as an important business target, and our staff, equipment, and other resources will be allocated as necessary for accomplishing this target. Through these initiatives, we hope to build relationships of trust with our customers by being an even better partner.

At the same time, we will continue our efforts to expand the service businesses and boost profitability. More than 3,000 of the lithography systems Nikon has delivered to date are still in operation around the world.

Lithography systems sometimes require the replacement of parts or modules or other maintenance in order to continue stable operation. By incorporating input from customers using our systems, we can develop an accurate understanding of customers’ circumstances and desires. Based on this understanding, we aim to offer a wide range of options, including equipment renovations and replacements, as well as ideal solutions for various needs.

We will also promote sales of the newly launched alignment station, Litho Booster. The Litho Booster can be utilized with semiconductor lithography systems to realize high levels of measuring performance and consequently unprecedented levels of process control. This offering will be proposed to various customers in light of its ability to contribute to improved yield rates for customer products and higher efficiency in capital expenditures.

Foci of the New Medium-Term Management Plan

- ① Profitability of lithography systems
- ② Profit from service businesses
- ③ Improvements to product quality

Contributing to Society through Business Activities

We support technological progress while contributing to the realization of a more convenient and comfortable society. We also continue to provide environmental value by creating smaller semiconductors to enable massive reductions in electricity consumption. Furthermore, we are currently promoting the reuse of used equipment in order to facilitate the effective utilization of metals, glass, and other precious resources. We therefore believe that the Semiconductor Lithography Business Unit is capable of playing a substantial role in reducing the environment burden.

Companies are obligated to help accomplish the SDGs and respond to other social demand in order to contribute to a sustainable society. Recognizing that the Nikon Group is a member of society, we are committed to fulfilling our responsibilities by aiding in the development of a more comfortable and convenient society and in the reduction of energy consumption and other environment impacts.

Healthcare Business Unit



We will grow into the core business unit of the Nikon Group and contribute to the resolution of social issues in the fields of medicine and healthcare.

Tatsuya Yamaguchi

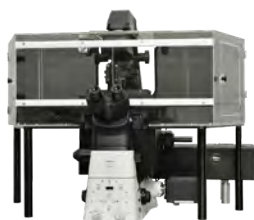
Corporate Vice President
General Manager of Healthcare Business Unit

Overview of the Fiscal Year Ended March 31, 2019

For the Healthcare Business Unit established in June 2017, the fiscal year ended March 31, 2019 was the first year to record performance on a full-year basis. In this fiscal year, our operations in microscope solutions could achieve its revenue target for biological microscopes. Meanwhile, operations in ophthalmology solutions marked revenue growth thanks to the new retinal imaging device launched by subsidiary Optos Plc. In this manner, both of these existing areas could record the highest revenue in history. Our efforts to bolster sales throughout the fiscal year and strengthen the marketing capabilities are the main factors of this accomplishment.



Ultra-Widefield Retinal Imaging Device with Integrated OCT Monaco



Super Resolution Microscope N-SIM S

As for growing area in cell solutions (regenerative medicine / drug discovery support), we focused on laying the groundwork to establish a market position in which Nikon is synonymous with cell solutions from a medium- to long-term perspective.

Operating Environment Outlook

We expect ongoing growth in the life sciences market as the anticipation of development in this field is growing. The Americas, Europe, China, and Japan are core markets for our operations in microscope solutions. We also predict that there will be substantial opportunities of growth in the currently small market represented by Asian countries other than China. There are other business opportunities for Nikon in cell solutions operations. The outlook for this area is based on projections released by Japanese government statistics stating that the regenerative medicine market will experience rapid growth beginning in 2020. Looking ahead, we anticipate the trend toward medical device companies branching out from hardware to create value with new solutions that incorporate clinical diagnostic services powered by AI. Foreseeing risks in the massive changes to both the market environment and the competitive climate, we try to respond to them swiftly and flexibly.

Medium- to Long-Term Vision

We aspire to grow consistently and become a core business unit of the Nikon Group by contributing to the resolution of social issues in the fields of medicine and healthcare. Holding both existing business areas and growing areas, we are committed to building a foundation of growth by adopting a forward-looking perspective, responding flexibly to changes, and taking swift action.

Priority Strategies and Initiatives of the New Medium-Term Management Plan

Looking at existing areas of operations, we already have a notable share of the markets for biological microscopes and ultra-widefield retinal imaging devices. In these areas, we will pursue steady improvements in short- and medium-term profitability while investing in growing areas with the aim of realizing substantial long-term growth. Our first step to achieve this goal is to implement process reforms for entrenching the customer's perspective into all of our business processes. Process reforms will be crucial to our ability to provide solutions for the needs and the changes among our customers and society. In advancing these reforms, we will focus on creating a cycle involving dispatching staff to the front lines to catch the accurate customers' demand, proposing to customers based on a more refined ability to resolve their issues, and then using their feedbacks into future development.

Nikon's Healthcare Business is unique among its peers that we boast expertise in both the biological microscope business and the cell business. This strength is something that we will leverage as we seek to deliver distinctive value. In June 2019, we established the "Nikon BioImaging Lab" in Boston, one of the premier biotechnology hubs for pharmaceutical companies and drug discovery venture companies. At the lab, we will provide a wide variety of drug discovery support services, including development of custom assays for drug discovery research and screening as well as optimization of cell culturing conditions, to meet the needs of individual clients. In order to accelerate drug discovery activities and realize practical application of regenerative medicine, we provide the advanced cell culture observation system, BioStation CT and comprehensive cell quality evaluation systems we have continued to focus on since the past. However, we also recognize that success in the growing area of regenerative medicine will require strategic initiatives from a long-term

perspective. We therefore intend to take a patient and dedicated approach toward developing this area.

Foci of the New Medium-Term Management Plan

- ① ROIC in existing areas of operation
- ② Revenue growth rate
- ③ Quick launches of operations in growth areas

Contributing to Society through Business Activities

As the Healthcare Business supports the life sciences field, the growth of our business is intrinsically linked to contributions to society. For example, Optos' ultra-widefield (UWF) scanning technology can capture high-resolution images of the retina and allow early detection of various diseases without placing burden on the patient. When it becomes possible for AI to handle a significant portion of image screening and checking in the process of making diagnoses, it will give physicians greater time to interact with patients to be able to provide more personalized services. Furthermore, promoting our cell solutions (regenerative medicine / drug discovery support) operations will accelerate the development of drugs for diseases that were previously difficult to treat. Therefore, I am sure that the growth of the Healthcare Business will contribute to improved quality of life around the world. Looking ahead, we will continue to provide the value that only Nikon can create as a company that contributes to a better society.



Nikon BioImaging Lab

Directors and Officers

[As of July 1, 2019]



DIRECTORS

Kazuo Ushida **1**

**Representative Director
Chairman of the Board**

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
2019 Representative Director and Chairman of the Board (to present)

Toshikazu Umatate **2**

**Representative Director
President & CEO**

1980 Joined the Company
2005 Corporate Vice President, General Manager of Development Headquarters, Precision Equipment Company
2009 Corporate Vice President, Vice President of Precision Equipment Company & General Manager of Sales Headquarters, Precision Equipment Company
2012 Senior Vice President, Vice President of Precision Equipment Company & General Manager of Semiconductor Equipment Division, Precision Equipment Company
2014 Senior Vice President, General Manager of Semiconductor Lithography Business Unit
2018 Senior Vice President, General Manager of Semiconductor Lithography Business Unit, Officer in Charge of Technology Strategy and Precision Components & Modules Business Unit
2019 President, Officer in Charge of Business Development Division, Research & Development Division and Precision Components & Modules Business Unit
2019 Representative Director, President and CEO, Officer in Charge of Research & Development Division, Next Generation Project Division, and Precision Components & Modules Business Unit (to present)

Masashi Oka **3**

**Representative Director
Senior Executive Vice President & CFO**

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
2019 Representative Director, Senior Executive Vice President and CFO, Officer in Charge of Internal Audit Department, Finance & Accounting Division and Intellectual Property Division
2019 Representative Director, Senior Executive Vice President and CFO, Officer in Charge of Internal Audit Department, Finance & Accounting Division and Intellectual Property Division, of the Company, and Outside Director of Sony Financial Holdings Inc. (to present)

Akio Negishi **4**

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)

Shiro Hiruta **5**

External Director

1964 Joined Asahi Chemical Industry Co., Ltd. (now Asahi Kasei Corporation)
1997 Director of Asahi Chemical Industry Co., Ltd.
1999 Managing Director of Asahi Chemical Industry Co., Ltd.
2001 Senior Managing Director of Asahi Kasei Corporation
2002 Executive Vice President of Asahi Kasei Corporation
2003 President and Representative Director of Asahi Kasei Corporation
2010 Director and Senior Advisor of Asahi Kasei Corporation
2010 Senior Advisor of Asahi Kasei Corporation
2013 Standing Counsellor of Asahi Kasei Corporation
2016 Counsellor of Asahi Kasei Corporation (to present)
2019 External Director, the Company (to present)

Takumi Odajima **6**

Director

Senior Vice President

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 and Director, General Manager of Human Resources & Administration Division
2018 Senior Vice President and Director, General Manager of Human Resources & Administration Division, Officer in Charge of Risk Management (to present)

Satoshi Hagiwara **7**

Director

Senior Vice President

1985 Joined the Company
2015 Corporate Vice President, General Manager of Finance & Accounting Division
2017 Senior Vice President and Director, General Manager of Finance & Accounting Division, Deputy General Manager of Corporate Strategy Division
2019 Senior Vice President, Director, General Manager of Corporate Strategy Division, Officer in Charge of Glass Business Unit (to present)



Haruya Uehara 8

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 (to present)
 2016 External Director, Audit and Supervisory Committee Member, the Company (to present)

Hiroshi Hataguchi 9

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)

Kunio Ishihara 10

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 Counselor of Tokio Marine & Nichido Fire Insurance Co., Ltd. (to present)
 2016 External Director, Audit and Supervisory Committee Member, the Company (to present)

Takaharu Honda 11

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)

Atsushi Tsurumi 12

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)

OFFICERS

Officers who are not directors are listed below.

Tomohide Hamada

Senior Vice President
 General Manager of FPD Lithography Business Unit, Officer in Charge of Industrial Metrology Business Unit, Customized Products Business Unit and Encoder Business Unit

Nobuyoshi Gokuy

Senior Vice President
 General Manager of Imaging Business Unit, Officer in Charge of Design Center

Masato Hamatani

Senior Vice President
 General Manager of Semiconductor Lithography Business Unit, Officer in Charge of Healthcare Business Unit

Kenji Yoshikawa

Corporate Vice President
 Deputy General Manager of Corporate Strategy Division

Jun Nagatsuka

Corporate Vice President
 General Manager of Production Technology Division

Tadashi Nakayama

Corporate Vice President
 General Manager of Industrial Metrology Business Unit and Director (C.E.O.) of Nikon Metrology NV

Hiroyuki Suzuki

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

Hiroyuki Ikegami

Corporate Vice President
 Deputy General Manager of Imaging Business Unit and Sector Manager of Development Sector, Imaging Business Unit

Tetsuya Morimoto

Corporate Vice President
 President of Nikon Europe B.V.

Juro Kimpara

Corporate Vice President
 Deputy General Manager of FPD Lithography Business Unit

Nobuyuki Ishizuka

Corporate Vice President
 Deputy General Manager of Semiconductor Lithography Business Unit and Deputy General Manager of Production Technology Division

Tatsuya Yamaguchi

Corporate Vice President
 General Manager of Healthcare Business Unit

Naoyuki Murakami

Corporate Vice President
 Department Manager of 1st Designing Department, Development Sector, Imaging Business Unit

Yasuhiro Ohmura

Corporate Vice President
 General Manager of Optical Engineering Division

Corporate Governance

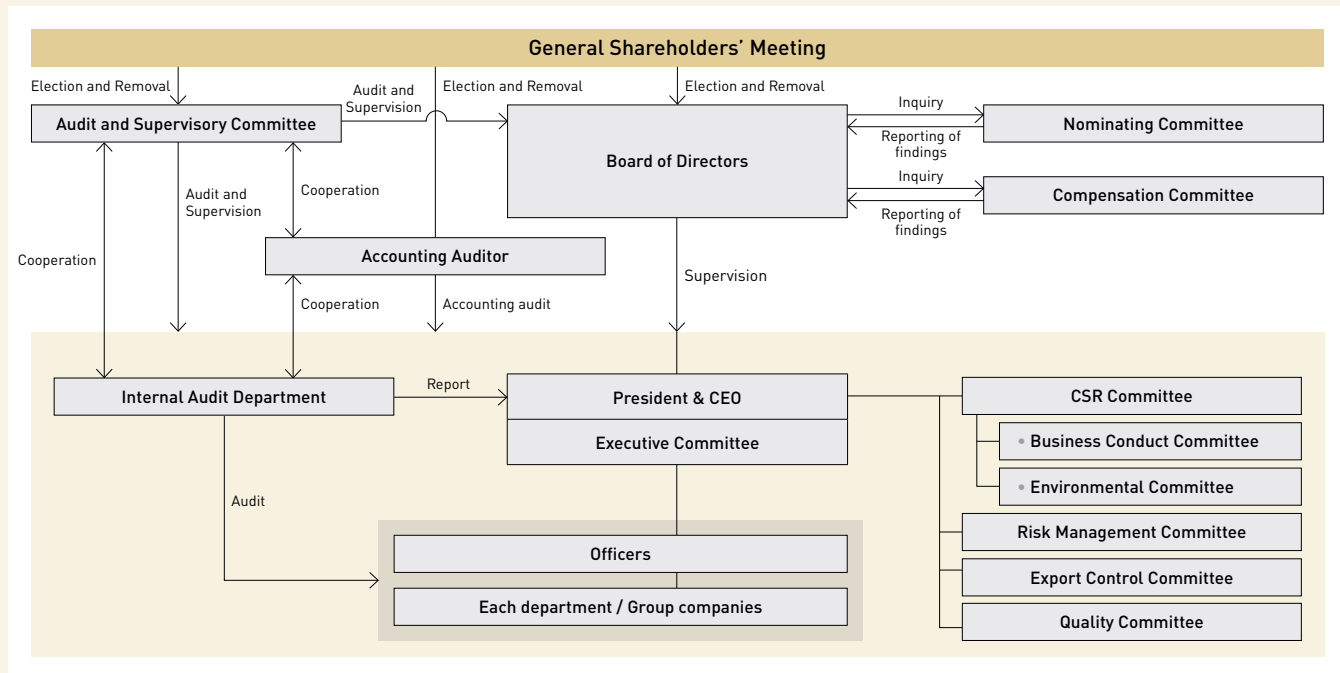
Basic Views

The Nikon Group will strive to achieve sustainable growth and enhancement of its corporate value over the medium to long term, by 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 27, 2019)

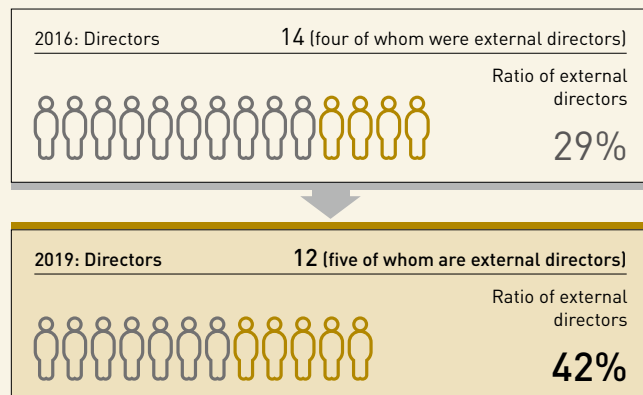


Board of Directors

The Board of Directors supervises management by directors and assumes the decision-making functions regarding matters prescribed under laws and regulations, 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 executive directors and officers while ensuring prompt decision-making and management by executive directors and officers, the Company specifically sets out the matters subject to deliberation at Board of Directors' meetings in the criteria for matters subject to deliberation and reporting at Board of Directors' meetings. For example, the Board of Directors makes decisions on matters concerning important management issues, 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 five independent external

directors (including three Audit and Supervisory Committee members). Meetings of the Board of Directors are presided at by Chairman of the Board, who does not serve concurrently as an officer.

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 a purpose, Audit and Supervisory Committee members regularly attend meetings of the Board of Directors as well as important meetings such as the Executive Committee, and conducts audits and supervision over management and directors. In addition, to further enhance the 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.

Nominating Committee

The Company has a Nominating Committee as a voluntary advisory body to the Board of Directors. External directors comprise a majority of the members, and an external director chairs the Committee.

The Nominating Committee primarily formulates criteria for the election and removal of the president and directors, nominates candidates, considers the composition of the Board of Directors, and oversees evaluation and assignment of officers so as to ensure that decisions on the election and removal of directors and officers are transparent and objective.

Compensation Committee

The Company has a Compensation Committee as a voluntary advisory body to the Board of Directors. External directors and external experts comprise a majority of its members, and an external director chairs the Committee. 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 management, swiftly and decisively makes decisions on individual major management issues delegated by the Board of Directors, in accordance with basic management and other policies, as determined by the Board of Directors.

Reasons for Appointment

Reasons for Appointment of External Director, except 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.
Shiro Hiruta	Shiro Hiruta served as Representative Director of Asahi Kasei Corporation and other important positions, and possesses long years of management experience and outstanding insight, and we believe that he will be able to contribute to the Company's overall management from a big-picture perspective. He also meets the independence criteria set by the Company, and we believe that he will be able to serve in a management supervisory function from an independent, fair and objective position as External Director.

External Directors

In the appointment of its external directors, the Company attaches importance to ensuring their independence. Nikon appoints external director candidates from among those with a wealth of knowledge and experience as executives of other companies or with expertise and experience as specialists such as attorneys and certified public accountants, and who are qualified to take part in the management supervision function from a fair and objective standpoint independent of management.

Criteria for Determining Independence of External Directors

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

- a) The candidate serves or 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 said major shareholder.
- d) The candidate served in the past at a company whose directors are concurrently serving as external directors of the Company 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 served in the past at such a 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 falls into either of the following.

- (1) A client or supplier with whom the Company has a transaction that falls into the following, in any of the past three years
 - a party that receives payment from the Company equivalent to 2% of the party's consolidated net sales or ¥100.0 million, whichever is greater
 - a party that makes payments to the Company equivalent to 2% of the Company's consolidated net sales or ¥100.0 million, whichever is 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 of External Directors who are 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 the 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 the 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 the 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, 2019]

Name	Category	Board of Directors	Audit and Supervisory Committee
Akio Negishi	Director	14 of 14	—
Haruya Uehara	Director (Audit and Supervisory Committee member)	13 of 14	10 of 10
Hiroshi Hataguchi	Director (Audit and Supervisory Committee member)	14 of 14	10 of 10
Kunio Ishihara	Director (Audit and Supervisory Committee member)	13 of 14	8 of 10

Evaluation of the Board of Directors' Effectiveness

Nikon asks a third-party organization to analyze and evaluate the effectiveness of its Board of Directors in order to further improve its functions.

