

# Corporate Governance

To enhance the relationship of trust it enjoys with its stakeholders amid continued globalization of the business environment, the Nikon Group aims to increase management efficiency and transparency by bolstering corporate governance and improving its internal control system.

## Corporate Governance Organization

### ■ Board of Directors

Ten members of the Board of Directors, including two from outside the company (as of March 31, 2008), make prompt decisions on matters of importance to the Nikon Group and monitor the exercise of duties by directors.

### ■ Executive Committee

Comprised of twelve standing directors, the Executive Committee deliberates on and resolves major issues regarding the general operation of company business, internal controls and management, in accordance with basic management policies as determined by the Board of Directors. This body also receives reports from each department regarding critical matters.

### ■ Board of Corporate Auditors

Five corporate auditors, including three from outside the company (as of March 31, 2008), periodically attend important meetings—such as those of the Board of Directors and Executive Committee—in order to supervise the execution of duties by the directors, and to perform monitoring and auditing of corporate management and directors.

### ■ Management System

In October 1999, Nikon introduced an in-house company system featuring decentralized management, with an integrated system and responsibilities established for each product sector, including subsidiaries. A results-based evaluation system was also brought in so as to strengthen the relationship between performance and remuneration. In

2001, Nikon installed an operating officer system and reduced the number of directors, while shortening the term for directors from two years to one in 2003 in order to consolidate a management system that can respond swiftly to changes in the business environment.

Additionally, in 2007 a review/revision of regulations pertaining to the preexisting operating officer system was conducted to further enhance internal controls.

### ■ Compensation Committee

The Compensation Committee, which includes prominent figures from outside Nikon, was set up in July 2003 to raise the objectivity and transparency of matters related to director's compensation. The obligations of this committee include examining and proposing guidelines for directors' compensation and other related systems.

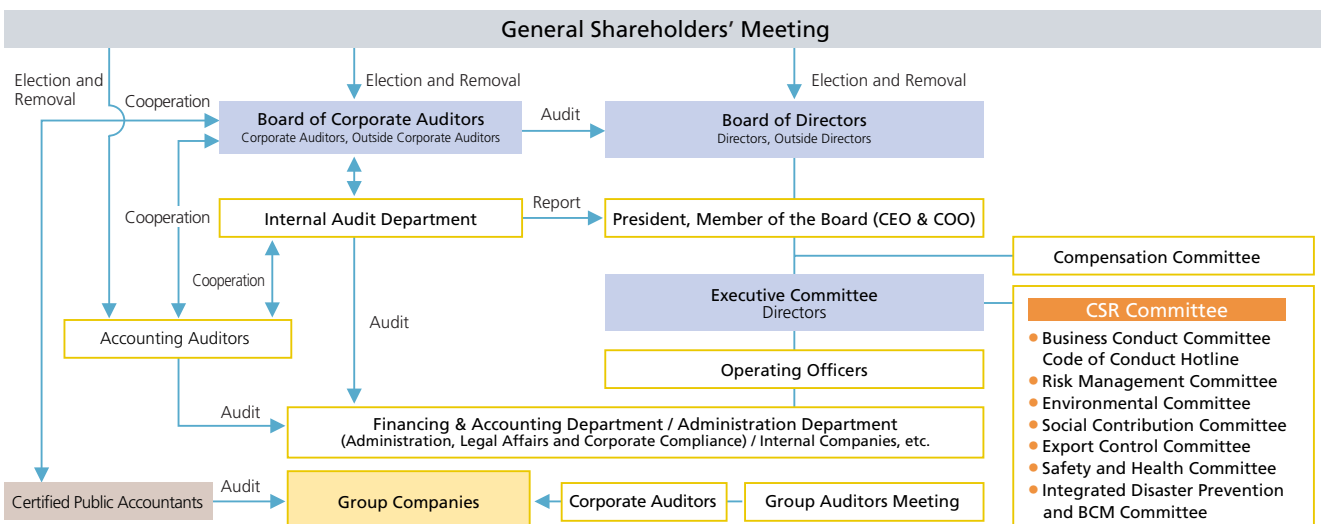
### ■ Systematization of Responsibility and Authority

Nikon has formulated its Rules of Organization and Authority with the aim of clearly defining the scope of authority and responsibility for each body and each post within the corporation. Additionally, each group company exhaustively implements control and guidance based on the Authorization Standards for Subsidiaries. This ensures organized and efficient business execution across the board.

