

# Corporate Governance

## Fundamental Policy

In order to establish a sound corporate governance structure and continuously raise corporate value, Canon 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.

Details of Canon Inc.'s corporate governance structure are available on the company's official website and the Tokyo Stock Exchange website under "an overview of Corporate Governance at Canon Inc."

**Reference:**

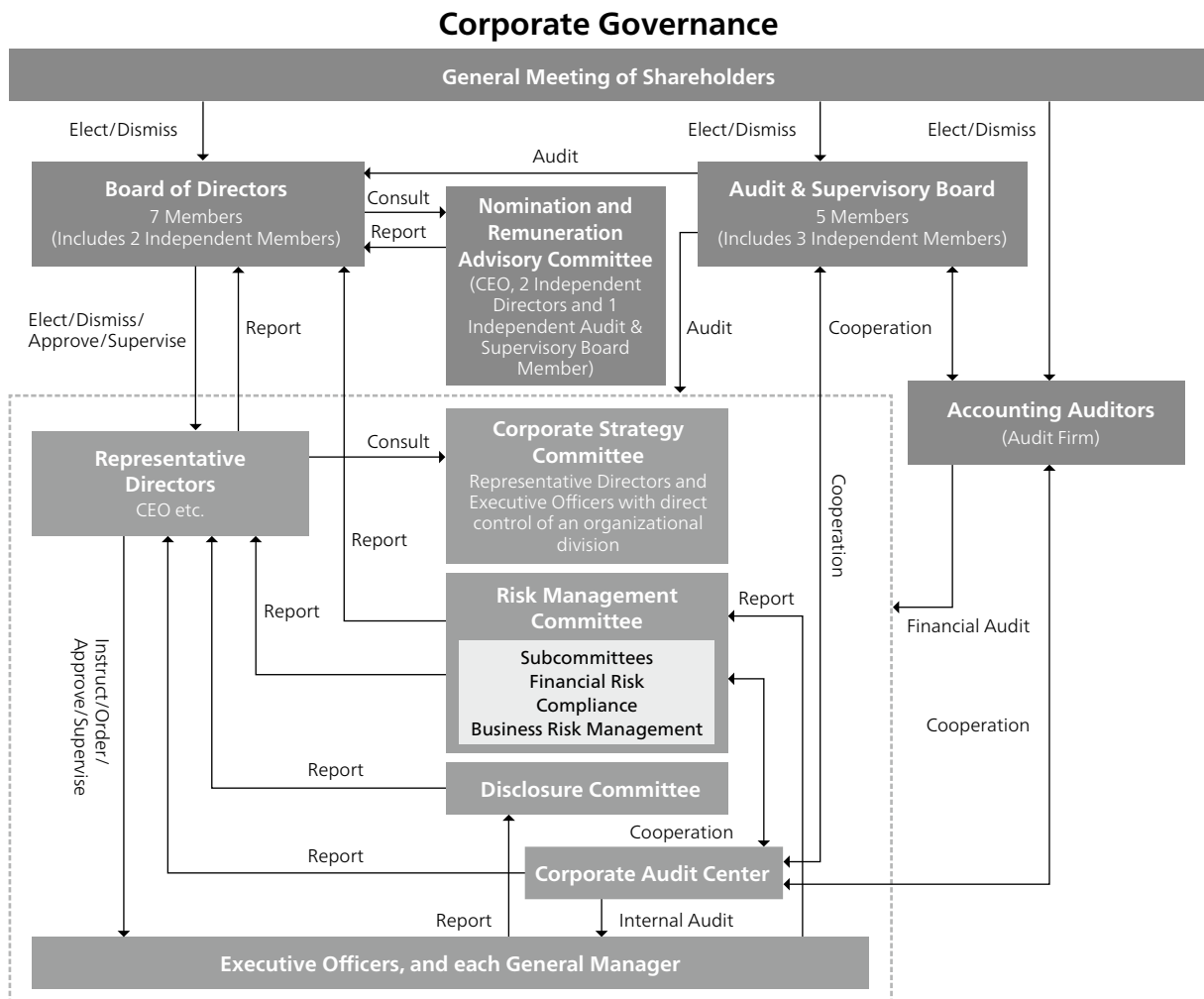
An overview of Corporate Governance at Canon Inc.  
<http://www.canon.com/ir/strategies/governance.html>

## Governance Structure

### Fundamental Policy

Canon is globally expanding its businesses in various fields, including office equipment, consumer products, and industrial equipment, and aims to aggressively expand into new business fields in the future. In order to make prompt decisions in each business field, and make important decisions for the entire Canon Group or matters that straddle several business fields from a company-wide perspective and at the same time secure appropriate decision making and execution of operation, the Company judges the corporate governance structure below to be effective.