The efforts to address issues identified through the previous evaluation (for the fiscal year ended March 31, 2018) as well as the issues identified in this evaluation (for the fiscal year ended March 31, 2019) and the future responses are outlined below.

Evaluation Method	<ul style="list-style-type: none"> A third-party organization conducted a survey and individual interviews of all directors on general matters related to the Board of Directors, its composition, prior preparations, and details of deliberations, among others, 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	<p><Summary></p> <ul style="list-style-type: none"> Certain progress has been observed with regard to "comprehensive restructuring and realization of growth strategies," such as increasing the opportunities for discussion at meetings of the Board of Directors. At the same time, there is room for improvement in efforts to address other issues identified in the fiscal year ended March 31, 2018, while the governance system needs to be further strengthened. <p><Efforts to Address Issues Identified in Previous Evaluation></p> <ul style="list-style-type: none"> Strengthening of secretariat function of the Board of Directors Although improvements in the materials distributed before meetings were observed, necessary to reinforce collaboration between the secretariat and the executive departments for fuller deliberations Comprehensive restructuring and realization of growth strategies Progressed toward realization of growth strategies, including carrying out discussions from the early draft stages of the Medium-Term Management Plan released in May 2019 Enhancement of the Board of Directors and its complementary functions In addition to holding meetings attended by external directors and representative directors and setting up systems for receiving appropriate advice, engaged in repeated considerations aimed at establishing a voluntary nominating committee [Nominating Committee established in May 2019]
Main Issues Identified in This Evaluation and Future Response	<ul style="list-style-type: none"> Initiate governance reforms Establishment of Nominating Committee in May 2019 and commencement of activities Strengthen supervisory functions of independent external directors Further strengthening of the supervisory function of the Board of Directors, including review of composition of independent external directors Strengthen secretariat function of the Board of Directors Provision of support aimed at enhancement of deliberations of the Board of Directors through stronger collaboration between the secretariat and executive departments

Taking into account the issues raised by this evaluation, Nikon plans to continue implementing measures to further enhance Board effectiveness going forward.

Compensation of Directors and Officers

Compensation for Directors [Fiscal year ended March 31, 2019]

Category	Fixed compensation		Performance-based compensation		Stock compensation		Total	
	Fixed monthly compensation		Bonuses		Subscription rights to shares			
	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 whom, external directors)	6 (1)	¥253 million (¥13 million)	5 (—)	¥133 million (—)	5 (—)	¥85 million (—)	6 (1)	¥472 million (¥13 million)
Directors who are Audit and Supervisory Committee members (of whom, external directors)	6 (3)	¥93 million (¥40 million)	—	—	—	—	6 (3)	¥93 million (¥40 million)
Total	12	¥346 million	5	¥133 million	5	¥85 million	12	¥564 million

* 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 are external directors) who retired at the conclusion of the 154th Annual General Shareholders' Meeting held on June 28, 2018. Furthermore, the compensation for the retired director is included in the amount of compensation listed above.

* 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 on Compensation	<p>Executive compensation will be determined to satisfy the following basic criteria.</p> <ul style="list-style-type: none"> Executive compensation should motivate executives to sustainably improve corporate and shareholder value, as well as enhance their willingness and morale. Executive compensation should help keep, cultivate, and reward excellent personnel. The decision-making process for the compensation system should be objective and transparent.
Compensation System and Performance-based Structure	<p>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 proportion of performance-based compensation and stock compensation to fixed compensation according to position and duties.</p> <p><Fixed Compensation></p> <ul style="list-style-type: none"> Fixed monthly compensation This monetary compensation is not based on performance. <p><Performance-Based Compensation></p> <p>Bonuses</p> <ul style="list-style-type: none"> 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. <p>Performance-based stock remuneration</p> <ul style="list-style-type: none"> Stock compensation is determined within the range of 0% to 150% in accordance with achievement of the Company's overall capital efficiency and other financial performance indicators, in the final fiscal year of the Medium-Term Management Plan to be resolved every three fiscal years, with the aims of sharing value with shareholders and enhancing willingness and morale for improving medium- to long-term performance. <p><Stock Compensation></p> <p>Subscription rights to shares granted as stock-related compensation</p> <ul style="list-style-type: none"> Subscription rights to shares are granted with the aims of sharing value with shareholders and enhancing willingness and morale for improving long-term performance, within the range not exceeding 5% of the share dilution ratio. <p>b) The compensation system for non-executive directors consists only of fixed compensation ("fixed monthly compensation.")</p>
Method for Determining Compensation Level and Amount	<p>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 also considers the formulation and establishment of policy for compensation for directors and officers and deliberates on the specific method of calculation. Based on the results of those deliberations, the compensation for directors other than members of the Audit and Supervisory Committee is determined by resolution of the Board of Directors, and the compensation for directors who are members of the Audit and Supervisory Committee is determined by consultation with the directors who are members of the Audit and Supervisory Committee.</p>

Number of Women and Non-Japanese

Appointed as Nikon Group Directors /

Officers and Corporate Auditors (As of March 31, 2019)

Nikon Corporation	Number of women: 0	Number of non-Japanese: 0
Group companies*	Number of women: 3	Number of non-Japanese: 28

* 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 Auditing

Nikon has designed systems for enabling the Internal Audit Department to fully perform its functions, including securing the independence from operational divisions.

Based on the annual audit plan reported to the Executive Committee and the Board of Directors subsequent to the President's approval, the Internal Audit Department audits whether or not each division conducts their operations in accordance with laws and regulations and internal rules, manages risks adequately, and so on to evaluate the appropriateness of the internal control systems and implemented operations at the Nikon Group (including non-consolidated subsidiaries), and presents them with proposals for improvements.

Furthermore, the Internal Audit Department conducts the assessments of the company to be made for the Internal Control Report System specified by the Financial Instruments and Exchange Act (J-SOX), and also evaluates the effectiveness of the internal control system from the standpoint of observing the Companies Act.

Internal audit sections established at regional holding companies in Europe (the Netherlands), the Americas (the United States), and the Asia and Oceania region (Hong Kong) conduct audit engagements and J-SOX evaluations for subsidiaries in each region from perspectives independent of business operations. The Internal Audit Department of Nikon Corporation supervises these internal audit activities to be conducted at each internal audit section to strive for performing effective audits on a global scale.

All of the internal audit results are reported to the president and the directors concerned, and follow-ups are implemented with proper timing. Also, an overview of annual audit activities is reported to the Executive Committee and the Board of Directors.

Internal audit results are also shared with the Audit and Supervisory Committee, and regularly scheduled meetings are held between the Internal Audit Department and the Audit and Supervisory Committee to ensure their close cooperation.

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 officer

responsible for risk management, 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. In the fiscal year ended March 31, 2019, risk identification surveys were administered to individuals ranked general manager or higher at Nikon Corporation as well as to the presidents of domestic and overseas Group companies. The responses to these surveys were aggregated, and a risk assessment was then conducted to identify, analyze, and evaluate risks from a Companywide perspective. Based on the results of the risk assessment, risk maps that show the level of influence and probability of each risk were prepared. These risk maps were used to identify risks on a Companywide basis, by business unit, and in terms of changes over the past five years, and were reported to the Risk Management Committee.

The risk map and certain other report materials submitted to the Risk Management Committee were relayed to the surveyed divisions via the secretariat to share Companywide understanding regarding risks.

Taxation

Taxes are crucial to the development of local communities. Accordingly, appropriate tax payments are an important social responsibility for companies.

The Nikon Code of Conduct states that the Nikon Group shall act in a manner that is congruent with relevant tax laws and regulations and engage in sincere dialogue with tax authorities. In addition, we established the Nikon Global Tax Policy in March 2019 in order to improve tax compliance and reinforce governance.

Based on this policy, the Nikon Group practices tax compliance in line with its management policies along with tax management that is uniform on a Groupwide basis. We also endeavor to respond appropriately to changes in conditions and tax risks pertaining to tax governance in Japan and overseas.

TOPIC

Corporate Governance Enhancements Following the Restructuring

- Increase in ratio of external directors and diversity of the Board of Directors
- Separation of representative director and chairman of the Board from executive team
- Establishment of Nominating Committee
- Appointment of external directors as chairpersons of Nominating Committee and Compensation Committee
- Evaluation of the effectiveness of the Board of Directors

Message from the Chairman of the Board

By establishing corporate governance structures for improving its corporate value, the Nikon Group will continue to evolve while contributing to society.

Kazuo Ushida

Representative Director
Chairman of the Board



Enhancing Corporate Governance

In April 2019, I passed the torch to Toshikazu Umatate, the new president, so that I could dedicate myself to the role of chairman of the Board, thereby establishing a clear divide between the execution and oversight arms of management. In my new capacity, I enhance corporate governance by leading brisk discussions at meetings of the Board of Directors while maintaining an appropriate sense of tension between executive officers and directors.

I also recognize that establishing firm corporate governance structures is an important task. We have implemented various initiatives in this regard, including increasing the ratio of external directors and appointing a more diverse range of external directors. We also established the new Nominating Committee in May 2019 and appointed external directors to chair this committee as well as the Compensation Committee. The formulation of a succession plan for the president is also an important task. We intend to have in-depth discussions on this matter with the Nominating Committee. There is no goal line for corporate governance. Rather, we must maintain a constant understanding of the issues we face in order to implement ongoing reinforcements to our corporate governance structures. We continue to implement steady and effective initiatives for our corporate governance.

Support for Growth Strategies by the Board of Directors

The most important management task for Nikon is to advance the growth strategies described in its new Medium-Term Management Plan. The Board of Directors is required to exert its utmost effort to ensure the success of these

growth strategies. Shiro Hiruta, the newest external director, has experience driving the development of both new and existing businesses at Asahi Kasei Corporation as its president. I believe that this experience makes him an ideal external director to provide advice on how Nikon should proceed with its growth strategies. By drawing out the diverse insight of the external directors, I will support President Umatate on the two fronts of cultivating new businesses and enhancing existing businesses.

To Be a Group Indispensable to the World

Nikon is a company that has continued to contribute to society and to humanity by supplying products and services in accordance with its corporate philosophy of "Trustworthiness and Creativity." The Company has proceeded to evolve its core opto-electronics and precision technologies for more than a century. In a supervisory role, I will assist in the development of corporate foundations that will enable Nikon to continue to exercise its corporate philosophy over the next century by fully leveraging its core technologies and responding flexibly to changes. It is only natural for a company to pursue profit. Given this fact, we must keep in mind the purpose of Nikon's existence and how we will realize contributions to society. Furthermore, I recognize that another important function of corporate governance is to cultivate a corporate culture that allows all employees to pursue sustainable improvements in corporate value based on a shared vision. As we progress into the future, I will support the Nikon Group to evolve into an entity that can continue contributing to society by enhancing corporate governance.

Interviews with External Directors

I will contribute to sustainable improvements in corporate value by overseeing the corporate governance structure for future growth.

Hiroshi Hataguchi

External Director
Audit and Supervisory Committee Member



What do you see in your role as an external director of Nikon Corporation?

As an attorney at law, I have built a career specializing in corporate legal affairs and engaging in work related to corporate law, contracts, and compliance. It was in 2011 when I received an offer to become a corporate auditor of Nikon. The job of an attorney often involves post-fact checks, making it highly relatable to the duties of a corporate auditor. Realizing that I would be able to effectively capitalize on my experience thus far as a corporate auditor, I accepted Nikon's offer.

Today, I am concurrently an external director and an Audit and Supervisory Committee member. I see my role in this position as being to provide behind-the-scenes support. My responsibility is thus to perform audits and provide oversight from the perspective of reinforcing foundations including corporate governance. Together with the other external directors, I will seek to help fortify Nikon's corporate governance structure by calling upon my expertise to fulfill these duties.

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

I think meetings of the Board of Directors have a very good atmosphere. Discussions at Board meetings are vigorous and the atmosphere is conducive to freely voicing opinions. For example, the other external directors have experience as company presidents, and I see them offering accurate

input from a manager's perspective. Input from internal directors is also well received and discussed, making for an excellent atmosphere. With Shiro Hiruta, a new member of the Board, I look forward to even more vigorous discussion.

The importance of corporate governance has become higher, and it is crucial to ensure that governance initiatives do not stop at the formulaic level of developing frameworks. Frameworks are, of course, important. However, the quality of discussions based on the capacities of directors, their diversity and specialties, is much more important. From this perspective, I think I can say that Nikon's corporate governance structure is effective.

How would you evaluate the results of the restructuring?

The series of restructuring initiatives was prefaced on management's accurate assessment of the threats to Nikon's future and the need to address these issues at an early stage. The successes of these initiatives are apparent. However, in all honesty, I believe that management must do more to better communicate the true meaning of the restructuring to all employees. There is also a need for members of the Audit and Supervisory Committee to continue audits and supervision with regard to whether or not the strain caused by the head count optimization has disappeared.

Nikon is, fundamentally, a manufacturer. As such, there are many employees that joined the Company out of a love for manufacturing. For this reason, it is important that Nikon always be a company at which these employees are able to exercise their talents to create quality products and where

they are able to remain motivated to make products that benefit society.

Furthermore, the Company has been revising its human resource systems to build frameworks for heightening employee motivation. I intend to continue checking such efforts to ensure that they are functioning properly.

What are your thoughts regarding the evaluations being performed on the effectiveness of the Board of Directors?

I think it is very meaningful to get third-party evaluations of our performance. However, I see room to improve the questions of the survey administered by the third-party evaluation firm so that it can better contribute to higher levels of effectiveness.

What are important points for the implementation of growth strategies?

ROE and ROIC are important management indicators. Nevertheless, the effective implementation of Nikon's growth strategies will require management to adopt and commit to a medium- to long-term perspective, rather than becoming overly preoccupied with short-term results.

Achieving growth will also necessitate that management takes risks. When engaging in new initiatives, it is important to perform risk analysis ahead of time and to prepare for a certain degree of failure in these undertakings. When a failure does occur, however, management must make sure to determine the reason behind the failure in order to ensure that it is not repeated. It is therefore crucial to develop policies and structures that will allow the Company to overcome failures and advance toward success. As an external director, I am committed to assisting in this process.

What is your opinion regarding the legal risks facing Nikon?

As a manufacturer, one major legal risk for Nikon is infringing the patents of other parties. This is an unavoidable risk for a company that possesses unique technologies. Optical products and precision machinery employ an incredibly wide range of technologies. As Nikon seeks to develop new products while avoiding infringements of the patents of others, it is always faced with the risk of accidentally violating such rights. I think that Nikon has conducted product development with an effective intellectual property protection system in place. If the Company continues to maintain and reinforce this system going forward, it is unlikely that a significant risk will materialize.

In closing, please give a message for Nikon's stakeholders.

Nikon is a company that has always aspired to conduct manufacturing with high levels of performance and quality that its competitors cannot mimic. Even faced with the current volatile operating environment, I am confident that Nikon's team is capable of utilizing the assets accumulated to date to create unprecedented value. I continue to contribute to the growth of Nikon's corporate value as an external director.



I will support Nikon as it leverages its strengths as a Japanese company to respond to the changes brought about by the new era.

Kunio Ishihara

External Director
Audit and Supervisory Committee Member



What do you see in your role as an external director of Nikon Corporation?

In the past, I experienced the execution side of operations as the president of a company and the oversight side of operations as the chairman of a company. In both of these roles, I placed emphasis on the importance of thoroughly examining how the company exists in society and what society expects of it. The most basic duty of a manager is to satisfy shareholders and investors through ongoing profit growth. The other important duties to be addressed are to provide the maximum value to customers and to make employees feel happy working at that company. Fulfilling these duties will create the driving force behind a company. On top of that, a manager should determine the extent to which the company is contributing to the resolution of various social issues through its business activities. A manager is responsible for all of these duties, each as important as the last. My management philosophy sees no conflicts of interest in aspiring to carry out each of these duties.

At meetings of the Board of Directors, I supervise management from the perspective of whether Nikon is living up to the expectations of stakeholders based on this philosophy. In addition to my role as an external director, I am an Audit and Supervisory Committee member. In this capacity, I visit factories and other frontline sites to confirm firsthand

that the Company's management policies are being adhered to on the front lines of operations. By performing audits, supervising, and voicing opinions from this perspective, I am fulfilling my role in providing checks and balances on management.

What is your opinion regarding the restructuring?

Nikon feels proud in its capabilities as a manufacturer and deems it fair to be a leading company in the optics and precision fields. This sense of pride is laudable. However, I cannot deny that Nikon is slightly behind the times when it comes to addressing changes in markets, customer needs, and society. The possibility of conducting a restructuring was discussed with this framing, and the final decision was made amid feelings of anxiety, which were shared by the external directors. Nonetheless, the act of embarking on a journey of proactive restructuring measures while the Company had a sound financial base brought with it successes in the forms of improved profitability and enhanced management DNA.

Still, I believe that this journey has no end; constant reform is necessary if a company is to continue growing.

What are your thoughts concerning Nikon's growth strategies?

If Nikon is to effectively enact its growth strategies, it needs to carefully monitor the market and respond swiftly to any changes with agile and dynamic action. An important theme in this approach is determining how to allocate resources on a Companywide basis. This is a theme warranting Companywide discussion.

Meanwhile, a crucial aspect of growth strategies is to heighten company's core values while creating value through provision what customers embrace. The new Medium-Term Management Plan delineates the dynamic goal of creating new value by investing resources in priority areas projected to see long-term growth, including digital manufacturing and robotics. I suspect that M&A and alliances with start-up companies will be a part of this process. Risk management will also be vital to the progress of growth strategies, and this is an area in which we, as members of the Audit and Supervisory Committee, will need to effectively exercise our audit and supervisory functions.

How do you view Nikon's corporate governance structure?

Every company has its own history, and the corporate culture and strengths forged over the course of that history are invaluable assets supporting the growth of the company. Japan is a unique country where a number of companies with histories of more than a century, such as Nikon, exist, and the traditional business value of working for the good of the seller, the buyer, and society is a great aspect of Japan's rich business culture. I believe it will be of utmost importance for Japanese companies to be able to flexibly adapt those aspects of their businesses that need to change with the times while continuing to value the good aspects of Japan's business culture. It is thus vital for corporate governance structures to be monitored to ensure that they are able to support such an approach.

A recent change to Nikon's corporate governance was the establishment of the Nominating Committee. In my position as the chairperson of this committee, I am charged with the massive responsibility of broadening and enhancing the base of human resources who will carry vital roles at Nikon in the future. I believe it is important for Nikon to provide opportunities to its various human resources, and to watch over them as they approach those opportunities.

In closing, please give a message for Nikon's stakeholders.