▶ For more on Nikon's corporate governance, see:

<http://www.nikon.com/about/csr/governance/index.htm>

## Nikon's Corporate Governance Organization



## Measures to Enhance the Internal Control System

### ■ Strengthened system for deliberation, resolution, communication and reporting

In 2005, Nikon further overhauled the structure of the management committees engaged in the deliberation, resolution, communication and reporting of business matters and revised rules related to the delegation of authority in divisions in order to further enhance the Group's internal controls.

### ■ Internal auditing

The Internal Audit Department is under the direct control of the President and operates independently of other operational departments. Based on annual auditing plans, it examines the operations of each department in the Group to see if they are being appropriately conducted in compliance with laws, company regulations and standards. It also makes recommendations for improvement.

In the year ended March 31, 2008, in addition to looking into issues that affect the corporate culture and organizational environment, an internal audit was performed throughout the Nikon Group in order to check planning and operations in place at each company to ensure the company-level internal controls stipulated by the Companies Act and the J-SOX\* law. In future, as well as the auditing duties already being performed, the Internal Audit Department will take on the job of conducting an independent assessment of J-SOX compliance while enhancing internal auditing for overseas subsidiaries.

\* J-SOX law: Informal name given to the Japanese version of the US Sarbanes-Oxley Act (SOX). The importance of internal controls had been highlighted following a series of fraudulent financial reports and other incidents of corporate misconduct in recent years. In order to secure the reliability of financial reporting by companies, Japan's Financial Instruments and Exchange Law of June 2006 requires management assessment and audit concerning internal controls over financial reporting. Known as J-SOX, this legislation came into force in April 2008.

### ■ Information resources management

Based on the Information Security Improvement Plan, information management is being further strengthened, while access control and security pertaining to the Group's internal network was further tightened as of April 2007.

Also, Guidelines for Confidentiality Classifications were instituted in February 2006 to thoroughly specify and clarify different types of restricted data. These guidelines have been used as a basis for continued efforts to increase the effectiveness of Nikon's information management.

### ■ J-SOX compliance

"Management Assessment and Audit of Internal Controls over Financial Reporting" (J-SOX), required by the Financial Instruments and Exchange Law enacted in June 2006, came into force in April 2008.

With the enactment of this J-SOX law Nikon immediately began making preparations for its compliance, led by the Accounting, IT and Internal Audit Departments. In January 2007 a J-SOX Establishment Project Team was set up under the director in charge of accounting; it includes representatives of the Accounting, IT and Internal Audit Departments, as well as those from the in-house companies that represent Nikon's core businesses, and from the Group companies. Through these activities, Nikon is creating systems that will strengthen internal controls over financial reporting of the Nikon Group.

### Activities for the year ended March 31, 2008

The Project Team has been engaged in compiling documentation for company-level internal controls that have a major impact on consolidated financial reporting among the Group companies. Furthermore, Nikon and the principal Group companies in Japan and overseas have compiled documentation to strengthen internal controls related to business processes (sales, procurement, production, accounting, IT, etc.). The design and operational effectiveness of these business process internal controls have been assessed, and plans for improvement have been drawn up in cases where deficiencies have been discovered. In these ways, Nikon has been working to ensure that its internal controls are effective.

### Commitment for the year ending March 31, 2009

In the year ending March 31, 2009, improvements based on the previous year's assessment results will be completed promptly, and by incorporating these into the management processes, Nikon will ensure the standard for J-SOX compliance. Also, Nikon will make further progress with qualitative improvements to the internal control framework over the long term.

# Compliance

The Nikon Group is engaged in a variety of activities designed to enable appropriate conduct in which each employee is aware of compliance issues.

## Nikon Code of Conduct

The Nikon Code of Conduct defines general standards of behavior which ensure that Group employees perform all professional responsibilities in adherence to laws and statutes and that business judgments and activities are conducted from an ethical standpoint.

After being established in 2001, the Nikon Code of Conduct was amended for a second time in May 2007 to keep it up to date. This revision lays down basic policies with regard to business entertaining, gifts, etc. so as to ensure the appropriate interaction of staff with customers and those who do business with Nikon. It also covers information management, accounting procedures and other issues that in recent years have come to be seen as increasingly important. Moreover, to facilitate optimal business judgments in daily operations, Nikon is striving to ensure that all employees fully understand the rules, a duty assigned to each Code of Conduct Coordinator.

