

Corporate Governance

Fundamental Policy

In order to establish a sound corporate governance structure and continuously raise corporate value, the Company believes that it is essential to improve management transparency and strengthen management supervising functions. At the same time, a sense of ethics and mission held by each executive and employee of a company is very important in order to achieve continuous corporate growth and development.

Governance Structure

Board of Directors, Representative Directors and Executive Officers

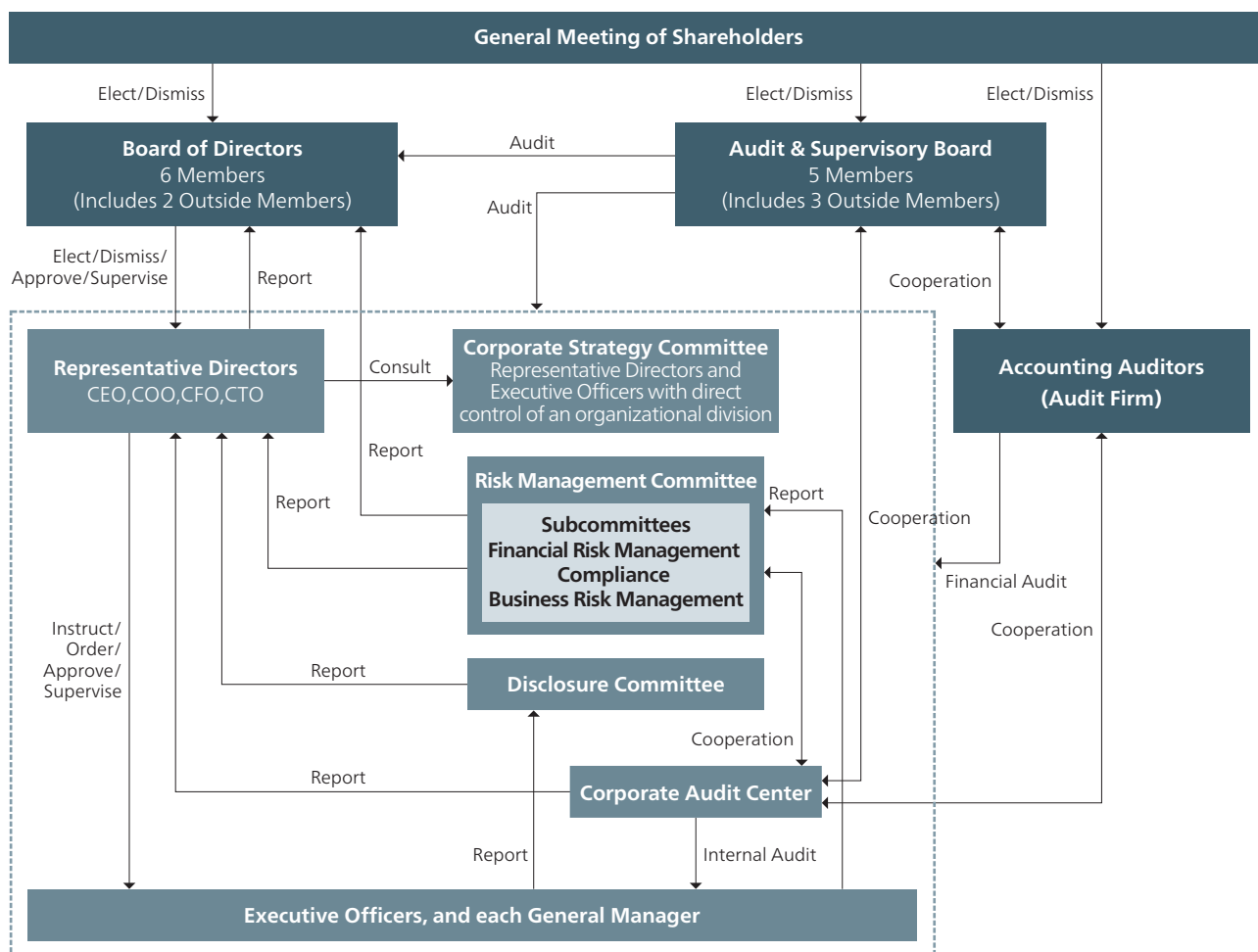
The Board of Directors makes decisions on matters prescribed in the Companies Act, including a policy for establishing systems necessary to ensure the properness