When serving as a company president in the past, an employee once asked me what the dream of the company was. My response was that the dream of the company is the collective formed by the dreams of all of its employees, and this is why it is so important for every employee to have a dream. I therefore want Nikon to be a company at which the president and employees alike speak of their big dreams for the Company, and where efforts are made to realize those dreams. It is my desire to support Nikon in becoming such a company, sometimes voicing opinions in opposition to its actions, and sharing the inspiration and passion exerted on this path. I am sure that such dedication will steer Nikon in a better direction. At the same time, I hope that shareholders and investors will have a caring yet discerning eye as they watch Nikon work toward the medium- to long-term growth it envisions. As an external director, I am committed to doing what I can to contribute to corporate governance at Nikon to ensure that it lives up to the expectations of society.



Management Resources That Support Nikon's Value Creation

Nikon's Management Resources

By providing value to society with products and services supported by and created with its various management resources, the Nikon Group has a long history of practicing its corporate philosophy of "Trustworthiness and Creativity." We will further enhance the management resources that support Nikon's value creation to accomplish our goal of becoming a "Leading Company in Precision and Optics."

Financial Capital



To ensure sustainable and stable business activities, it is essential for us to utilize the capital entrusted to us by shareholders, the profit gained through business activities, and funds procured through borrowings in a balanced, efficient, and effective manner. Nikon is turning its attention to decisive investments in medium- to long-term improvements in enterprise value while maintaining its focus on financial health.

Net Cash

Fiscal year ended March 31, 2019

¥282.1 billion

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

("Equity ratio" under Japanese GAAP)

Fiscal year ended March 31, 2019

54.3%

Credit Ratings

(As of June 12, 2019)

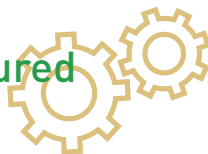
Japan Credit Rating Agency, Ltd. (JCR)

A+

Rating and Investment Information, Inc. (R&I)

A

Manufactured Capital



As a manufacturer, *monodzukuri* (manufacturing) is the essence of business activities for Nikon. By integrating Groupwide manufacturing activities on a cross-business basis, the Company has established a *monodzukuri* structure through digital manufacturing. We are taking steps to apply existing technologies to new fields, embrace new development themes, and realize drastic improvements to productivity. A broad scope has been defined for these activities, encompassing production systems, *monodzukuri* technology, procurement, and quality management.

Capital Expenditures

Fiscal year ended March 31, 2019

¥24,938 million

Quality Management

Fiscal year ended March 31, 2019

Serious product accidents related to safety*

0

* Based on the definition of serious product accidents used in the Consumer Product Safety Act.

Intellectual Capital



Patents, trademarks, and other intellectual assets are vital to the competitiveness and prosperity of Nikon's business. We therefore acquire, maintain, and utilize these assets in a strategic and lawful manner. In regard to the strength of our technologies, we will advance R&D activities in a wide range of fields based on our optoelectronics and precision technologies to develop state-of-the-art technologies and maintain our technological edge. We continue to focus on recruitment and cultivation of the human resources necessary for these activities.

Ratio of R&D Expenditures to Revenue

Fiscal year ended March 31, 2015 (Japanese GAAP)

7.8%

Fiscal year ended March 31, 2019 (IFRS)

9.0%

Intellectual Properties

2018

Disclosed patent applications in Japan

667

Patent registrations in the United States

231

Sophisticated Technical Skills Qualifications

(As of June 30, 2019)

Number of employees who have acquired national technical skills qualifications

1,159

Human Capital



A corporate culture encouraging bold action geared toward creating new corporate value is imperative for Nikon's sustainable growth. We aspire to provide workplace environments in which diverse employees can fully exercise their ambitions and talents. To this end, the Company has adopted impartial, performance-based systems for employee evaluation and treatment and supports employees in pursuing self-directed career planning and skills development.

Number of Group Employees Worldwide	
Fiscal year ended March 31, 2019	
20,917	
Japan 42%	Europe 9%
Americas 5%	Asia and Oceania 44%

Ratio of Local Hires in Upper Management	
(Outside of Japan)	
Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2019
18.2%	26.7%

Ratio of Female Employees	
Fiscal year ended March 31, 2019	
41.0%	

Ratio of Employees Returning to Work after Childcare Leave	
(Japan) Fiscal year ended March 31, 2019	
Female employees	93%
Male employees	100%

Social and Relationship Capital



Nikon views its business partners as just that: partners that help raise the value it provides to society. We therefore form strategic partnerships with other companies as well as with universities, government agencies, and various other organizations. In addition, communication with stakeholders, including customers and shareholders, is utilized to improve management and business activities, and to enhance the trustworthiness of Nikon.

Companies Supported via Investment by Nikon	
[As of March 31, 2019]	
Venture companies	12 companies
Venture capital partners	10 companies

Imaging Products Business Service Bases	
More than 300 bases	
In 70 countries and regions	

Ratio of Transaction Volume Accounted for by Procurement Partners That Have Undergone CSR Surveys	
Fiscal year ended March 31, 2019	
80%	

Shareholders and Institutional Investors with which Meetings Have Been Held	
Fiscal year ended March 31, 2019	
Total number of more than	500 companies

Natural Capital



Nikon's business entails utilizing finite natural resources to manufacture and sell products. For this reason, we have formulated the Nikon Long-Term Environmental Vision with three pillars deemed important to our business activities: a low-carbon society, a resource circulating society, and a healthy and environmentally safe society. In order to contribute to the realization of a resource circulating society, we are pursuing reductions in environmental impacts throughout product lifecycles beginning with the planning phase. In addition, Nikon is striving to reduce waste and raise resource recycling rates in its business activities.

CO₂ Emissions from Energy Consumption	
Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2019
243 thousand t-CO ₂	214 thousand t-CO ₂

Waste, etc., Generation	
(Japan)	
Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2019
6,246 t	5,478 t

Water Resources	
Fiscal year ended March 31, 2019	
Water use	4,222 thousand m ³
Water discharged	3,455 thousand m ³

Rate of Using FSC-Certified Paper in Product Catalogs	
(Japan) Fiscal year ended March 31, 2019	
99%	

Strengthening Management Resources

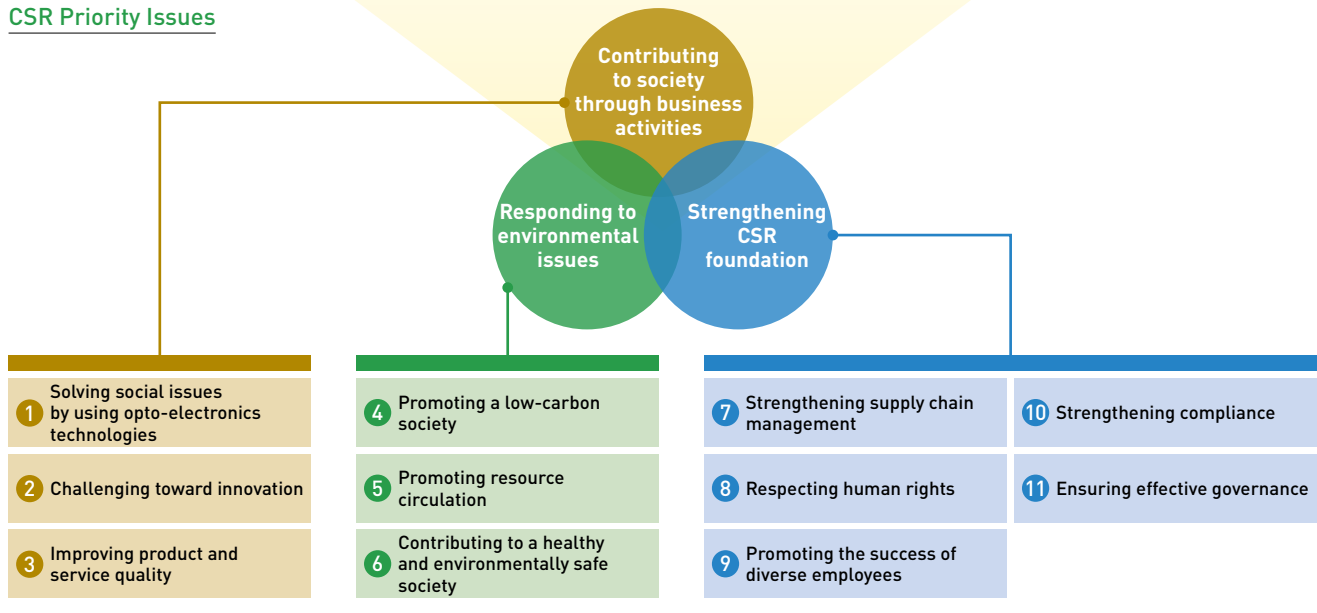
By enacting its Medium-Term CSR Plan, the Nikon Group is endeavoring to strengthen its management resources and to build foundations for the ongoing development of society and the Group.

Overview of the Medium-Term CSR Plan

Priority Themes of the Medium-Term CSR Plan



CSR Priority Issues



Medium-Term CSR Plan

Nikon's value creation cycle starts with the introduction of management resources. The Medium-Term CSR Plan established in May 2019 was designed to complement the Medium-Term Management Plan and guide efforts to strengthen our management resources and build business foundations.

The Nikon Group has 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." Initiatives in the area of "Responding to environmental issues" are linked to the Nikon Long-Term Environmental Vision, which was established in 2016. In the area of "Strengthening CSR foundation," we will continue to evolve the priority activities that

have formed the foundation for our CSR management thus far. As for efforts for "Contributing to society through business activities," acting based on our vision, we aim to contribute to the resolution of social issues by leveraging Nikon's technological prowess centered on its opto-electronics and precision technologies.

The Medium-Term CSR Plan defines a vision for each of the CSR Priority Issues as well as yearly targets and medium-term targets for three years or more in the future, to be accomplished on our path toward realizing each vision. In addition, six themes with additional priority among those targets have been selected, and we have identified the link between these themes and the SDGs and are advancing proactive initiatives pertaining to the themes.

Priority Themes of the Medium-Term CSR Plan—Initiatives in the Fiscal Year Ended March 31, 2019

Respecting Human Rights

Launch of the Nikon Human Rights Policy

Through its business activities, the Nikon Group is directly and indirectly involved in the human rights of a variety of stakeholders. Our stance, which emphasizes respect for the human rights of all people, is clearly enunciated in the Nikon Code of Conduct. Furthermore, we launched our Nikon Human Rights Policy in April 2019 in order to further outline our approach to addressing human rights issues related to our business activities based on the Code of Conduct.

The Nikon Human Rights Policy also sets out basic principles that we should follow for implementing practical procedures in line with United Nations Guiding Principles on Business and Human Rights. The policy was developed through internal discussions with major relevant departments as well as by taking advice from external experts, and was approved by Nikon’s Board of Directors.

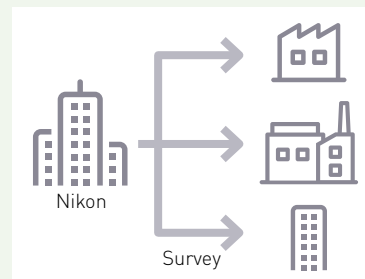
Nikon Human Rights Policy (Outline)

1. Commitment to respect human rights
2. Conducting human rights due diligence
3. Human rights issues particularly relevant to our business
 Prohibition of forced labor and child labor, elimination of discrimination and harassment, occupational health and safety, freedom of association and the right to collective bargaining, working hours and wages, right to privacy, and human rights issues in the supply chain
4. Approval

Group Monitoring Surveys on Human Rights and Labor Issues

The Nikon Group conducts human rights and labor monitoring surveys within the Group at the end of each fiscal year. In the survey, we check whether there have been practices that heighten the risk of human rights and labor issues as well as data concerning occupational safety, etc. We take measures for correction or for preventing recurrence if necessary. In recent years, growing attention has been paid to the issue of slave labor involving foreign technical interns in Japan and migrant workers in Asian countries outside Japan. In response, as part of Group monitoring surveys above, the Nikon Group has sought to confirm the current status of foreign technical intern and migrant workers. In the survey for the fiscal year ended March 31, 2019, we did not identify any actions that may be considered risks.

In addition, Nikon joined the Responsible Business Alliance (RBA) in May 2018. Since then, we have been implementing self-assessments at manufacturing sites and manufacturing companies in the Nikon Group to verify whether they are in conformity with the RBA Code of Conduct.



Securing Outstanding Human Resources

Human Resource Development

The Nikon Group supports employees in pursuing self-directed career planning and skills development, and implements training and educational programs linked to the human resource systems of specific Group companies.

Nikon Corporation offers a wide variety of education opportunities for acquiring skills and knowledge with the aim of providing assistance to individuals seeking to heighten their employability. We are also enhancing our management team through measures such as training for individuals new to management to help them understand their expected role. Furthermore, selective training programs are instituted for the purpose of systematically cultivating management staff and quickly developing future leaders who can guide the Company going forward.

In the fiscal year ended March 31, 2019, training and educational programs for all employees included 257 training courses held by dedicated education divisions. These training courses were attended by an aggregate total of 4,667 employees.

Employees of Group companies in Japan are able to join in training sessions held by Nikon Corporation.

Women in the Workplace

The Nikon Group conducts the same hiring and treatment of employees regardless of gender. However, we recognize that women represent a very small portion of employees and managers in Japan. To address this issue, Nikon Corporation has established an action plan and numerical targets, based on which it is promoting the empowerment of female employees. For example, the Company participates in several joint job fairs for women and also holds events such as informal gatherings with its female engineers with the aim of increasing the ratio of women hired in regular recruitment drives. In addition, we have introduced a mentor system as well as self-fulfillment training for female employees.

The creation of workplace environments and career development support systems that empower female employees will continue to be a focus of the Nikon Group going forward.

Self-fulfillment training lecturer and participants



Work-Life Balance

Childcare and Long-Term Care Support

The Nikon Group wants its employees to feel motivated in their work and to be able to maintain a good work-life balance. One facet of our efforts with this regard is to support employees in finding a good balance between their work and childcare or long-term care of family members.

Nikon Corporation offers systems including childcare leave for employees, which are available until their child reaches the age of two, as well as staggered working hours, shortened working hours, short-term flextime, and per-hour basis leave acquisition for childcare or long-term care purposes.

Nikon introduced an entry system to provide opportunities to rejoin the Company for former employees with specialized skills or extensive work experience who left the Company for child care, family care, a spouse's job transfer, or other unavoidable reasons.

Meanwhile, Group manufacturing companies Nikon (Thailand) Co., Ltd., and Nikon Lao Co., Ltd., which have particularly high ratios of female employees, are taking steps to ensure that employees can work with peace of mind even when pregnant. Examples of these steps include adjustments to work duties, locations, or hours and other measures for creating a workplace environment that does not place undue burden on such employees.



Workplace environment offering peace of mind to pregnant employees (Nikon Lao Co., Ltd.)

Working Hour Reduction Initiatives

The Nikon Group is implementing initiatives to reduce employee working hours.

In the fiscal year ended March 31, 2019, Nikon carried out a number of initiatives after establishing the specific numerical targets of reducing the number of employees who work excessive overtime, more than 60 hours per month (on an average monthly basis), to zero and ensuring at least 70% of annual paid leave days are taken by employees. Both of these targets were accomplished.

Countermeasures against long working hours

- Cooling system which intended to prevent certain individuals from taking on excessive overtime work
- Thoroughly implemented health exams covering excessive overtime work
- Held interviews with workplaces that have long working hours and provided instructions for improvement

Encouragement to take annual paid leave

- Established the Companywide annual paid leave
- Established days encouraged for taking annual paid leave (days in between holidays)
- Established system for systematically taking five days of annual paid leave
- Pushed supervisors and employees who take few days of annual paid leave to take annual paid leave

Other initiatives to reduce working hours

- Introduced flextime work
- Required applying in advance for overtime
- Established no overtime day

Quality and Procurement Management

Small Group Activities

The Nikon Group believes it is essential that each and every employee holds a sense of awareness and that they look for ways to make improvements in their daily work in order to ensure a high level of quality for products and services. Because of this, Nikon has been promoting small group activities since 1979. These types of activities have continued for many years and have become embedded within the Nikon Group. In the fiscal year ended March 31, 2019, about 900 groups and 6,800 people engaged in such activities at the Nikon Group inside and outside of Japan. Furthermore, every year in July the Nikon Group holds Selective Small Group Activity Presentation Meetings presided over by the Company president, where the best activity groups from each region get together to talk and educate each other. In 2018, more than 130 employees participated in these meetings, giving some wonderful presentations and presenting ideas to improve activities at each workplace.



Small group activity presentation meeting (Nikon (Thailand) Co., Ltd.)

Promotion of CSR Procurement

With the globalization of corporate activities, social issues in the supply chain, such as human rights, labor safety, and the environment, are growing and intensifying. The Nikon Group recognizes the importance of corporate responsibility in the supply chain and promotes responsible supply chain management.

To this end, we have established the Nikon CSR Procurement Standards in accordance with the RBA Code of Conduct. Each year, CSR surveys are administered to approximately 200 procurement partners to confirm compliance with these standards. The roughly 600 partners that account for 80% of transaction volume have been identified as the first wave of targets for surveys. Audits are conducted and improvement support is provided to those procurement partners that are deemed to be at a particularly high level of urgency and risk.

In the fiscal year ended March 31, 2019, the rate of compliance with the Nikon CSR Procurement Standards expected of procurement partners was set at more than 65%. Improvement support will be provided to ensure that all procurement partners clear this level. New procurement partners will also be expected to achieve this level of compliance.

Climate Change Measures

Environmental Strategies for Reducing Carbon Emissions

The Nikon Group has established a medium-term goal of realizing a reduction in CO₂ emissions across its supply chain of 26% in comparison with the fiscal year ended March 31, 2014, by 2030, and initiatives are being advanced to accomplish this goal. More than 80% of all greenhouse gas emissions across the entirety of Nikon’s supply chains comprise purchased products and services, the use of products sold, and other sources. For this reason, Nikon is pursuing reductions in carbon emissions by focusing on making smaller, lighter, and more energy-efficient products to create products that are even friendlier to the environment. In addition, we request that our procurement partners set CO₂ emissions reduction targets. Progress toward these targets is confirmed by the Nikon Group to promote reductions in greenhouse gas emissions by these partners. With regard to reducing greenhouse gas emissions from production activities, we are mainly working on boosting the efficiency of production



Marks applied to Nikon products that have been certified as eco-friendly products based on the Company’s proprietary environmental standards pertaining to metrics such as electricity consumption (marks have no connection to external environmental organizations)

and development processes using technology and on increasing our use of renewable energy.

TCFD Signing

As the effects of climate change manifest in increasingly frequent cases of abnormal weather, the Intergovernmental Panel on Climate Change issued a special report on the impacts of global warming of 1.5°C above pre-industrial levels, reconfirming the need for swifter and more innovative measures for combating climate change. Seeking to respond accurately to such international trends, Nikon expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) in November 2018. We respond to requests for disclosure of climate change-related information from stakeholders in order to play our part in realizing a low-carbon economy.

In addition, Nikon aims that its Science Based Targets will be validated, an international initiative that encourages companies to set science-based targets with the aim of keeping the average global temperature increase from pre-industrial times below 2°C. We have submitted a commitment letter to the Science Based Targets Initiative (SBTi) and are moving ahead with preparations.

