

Corporate Governance



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

The Nikon Group will strive to achieve sustainable growth and enhancement of its corporate value over the medium to long term 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.

Measures for Enhancing Corporate Governance

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017 (Launch of the restructuring)	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019 (Completion of the restructuring)	Fiscal year ended March 31, 2020 (New Medium-Term Management Plan announced)	Fiscal year ending March 31, 2021
Increase of Board of Directors' diversity, strengthening of supervisory function over management		<ul style="list-style-type: none"> Transition to a company with an Audit and Supervisory Committee 	<ul style="list-style-type: none"> Increase in ratio of external directors 29% (4/14 directors) → 36% (4/11 directors) Start of evaluation of Board of Directors' effectiveness 		<ul style="list-style-type: none"> Increase in ratio of external directors 36% (4/11 directors) → 42% (5/12 directors) Increase of Board of Directors' diversity Establishment of Nominating Committee (appointment of external director as chairperson) Separation of representative director and chairman of the Board from the position of officer Appointment of external director as chairperson of Compensation Committee Formulation of criteria for the election and removal of directors and officers Formulation of succession plan for president 	<ul style="list-style-type: none"> Increase in ratio of external directors 42% (5/12 directors) → 45% (5/11 directors) Increase of Board of Directors' diversity Separation of position of chairman of the Board and representative director (Strengthening of supervisory function over management) Commencement of implementation of succession plan for president
Responsibilities toward management (Compensation)	<ul style="list-style-type: none"> Revision of executive compensation system to increase link to performance (introduction of performance-based stock remuneration linked to the Medium-Term Management Plan) 	<ul style="list-style-type: none"> Freezing of performance-based stock remuneration following start of restructuring after discontinuation of Medium-Term Management Plan 	<ul style="list-style-type: none"> Revision of executive compensation system emphasizing capital efficiency 		<ul style="list-style-type: none"> Resumption of performance-based stock remuneration in tandem with new Medium-Term Management Plan announcement 	

Corporate Governance

CLOSE-UP Recent Corporate Governance Enhancement Initiatives

1. Establishment of Nominating Committee

Role and Position

In May 2019, the Company established the 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 chief executive officer, 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.

Major Matters Discussed

- Formulation of criteria for the election and removal of the chief executive officer, president, and directors and nomination of candidates
- Consideration of ideal composition of Board of Directors
- Verification of appropriateness of matters pertaining to evaluation and assignment of officers
- Formulation of succession plan for president

■ Establishment of Succession Plan for President

The succession plan for the president includes the following provisions:

- 1** Linkage of Medium-Term Management Plan cycle and succession plan cycle
 - ▶ Reinforcement of president's commitment to the Medium-Term Management Plan
 - ▶ Facilitation of smooth transition to new Medium-Term Management Plan under leadership of new president
- 2** Designation of selection, cultivation, evaluation, and final proposal of successor candidates to Nominating Committee as mission of current president
- 3** Nomination of final candidate and proposal to Board of Directors by Nominating Committee after it has monitored the process of candidate cultivation

■ Increase of Board of Directors' Diversity

Nikon continues to increase the diversity of its Board of Directors. In June 2020, the Company appointed its first female director (external director and Audit and Supervisory Committee member), raising the ratio of external directors from 42% to 45%.

2. Increase in Link Between Executive Compensation and Performance

Nikon seeks to furnish executive compensation systems that motivate executives to sustainably improve corporate and shareholder value, enhance their willingness and morale, and help keep, cultivate, and reward excellent personnel.

Performance-based stock remuneration was introduced in 2015 before it was frozen in 2016 in conjunction with the launch of restructuring. This form of compensation was later resumed when the new Medium-Term Management Plan was announced in 2019.

As a result, executive compensation at Nikon currently comprises fixed monthly compensation as well as bonuses, stock options, performance-based stock remuneration, and other performance-based compensation. The ratio of performance-based compensation is dependent on an executive's position and duties and exceeds 50% of total compensation for certain position and duties.