of operations (a basic policy for an internal control system) and other important management matters. Furthermore, the Board of Directors receives reports on a regular basis and otherwise as necessary on the execution of operations by representative directors and executive officers under the direction of the representative directors and it oversees the execution of the operations.

As of fiscal 2015, the Board of Directors consisted of 17 directors. However, it was resolved at the 115th Ordinary General Meeting of Shareholders held on March 30, 2016 to change to a structure with a total of six directors, comprising four directors from Canon career veterans and two outside directors who are independent directors.

Executive officers are responsible for the execution of operations as a group executive or chief executive in charge of the Company's main operations. Meanwhile, the Board of Directors consists of representative directors with years of experience at the Company who manage

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multiple divisions and functions, along with independent outside directors who have impartial perspectives on management that would differ from those of Canon career veterans. With this compact Board of Directors, Canon aims to speed up its management via a system centered on decision-making from a high-level, all-around perspective and oversight of execution of operations.

The responsibilities of the four representative directors are divided as follows. The Chief Executive Officer (CEO) is responsible for overall management of the Group as a whole, while the Chief Operating Officer (COO) manages the Group's businesses under the policies set by the CEO and serves as the president of the Company. The Chief Financial Officer (CFO) oversees the Group's financial matters, and the Chief Technical Officer (CTO) oversees technology and R&D.

As of April 1, 2016, there are 37 Executive Officers, including two women and two with foreign citizenship.

Corporate Strategy Committee, Risk Management Committee, and Disclosure Committee

The Company established the Corporate Strategy Committee, consisting of Representative Directors and some Executive Officers. Among items to be decided by the CEO, the Committee undertakes prior deliberations on important matters pertaining to Canon Group strategies. Outside Directors and Audit & Supervisory Board members attend Corporate Strategy Committee meetings and are able to express their own opinions.

Based on a resolution passed by the Board of Directors, Canon set up the Risk Management Committee, which formulates policy and action proposals regarding improvement of the Canon Group risk management system. The Risk Management Committee consists of three entities: the Financial Risk Management Subcommittee, which is tasked with improving systems to ensure reliability of financial reporting; the Compliance Subcommittee, which is tasked with promoting corporate ethics and improving legal compliance systems; and the Business Risk Management Subcommittee, which is charged with improving systems to manage overall business risks, including risks related to product quality and information leak.

In addition, the Disclosure Committee was established to undertake deliberations pertaining to information disclosure, including content and timing, to ensure important corporate information will be disclosed in a timely and accurate manner.

Audit & Supervisory Board Members, Audit & Supervisory Board

The Company is a "Company with an Audit & Supervisory Board." The Audit & Supervisory Board consists of five individuals, three of which are Independent Outside Audit & Supervisory Board members.

In accordance with auditing policies and plans decided at Audit & Supervisory Board meetings, the Audit & Supervisory Board Members attend Board of Directors' meetings, Corporate Strategy Committee meetings, etc., receive reports from directors and employees, review documents related to important decisions, and conducting audits by investigating and so on. the situation of businesses and property of the Company and its subsidiaries. In this way, the Audit & Supervisory Board plays a role in monitoring management, conducting strict audits of directors' execution of duty, including the status of development of the internal control system. Furthermore, the Audit & Supervisory Board Members cooperate closely with the accounting auditors and the Company's internal auditing team, and such cooperation services to improve each monitoring function.