Complying with the Code of Conduct

Global Code of Conduct Training

The Nikon Code of Conduct is a specific set of standards for appropriate, ethical conduct to be observed by employees in their daily work. This code was revised in January 2018 to serve as a unified standard for all Group companies around the world in order to respond to the contemporary expectations of global society with regard to human rights, taxation, import and export control, and social responsibility within supply chains. In the fiscal year ended March 31, 2019, education was provided for all Nikon Group employees through group training sessions and e-learning to help them adapt their behavior to comply with the revised code of conduct. A total of 23,865 employees inside and outside of Japan, or 99.8% of all employees, completed the training. We will also provide training on the Nikon Code of Conduct to newly hired employees as part of their induction training program.



Training session at Nikon (Malaysia) Sdn. Bhd.

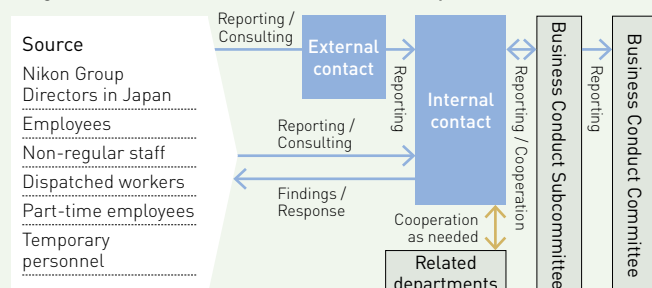
encourage use of the system via multiple reporting channels, we have introduced external reporting contacts in addition to internal ones.

For each case brought for consultation through these reporting channels, we collect information from persons reporting and persons relevant to the matter to understand the matter objectively. We then work together with relevant departments to resolve the matter and perform follow-up as necessary. We treat each consultation case with the utmost care paid to respecting human rights, which includes keeping the matter in strict confidence, protecting privacy, respecting anonymity, and preventing any disadvantageous treatment for using the system. In the fiscal year ended March 31, 2019, 40 reports were received through the system in Japan and four reports were received outside Japan.

Reporting and Consulting System (Code of Conduct Hotline)

The Nikon Group has established a reporting and consulting system at all Group companies to respond to reports of violations or potential violations of the Nikon Code of Conduct. To

Diagram of the Code of Conduct Hotline in Japan



Management's Discussion and Analysis

Nikon Corporation and Consolidated Subsidiaries
For the year ended March 31, 2019

Overview of the Fiscal Year Ended March 31, 2019

In the consolidated fiscal year ended March 31, 2019, the domestic economy continued its gradual recovery trend, showing signs of improvement in personal consumption and increased capital investment. In the global economy, the U.S. economy remained solid despite a temporary slowdown in personal consumption, and Europe was on a modest recovery trend. In addition, a moderate slowdown trend was seen in China.

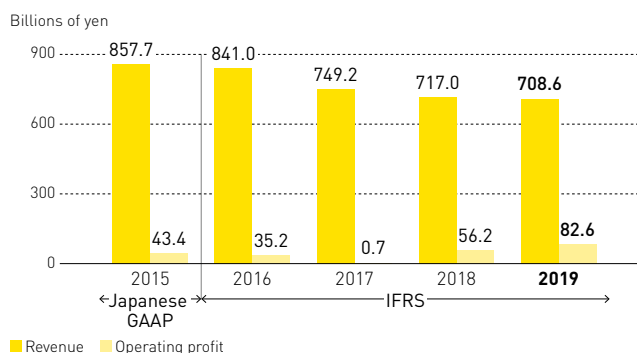
Looking at conditions by business segment, in the Imaging Products Business, the digital camera-interchangeable lens type market and the compact digital camera market continued to shrink. In the Precision Equipment Business, capital investments were steady in the FPD-related field. Despite solid capital investments in the semiconductor-related field, investments slowed down in the latter half of the fiscal year. In the Healthcare Business, market conditions were solid in both the bioscience field and ophthalmic diagnosis field, especially overseas.

During the fiscal year ended March 31, 2019, which was the final year of restructuring announced in November 2016, the Group tackled its remaining issues taking the post-restructuring period into consideration.

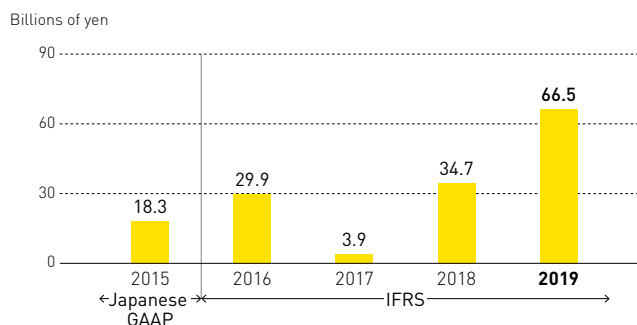
In specific, the Group promoted a shift to portfolio-based management, and strived to spread the understanding of ROE and ROIC, which the Group positioned as the management indicators that emphasize capital efficiency, to each organization and individual employee. Furthermore, the Group promoted the strengthening of its corporate governance structure, such as implementing improvements in order to address the issues that were identified through the evaluation of the Board of Directors' effectiveness, which were conducted by a third-party organization. In addition, the Group continued to carry out measures to enhance management DNA, such as reducing fixed costs. The Group also committed to the development of products with competitive advantages, focusing on the Group's core technologies of opto-electronics and precision.

As a result of the aforementioned measures, revenue for the fiscal year ended March 31, 2019 decreased by ¥8,418 million (1.2%) year on year to ¥708,660 million, operating profit increased by ¥26,417 million (47.0%) year on year to ¥82,653 million, profit before income taxes increased by ¥31,658 million (56.3%) year on year to ¥87,915 million, and profit attributable to owners of the parent increased by ¥31,741 million (91.3%) year on year to ¥66,513 million.

Revenue / Operating Profit



Profit Attributable to Owners of the Parent



Profit (Loss) Analysis

Years ended March 31, 2018 and 2019

	% of revenue	
	2018	2019
Revenue	100.0%	100.0%
Cost of sales	(56.4)	(57.2)
Gross profit	43.6	42.8
SG&A expenses	(34.7)	(33.7)
Other income (expenses)—net	(1.1)	2.5
Operating profit	7.8	11.7
Finance income (cost)—net	0.0	0.5
Profit before income taxes	7.8	12.4
Income tax expenses	(3.0)	(3.0)
Profit for the year	4.9	9.4
Profit attributable to owners of the parent	4.8	9.4

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

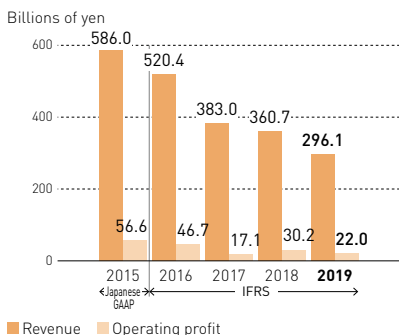
Performance by Business Segment

Imaging Products Business

For the digital camera-interchangeable lens type, sales of the D850, a digital SLR camera, were strong, and the Group made efforts to increase sales of the new Z 7 and Z 6 full-frame mirrorless cameras, which have earned favorable reviews. For the compact digital cameras, the Group focused on sales of high-value-added products such as the COOLPIX P1000, which is equipped with a 125x optical zoom lens. However, unit sales of both digital camera-interchangeable lens type and compact digital cameras fell amidst the shrinking market.

As a result, revenue for the Imaging Products Business decreased by 17.9% year on year to ¥296,169 million, and operating profit decreased by 27.0% year on year to ¥22,069 million.

Imaging Products Business



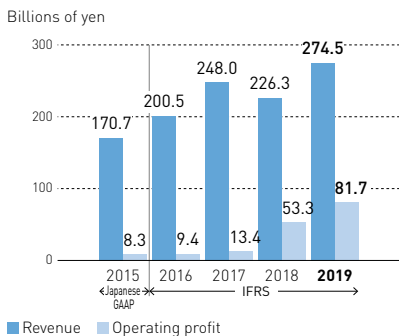
Precision Equipment Business

In the FPD lithography system field, although unit sales of equipment for mid-to-small size panels decreased, unit sales of equipment for large-size panels increased, resulting in substantial increases in revenue and profits.

In the semiconductor lithography system field, despite factors such as the postponement of sales of some systems to the fiscal year ending March 31, 2020, the business passed the break-even point for two consecutive fiscal years, owing to solid sales of ArF immersion scanners and ArF scanners, and further improvement of efficiency through the restructuring.

As a result, revenue for the Precision Equipment Business increased by 21.3% year on year to ¥274,540 million. In addition, operating profit increased by 53.1% year on year to ¥81,730 million, due to the rise of profit in the FPD lithography system field, as well as the effect of recording a settlement income regarding litigation over patents in the semiconductor lithography system field, which resulted in the substantial increase of profit in the business as a whole.

Precision Equipment Business



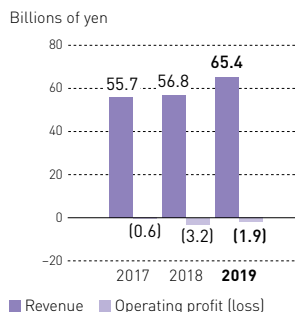
Healthcare Business

In the bioscience field, sales of biological microscopes increased, mainly overseas, and sales of ultra-widefield retinal imaging devices remained solid in the ophthalmic diagnosis field as well. Both fields recorded their highest sales ever.

Regarding the business as a whole, although strategic investments into the ophthalmic diagnosis field and the regenerative medicine-related field were made as planned, profitability improved due to factors such as reductions of fixed costs.

As a result, revenue for the Healthcare Business increased by 15.2% year on year to ¥65,434 million, and operating loss of ¥1,937 million (operating loss of ¥3,263 million was recorded in the previous fiscal year) was recorded.

Healthcare Business



Industrial Metrology Business and Others

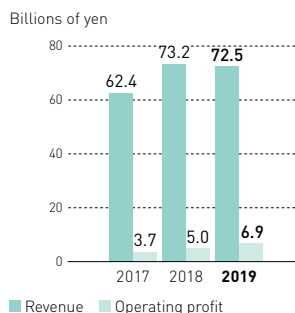
In the Industrial Metrology Business, profitability improved and profits increased, despite a decrease in revenue due to factors such as the transfer of the CMM (Coordinate Measuring Machines) Business as part of restructuring.

In the Customized Products Business, revenue for solid-state lasers and customized equipment increased.

In the Glass Business, revenue increased by continuously focusing on the sales promotion of photomask substrates for FPD and optical materials.

As a result, revenue for the Industrial Metrology and Others decreased by 1.0% year on year to ¥72,518 million, and operating profit increased by 38.0% year on year to ¥6,937 million.

Industrial Metrology Business and Others



Business Climate and Issues for the Fiscal Year Ending March 31, 2020

Regarding future prospects of the business segments of the Group, in the Imaging Products Business, although the digital camera-interchangeable lens type market is expected to remain solid in the full-frame category, the market as a whole is forecast to continue to shrink, and the continuing shrinkage of the compact digital camera market is also expected. For the Precision Equipment Business, in the FPD-related field, although capital investments for mid-to-small size panels are expected to stabilize, capital investments for large-size panels are forecast to remain solid. In the semiconductor-related field, capital investments are expected to enter a temporary lull due to a slowdown in the semiconductor market. For the Healthcare Business, market conditions are expected to remain solid in the bioscience field. In the ophthalmic diagnosis field, the retinal diagnostic imaging equipment market is forecast to remain solid, mainly overseas.

During the year ending March 31, 2020, the Group will strive to establish a foundation for growing enterprise value sustainably, by generating new core pillars of profit and improving the profitability of existing businesses under the new Medium-Term Management Plan.

In order to generate new core pillars of profit, the Group will aim to develop new markets in *monodzukuri* (manufacturing) field by focusing on the Material Processing Business, an area in which high precision stage control, non-contact 3D metrology, and optics application technologies cultivated in its existing businesses can be utilized, and is also an area that has potential for market growth. Furthermore, the Group will nurture new businesses in the fields of Digital Manufacturing, Vision Systems / Robotics, and Healthcare, which the Group has defined as long-term growth fields.

Regarding existing businesses, the Group will commit to improve profitability in its three core businesses of Imaging Products Business, FPD Lithography Business, and Semiconductor Lithography Business, based on the following policies.

- Imaging Products Business: Strive to shift to a business structure that can secure stable profits as Nikon's core business, even in a shrinking market.
- FPD Lithography Business: Keep the leadership position in markets where stable demand is expected in the medium to long term.
- Semiconductor Lithography Business: Strive to establish a structure that continues stable generation of cash flow through the profitability-first business strategy.

In addition, the Group will strive to reform costs through measures such as supply chain optimization, a zero-based review of the costs, duties, and functions of management and back-office departments, optimization of marketing and production systems, process reform, and the shortening of manufacturing lead time.

Furthermore, in order to establish "*monodzukuri* structure" by digital manufacturing, the Group will implement human resource development of *monodzukuri* technology and reforms in the following four areas: production system, *monodzukuri* technology, procurement, and quality management.

The Group will also enhance its corporate governance through comprehensive measures aimed at enhancing the effectiveness of the Board of Directors, such as increasing the diversity of its external directors and establishing a voluntary nomination committee.

Through these activities, the Group will strive to be a "Leading Company in Precision and Optics" that realizes sustainable growth of enterprise value in medium to long term.

Overview of Financial Position

The balance of total assets as of March 31, 2019 increased ¥36,642 million from the end of the previous fiscal year to ¥1,134,985 million. This was mainly due to the increase of cash and cash equivalents by ¥22,617 million, and inventories by ¥17,783 million.

The balance of total liabilities as of March 31, 2019 decreased ¥6,543 million from the end of the previous fiscal year to ¥518,259 million. This was mainly because despite advances received rose by ¥16,231 million, trade and other payables decreased by ¥22,207 million.

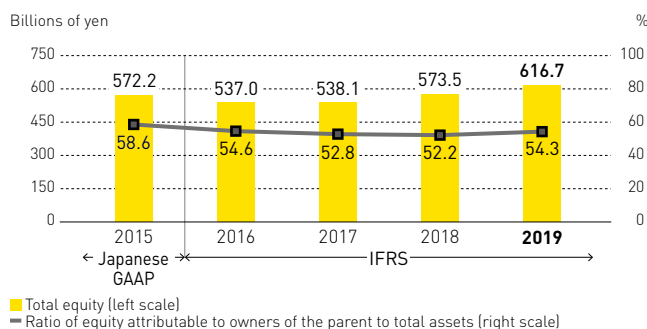
The balance of total equity as of March 31, 2019 increased ¥43,185 million from the end of the previous fiscal year to ¥616,726 million. The increase was primarily driven by the increase of retained earnings by ¥44,495 million as a result of posting profit attributable to owners of the parent despite dividends paid.

Analysis of Financial Position

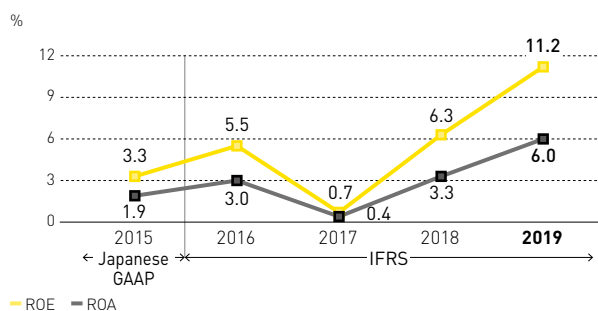
As of March 31, 2018 and 2019

	% of total assets		YoY Change
	2018	2019	
Total assets	100.0%	100.0%	
Total current assets	68.7	70.4	+1.7
Inventories	21.4	22.3	+0.9
Total non-current assets	31.3	29.6	-1.7
Property, plant and equipment	10.8	10.2	-0.6
Goodwill and intangible assets	5.6	5.2	-0.4
Total current liabilities	35.5	33.8	-1.7
Bonds and borrowings (current)	1.1	1.3	+0.2
Total non-current liabilities	12.3	11.9	-0.4
Bonds and borrowings (non-current)	10.3	9.9	-0.4
Total equity	52.2	54.3	+2.1

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



ROE*1 / ROA*2



*1 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.

*2 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.

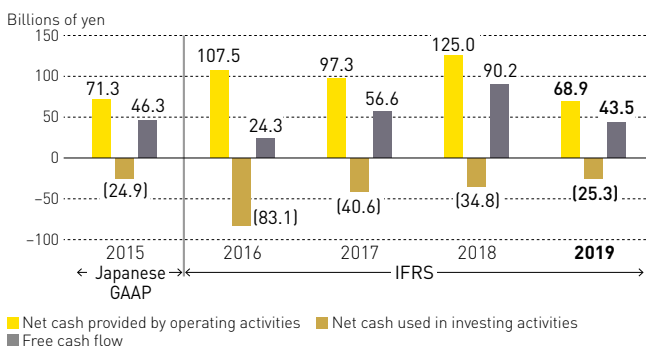
Cash Flow Analysis

During the fiscal year ended March 31, 2019, for the cash flows from operating activities, profit before income taxes of ¥87,915 million and depreciation and amortization of ¥27,805 million were posted, and advances received increased by ¥15,149 million due to orders received for semiconductor lithography system. However on the contrary, payment of income taxes was ¥19,662 million, increases were seen in trade and other receivables and in inventories, and trade and other payables decreased. As a result, net cash of ¥68,901 million was provided in operating activities. (Net cash of ¥125,082 million was provided in the previous fiscal year).

For the cash flows from investing activities, the net cash used in investing activities was ¥25,304 million primarily due to the acquisition of property, plant and equipment and intangible assets. (Net cash of ¥34,808 million was used in the previous fiscal year).

For the cash flows from financing activities, net cash of ¥21,583 million was used, mainly due to the payment of dividends. (Net cash of ¥19,970 million was used in the previous fiscal year).

Cash Flows



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.

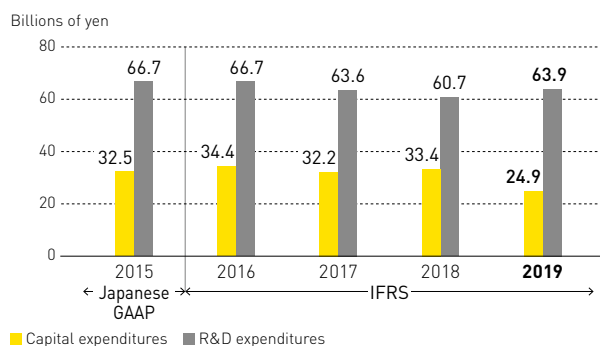
In the fiscal year ending March 31, 2020, the Company plans to conduct capital expenditures to the extent of ¥33.0 billion primarily for augmenting production capacities and maintaining / upgrading facilities. In addition, R&D expenditures of ¥64.0 billion are planned. These capital expenditures are expected to be largely contained within the scope of operating cash flows.