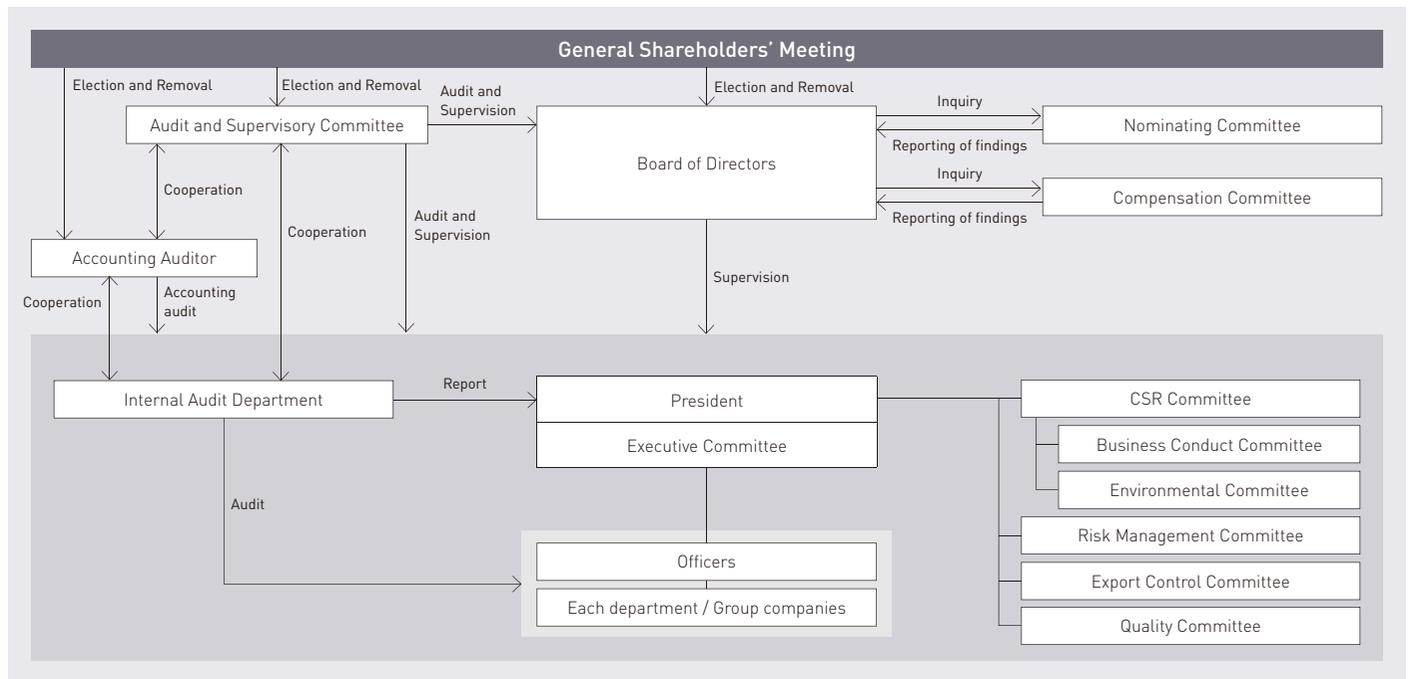
	Monthly compensation (fixed)	Ratio of performance-based compensation
President	1	57%
Executive vice presidents and senior vice presidents	1	51%
Corporate vice presidents	1	44%

Corporate Governance

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 26, 2020)



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.

- The candidate serves or served the Group in the past.
- The candidate is a "major client or supplier"* of the Company or an executive thereof.
- The candidate is a major shareholder of the Company or an executive of said major shareholder.
- The candidate served in the past at a company whose directors are concurrently serving as external directors of the Company and vice versa.
- 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.
- 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 yen, 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 yen, 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 yen per year (average over the past three fiscal years)

Corporate Governance

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.
Shigeru Murayama	Shigeru Murayama served as Representative Director of Kawasaki Heavy Industries, Inc. 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.