Function, Role, and Appointment of Outside Directors and Outside Audit & Supervisory Board Members

The Company established the "Independence Standards for Independent Directors/Audit and Supervisory Board Members" resolved by the Board of Directors with the consent of all Audit and Supervisory Board Members, in order to clarify the standards for ensuring independence of Independent Directors/Audit and Supervisory Board Members of the Company, taking into consideration the independence criteria set by securities exchanges in Japan. The standards are posted on the Company's website. All of the Company's Outside Directors and Outside Audit & Supervisory Board Members satisfy the standards for independence, and assume roles that contribute to the maintenance and improvement of Board of Directors' transparency and accountability. In addition, all of the Company's Outside Directors and Outside Audit & Supervisory Board Members are designated the Independent Directors/Audit and Supervisory Board Members set by Tokyo, Nagoya, Fukuoka and Sapporo stock exchanges.

Reference: Independence Standards for Independent Directors/Audit and Supervisory Board Members

<http://www.canon.com/ir/strategies/governance.html>

Outside Directors and Outside Audit & Supervisory Board Members

	Name	Reasons for Appointing
Outside Directors	Kunitaro Saida	Kunitaro Saida has appropriately performed his duties as an Outside Director utilizing his high-level expertise and wealth of experience gained from his distinguished career as Superintending Prosecutor of High Public Prosecutors Offices (in Takamatsu, Hiroshima and Osaka) and later as an attorney in corporate legal affairs, as well as serving as an Outside Director and an Outside Audit & Supervisory Board Member for other companies. The Company did pay Kunitaro Saida remuneration for advisory services. The amount, however, was not a large sum, and the contract has already expired.
	Haruhiko Kato	Haruhiko Kato has, over many years, had a distinguished career in fiscal operations of the national government as Director-General of Tax Bureau in the Ministry of Finance, and Commissioner of National Tax Agency. He has appropriately performed his duties as an Outside Director utilizing his high-level expertise and wealth of experience gained from his managerial experience as President of Japan Securities Depository Center, Incorporated. Although there are business transactions between the Company and Japan Securities Depository Center, Incorporated for which Haruhiko Kato holds the position of President and CEO, the transactions reflect usage of the transfer system for stocks and other securities for which we pay fees. The Company did pay Haruhiko Kato remuneration for advisory services. The amount, however, was not a large sum, and the contract has already expired.
Outside Audit & Supervisory Board Members	Tadashi Ohe	Tadashi Ohe has been engaged for many years in corporate legal affairs as an attorney and as a professor specializing in legal research. He has appropriately performed his duties as an Outside Audit & Supervisory Board Member utilizing his considerable experience and high level of expert knowledge about corporate legal affairs.
	Osami Yoshida	Osami Yoshida has been engaged for many years in corporate accounting as a certified public accountant. He has appropriately performed his duties as an Outside Audit & Supervisory Board Member utilizing his considerable experience and high level of expert knowledge about corporate accounting. Deloitte Touche Tohmatsu LLC, where Osami Yoshida was employed in the past, is not the auditing firm charged with the accounting auditing of the Company. Moreover, although there are transactions based on service consignment agreements between the Company and the aforesaid auditing firm, the annual gross amount of these transactions is less than 1% of either the Company's or the aforesaid auditing firm's annual net sales.
	Kuniyoshi Kitamura	Kuniyoshi Kitamura has a broad range of work experience working for an insurance company over many years. In addition to this, he has a certain degree of knowledge regarding business management. He has appropriately performed his duties as an Outside Audit & Supervisory Board Member utilizing his experience and knowledge. Kuniyoshi Kitamura used to work for The Dai-ichi Life Insurance Company, Limited. The aforesaid company is a shareholder of the Company but its shareholding ratio is approximately 3.4% (shareholding ratio is calculated by deducting the number of treasury shares from total shares issued.) Moreover, although there are transactions based on life insurance contracts between the Company and the aforesaid company, the annual gross amount of these transactions is less than 1% of either the Company's or the aforesaid company's annual net sales.

Internal Audit Divisions

The Corporate Audit Center, the Company's internal auditing team, as an independent and specialized organization and in accordance with internal audit rules, conducts audits and evaluations and provides guidance on such matters as compliance with laws and the internal control system. Furthermore, audits of particular themes such as quality, the environment, and information security, are conducted by each division in charge in cooperation with the Corporate Audit Center.