Capital Expenditures and R&D Expenditures

Capital expenditures were ¥24,938 million in the fiscal year ended March 31, 2019, a decrease of 25.5% from the previous fiscal year. By business segment, expenditures were ¥6,426 million in Imaging Products, ¥4,171 million in Precision Equipment, ¥1,784 million in Healthcare, and ¥8,179 million in Industrial Metrology and Others. The Group made investments of ¥4,378 million in corporate assets that are not allocated to reportable segments.

R&D expenditures were ¥63,963 million, up 5.3% year on year. By business segment, expenditures were ¥24,066 million in Imaging Products, ¥17,178 million in Precision Equipment, ¥7,650 million in Healthcare, and ¥15,113 million in Industrial Metrology and Others. Development costs that satisfied certain conditions were capitalized.

Capital Expenditures / R&D Expenditures

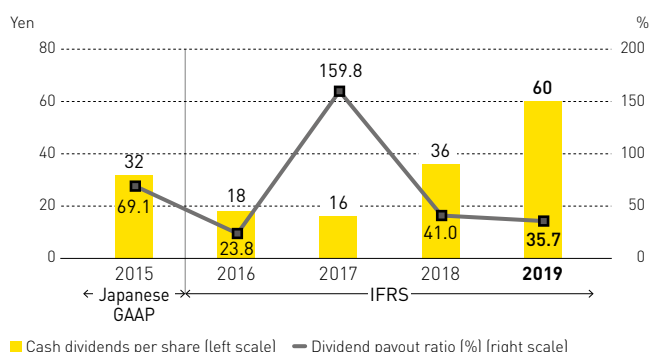


Shareholder Returns Policy and Dividends

The Company's fundamental policy on shareholder returns is to distribute a steady dividend that reflects the perspective of shareholders, and simultaneously realizing appropriate capital allocation flexibly from a mid to long-term perspective, while expanding investment (in capital and in development) in business and technology development to ensure future growth and enhance competitiveness. Based on this policy, during the cumulative period of the new Medium-Term Management Plan for the year ending March 31, 2020 to the year ending March 31, 2022, the Company will return to shareholders targeting a total return ratio of 40% or more.

For the year ended March 31, 2019, the year-end dividend is ¥30 per share, and the full year dividend is ¥60 per share, including the interim dividend of ¥30. The full year dividend for the year ending March 31, 2020 is forecast to be ¥60 per share (including the interim dividend of ¥30).

Cash Dividends per Share / Dividend Payout Ratio



FINANCIAL INFORMATION

74 Consolidated Financial Statements

79 Notes to Consolidated Financial Statements

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).

2. Audit

The Company’s consolidated financial statements for the year ended March 31, 2019 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 the 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.

FINANCIAL INFORMATION Consolidated Financial Statements

Consolidated Statement of Financial Position

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2019

	2018	Millions of yen 2019
ASSETS		
Current assets:		
Cash and cash equivalents (Note 7)	¥ 388,438	¥ 411,055
Trade and other receivables (Note 8)	104,526	115,847
Inventories (Note 9)	235,553	253,336
Other current financial assets (Notes 10 and 35)	10,958	3,145
Other current assets (Note 11)	12,430	15,306
(Subtotal)	751,905	798,689
Non-current assets held for sale (Note 12)	2,277	—
Total current assets	754,182	798,689
Non-current assets:		
Property, plant and equipment (Note 13)	118,761	116,119
Goodwill and intangible assets (Note 14)	60,985	59,176
Net defined benefit assets (Note 24)	5,706	5,097
Investments accounted for using the equity method (Note 16)	9,387	9,748
Other non-current financial assets (Notes 10 and 35)	91,841	91,263
Deferred tax assets (Note 18)	53,355	51,383
Other non-current assets (Note 11)	4,126	3,508
Total non-current assets	344,161	336,296
Total assets	¥1,098,343	¥1,134,985

	Millions of yen	
	2018	2019
LIABILITIES / EQUITY		
LIABILITIES		
Current liabilities:		
Trade and other payables (Note 19)	¥ 118,701	¥ 96,493
Bonds and borrowings (Notes 20 and 35)	12,200	14,400
Income tax payable (Note 18)	11,567	8,222
Advances received (Note 27)	176,631	192,862
Provisions (Note 21)	6,820	5,619
Other current financial liabilities (Notes 22 and 35)	28,879	27,006
Other current liabilities (Note 23)	34,959	38,961
Total current liabilities	389,756	383,564
Non-current liabilities:		
Bonds and borrowings (Notes 20 and 35)	113,140	112,010
Net defined benefit liabilities (Note 24)	7,995	9,031
Provisions (Note 21)	4,844	4,944
Deferred tax liabilities (Note 18)	3,978	4,063
Other non-current financial liabilities (Notes 22 and 35)	2,490	2,140
Other non-current liabilities (Note 23)	2,599	2,507
Total non-current liabilities	135,046	134,695
Total liabilities	524,802	518,259
EQUITY		
Capital stock (Note 25)	65,476	65,476
Capital surplus (Note 25)	81,333	81,424
Treasury stock (Note 25)	(13,152)	(13,044)
Other components of equity (Note 25)	(18,310)	(19,992)
Retained earnings (Note 25)	457,561	502,056
Equity attributable to owners of the parent	572,908	615,920
Non-controlling interests	633	806
Total equity	573,541	616,726
Total liabilities and equity	¥1,098,343	¥1,134,985

Consolidated Financial Statements

Consolidated Statement of Profit or Loss

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen	
	2018	2019
Revenue (Note 27)	¥ 717,078	¥ 708,660
Cost of sales (Note 9)	(404,170)	(405,250)
Gross profit	312,908	303,410
Selling, general and administrative expenses (Note 28)	(248,683)	(238,561)
Other income (Note 29)	3,714	21,912
Other expenses (Note 29)	(11,702)	(4,107)
Operating profit	56,236	82,653
Finance income (Note 30)	6,535	7,333
Finance costs (Note 30)	(6,295)	(3,833)
Share of the profit of investments accounted for using the equity method (Note 16)	(219)	1,762
Profit before income taxes	56,257	87,915
Income tax expense (Note 18)	(21,422)	(21,318)
Profit for the year	34,835	66,597
Attributable to:		
Owners of the parent	34,772	66,513
Non-controlling interests	63	84
Total	¥ 34,835	¥ 66,597
Earnings per share:		
Basic earnings per share (Yen) (Note 31)	¥87.76	¥167.86
Diluted earnings per share (Yen) (Note 31)	87.49	167.30

Consolidated Statement of Comprehensive Income

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen	
	2018	2019
Profit for the year	¥34,835	¥66,597
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)	6,036	(4,591)
Remeasurement of defined benefit pension plans (Notes 24 and 32)	(196)	(999)
Share of other comprehensive income (loss) of investments accounted for using the equity method (Note 32)	(16)	24
Total of items that will not be reclassified subsequently to profit or loss	5,824	(5,566)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Note 32)	1,635	2,669
Effective portion of the change in fair value on cash flow hedges (Note 32)	330	(147)
Share of other comprehensive loss of investments accounted for using the equity method (Note 32)	(249)	(32)
Total of items that may be reclassified subsequently to profit or loss	1,716	2,490
Other comprehensive income, net of taxes	7,540	(3,076)
Total comprehensive income for the year	¥42,375	¥63,520
Attributable to:		
Owners of the parent	42,294	63,447
Non-controlling interests	82	73
Total comprehensive income for the year	¥42,375	¥63,520

Consolidated Statement of Changes in Equity

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2019

Millions of yen

	Equity attributable to owners of the parent											Non-controlling interests	Total equity
	Equity attributable to owners of the parent			Other components of equity					Total	Retained earnings	Total		
	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					
As of April 1, 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 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
Changes in the ownership interest in 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
Profit for the year	—	—	—	—	—	—	—	—	—	66,513	66,513	84	66,597
Other comprehensive income (loss) (Note 32)	—	—	—	(4,594)	(999)	(9)	2,683	(147)	(3,066)	—	(3,066)	(10)	(3,076)
Total comprehensive income (loss) for the year	—	—	—	(4,594)	(999)	(9)	2,683	(147)	(3,066)	66,513	63,447	73	63,520
Dividends (Note 26)	—	—	—	—	—	—	—	—	—	(20,634)	(20,634)	(40)	(20,674)
Acquisition and disposal of treasury stock	—	(0)	(3)	—	—	—	—	—	—	—	(3)	—	(3)
Share-based payments (Note 34)	—	91	111	—	—	—	—	—	—	—	202	—	202
Changes in the ownership interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	139	139
Transfer from other components of equity to retained earnings	—	—	—	413	999	(27)	—	—	1,384	(1,384)	—	—	—
Total transactions with owners	—	91	108	413	999	(27)	—	—	1,384	(22,018)	(20,435)	99	(20,336)
As of March 31, 2019	¥65,476	¥81,424	¥(13,044)	¥ 8,544	¥ —	¥(835)	¥(27,723)	¥ 21	¥(19,992)	¥502,056	¥615,920	¥806	¥616,726

Consolidated Financial Statements

Consolidated Statement of Cash Flows

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen	
	2018	2019
Cash flows from operating activities:		
Profit before income taxes	¥ 56,257	¥ 87,915
Depreciation and amortization	31,706	27,805
Impairment losses	1,397	1,023
Interest and dividend income	(4,395)	(5,086)
Share of the profit of investments accounted for using the equity method	219	(1,762)
Gains on sale of property, plant and equipment	(120)	(109)
Interest expenses	1,440	1,515
Decrease (increase) in trade and other receivables	(6,999)	(12,077)
Decrease (increase) in inventories	(14,476)	(18,185)
Increase (decrease) in trade and other payables	6,132	(18,739)
Increase (decrease) in advances received	65,970	15,149
Increase (decrease) in provisions	(919)	(1,173)
Other, net	13,385	7,375
Subtotal	149,598	83,651
Interest and dividend income received	6,110	6,321
Interest expenses paid	(1,400)	(1,409)
Additional retirement benefits paid (Note)	(19,968)	—
Income taxes paid	(9,258)	(19,662)
Net cash provided by operating activities	125,082	68,901
Cash flows from investing activities:		
Purchase of property, plant and equipment	(28,062)	(20,827)
Proceeds from sale of property, plant and equipment	921	2,807
Purchases of intangible assets	(7,672)	(7,566)
Payments for acquisition of shares of subsidiaries resulting in changes in the consolidation scope	—	(2,380)
Purchases of investment securities	(6,625)	(6,281)
Proceeds from sale of investment securities	8,328	651
Transfers to time deposits	(5,670)	(1,327)
Proceeds from withdrawal of time deposits	4,110	8,403
Other, net	(137)	1,216
Net cash used in investing activities	(34,808)	(25,304)
Cash flows from financing activities:		
Net decrease in short-term borrowings (Note 33)	(1,400)	(50)
Repayment of long-term borrowings and bonds (Note 33)	(10,095)	—
Cash dividends paid (Note 26)	(7,153)	(20,621)
Cash dividends paid to non-controlling interests	(57)	(40)
Other, net	(1,265)	(872)
Net cash (used in) provided by financing activities	(19,970)	(21,583)
Effect of exchange rate changes on cash and cash equivalents	(913)	603
Net increase (decrease) in cash and cash equivalents	69,392	22,617
Cash and cash equivalents at the beginning of the year	319,046	388,438
Cash and cash equivalents at the end of the year (Note 7)	¥388,438	¥411,055

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, 2019

1. Reporting Entity

The Nikon Corporation (hereinafter referred to as 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 (hereinafter 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 that 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 millions of yen.

(4) Approval of the Consolidated Financial Statements

The consolidated financial statements were approved for issuance by Toshikazu Umatate, President, Representative Director, and Chief Executive Officer, and Masashi Oka, Senior Executive Vice President, Chief Financial Officer and Representative Director on June 27, 2019.

(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, 2019, and has early adopted no standards.

(6) Adoption of New Standards and Interpretations

The Group has adopted the following new standard and interpretation from the year ended March 31, 2019:

Standard	Title	Reporting period beginning on or after which application is required	Reporting period of application by the Group (the reporting period ended)	Summary 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

In accordance with the adoption of IFRS15, revenue is recognized based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Imaging Products Business provides products for imaging and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices. The Industrial Metrology and Others provide products such as industrial microscopes, measuring instruments, X-ray/CT inspection systems, and surveying instruments. The Group also renders services related to products, such as warranty, repair and maintenance, and relocation services.

For sales of products and rendering of services, the performance obligations are identified based on contracts with customers.

Regarding the sales of products which require installation by the Group, revenue is recognized at the point when the installation is completed. For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon completion of installation or delivery and the performance obligation is deemed to be satisfied. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, and other items.

For the services, if the performance obligation is satisfied at a point in time, revenue is recognized at the point when the services are completed. If the performance obligation is satisfied over time, revenue is recognized on a straight-line basis or on progress over the period during which services are rendered.

As a result of identification of performance obligations in contracts with customers and the determination of the transaction price, a part of sales promotion and other expenses that is consideration paid by the Group to customers, which had been previously recorded under selling, general and administrative expenses, is accounted for as reduction of revenue from the year ended March 31, 2019.

Upon the adoption of IFRS 15, the Group has selected to retrospectively recognize the cumulative effect of initial application as a transitional measure, which was recorded at the date of initial application.

Compared with the former accounting standard, in regard to the impact on the accounts, primarily revenue and selling, general and administrative expenses in the consolidated statement of profit or loss for the year ended March 31, 2019 decreased by ¥8,323 million and ¥8,584 million, respectively. However, these changes have no effect on the profit for the year.

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 Group 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 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 International Accounting Standard ("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 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." On disposal of foreign operations, the exchange differences that have been accumulated in the other components of equity shall be reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

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.

Notes to Consolidated Financial Statements

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 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 or 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.

Notes to Consolidated Financial Statements

(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:

- i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ii) the intention to complete the intangible asset and use or sell it;
- iii) the ability to use or sell the intangible asset;
- iv) how the intangible asset will generate probable future economic benefits;

v) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and

vi) 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 or 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.

3) Finance Leases (the Group as Lessor)

In finance lease transactions, net investments in the lease are recognized as receivables.

4) Operating Leases (the Group as Lessor)

Operating lease payments are recognized as revenues 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 continued 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 or fair value, less costs to sell, and are no longer depreciated or amortized.

(15) Employee Benefit

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 and 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

Notes to Consolidated Financial Statements

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 the "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 recognized based on the following five-step model:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Imaging Products Business provides products for imaging and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices. The Industrial Metrology and Others provide products such as industrial microscopes, measuring instruments, X-ray/CT inspection systems, and surveying instruments. The Group also renders services related to products, such as warranty, repair and maintenance, and relocation services.

For sales of products and rendering of services, the performance obligations are identified based on contracts with customers.

Regarding the sales of products that require installation by the Group, revenue is recognized at the point when the installation is completed. For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon completion of installation or delivery and the performance obligation is deemed to be satisfied. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, and other items.

For the services, if the performance obligation is satisfied at a point in time, revenue is recognized at the point when the services are completed. If the performance obligation is satisfied over time, revenue is recognized on a straight-line basis or on progress over the period during which services are rendered.

(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 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 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 is 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, 2019 were as follows. The Group has not early adopted these for the year ended March 31, 2019.

Due to the application of IFRS 16, "Leases," a lessee applies a single lease accounting model under which it needs to recognize all major leases on balance sheet, presented as the right-of-use asset for its right to use the lease asset and lease liability for its obligation to make lease payments in the consolidated statement of financial position, and the lessee will recognize the depreciation and interest cost of the leased asset. In accordance with this application, assets and liabilities on the consolidated financial position will increase by approximately ¥17,000 million on available information at present, and for the consolidated cash flow, operating activities are expected to increase by approximately ¥6,000 million and financing activities to decrease by ¥6,000 million in financing activities. The impact of this application on consolidated profit or loss is minimal.

Standard	Title	Reporting period beginning on or after which application is required	Reporting period of application by the Group (the reporting period ended)	Summary of new IFRS and amendments
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 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.

(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, 2018	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliations (Note 2)	Consolidated
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 3)	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 4)	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. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥(281) million and corporate profit (loss) of ¥(28,859) million that cannot be attributed to any segments. 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. Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥557,572 million that cannot be attributed 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. The restructuring costs recognized in the segment profit (loss) are ¥(5,899) million for Imaging Products Business and ¥(2,833) million for Industrial Metrology and Others.

4. The main components of the impairment losses are described in "15. Impairment Losses on Non-financial Assets."

Notes to Consolidated Financial Statements

Millions of yen							
For the year ended March 31, 2019	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliations (Note 2)	Consolidated
Revenue							
External customers	296,169	274,540	65,434	72,518	708,660	—	708,660
Intersegment sales or transfers	1,215	398	204	61,268	63,085	(63,085)	—
Total	297,383	274,938	65,638	133,786	771,745	(63,085)	708,660
Segment profit (loss) (Note 3)	22,069	81,730	(1,937)	6,937	108,799	(26,146)	82,653
Finance income							7,333
Finance costs							(3,833)
Share of the profit of investments accounted for using the equity method							1,762
Profit before income taxes							87,915
Segment assets	139,673	198,591	101,948	132,792	573,005	561,980	1,134,985
Others							
Impairment losses (Note 4)	365	—	—	657	1,023	—	1,023
Depreciation and amortization	9,745	2,714	3,539	6,526	22,524	5,281	27,805
Increase in property, plant and equipment, goodwill and intangible assets	6,426	4,171	3,244	9,391	23,232	4,378	27,610

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. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥668 million, cumulative translation differences of ¥(545) million reclassified to profit or loss due to the liquidation of a foreign subsidiary, and corporate profit (loss) of ¥(26,269) million that cannot be attributed to any segments. 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. Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥573,888 million that cannot be attributed to any reportable segments, and elimination of intersegment transactions of ¥(11,908) 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. Out of the total restructuring costs in other expenses of ¥(1,841) million recognized in the consolidated statement of profit or loss, ¥(605) million and ¥(691) million are recognized in profit (loss) for the Imaging Products Business and Industrial Metrology and Others, respectively. Restructuring costs of ¥(545) million for the cumulative translation differences due to the liquidation of a foreign subsidiary is recognized in reconciliation of segment profit (loss).