It is important that employees are fully familiar with the Nikon Code of Conduct and incorporate it into their business activities. That is why everyone employed in a domestic Group company has been supplied with a Code of Conduct booklet. The full Code of Conduct has also been posted on Nikon's intranet.

Additionally, support is being provided for Group companies overseas to develop their own codes of conduct based on the Nikon Code of Conduct.

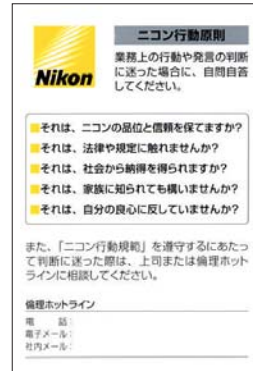


Nikon Code of Conduct

## Nikon Code of Conduct and Nikon Rules of Action

A wallet card listing Nikon Rules of Action — a guide for staff who are in doubt about application of the Code of Conduct in a particular case — has been distributed to employees. It also includes the corporate philosophy and CSR Charter.

As another approach is to ensure a full understanding of the Nikon Code of Conduct, the company intranet features Nikon Code of Conduct Case Studies, a collection of practical examples of how to apply the rules, each provided with a simple explanation.



Nikon Rules of Action wallet card

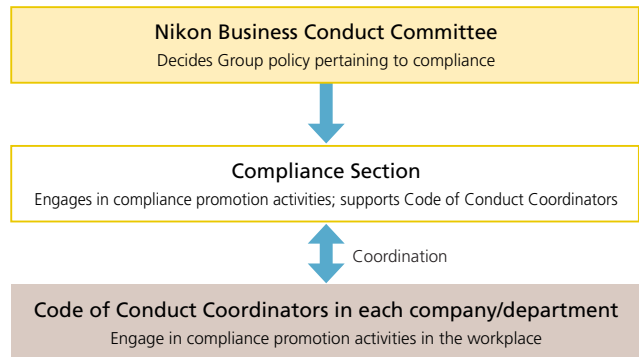


Nikon Code of Conduct Case Studies

## Compliance Promotion System

In accordance with the Group policy of the Nikon Business Conduct Committee, the specialist Compliance Section coordinates with the Code of Conduct Coordinator in each department and domestic Group company to promote activities pertaining to compliance.

### Compliance Promotion System



## Strengthening & Promoting Compliance

### Main achievements for the year ended March 31, 2008

- Nikon Code of Conduct revised and disseminated among staff
- Intranet site set up to provide central source of information
- Awareness survey conducted for all domestic Nikon Group employees, with feedback to each department/company

### Goals for the year ending March 31, 2009

- Further efforts to ensure thorough employee familiarity with the Nikon Code of Conduct (support for Group companies)
- Improvements based on the results of the awareness survey (PDCA cycle)
- Expansion of the Code of Conduct Hotline (establish external hotline service)

In the year ended March 31, 2008, as well as revising the Nikon Code of Conduct, Nikon created a new intranet website to provide a central source of information about compliance; completely revised the Nikon Code of Conduct Case Studies to facilitate a better understanding of the rules; expanded the scope of the compliance awareness survey; and provided feedback to each department/company regarding their own results.

Furthermore, the Code of Conduct Coordinators assigned to each company/department implemented compliance promotion activities in the workplace to ensure thorough employee familiarity with the Nikon Code of Conduct, newly revised in May.

### Educational activities in the year ended March 31, 2008

Audience	Activity	Frequency
New Nikon employees*	Basic compliance education	Once a month
Code of Conduct Coordinators	Education/training sessions for coordinators	Twice a year
Employees in each company or department	Education/training sessions by coordinators	As required
Newly appointed directors in domestic group companies	Legal compliance training	Once a year
Managers in domestic group companies	Compliance seminars	Once per company

\* Whether or not it is their first employment.

### Compliance awareness survey (monitoring)

Since 2003 Nikon has conducted a compliance awareness survey. The respondents were chosen at random from among executives and employees at domestic Group companies. From the year ended March 31, 2008, to gain a clearer picture the scope was enlarged to include everyone working for domestic Group companies.

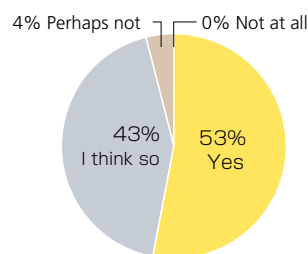
While the results demonstrate a high level of awareness overall, they have also raised concerns regarding how many people have actually read the Nikon Code of Conduct Case Studies, for example. It is clear that further promotion is necessary and the management is already looking for ways to improve the situation. Also, since each department and company has been provided with their own results, they themselves are aware of what needs to be done and are making improvements.