Additionally, based on top management policy, for all work processes, audits must be conducted from a specialized view point and there are plans to increase the number of members from the current 70 to strengthen auditing functions.

Cooperation between Audit & Supervisory Board Members and Internal Auditing

The Audit & Supervisory Board Members and the Audit & Supervisory Board receive from the Corporate Audit Center an outline of their internal audit plan before conducting an audit as well as reports about important auditing items. After the internal audit is conducted, the Audit & Supervisory Board Members and the Audit & Supervisory Board hear reports on all audit results and evaluations. Furthermore, close cooperation between Audit & Supervisory Board Members and Internal Auditing is worked for through, for example, monthly meetings between Audit & Supervisory Board Members and the head of the Corporate Audit Center where information and opinions are exchanged.

In addition to receiving reports from the Corporate Audit Center regarding product quality, information security, physical security and various other audits, The

Audit & Supervisory Board Members and the Audit & Supervisory Board also receive reports regarding audits conducted by each controlling division.

Cooperation between Audit & Supervisory Board Members and Accounting Auditors

The Audit & Supervisory Board Members and the Audit & Supervisory Board receive from the Accounting Auditors an outline of their audit plan before conducting an audit as well as explanations about important auditing items on which the Audit & Supervisory Board Members and the Audit & Supervisory Board express their opinion with respect to the validity.

The Audit & Supervisory Board Members and the Audit & Supervisory Board also conduct timely exchanges of opinion with the Accounting Auditors on such subjects as the results of audits and reviews, receiving reports on internal control system, accounting audits, and quarterly reviews from the Accounting Auditors and the Accounting Auditors' understandings on the Company's internal control systems, including how they are being implemented, as well as their evaluation of risks.

Furthermore, in addition to observing the Accounting Auditors' fieldwork and closing meeting as necessary, the Audit & Supervisory Board Members and the Audit & Supervisory Board work to grasp the situation of audits, holding meetings with Accounting Auditors in charge of auditing group companies in and outside Japan. The Audit & Supervisory Board Members and the Audit & Supervisory Board also confirm the validity of the quality management systems of audits, receiving detailed explanations about this from Accounting Auditors.

With the aim of monitoring the independence of Accounting Auditors, the Company introduced an Audit

& Supervisory Board pre-approval system which targets contracts and remuneration.

Executive Compensation

Remuneration for directors at Canon Inc. comprises basic compensation, which is based on fulfillment of duties, and an executive bonus, which is tied to company performance each year (outside directors are not eligible for the executive bonus).

Additionally, directors may be presented with stock options as a medium- to long-term incentive. Remuneration for Audit & Supervisory Board members, however, consists only of basic compensation and is not tied to company performance.

The maximum limits of basic compensation for directors and Audit & Supervisory Board members are set by vote at the general meeting of shareholders. Compensation for individual directors is decided by a meeting of the Board of Directors, while compensation for Audit & Supervisory Board members is decided by a meeting of the Audit & Supervisory Board members.

Executive bonuses are calculated according to company performance, with the total amount presented to the general meeting of shareholders for approval. Once the total amount is determined, bonuses for individual directors are decided by the Board of Directors based on rank and individual achievement.

Stock options are issued without compensation in order to raise morale and increase motivation to improve Canon's performance. Proposals are tendered to the general meeting of shareholders and, if approved, stock options are issued.

2015 Executive Compensation by Executive Category, Type of Compensation, and Number of Executives

Executive category	Number of executives receiving	Total amount by compensation type (Millions of yen)		Total compensation (Millions of yen)
		Basic compensation	Bonus	
Directors (excl. Outside Directors)	18	790	144	934
Outside Directors	2	48	—	48
Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members)	3	50	—	50
Outside Audit & Supervisory Board members	3	55	—	55

* The amount for bonus represents the executive bonus for inside directors