4. The main components of the impairment losses are described in "15. Impairment Losses on Non-financial Assets."

(3) Geographic Information**Revenue to external customers**

Millions of yen		
	2018	2019
Japan	102,893	92,270
United States	177,701	172,125
Europe	122,486	118,183
China	162,786	199,508
Others	151,212	126,575
Total	717,078	708,660

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		
	2018	2019
Japan	105,016	102,841
North America	4,660	4,786
Europe	48,200	48,290
China	1,228	1,169
Thailand	22,751	19,818
Others	2,017	1,900
Total	183,872	178,804

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, 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

The customer group contributed 10% or more to the consolidated revenue for the year ended March 31, 2019. Revenue recognized from this customer group for the year ended March 31, 2019 is ¥80,602 million (Precision Equipment Business and Industrial Metrology and Others). There is no single customer group that contributed 10% or more to the consolidated revenue for the year ended March 31, 2018.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen	
	2018	2019
Cash and cash equivalents		
Cash and bank deposits	327,332	305,805
Time deposits with maturities within three months at acquisition	61,106	105,250
Total	388,438	411,055

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen	
	2018	2019
Notes and accounts receivable	94,582	86,593
Lease receivables	8,128	10,187
Other receivables	3,319	20,654
Less: allowance for doubtful accounts	(1,504)	(1,587)
Total	104,526	115,847

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	
	2018	2019
Finished goods	112,334	114,710
Work in progress	95,870	108,851
Raw materials and supplies	27,349	29,774
Total	235,553	253,336

The amounts of inventories that were expensed for the years ended March 31, 2018 and 2019 were ¥404,148 million and ¥405,647 million, respectively.

The write-downs of inventories to their net realizable value for the years ended March 31, 2018 and 2019 were ¥11,964 million and ¥5,011 million, respectively. For the year ended March 31, 2019, the write-downs of inventories include the losses on write-downs of ¥583 million due to the withdrawal from the low profitability in the Industrial Metrology Business, which 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	
	2018	2019
Derivative financial assets	1,955	2,219
Equity securities	78,699	75,848
Others	22,145	16,341
Total	102,799	94,409
Other current financial assets	10,958	3,145
Other non-current financial assets	91,841	91,263

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.

Name of Shares	Millions of yen	
	2018	2019
JEOL Ltd.	8,419	8,566
Kirin Holdings Company, Limited	5,921	5,524
MITSUBISHI ESTATE CO., LTD.	4,367	4,870
Mitsubishi Corporation	4,287	4,604
Mitsubishi Logistics Corporation	2,613	3,573
Tokio Marine Holdings, Inc.	2,816	3,188
Citizen Watch Co., Ltd.	3,824	3,089
Velodyne LiDAR, Inc.	—	2,775
HEALIOS K.K.	3,059	2,644
Mitsubishi Electric Corporation	3,005	2,512

(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, 2018

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

For the year ended March 31, 2019

	Millions of yen	
Fair value	Accumulated gain or loss recognized as other comprehensive income in equity	
651		(413)

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	
	2018	2019
Consumption taxes receivable	2,553	3,680
Prepaid expenses	9,420	8,503
Refundable income taxes	1,045	725
Others	3,539	5,907
Total	16,556	18,815
Other current assets	12,430	15,306
Other non-current assets	4,126	3,508

12. Non-current Assets Held for Sale

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

	Millions of yen	
	2018	2019
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 that are determined to be sold, held by Nikon Imaging (China) Co., Ltd., which will be for liquidation.

13. Property, Plant and Equipment

(1) Consolidated 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, 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
Acquisition	314	823	—	17,338	1,466	19,942
Acquisitions through business combinations	119	27	229	10	129	513
Disposals	(1,396)	(7,761)	—	(63)	(6,416)	(15,636)
Transfer from other accounts	2,480	6,625	—	(17,565)	3,682	(4,778)
Effect of foreign currency exchange differences	519	802	41	7	289	1,658
As of March 31, 2019	140,995	203,560	15,996	7,026	85,932	453,508

Notes to Consolidated Financial Statements

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, 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
Depreciation	4,432	8,718	—	—	5,621	18,770
Impairment losses	102	377	154	1	112	746
Disposals	(1,395)	(7,629)	—	(40)	(6,345)	(15,410)
Transfer from other accounts	718	(1,746)	—	(52)	277	(803)
Effect of foreign currency exchange differences	227	579	—	(0)	230	1,036
As of March 31, 2019	92,154	175,562	154	601	68,918	337,389

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, 2018	50,889	27,780	15,726	6,607	17,758	118,761
As of March 31, 2019	48,841	27,998	15,841	6,425	17,014	116,119

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, 2018 and 2019 were as follows:

	Millions of yen		
	Buildings and structures	Machinery, equipment and vehicles	Others
As of March 31, 2018	1,687	114	1,050
As of March 31, 2019	1,482	90	958

(2) Assets Pledged as Collateral

There were no material property, plant and equipment pledged as collateral as of March 31, 2018 and 2019.

(3) Commitments

The commitments to acquire property, plant and equipment as of March 31, 2018 and 2019 were ¥6,680 million and ¥3,635 million, respectively.

14. Goodwill and Intangible Assets

(1) Consolidated 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, 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
Additions through acquisition	—	—	—	4,703	262	—	30	4,996
Acquisitions through business combinations	592	—	—	18	5	—	5	620
Additions through internal development	—	—	—	—	—	1,539	—	1,539
Disposals	—	—	—	(2,917)	(17)	(721)	(65)	(3,720)
Transfer from other accounts	—	—	—	(1,036)	12	—	7	(1,017)
Effect of foreign currency exchange differences	827	876	(7)	110	(85)	(351)	(13)	1,358
As of March 31, 2019	24,084	19,973	701	76,036	28,277	12,918	1,486	163,474

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, 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
Amortization expenses	—	1,530	—	5,208	993	1,196	108	9,035
Impairment losses	—	—	—	33	—	242	1	276
Disposals	—	—	—	(2,915)	(17)	(721)	(62)	(3,715)
Transfer from other accounts	—	—	—	60	12	—	(0)	72
Effect of foreign currency exchange differences	—	222	—	103	(69)	(331)	(8)	(83)
As of March 31, 2019	—	5,889	433	65,136	24,327	7,555	957	104,298

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, 2018	22,665	14,960	275	12,511	4,690	5,281	603	60,985
As of March 31, 2019	24,084	14,084	268	10,900	3,950	5,363	529	59,176

Notes to Consolidated Financial Statements

(2) Assets Pledged as Collateral

There were no goodwill and intangible assets pledged as collateral as of March 31, 2018 and 2019.

(3) Commitments

The commitments to acquire intangible assets as of March 31, 2018 and 2019 were ¥1,092 million and ¥1,060 million, respectively.

(4) Significant Intangible Assets

As of March 31, 2019, 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 Plc was ¥14,764 million and ¥13,907 million as of March 31, 2018 and 2019, respectively. The remaining useful life of the intangible assets is 9 years.

15. Impairment Losses of Non-financial Assets**(1) Impairment Losses**

The Group has sorted 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	
	2018	2019
Property, plant and equipment	1,098	746
Intangible assets	298	276
Others	1	—
Total	1,397	1,023

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, 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 the 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."

For the year ended March 31, 2019

For the year ended March 31, 2019, 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, Thailand 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 the disposal price. The fair value measurements are categorized within the Level 3 category of the fair value hierarchy.

Of the total impairment losses of ¥1,023 million, ¥31 million are recognized as "Restructuring costs" in "Other expenses" of the consolidated financial statements.

(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	
	2018	2019
Imaging Products Business	691	673
Healthcare Business	18,898	19,986
Industrial Metrology and Others	3,076	3,425
Total	22,665	24,084

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% (2.0% for the year ended March 31, 2018), and the post-tax discount rate is 8.7% (7.0% for the year ended March 31, 2018) 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, 2018), and the pre-tax discount rate is 6.9%–13.3% (6.2%–6.8% for the year ended March 31, 2018) 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	
	2018	2019
Carrying amount in total	5,591	5,637

(Impairment Loss of Investments Accounted for Using the Equity Method for the Year Ended March 31, 2018)

For year ended March 31, 2018, impairment loss of investments in associates was recognized ¥1,793 million. 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 year ended March 31, 2018.

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	
	2018	2019
Share of profit (loss) for the year	(940)	1,087
Share of other comprehensive income	(265)	(9)
Share of comprehensive income	(1,205)	1,078

Notes to Consolidated Financial Statements

(2) Interest in Joint Ventures

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

	Millions of yen	
	2018	2019
Carrying amount in total	3,796	4,111

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

	Millions of yen	
	2018	2019
Share of profit for the year	720	675
Share of other comprehensive income	—	—
Share of comprehensive income	720	675

17. Leases**(1) As Lessor**

(i) Finance Leases

The Group mainly leases ultra-wide field retinal imaging devices under finance leases.

	Millions of yen			
	Gross investment in the lease		Present value of minimum lease payments receivable	
	2018	2019	2018	2019
Within 1 year	2,348	2,989	2,209	2,814
After 1 year but within 5 years	5,918	7,364	5,774	7,152
After 5 years	147	225	145	221
Total	8,413	10,578	8,128	10,187
Unearned finance income	284	391		
Present value of minimum lease receivables	8,128	10,187		

Accumulated allowance for unrecoverable minimum lease receivables for the years ended March 31, 2018 and 2019 were ¥68 million and ¥236 million, respectively.

Variable lease payments recognized as income are as follows:

	Millions of yen	
	2018	2019
Variable lease payments	175	216

(ii) Operating Leases

The breakdown of minimum lease receivables under non-cancelable operating leases by payment due dates is as follows:

	Millions of yen	
	2018	2019
Within 1 year	12	17
After 1 year but within 5 years	8	7
Total	20	24

Variable lease payments recognized as income are as follows:

	Millions of yen	
	2018	2019
Variable lease payments	30	23

(2) As Lessee**(i) Finance Leases**

The breakdown of finance lease obligations is as follows:

	Millions of yen			
	Minimum lease payments		Present value of minimum lease payments	
	2018	2019	2018	2019
Within 1 year	741	637	736	630
After 1 year but within 5 years	1,546	1,438	1,526	1,426
After 5 years	716	529	712	526
Total	3,003	2,604	2,974	2,582
Less: future interest expenses	(29)	(21)		
Present value of minimum lease payments	2,974	2,582		
Amount in the consolidated statement of financial position:				
Lease obligations (current)	736	630		
Lease obligations (non-current)	2,238	1,952		

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.

(ii) 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, 2018 and 2019, were ¥11,556 million and ¥12,094 million, respectively.

(iii) Non-cancelable Operating Leases

The breakdown of future minimum lease payments under non-cancelable operating leases by payment due dates is as follows:

	Millions of yen	
	Minimum lease payments	
	2018	2019
Within 1 year	2,827	2,581
After 1 year but within 5 years	4,036	2,755
After 5 years	179	105
Total	7,042	5,442

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.

Notes to Consolidated Financial Statements

18. Income Taxes**(1) Deferred Taxes**

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

	Millions of yen	
	2018	2019
Deferred tax assets:		
Unused tax losses	1,505	1,666
Impairment losses	4,810	3,686
Inventories	27,587	24,580
Accrued bonuses	3,611	3,799
Provision for product warranties	1,631	1,216
Net defined benefit liabilities	2,097	2,315
Depreciation and amortization	15,315	15,097
Others	22,881	23,562
Total deferred tax assets	79,437	75,919
Deferred tax liabilities:		
Equity instruments	(9,213)	(7,457)
Undistributed profits of foreign subsidiaries	(9,795)	(9,945)
Net defined benefit assets	(2,527)	(2,574)
Business combination	(3,324)	(3,132)
Others	(5,203)	(5,491)
Total deferred tax liabilities	(30,060)	(28,598)
Net deferred tax assets (liabilities)	49,377	47,321

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

	Millions of yen	
	2018	2019
Deferred tax assets	53,355	51,383
Deferred tax liabilities	3,978	4,063
Net deferred tax assets (liabilities)	49,377	47,321

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

	Millions of yen	
	2018	2019
Opening balance	57,689	49,377
Amount recognized in profit or loss	(5,926)	(4,450)
Amount recognized in other comprehensive income		
Remeasurement of defined benefit pension plans	(765)	371
Gain (loss) on financial assets measured at fair value through other comprehensive income	(2,789)	1,830
Share of other comprehensive income of investments accounted for using the equity method	7	(10)
Effective portion of the change in fair value on cash flow hedges	(138)	58
Others	1,299	145
Closing balance	49,377	47,321

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	
	2018	2019
Unused tax losses	8,152	7,368
Unused tax credits	258	—
Deductible temporary differences	55,760	55,266

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

	Millions of yen	
	2018	2019
1st year	—	—
2nd year	—	—
3rd year	—	—
4th year	—	—
5th year	1	2,279
After 5th year	8,151	5,089
Total	8,152	7,368

(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	
	2018	2019
Temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized	5,518	4,353

(3) Income Tax Expenses

The breakdown of income taxes is as follows:

	Millions of yen	
	2018	2019
Current tax expense	15,496	16,868
Deferred tax expense (benefit)	5,926	4,450
Total	21,422	21,318

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

Notes to Consolidated Financial Statements

(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.

	(%)	
	2018	2019
Statutory effective tax rate	30.9	30.6
Tax rate differences of consolidated subsidiaries	(3.6)	(1.8)
Research and development tax credits	(3.4)	(2.8)
Share of the profit of investments accounted for using the equity method	0.1	(0.6)
Impact of unrecognized deferred tax assets arising from unused tax losses or temporary differences	7.7	0.0
Changes in deferred tax liabilities related to undistributed profit of foreign subsidiaries	(0.6)	0.2
Reduction of the carrying amount of deferred tax assets at the end of fiscal year due to the change in the corporate tax rate	4.9	—
Reversal of deferred taxes due to expiry of unused foreign tax credits	0.3	0.0
Foreign withholding tax arising from dividends from foreign subsidiaries	1.0	0.4
Others	0.8	(1.8)
Actual effective tax rate	38.1	24.3

For the year ended March 31, 2018

On December 22, 2017, the "Tax Cuts and Jobs Act" 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 increased ¥2,226 million.

19. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen	
	2018	2019
Notes and accounts payable	107,765	90,927
Other payables	10,935	5,567
Total	118,701	96,493

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		Average interest rate (%) (Note 1)	Repayment deadline
	2018	2019		
Current				
Short-term borrowings	12,200	12,200	0.27	—
Current portion of long-term borrowings	—	2,200	0.64	—
Total	12,200	14,400		
Non-current				
Long-term borrowings	83,218	82,070	1.35	March 2021– July 2028
Bonds (Note 2)	29,921	29,940	—	—
Total	113,140	112,010		

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		Interest rate (%)	Collateral	Maturity
			2018	2019			
NIKON CORPORATION	19th unsecured bond	January 28, 2011	9,984	9,989	1.434	None	January 28, 2021
NIKON CORPORATION	20th unsecured bond	March 14, 2014	9,971	9,978	0.652	None	March 14, 2022
NIKON CORPORATION	21st unsecured bond	March 14, 2014	9,967	9,972	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.

Notes to Consolidated Financial Statements

21. Provisions

The details of changes in provisions are as follows:

	Millions of yen			
	Provision for product warranties	Asset retirement obligations	Others	Total
As of April 1, 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
Additions during the period	3,478	465	230	4,173
Decrease during the period due to settlement for intended purposes	(3,681)	(241)	(307)	(4,228)
Decrease during the period due to reversal	(1,007)	(17)	(8)	(1,033)
Effect of foreign currency exchange differences	(6)	4	(11)	(13)
As of March 31, 2019	5,287	5,081	195	10,563
Current liabilities	5,287	137	195	5,619
Non-current liabilities	—	4,944	—	4,944

22. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen	
	2018	2019
Derivative financial liabilities	855	330
Other payables	24,778	24,843
Lease obligations	2,974	2,582
Others	2,762	1,390
Total	31,369	29,146
Other current financial liabilities	28,879	27,006
Other non-current financial liabilities	2,490	2,140

23. Other Liabilities

The breakdown of other liabilities is as follows:

	Millions of yen	
	2018	2019
Accrued expenses	30,364	35,635
Accrued consumption tax	2,478	2,564
Others	4,716	3,270
Total	37,558	41,469
Other current liabilities	34,959	38,961
Other non-current liabilities	2,599	2,507

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.

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.

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.

(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.

1) Net Amount of Liability and Asset Presented in the Consolidated Statement of Financial Position

The relationship between net amount of defined benefit liabilities and assets presented in the consolidated statement of financial position and defined benefit obligations and plan assets is as follows:

	Millions of yen	
	2018	2019
Present value of defined benefit obligations	133,427	134,889
Fair value of plan assets	(138,068)	(136,441)
Subtotal	(4,640)	(1,552)
Impact of asset ceiling	4,080	2,778
Present value of defined benefit obligations of unfunded plans	2,849	2,707
Total	2,289	3,934
Carrying amounts presented in the consolidated statement of financial position		
Net defined benefit liabilities	7,995	9,031
Net defined benefit assets	(5,706)	(5,097)
Net liability or asset presented in the consolidated statement of financial position	2,289	3,934

2) Defined Benefit Obligations

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

	Millions of yen	
	2018	2019
Opening balance of present value of defined benefit obligations	141,635	136,277
Current service cost	3,409	3,282
Interest expenses	1,634	1,533
Remeasurement		
Actuarial gain or loss from changes in demographic assumptions	1,317	(20)
Actuarial gain or loss from changes in financial assumptions	359	2,517
Benefits paid	(12,327)	(6,728)
Past service cost	(57)	122
Effect of foreign currency exchange differences	(380)	417
Others	687	198
Closing balance of present value of defined benefit obligations	136,277	137,597

Note: The weighted average lifetime of the defined benefit obligations for the year ended March 31, 2018 and 2019 are 12.2 years and 13.0 years, respectively, and there is no significant bias in the distribution.

Notes to Consolidated Financial Statements

3) Plan Assets

(i) Movements in the fair value of plan assets

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

	Millions of yen	
	2018	2019
Opening balance of fair value of plan assets	141,762	138,068
Interest income	1,464	1,359
Remeasurement		
Return on plan assets other than interest income	3,169	(174)
Contributions by the employer	3,944	3,455
Benefits paid	(12,329)	(6,646)
Effect of foreign currency exchange differences	(295)	297
Others	353	83
Closing balance of fair value of plan assets	138,068	136,441

Note: The Group's funding policy to the defined benefit plans is based on various factors including the tax deductibility of contributions, the funded status of plan assets and actuarial calculations. The contribution for defined benefit plans over the next fiscal year is estimated at ¥2,323 million.

(ii) The asset ceiling

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

	Millions of yen	
	2018	2019
Opening balance	3,262	4,080
Changes in net plan assets due to the effect of the asset ceiling	818	(1,302)
Closing balance	4,080	2,778

(iii) Breakdown of the fair value of plan assets

The fair value of plan assets is as follows:

	Millions of yen			
	2018		2019	
	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	—	5,269	—	5,419
Shares (Japan)	—	21,200	—	18,491
Shares (Overseas)	7,970	18,704	8,231	18,755
Bonds (Japan)	—	41,558	—	42,301
Bonds (Overseas)	384	21,514	456	20,418
Alternatives	—	16,703	—	16,478
Others	368	4,398	326	5,568
Total	8,722	129,346	9,013	127,428

Note: The plan assets of investment in joint trust are classified as assets which do not have quoted prices in active markets.

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

(iv) Management of 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 the long-term stable earnings needed to maintain sound pension plan operation in the future.