### PDCA cycle for compliance promotion



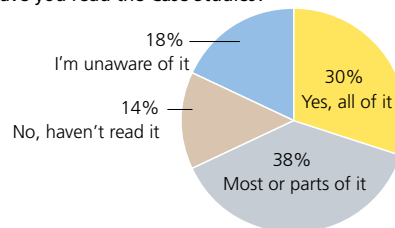
### Compliance awareness survey results

Do you always try to make decisions that are appropriate from the point of view of compliance?



Conclusion: An encouraging result as virtually all respondents (96%) try to do so.

Have you read the Case Studies?

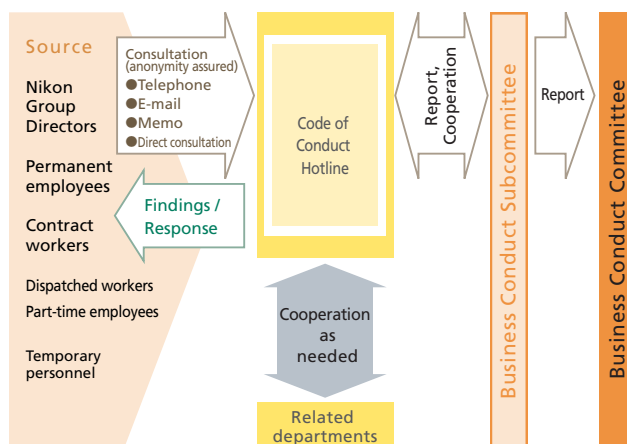


Conclusion: A disappointing result as 32% of respondents had not read it or did not even know about it

### Code of Conduct Hotline

In 2001 Nikon established the Code of Conduct Hotline as a central point of contact for employees of domestic Group companies wanting to discuss a situation that might run counter to the Nikon Code of Conduct. In operating the hotline, care is taken to protect the individual, ensuring that privacy is strictly protected and that he or she will receive no prejudicial treatment, including dismissal and demotion. In the year ended March 31, 2008, the hotline was used 30 times, and the company is working with the relevant departments to resolve these issues.

### Code of Conduct Hotline flow diagram



# Risk Management

To ensure sustained growth of the Nikon Group, the Risk Management Committee and Integrated Disaster Prevention and BCM\* Committee were established to comprehensively manage potential risks to the Group.

\* BCM: Business Continuity Management

## Risk Management System

The Risk Management Committee was established in April 2006 to comprehensively manage and precisely respond to various risks encountered by the Group. The Committee ascertains and assesses risks within the Group and devises countermeasures for those that can impact operations. It also conducts education and training to minimize damage in the event a risk materializes, conducts regular risk monitoring, and implements a risk management PDCA cycle.

To accelerate countermeasures for major risks, in July 2006 a BCM Subcommittee and an Information Security Subcommittee were established. In May 2007 a BCM Section was set up in the Corporate Planning Department, and an information security unit was created in the Information System Planning Department.

Since a BCM system envisions such disasters as a large-scale earthquake, the Disaster Prevention Committee and BCM Subcommittee were merged in July 2007 to create the new Integrated Disaster Prevention and BCM Committee, which will cover the entire Group.

## BCM System as a Permanent Feature

The Nikon Group believes that business continuity is a social responsibility, and it has therefore created a BCM system covering core operational areas of the Precision Equipment business and the Imaging business as well as the Head Office functions that support their operations – not only for Japan but also for overseas production bases in Thailand and China. Also, in accordance with the PDCA cycle, Nikon is taking steps to raise the effectiveness of its BCP\*.

Up till now, Nikon has progressed with formulating in-house regulations and creating a BCM system with the central role played by the Integrated Disaster Prevention and BCM Committee; however, from the current fiscal year the focus has shifted to having each department conduct autonomous activities on a shorter cycle.