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

Name	Reasons for Appointment
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.
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 and that he can also contribute to securing the soundness and appropriateness of the Company's management as well as to the enhancement of its transparency.
Asako Yamagami	Asako Yamagami has work experience as an in-house lawyer and possesses expertise and experience as a lawyer regarding compliance and other matters. We believe that she will be able to contribute to securing the soundness and appropriateness of the Company's management as well as to the enhancement of its transparency.

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, 2019) as well as the issues identified in this evaluation (for the fiscal year ended March 31, 2020) 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, meeting 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>Efforts to Address Issues Identified in Previous Evaluation</p> <ul style="list-style-type: none"> Initiation of governance reforms Established the Nominating Committee in May 2019 to formulate criteria for the election and removal of directors and officers and a succession plan for the president Strengthening of supervisory functions of independent external directors Increased the diversity of the Board of Directors and enhanced its supervisory functions (ratio of external directors increased to 45% in June 2020) Strengthening of secretariat function of the Board of Directors Strengthened collaboration between the secretariat and executive departments and promoted timely and accurate information disclosure
Main Issues Identified in This Evaluation and Future Response	<ul style="list-style-type: none"> Monitor progress of Medium-Term Management Plan and growth strategies Strengthening of progress monitoring of Medium-Term Management Plan and invigoration of discussion on growth strategies Commence full-fledged implementation of succession plan Full-fledged implementation of succession plan for the president, spearheaded by the Nominating Committee Strengthen secretariat function of the Board of Directors Increase of volume and quality of information provided to external directors to support enhancement of discussion at meetings of the Board of Directors

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

Corporate Governance

Compensation of Directors and Officers

Compensation for Directors (Fiscal year ended March 31, 2020)

Category		Directors other than those who are Audit and Supervisory Committee members (of which External Directors)	Directors who are Audit and Supervisory Committee members (of which External Directors)	Total	
Fixed compensation	Fixed monthly compensation	Number of persons	8 (2)	5 (3)	13 (5)
		Amount of compensation (million yen)	294 (26)	104 (45)	398 (71)
Performance-based compensation	Bonuses	Number of persons	5 (—)	—	5 (—)
		Amount of compensation (million yen)	21 (—)	—	21 (—)
	Performance-based stock remuneration	Number of persons	5 (—)	—	5 (—)
		Amount of compensation (million yen)	99 (—)	—	99 (—)
Stock compensation	Subscription rights to shares granted as stock-related compensation	Number of persons	5 (—)	—	5 (—)
		Amount of compensation (million yen)	101 (—)	—	101 (—)
Total		Number of persons	8 (2)	5 (3)	13 (5)
		Amount of compensation (million yen)	514 (26)	104 (45)	619 (71)

* The number of persons and the amount of compensation pertaining to fixed compensation/fixed monthly compensation and total shown above include one director who is not an Audit and Supervisory Committee member (who is not an external director) who retired at the conclusion of the 155th Annual General Shareholders' Meeting held on June 27, 2019 and the amount of compensation pertaining to the said director.

* The amount of performance-based stock remuneration shown above indicates the amount of performance-based stock remuneration for directors other than those who are Audit and Supervisory Committee members (excluding non-executive directors) recorded as provisions of reserve during the fiscal year.

* 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 comprises the following components. 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> <ul style="list-style-type: none"> Bonuses This monetary compensation is based on the degree of accomplishment and qualitative assessment of the capital efficiency and profitability of the Group as a whole and divisions in charge on a single-year basis, and is determined within the range of 0% to 200% of the standard payment. Performance-based stock remuneration 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> <ul style="list-style-type: none"> Subscription rights to shares granted as stock-related compensation Subscription rights to shares are granted with the aims of sharing value with shareholders and enhancing willingness and morale for 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 discusses the establishment of executive compensation policies, consideration of the compensation system, and specific calculation method. Based on the results of those deliberations, the compensation for directors other than those who are Audit and Supervisory Committee members is determined by resolution of the Board of Directors, and the compensation for directors who are Audit and Supervisory Committee members is determined by consultation among directors who are Audit and Supervisory Committee members.</p>