### Corporate Governance Structure (As of April 1, 2017)



## Board of Directors

While the focus of the organizational structure of the Board of Directors is on Representative Directors that oversee company-wide business strategies or execution such as the CEO, COO, CFO, CTO, and Representative Directors or Executive Directors that oversee multiple business fields or headquarters functions, in order to secure sound management, two or more Independent Outside Directors are appointed. The Board of Directors, in accordance with laws and regulations, makes important decisions and supervises the execution of duties by officers.

Except for the above, the CEO and other Representative Directors are active in decision making and execution, and under the command and supervision of the Representative Directors, Executive Officers that are elected through resolution of the Board of Directors make decisions and execute operations of each business field or function.

The Board of Directors consists of seven members: five Representative Directors from inside the company and two Outside Directors that qualify as Independent Directors. Additionally, there are 38 Executive Officers, including two females and two non-Japanese.

## Audit & Supervisory Board

As a body which is in charge of the audit of operations, under the principles of autonomy, which is independent from the Board of Directors, Canon Inc. has full-time Audit & Supervisory Board Members that are familiar with Canon Inc.'s businesses or its management structure, and Independent Outside Audit & Supervisory Board Members that have extensive knowledge in specialized areas such as law, finance and accounting. The Audit & Supervisory Board, which is composed of these individuals, cooperates with Canon Inc.'s accounting auditors and internal audit division, oversees the status of duty execution of operations and corporate assets to secure the soundness of management.

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 etc. the situation of businesses and property of Canon Inc. and its subsidiaries. In this way, the Audit & Supervisory Board conducts strict audits of directors' execution of duty, including the status of development of the internal control system.

## Procedure for Selecting Directors

Canon Inc. established the "Nomination and Remuneration

Advisory Committee," a non-statutory committee, which consists of the CEO, two Independent Outside Directors and one Independent Outside Audit & Supervisory Board Member. At the time, Director and Audit & Supervisory Board Member candidates are nominated and Executive Officers are selected (includes the selection of the successor of chief executive officer) the CEO recommends candidates thereof from among individuals that have been recognized as having met the prescribed requirements, and the Committee checks the fairness and validity of such recommendations prior to submission to and deliberation by the Board of Directors.

Additionally, as for Audit & Supervisory Board Member candidate, prior to deliberation of the Board of Directors, consent of the Audit & Supervisory Board shall be acquired.

## Corporate Strategy Committee, Risk Management Committee, and Disclosure Committee

Canon Inc. 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 Sub-committee, which is tasked with improving systems to ensure reliability of financial reporting; the Compliance Sub-committee, which is tasked with promoting corporate ethics and improving legal compliance systems; and the Business Risk Management Sub-committee, which is charged with improving systems to manage overall business risks, including risks related to product quality and information leak.

The Risk Management Committee verifies the risk management system's improvement and implementation and reports the status to the CEO and the Board of Directors.

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.

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

Canon Inc. established the "Independence Standards for Independent Directors/Audit and Supervisory Board Members" resolved by the Board of Directors with the consent of all Audit & Supervisory Board Members, in order to clarify the standards for ensuring independence of Independent Directors/Audit & Supervisory Board Members of Canon Inc., taking

Message from Management	Canon Group Business Operations	CSR Management	Growth Strategy and Sustainability	Activity Highlights
Relationship with SDGs	CSR Reporting	Management Structure	GRI Guideline Implementation	Third-Party Opinion / Assurance

## Outside Directors and Outside Audit & Supervisory Board Members

	Name	Reasons for Appointing
Outside Directors	Kunitaro Saida	Kunitaro Saida was elected as an Outside Director so that Canon Inc.'s management may utilize 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.
	Haruhiko Kato	Haruhiko Kato has, over many years, had a distinguished career in fiscal operations of the national government as Director-General of the Tax Bureau in the Ministry of Finance, and Commissioner of National Tax Agency. He was elected as an Outside Director so that Canon Inc.'s management may utilize his high-level expertise and wealth of experience gained from his managerial experience as President of Japan Securities Depository Center, Incorporated.
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. Canon Inc. elected him as an Outside Audit & Supervisory Board Member as it desires to leverage his considerable experience and high level of expert knowledge about corporate legal affairs to further enhance the Company's auditing system.
	Hiroshi Yoshida	Hiroshi Yoshida has been engaged for many years in corporate accounting as a certified public accountant. Canon Inc. elected him as an Outside Audit & Supervisory Board Member as it desires to leverage his considerable experience and high level of expert knowledge about corporate accounting to further enhance Canon Inc.'s auditing system.
	Kuniyoshi Kitamura	Kuniyoshi Kitamura has a broad range of work experience working for a life insurance company over many years. In addition to this, he has considerable knowledge regarding business management. Canon Inc. elected him as an Outside Audit & Supervisory Board Member as it desires to leverage his experience and knowledge to further enhance Canon Inc.'s auditing system.

into consideration Japan's Corporate Governance Code (Principle 4.9) and the independence criteria set by securities exchanges in Japan. The standards are posted on Canon's official website. All of Canon'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 our Outside Directors and Outside Audit & Supervisory Board Members are Independent Directors/ Audit & Supervisory Board Members as notified to the 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>

### 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, the Corporate Audit Center is primarily responsible for audits covering such areas as quality, the environment, and information security, and conducts them in collaboration with the divisions in charge. Additionally, based on senior executive management policy, for all work processes, audits must be conducted from a specialized viewpoint 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 each outline of their internal audit plan before conducting each

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 promoted through, for example, monthly meetings between Audit & Supervisory Board Members and the head of the Corporate Audit Center where information and opinions are exchanged.