\* BCP: Business Continuity Plan

### Progress to date

Year ended March 31, 2007

P: Committees established; BCP formulated

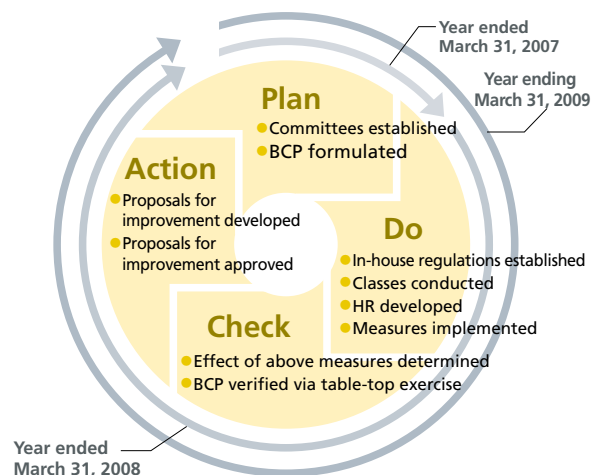
Year ended March 31, 2008

D: In-house regulations established; classes conducted; human resources developed; measures implemented

C: Effect of above measures determined; BCP verified via table-top exercise

A: Proposals for improvement developed & approved

PDCA cycle for BCM



## Information Resources Risk Management

### Primary achievements for the year ended March 31, 2008

- Nikon Group authentication infrastructure system was launched
- Information security training program conducted for the employees of Nikon Group domestic companies
- Information Security Month instituted; PC checkup campaign conducted

As one of the activities of the Information Security Subcommittee, a framework was developed for establishing appropriate access privileges, and in April 2007 the Nikon Group authentication infrastructure system was launched. Moreover, to bolster information management, Nikon is currently working to put in place measures for the audit trail management of computers, long-term archiving of e-mails, etc., based on the Information Security Improvement Plan.

Additionally, in the autumn of 2007 information security training was conducted for the employees of Nikon Group domestic companies using e-learning materials based on the Handbook on Nikon Information Security. And from 2008, every February is designated as Information Security Month, when a PC checkup campaign — featuring the catchphrase “Is your PC safe?” in 2008 — is conducted along with other activities.

## Protection of Personal Information

The proper handling of the personal information obtained through customer registration, at a Nikon Salon, etc. is an important social responsibility. The Nikon Group protects this personal information vigilantly.

### ■ Nikon Group Privacy Protection Policy

While complying with laws and regulations relating to the protection of personal information, Nikon has formulated the Nikon Group Privacy Protection Policy in order to ensure that a management system of a high standard is in place. The policy has been published on the company website by decision of NAME (President, CEO, COO and board member of Nikon Corporation, and director in charge of privacy information in the Nikon Group). Individual Group company websites also provide details of their proper handling of personal information based on the above policy.

▶ **For more on Nikon and privacy protection see:**

<http://www.nikon.com/privacy/index.htm>

### ■ Appropriate management of personal information

The Nikon Group specifies how personal information should be handled in its Information Management Rules and Information Security Regulations. Drawing on guidelines\* drawn up by Japan’s Ministry of Economy, Trade and Industry (METI), these rules and regulations provide such details as the need to clearly specify the purpose for which personal information is to be used at the time it is acquired, and the secure procedures to be followed when using or storing personal information.

Employees at domestic Group companies have been provided with copies of the Handbook on Nikon Information Security and Guide for Protecting Personal Information to ensure that they are thoroughly familiar with company policy and requirements. Also, the Information System Planning Department and the Administration Department, both in charge of the Group’s Office of Information Security Management, carry out information management audits periodically. Inquiries regarding specific issues to do with information management are dealt with as they arise.

The company within the Nikon Group which possesses the largest amount of personal information is Nikon Imaging Japan Inc. (called Nikon Photo Products Inc. prior to February 2008). It implements meticulous personal information management and as a result has acquired the Privacy Mark, a certification granted to organizations that are recognized as handling personal information appropriately.

\* Guidelines for Personal Information Protection Laws Concerning Fields of Economy and Industry

## Appropriate Export Controls

Nikon has an export ratio of approximately 75% (non-consolidated), and so an important aspect of risk management involves appropriate export controls. Even if there is a minor infringement, the disclosure of the company’s name could possibly have a serious, negative impact on the corporate image.

Seen from the perspective of security, proper export controls are the company’s social responsibility for maintaining peace and security both in Japan and on the international scene. With today’s increasing globalization, if a product or technology is exported without conducting sufficient checks, and if it is subsequently used in the development or manufacture of weapons of mass destruction, this could represent a threat to the peaceful lives of citizens in Japan or other countries.

Always aware of the potential risks, the Nikon Group is thoroughgoing in its application of export controls.