In order to achieve the investment target, the Group periodically reviews the proportions of the strategic asset portfolio. For the review, the expected return, risk, and correlation coefficient of return rate for each investment are considered based on the result of Asset and Liability Management (ALM) analysis. Proportions are reviewed as necessary in cases where there are significant changes in the market and investment environment.

4) Significant Actuarial Assumption

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

	2018	2019
Discount rate	1.10%	1.04%

The following table is the sensitivity analysis of the impact on the present value of retirement benefit obligations when the discount rate used for the significant actuarial assumption changes, while all other assumptions are constant. For the year ended March 31, 2019, the methods and assumptions used in the sensitivity are same as the prior year.

		Millions of yen	
		2018	2019
Impact	When increased 0.5%	(8,410)	(8,368)
	When decreased 0.5%	8,954	9,279

(3) Defined Contribution Plans

The amounts of expenses incurred for defined contribution plans for the years ended March 31, 2018 and 2019 are ¥2,171 million and ¥2,172 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, 2018 and 2019 were ¥148,924 million and ¥146,375 million, respectively. Expenses related to salaries, bonuses, 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	
	2018	2019
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	4,675,654	4,655,476
Increase during the period	2,688	1,917
Decrease during the period	(22,866)	(37,346)
Closing balance	4,655,476	4,620,047

- 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, 2018 and 2019, respectively.
2. 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.
The increase in the number of treasury stocks of ordinary shares for the year ended March 31, 2019 of 1,917 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, 2018 of 22,866 shares is due to a decrease in shares less than one unit arising from a purchase request of 107 shares and a decrease of 22,800 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, 2019 of 37,346 shares is due to a decrease in shares less than one unit arising from a purchase request of 66 shares and a decrease of 37,200 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.

Notes to Consolidated Financial Statements

(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, 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
For the year ended March 31, 2019					
General meeting of shareholders held on June 28, 2018	Ordinary shares	8,730	22.00	March 31, 2018	June 29, 2018
Board of Directors' meeting held on November 8, 2018	Ordinary shares	11,904	30.00	September 30, 2018	December 3, 2018

- Notes: 1. The dividends approved according to the resolution of the general meeting of shareholders held on June 29, 2017 included the dividends for the shares held by the executive compensation BIP Trust of ¥2 million.
2. 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.
3. 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.
4. The dividends approved according to the resolution of the Board of Directors' meeting held on November 8, 2018 included the dividends for the shares held by the executive compensation BIP Trust of ¥17 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, 2019					
General meeting of shareholders held on June 27, 2019	Ordinary shares	11,905	30.00	March 31, 2019	June 28, 2019

- Note: The dividends approved according to the resolution of the general meeting of shareholders held on June 27, 2019 included the dividends for the shares held by the executive compensation BIP Trust of ¥17 million.

27. Revenue

(1) Disaggregation of Revenue

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 business segments are periodically reviewed by the Board of Directors to determine the distribution of management resources and evaluate business results, and revenue of these business units is presented as sales revenue.

The relationship between the disclosure of disaggregated revenue into geographic regions based on customer's location and revenue information that is disclosed for each reportable segment are as follows:

	Millions of yen				
	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total
For the year ended March 31, 2019					
Japan	34,929	13,123	8,506	35,711	92,270
United States	82,338	46,254	30,036	13,498	172,125
Europe	64,954	38,174	10,573	4,482	118,183
China	39,602	145,912	7,055	6,939	199,508
Others	74,346	31,078	9,264	11,888	126,575
Total	296,169	274,540	65,434	72,518	708,660
Revenue from contracts with customers	295,857	274,540	61,407	72,518	704,321
Revenue from its other sources (Note 2)	312	—	4,027	—	4,339

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. Revenue from other source includes revenue such as leases based on IAS_17.

1) Details of goods/services and satisfaction of performance obligations

(i) Sales of products

(Imaging Products Business)

The Imaging Products Business provides products for imaging and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses.

Regarding sales of products, revenue is recognized at the point when the product is delivered to the customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the Group is entitled to receive the payment of consideration from the customer.

(Precision Equipment Business)

The Precision Equipment Business provides products with regard to the FPD lithography system and semiconductor lithography system.

Regarding sales of products, for products that require installation by the Group, revenue is recognized at the point when the installation is completed according to the specification based on a contract at the customer's location after the product is delivered to the customer, as the customer obtains control over the products upon completion of installation and the performance obligation is deemed to be satisfied. In other words, as such data, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, the Group is entitled to receive the payment of consideration from the customer.

For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to the customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied.

In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the Group is entitled to receive the payment of consideration from the customer.

(Healthcare Business)

The Healthcare Business provides products for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices.

Regarding sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied.

In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the entity is entitled to receive the payment of consideration from the customer.

For products that require customer acceptance, revenue is recognized at the point when the product is accepted by the customer after the product is delivered to the customer, as the customer obtains control over the products upon acceptance, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks

Notes to Consolidated Financial Statements

and rewards of ownership of products have been transferred to the customer and the Group is entitled to receive the payment of consideration from the customer.

(Industrial Metrology and Others)

Industrial Metrology and Others provides products for the industrial metrology business, such as 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, and products for the glass business, such as photo-mask substrates, and products for customized product businesses such as space-related products, and products for the encoder business and others.

Regarding the sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the entity is entitled to receive the payment of consideration from the customer.

For products that require customer acceptance, revenue is recognized at the point when the product is accepted by the customer after the product is delivered to the customer, as the customer obtains control over the products upon acceptance, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the entity determines the Group is entitled to receive the payment of consideration from the customer.

(ii) Services

The Group renders services related to Group products, such as warranty, repair, and services related to FPD lithography systems and semiconductor lithography systems, such as relocation services. For services required to be accepted by a customer at the completion of said service, revenue is recognized at the point when the performance obligation is deemed to be satisfied. For services from which the customer can benefit over the period during which services are rendered, revenue is recognized on a straight-line basis or on progress over the period during which services are rendered as the performance obligation is deemed to be satisfied.

2) Determining the transaction price

When (or as) the Group satisfies a performance obligation, the Group recognizes revenue in the amount of transaction price allocated to the performance obligations. Transaction price may include fixed amounts, variable amounts, or both.

To determine the transaction price, the Group considers the terms of the contract and the customary business practice, such as the nature, timing and amount of consideration promised by the customer, and some amount of consideration promised by the customer may change.

The main transactions with variable amounts of consideration are rebates and discounts based on sales volume and sales amount, sales of products with a right of return, and expenses, such as sales promotion expenses provided to end users for sales of the Group's products. Estimates of these variable considerations are deducted from revenue.

Estimated rebates and discounts based on sales volume and sales amount are recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur by using the method of the most likely amount based on past information.

For sales of products with a right of return, refund liabilities estimated by considering past information are deducted from revenue.

The right to recover products from a customer on settling a refund is recognized as assets by reference to the former carrying amount of the product less any expected costs to recover those products.

For expenses such as sales promotion expenses provided to end users for sales of the Group products, the consideration is deducted from revenue when the Group pays the amount of consideration to the customers and cannot estimate the fair value.

If a warranty or a service-type warranty in addition to the assurance-type warranty is provided to a customer, the warranty is determined as a performance obligation, and revenue is recognized by allocating the transaction price.

3) Payment terms

The Group receives payment within a short period of time after satisfying its performance obligation under separately determined payment terms. The period from satisfaction of the performance obligation to receipt consideration is usually within one year or less. As a practical expedient, The Group does not adjust the promised amount of consideration for the effects of a significant financing component for receivables.

If the Group receives the payment of consideration according to a contract before satisfying the performance obligation, advances received are recognized.

(2) Contract Balances

The balances of receivables arising from an entity's contracts with customers and advances received are as follows:

	Millions of yen	
	2018	2019
Receivables arising from an entity's contracts with customers	93,146	85,243
Advances received	176,631	192,862

For significant changes in advances received during the year ended March 31, 2019, the amount increased ¥315,951 million by receipt of cash based on contracts, and decreased ¥300,804 million by revenue recognition. The amount of revenue recognized from advances received which existed at the beginning of the period was ¥143,598 million.

The amount of revenue recognized in the reporting period from performance obligations satisfied in previous periods is not material.

(3) Transaction Price Allocated to Remaining Performance Obligations

The transaction price allocated to performance obligations that were unsatisfied (or partially unsatisfied) was ¥448,545 million for the year ended March 31, 2019. These performance obligations will be recognized as revenue within three years. As a practical expedient, the amount does not include transactions, for the original expected term of the contract is one year or less. There are also no significant amounts that are not included in transaction prices in the consideration from contracts with customers.

28. Selling, General and Administrative Expenses

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

	Millions of yen	
	2018	2019
Depreciation and amortization	13,402	11,638
Research and development expenses	58,655	62,424
Employee benefit expenses	58,588	59,003
Advertising and sales promotion expenses	42,807	30,049
Others	75,231	75,447
Total	248,683	238,561

29. Other Income and Expenses

(1) Other Income

The breakdown of other income is as follows:

	Millions of yen	
	2018	2019
Income from insurance	875	804
Grant income	227	512
Income from rents	221	217
Gain on sales of non-current assets	364	135
Settlement income from legal proceedings over patents (Note 1)	—	18,740
Others	2,026	1,504
Total	3,714	21,912

Notes to Consolidated Financial Statements

(2) Other Expenses

The breakdown of other expenses is as follows:

	Millions of yen	
	2018	2019
Impairment losses (Note 2)	604	991
Loss on sales of non-current assets	245	26
Restructuring costs (Notes 2, 3 and 4)	8,732	1,841
Others	2,121	1,249
Total	11,702	4,107

Notes: 1. For the year ended March 31, 2019, settlement income from legal proceedings over patents was recorded in the Semiconductor Lithography Business.

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

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 (*) from Nikon Metrology NV, a subsidiary located in Belgium.

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

(*) CMM Business: Development, manufacture, sales, and services of Coordinate Measuring Machines.

4. Restructuring costs for the year ended March 31, 2019 are as follows:

As the final year of the restructuring announced in November 2016, the Group has been carrying out measures to promote portfolio based management and to enhance management DNA such as reducing fixed costs, in order to create corporate value consistently. For the year ended March 31, 2019, the Group has decided to withdraw from products with low profitability in the Industrial Metrology Business and has completed the liquidation of Nikon Do Brasil Ltda., a sales subsidiary in Brazil.

Breakdown	Millions of yen
Inventory write-downs	583
Cumulative translation differences reclassified to profit or loss due to the liquidation of a foreign subsidiary	545
Expenses of transferring manufacturing equipment	507
Others	206
Total	1,841

30. Finance Income and Finance Costs

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

	Millions of yen	
	2018	2019
Finance income:		
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note 1)	2,132	2,089
Interest income		
Financial assets measured at amortized cost	2,263	2,997
Gain on remeasurement of derivatives (Note 2)	—	1,216
Others	2,140	1,032
Total	6,535	7,333
Finance costs:		
Interest costs		
Financial liabilities measured at amortized cost	1,440	1,515
Foreign exchange losses	3,829	1,986
Loss on remeasurement of derivatives (Note 2)	662	—
Others	363	332
Total	6,295	3,833

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, 2018 and 2019 were ¥83 million and ¥12 million, respectively. With respect to financial assets measured at fair value through other comprehensive income, please see Note 10. Other Financial Assets.

2. Gain (loss) on remeasurement of derivatives was recognized in respect of foreign currency forward contracts, interest rate and currency swaps, 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:

	2018	2019
Basis for the calculation of basic earnings per share		
Profit for the year attributable to owners of the parent (Millions of yen)	34,772	66,513
Profit not attributable to ordinary equity stockholders of the parent (Millions of yen)	—	—
Profit for the year used in the calculation of basic earnings per share (Millions of yen)	34,772	66,513
Weighted average number of ordinary shares outstanding during the period (Thousands of shares)	396,213	396,235
Basic earnings per share (Yen)	87.76	167.86
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)	34,772	66,513
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)	34,772	66,513
Weighted average number of ordinary shares outstanding during the period (Thousands of shares)	396,213	396,235
Increase in number of ordinary shares in respect of stock options (Thousands of shares)	1,232	1,325
Weighted average number of dilutive ordinary shares outstanding during the period (Thousands of shares)	397,445	397,561
Diluted earnings per share (Yen)	87.49	167.30
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, 2018 and 2019, 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, 2018 and 2019, including the reclassifications and the impact of deferred tax is as follows:

	2018	2019
		Millions of yen
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	8,825	(6,421)
Deferred tax	(2,789)	1,830
After deferred tax adjustment	6,036	(4,591)
Remeasurement of defined benefit pension plans		
Amount arising during the period	570	(1,369)
Deferred tax	(765)	371
After deferred tax adjustment	(196)	(999)
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	(22)	34
Deferred tax	7	(10)
After deferred tax adjustment	(16)	24
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations		
Amount arising during the period	1,635	2,124
Reclassification adjustments	—	545
Effective portion of changes in the fair value of cash flow hedges		
Amount arising during the period	(1,121)	325
Reclassification adjustments	1,589	(530)
Before deferred tax adjustment	468	(205)
Deferred tax	(138)	58
After deferred tax adjustment	330	(147)
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	(249)	(32)
Total other comprehensive income (loss)	7,540	(3,076)

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, 2018

	Millions of yen							As of March 31, 2018
	As of April 1, 2017	Cash flows	Acquisition	Non-cash changes			Others	
				Newly recog- nized lease contracts	Foreign exchange movement	Fair value changes		
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" 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, 2019

	Millions of yen							As of March 31, 2019
	As of April 1, 2018	Cash flows	Acquisition	Non-cash changes			Others	
				Newly recog- nized lease contracts	Foreign exchange movement	Fair value changes		
Bonds and borrowings (Note)	125,340	(50)	50	—	1,032	—	38	126,410
Lease obligations	2,974	(798)	—	407	(0)	—	—	2,582
Derivative financial assets	(936)	—	—	—	—	(785)	—	(1,721)

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" and "Repayment of long-term borrowings and bonds" under the consolidated statement of cash flows.

"Others" includes items such as interest expenses.

Notes to Consolidated Financial Statements

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, 2018 and 2019 are 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
16	121,800	Apr 23, 2018	Apr 23, 2048	1	1,644

(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:

	2018	2019
	No.15	No.16
Share price at the date of grant (Yen)	1,907	1,897
Exercise price (Yen)	1	1
Expected volatility (%)	40.064	39.075
Expected remaining option life (Years)	15	15
Expected dividends yield (Yen)	16	18
Risk-free rate (%)	0.299	0.278

(iii) Number of stock options and average exercise prices

Details of stock options are as follows:

	2018		2019	
	Number of options (Shares)	Weighted average exercise price (Yen)	Number of options (Shares)	Weighted average exercise price (Yen)
Opening outstanding balance	1,152,200	1	1,244,900	1
Granted during the period	115,500	1	121,800	1
Forfeited or expired during the period	—	—	27,900	1
Exercised during the period	22,800	1	37,200	1
Ending outstanding balance	1,244,900	1	1,301,600	1
Exercisable outstanding options at the end of the years	1,244,900	1	1,301,600	1

Stock options exercised during the year ended March 31, 2018 are 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

Stock options exercised during the year ended March 31, 2019 are as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
5	6,200	April 1, 2018 to March 31, 2019	1,849
6	11,100	April 1, 2018 to March 31, 2019	1,732
7	3,900	April 1, 2018 to March 31, 2019	1,627
8	1,900	April 1, 2018 to March 31, 2019	1,599
9	1,500	April 1, 2018 to March 31, 2019	1,583
12	3,800	April 1, 2018 to March 31, 2019	2,146
13	4,700	April 1, 2018 to March 31, 2019	2,146
14	4,100	April 1, 2018 to March 31, 2019	2,146
Total	37,200		1,869

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.

The exercise price of the outstanding options for the year ended March 31, 2019 was ¥1. The weighted average remaining option life for the year ended March 31, 2019 was 25.2 years.

(2) Performance- and Share-based Payment Scheme

The performance- and share-based payment scheme is the 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 BIP 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 2015 and thereafter engaged in the restructuring up to the year ended March 31, 2019, which resulted in that the performance- and share-based payment was not granted.

(3) Share-based Compensation Expenses

	Millions of yen	
	2018	2019
Stock option share-based payment	206	202
Performance- and share-based payment	—	—
Total	206	202

Share-based compensation expenses are included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

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 return on equity (ROE) (ROE attributable to owners of the parent) targets as its key performance indicator and pursuing capital efficiency.

	2018	2019
ROE	6.3	11.2

[%]

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:

	2018	2019
		Millions of yen
Financial assets:		
Cash and cash equivalents (Note 7)	388,438	411,055
Financial assets measured at amortized cost		
Trade and other receivables (Note 8)	104,526	115,847
Other financial assets (Note 10)	14,008	6,163
Financial assets measured at fair value through profit or loss		
Other financial assets (Note 10)	14,951	16,928
Financial assets measured at fair value through other comprehensive income		
Other financial assets (Note 10)	73,840	71,318
Total	595,763	621,310
Financial liabilities:		
Financial liabilities measured at amortized cost		
Trade and other payables (Note 19)	118,701	96,493
Bonds and borrowings (Note 20)	125,340	126,410
Other financial liabilities (Note 22)	30,514	28,815
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities (Note 22)	633	111
Financial liabilities measured at fair value through other comprehensive income		
Other financial liabilities (Note 22)	222	219
Total	275,409	252,049

(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	
	2018	2019	2018	2019
Profit before income taxes	(233)	(75)	47	18
Other comprehensive income before deferred tax adjustment	7	(40)	139	77

b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

	Millions of yen					
	2018			2019		
	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	15,160	—	380	10,894	—	14
EUR	6,778	—	69	24,114	—	112
Others	8,092	—	26	4,222	—	(29)
Long position						
USD	13,904	—	(548)	5,957	—	36
Others	—	—	—	1,143	—	4
Total	43,934	—	(73)	46,329	—	136

Notes to Consolidated Financial Statements

Derivative transactions accounted for using hedge accounting

	Millions of yen					
	2018			2019		
	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	14,179	—	316	7,903	—	234
Others	5,150	—	22	3,851	—	(29)
Long position						
GBP	577	—	27	669	—	(9)
Total	20,679	—	404	12,422	—	196

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.

(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					
	2018			2019		
	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	936	22,952	22,952	1,721
Total	22,952	22,952	936	22,952	22,952	1,721

Derivative transactions accounted for using hedge accounting

	Millions of yen					
	2018			2019		
	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	(167)	5,300	5,300	(164)
Total	5,300	5,300	(167)	5,300	5,300	(164)

(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, 2018 and 2019, assuming a 5% change in the stock price, other comprehensive income before deferred tax adjustments would fluctuate ¥3,584 million and ¥3,234 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 receivable, accounts receivable, lease receivables, and other receivables.

Trade receivables, including notes and accounts receivable and lease receivables, 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, in addition to accepting advances and utilizing transaction credit insurance according to the nature of transaction contents, trade size, and the creditworthiness of customers so as to mitigate credit risk.