### 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 each audit as well as explanations about important auditing items. The Audit & Supervisory Board Members and the Audit & Supervisory Board confirm the validity of these items. The Audit & Supervisory Board Members receive from the accounting auditors reports on the internal control system, accounting audits, and quarterly reviews, and they also conduct timely exchanges of opinion with the accounting auditors on such subjects as the results of audits and reviews, the accounting auditors' understandings of the company's internal control systems, including how they are being implemented and maintained, and risk evaluations. Furthermore, in addition to observing audits and attending results presentations as necessary, Audit & Supervisory Board Members hold meetings with accounting auditors in charge of auditing Group companies in Japan and abroad, and endeavor to fully grasp audit conditions.

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, Canon introduced an Audit & Supervisory Board pre-approval system for the content of auditing contracts and remuneration.

### Executive Compensation

The remuneration of Representative Directors and Executive Directors consists of a “basic remuneration,” which is a fixed amount, paid each month, as a compensation for execution of duties required in accordance with their role, and a “bonus” that is linked to Canon Inc.’s business performance in each business year.

As for Outside Directors/Audit & Supervisory Board Members, remuneration is limited to the “basic remuneration,” which is a fixed amount, paid each month and a “bonus” is not paid.

Canon Inc. established the “Nomination and Remuneration Advisory Committee,” a non-statutory committee, which consists of the CEO, two Independent Outside Directors, and one Independent Outside Audit & Supervisory Board Member. The Committee examined the rationale of the remuneration system, including calculation standards of the basic remuneration and the bonus, and reported to the Board of Directors that they considered the current remuneration system reasonable, at the meeting of the Board of Directors held in September 2016.

The basic remuneration and bonus amount for each Director is determined by the Board of Directors in accordance with calculation standards examined by the “Nomination and Remuneration Advisory Committee.”

The total amount of “basic remuneration” for Directors is within the limit of the remuneration amount that is resolved by the general meeting of shareholders.

As for the “bonus” for Directors, the payment is fixed provided that the proposal about such payment submitted at the ordinary general meeting of shareholders is approved. Remuneration for individual Audit & Supervisory Board Members is determined through discussion among the Audit & Supervisory Board Members within the limit of the remuneration amount resolved by the general meeting of shareholders.

## Policy for Constructive Dialogue with Shareholders

### Policy

For sustainable growth and to help improve corporate value over a mid- to long-term perspective, Canon Inc. has constructive dialogue with shareholders through the ordinary general meeting of shareholders, corporate strategy conferences, financial results conferences, and interviews with major institutional investors.

### The Structure to Promote Dialogue

Finance & accounting (Investor Relations (IR)), legal affairs, corporate communications are responsible for working together and promoting dialogue. The Executive Vice President & CFO oversees the entire structure to promote dialogue.

For analysts and institutional investors, the CEO hosts a corporate strategy conference at the beginning of the year. Other than this, the CFO hosts quarterly financial results conferences. For individual investors, conferences are held when appropriate and on Canon’s official website, specific pages containing information about corporate strategy, financial results, and financial data etc. have been set up using descriptions that are easy to understand.

Additionally, Canon Inc. works for dialogue with domestic and overseas analysts and institutional investors, arranging interview opportunities appropriately. For detail, see “an overview of Corporate Governance at Canon Inc.”

**Reference: Information for Canon Inc. investors**  
<http://www.canon.com/ir/>

As for the opinions or demands that are obtained through dialogue with shareholders, accordingly, the department in charge reports to the CFO and the CFO will report important ones to the CEO or the Board of Directors.

### Controlling Insider Information

Canon Inc. has set the “Rules on Prevention of Insider Trading,” which makes thorough control of undisclosed material information and provides the procedure of information disclosure.

### 2016 Executive Compensation by Executive Category, Type of Compensation, and Number of Executives

Category of Position	Number of Directors and Audit & Supervisory Board Members (persons)	Remuneration and Other Amounts by Classification (millions of yen)		Remuneration and Other Amounts (millions of yen)
		Basic Remuneration	Bonus	
Directors (excl. Outside Directors)	15	662	60	722
Outside Directors	2	48	-	48
Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members)	2	55	-	55
Outside Audit & Supervisory Board Members	3	59	-	59

\* The above numbers of Directors include 11 Directors who have retired at the conclusion of the Ordinary General Meeting of Shareholders for the 115th Business Term held on March 30, 2016.

\* “Bonus” represents the accrued director’s bonuses.