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. 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 their expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets	Total
As of March 31, 2018	101,435	1,275	102,711
As of March 31, 2019	95,496	1,284	96,780

The financial assets above include notes and accounts receivable and lease receivables.

Other receivables are financial assets of which allowance for doubtful accounts are measured based on 12-months expected credit losses. The balance of other receivables as of March 31, 2018 and 2019 were ¥3,319 million and ¥20,654 million, respectively.

Notes to Consolidated Financial Statements

Other financial assets

Carrying amount	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts			Total
	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 their expected lifetime as allowance for doubtful accounts		
		Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of March 31, 2018	116	10	—	125
As of March 31, 2019	125	6	—	131

Millions of yen

(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

Allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts			Total
	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets		
As of April 1, 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	
Increase during the period	45	368	413	
Decrease during the period due to settlement for intended purposes	(3)	(228)	(231)	
Decrease during the period due to reversal	(8)	(140)	(148)	
Exchange differences on translation of foreign operations	14	34	48	
As of March 31, 2019	357	1,230	1,587	

Millions of yen

The allowance for doubtful accounts above are related to notes and accounts receivable and lease receivables.

There was no allowance of doubtful accounts of other receivables as of March 31, 2018 and 2019.

Other financial assets

Allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts			Total
	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 their expected lifetime as allowance for doubtful accounts		
		Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of April 1, 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
Increase during the period	—	—	—	—
Decrease during the period due to settlement for intended purposes	—	—	—	—
Decrease during the period due to reversal	—	(3)	—	(3)
Exchange differences on translation of foreign operations	—	—	—	—
As of March 31, 2019	—	6	—	6

Millions of yen

(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, 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
As of March 31, 2019					
Non-derivative financial liabilities					
Long-term borrowings (including current portion)	84,270	89,120	3,295	31,141	54,683
Bonds (including current portion)	29,940	30,883	295	30,588	—
Short-term borrowings	12,200	12,233	12,233	—	—
Lease obligations	2,582	2,604	637	1,438	529
Trade and other payables	96,493	96,493	96,493	—	—
Derivative financial liabilities					
Derivative liabilities	330	330	166	164	—

Amounts of gross commitment lines of credit and balances of used borrowings as of March 31, 2018 and 2019 are as follows:

	Millions of yen	
	2018	2019
Gross commitment lines of credit	50,500	50,500
Balances of used borrowing	—	—
Unused balances	50,500	50,500

Notes to Consolidated Financial Statements

(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, 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

	Millions of yen			
As of March 31, 2019	Level 1	Level 2	Level 3	Total
Derivatives	—	2,219	—	2,219
Shares	64,669	17	11,162	75,848
Others	—	774	9,404	10,178
Total assets	64,669	3,010	20,566	88,245
Derivatives	—	330	—	330
Total liabilities	—	330	—	330

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, 2018 and 2019 measured at fair value on a recurring basis using Level 3 inputs were as follows:

	Millions of yen	
	2018	2019
Opening balance	9,306	14,461
Total gain or loss		
In profit or loss (Note 1)	664	(167)
In other comprehensive income (Note 2)	(262)	(33)
Purchases	6,186	6,281
Disposals or Settlements	(1,320)	(12)
Effects of exchange rate fluctuations	(54)	36
Transfer out of Level 3 to other categories (Note 3)	(60)	—
Closing balance	14,461	20,566

- 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, 2018 and 2019 were due to certain shares acquired additionally and transferred from other financial assets to investments accounted for using the equity method.

2) Financial Instruments Measured at Amortized Cost

The carrying amount and the fair value of those financial instruments are as follows:

	Millions of yen			
	2018		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	29,921	30,895	29,940	30,747
Long-term borrowings	83,218	83,927	84,270	85,412
Total	113,140	114,822	114,210	116,159

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.

Notes to Consolidated Financial Statements

36. Related Party Transactions

(1) Related Party Transactions and Outstanding Balances

For the year ended March 31, 2018

Not applicable.

For the year ended March 31, 2019

Not applicable.

(2) Key Management Personnel Remuneration

Key management personnel remuneration is as follows:

	2018	2019
Basic remuneration and bonuses	462	479
Share-based stock options	94	85
Total	556	564

Millions of yen

37. Subsidiaries and Associates

Regarding the material subsidiaries and associates of the Group as of March 31, 2019, 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:

	2018	2019
Employees (for their mortgage loans and others)	200	149
Total	200	149

Millions of yen

(2) Litigation

For the year ended March 31, 2019

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, 2019 to June 27, 2019.

The Company resolved at the meeting of its Board of Directors held on May 9, 2019 to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan as applied pursuant to Article 165, Paragraph 3.

1. Reason for the repurchase of own shares

The Company decided to repurchase its own shares to enhance shareholder returns, while improving capital efficiency and ensuring a flexible capital policy.

2. Details of the repurchase

- 1) Class of shares to be repurchased: Common stock
- 2) Total number of shares to be repurchased: Up to 8.0 million shares (Equivalent to 2.0% of outstanding shares (excluding treasury stock))
- 3) Total repurchase amount: Up to 10 billion yen
- 4) Repurchase period: From May 10, 2019 to June 30, 2019
- 5) Method of repurchase: Open market purchase through the Tokyo Stock Exchange based on a discretionary trading contract

Pursuant to the resolution approved at the above-mentioned Board of Directors meeting, the Company completed the repurchase of own shares from May 10, 2019 to June 20, 2019.

The Company repurchased 6,667,200 shares on the market for 9,999,971,600 yen.

Appendix

Information on Subsidiaries and Associates

Company name	Location	Main business	Voting right ownership (%)
[Consolidated Group companies]			
Tochigi Nikon Corporation	Japan	Manufacture of interchangeable lenses, optical lenses and optical components	100.0
Tochigi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD/semiconductor lithography systems	100.0
Sendai Nikon Corporation	Japan	Manufacture of cameras	100.0
Miyagi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD/semiconductor lithography systems	100.0
Nikon Tec Corporation	Japan	Sales of used equipment and maintenance service for FPD/semiconductor lithography systems	100.0
Nikon Imaging Japan Inc.	Japan	Sales and servicing of cameras	100.0
Nikon Instech Co., Ltd.	Japan	Sales, maintenance and servicing of microscopes, measuring instruments and X-ray/CT inspection systems	100.0
Nikon Vision Co., Ltd.	Japan	Development, manufacture, sales and servicing of sport optics products	100.0
Nikon Systems Inc.	Japan	Development and support of computer software	100.0
Nikon Business Service Co., Ltd.	Japan	Employee welfare activities, procurement and logistics	100.0
Nikon CeLL innovation Co., Ltd.	Japan	Development, manufacturing and testing services for cell-based therapeutics	100.0
Hikari Glass Co., Ltd.	Japan	Manufacture and sales of optical glass and molded optical glass	100.0
Nikon Precision Inc.	U.S.A.	Import, sales, maintenance and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Inc.	U.S.A.	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Instruments Inc.	U.S.A.	Import, sales, maintenance and servicing of microscopes	100.0 (100.0)
Nikon Americas Inc.	U.S.A.	Centralized supply, administration and management of funds of affiliates in the United States	100.0
Nikon Canada Inc.	Canada	Import, sales and servicing of cameras and microscopes	100.0
Nikon Precision Europe GmbH	Germany	Maintenance and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Europe B.V.	The Netherlands	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Instruments Europe B.V.	The Netherlands	Import, sales, maintenance and servicing of microscopes	100.0 (100.0)
Nikon U.K. Ltd.	United Kingdom	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon France S.A.S.	France	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon GmbH	Germany	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon CEE GmbH	Austria	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon Metrology NV	Belgium	Management of group companies in Americas and Europe for Industrial Metrology	100.0
Nikon Holdings Europe B.V.	The Netherlands	Centralized supply, administration and management of funds of affiliates in Europe	100.0
Nikon (Russia) LLC.	Russian Federation	Import, sales and servicing of cameras	100.0 (100.0)
Optos Plc	United Kingdom	Manufacture, sales and servicing of ultra-wide field retinal imaging device	100.0
Nikon Hong Kong Ltd.	China	Import, sales and servicing of cameras	100.0 (100.0)

Company name	Location	Main business	Voting right ownership (%)
Nikon Holdings Hong Kong Limited	China	Promotion of CSR and Internal Audit to affiliates in Asia and Oceania	100.0
Nikon Singapore Pte. Ltd.	Singapore	Import, sales and servicing of cameras, microscopes and measuring instruments	100.0 (1.4)
Nikon Australia Pty Ltd.	Australia	Import, sales and servicing of cameras	100.0 (100.0)
Nikon India Pvt Ltd.	India	Import, sales and servicing of cameras, and maintenance and servicing of measuring instruments	100.0 (100.0)
Nikon (Thailand) Co., Ltd.	Thailand	Manufacture of cameras, interchangeable lenses, and camera components	100.0
Nikon Precision Korea Ltd.	South Korea	Maintenance and servicing of FPD/semiconductor lithography systems	100.0
Nikon Imaging Korea Co., Ltd.	South Korea	Import, sales and servicing of cameras	100.0
Nikon Precision Taiwan Ltd.	R.O.C	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (10.0)
Nikon Imaging (China) Sales Co., Ltd.	China	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Precision Shanghai Co., Ltd.	China	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (100.0)
Nikon Lao Co., Ltd.	Lao P.D.R.	Assembly of camera units	100.0 (100.0)
Nikon Middle East FZE	UAE	Import, sales and servicing of cameras	100.0 (100.0)
Others (40 Companies)			
(Investments accounted for using the equity method)			
Nikon-Essilor Co., Ltd.	Japan	Development, manufacture, sales and servicing of ophthalmic lenses	50.0
Nikon-Trimble Co., Ltd.	Japan	Development, manufacture, sales and servicing of surveying instruments	50.0
Others (14 Companies)			

Note: The percentages in parentheses under "Voting right ownership (%)" indicate the indirect ownership out of total ownership noted above.

Independent Auditor's Report



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Fax: +81 (3) 6213 1005
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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, 2019, 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, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

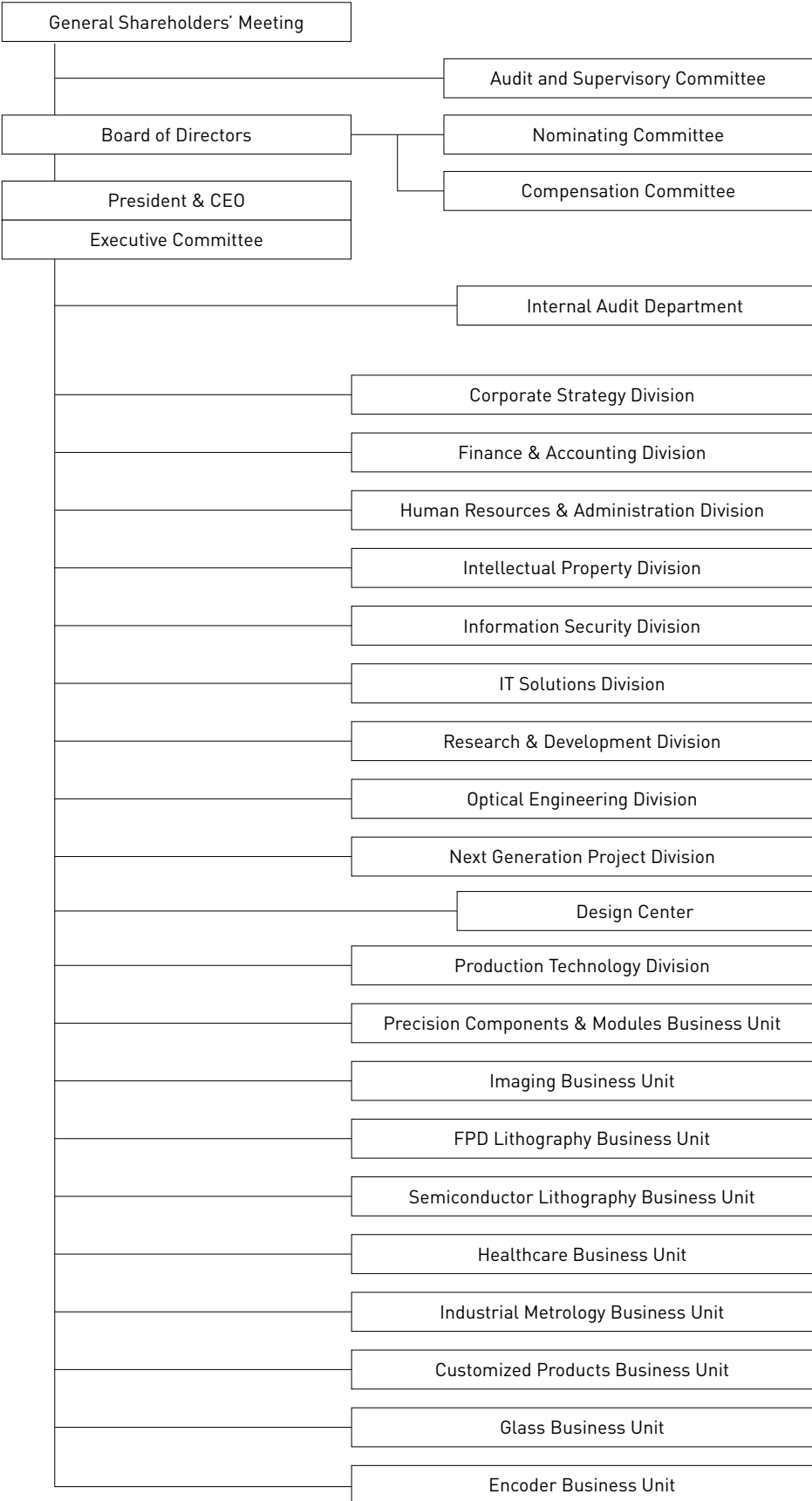
Deloitte Touche Tohmatsu LLC

June 27, 2019

Member of
Deloitte Touche Tohmatsu Limited

Organization of the Nikon Group

[As of July 1, 2019]



Corporate Data / Investor Information

[As of March 31, 2019]

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

20,917 (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

30,089

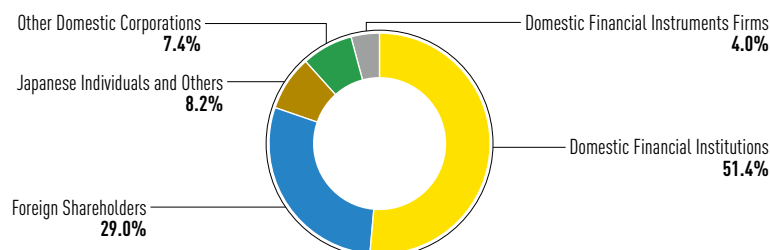
Financial Instruments Exchange Listing

Tokyo Stock Exchange
(Ticket Symbol: 7731)

Share Registrar

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku,
Tokyo 100-8212, Japan

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)	45,672	11.5
Japan Trustee Services Bank, Ltd. (Trust Account)	31,378	7.9
Meiji Yasuda Life Insurance Company	19,537	4.9
MUFG Bank, Ltd.	7,378	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,836	1.7
The Joyo Bank, Ltd.	6,801	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,267	1.6
Mitsubishi UFJ Trust and Banking Corporation	5,481	1.4
JPMorgan Securities Japan Co., Ltd.	5,455	1.4
JP MORGAN CHASE BANK 385151	5,403	1.4

Note: The ratio of shareholding is calculated by deducting treasury stock of 4,043,147 shares.
Displayed amounts are rounded to the unit indicated.

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

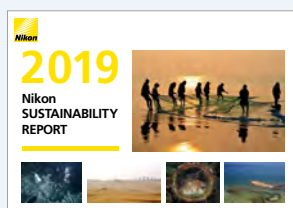
Please refer to the Nikon website for a variety of additional information, including investor relations information and sustainability reports.

Investor Relations

<https://www.nikon.com/about/ir/>

Sustainability

<https://www.nikon.com/about/sustainability/>

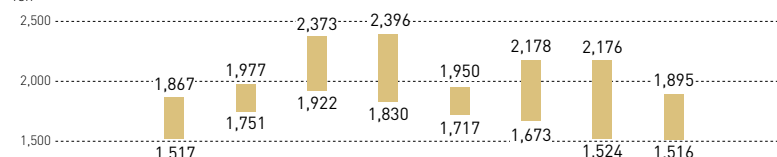


Sustainability Report 2019

Stock Price Range and Trading Volume

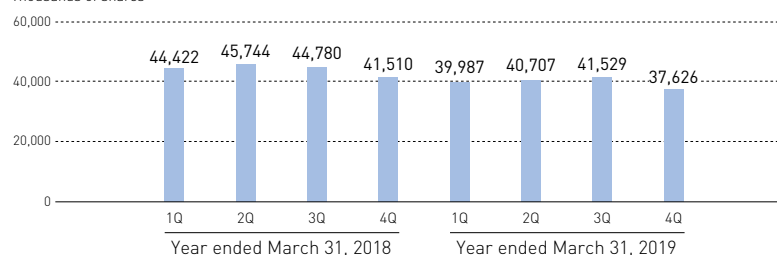
Stock Price

Yen



Trading Volume*


Thousands of shares



* Trading volume is the average of monthly performance.

Independent Practitioner's Assurance / ESG External Ratings

Independent Practitioner's Assurance of Non-Financial Data



Deloitte
デロイト トーマツ

Independent Practitioner's Assurance Report

To the Representative Director, President and CEO of Nikon Corporation

We have undertaken a limited assurance engagement of the non-financial data indicated with ★ for the year ended March 31, 2019 (the "Non-Financial Data") included in the "Nikon Report 2019" of Nikon Corporation (the "Company").

The Company's Responsibility
The Company is responsible for the preparation of the Non-Financial Data in accordance with the calculation and reporting standard adopted by the Company (indicated with the Non-Financial Data). CO₂ 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 Non-Financial 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 Non-Financial 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 6, 2019

Member of
Deloitte Touche Tohmatsu Limited

Assurance Scope

- CO₂ Emissions from Energy Consumption: Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan
- Energy Consumption: Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan
- Water Use and Discharge: Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan
- Waste Generation: Nikon Corporation, Group companies in Japan, and Group manufacturing companies outside Japan
- Frequency Rate of Lost Time Accidents: Nikon Corporation and Group companies in Japan

Period of Assurance

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Boundary of In-Scope Data Collection

I-IV shown in "Boundary of the Nikon Group's Environmental Management Systems and Environmental Performance Data" on page 51 of *Sustainability Report 2019* for environment-related data. Nikon and 24 Group companies in Japan, including non-consolidated Group companies for labor-related data.

ESG External Ratings

Dow Jones Sustainability Indices
"DJSI World" and "DJSI Asia Pacific"



Euronext Vigeo World 120 Index



SNAM Sustainability Index



FTSE4 Good Index Series



FTSE Blossom Japan Index



ECPI Indices



MSCI ESG Leaders Indexes*



MSCI Japan ESG Select Leaders Indexes*



S&P/JPX Carbon Efficient Index

S&P Japan 500 ESG index

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