

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 Canon's 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.
<https://global.canon/en/ir/strategies/governance.html>

Analyzing and Evaluating the Effectiveness of the Board of Directors

Once a year, a questionnaire survey of Directors and Audit & Supervisory Board Members on the items below is conducted. Based on the result of the questionnaire survey, analysis and evaluations regarding the effectiveness of the entire Board of Directors are carried out at the Board of Directors' meeting.

- As for the operation of Board of Directors (including the appropriateness of when documents are distributed, how often meetings are held, and the amount of time spent deliberating)
- As for the decision making and supervisory function of the Board of Directors (including the appropriateness of agenda items and agenda criteria of the Board of Directors as well as appropriateness etc. of content that is reported.)
- As for the roles of Outside Directors and Audit & Supervisory Board Members (including the necessity of training etc. regarding the understanding of company affairs and corporate structure)

As for fiscal year 2018, the Board of Directors meeting held in February 2019, it was determined that there was no problem with the effectiveness of Board of Directors meetings due to measures for active deliberation such as the preparation of discussion materials following prior questioning and the exchange of opinions between Outside Directors and the Audit & Supervisory Board. In the future, yearly analysis and evaluations will be continued and an overview of the results will be disclosed. At the same time, when necessary, efforts will be made to improve the running etc. of Board of Directors meetings.

Governance Structure

Fundamental Policy

Canon is globally expanding its businesses in various business fields, including office equipment, consumer products, medical equipment, 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.

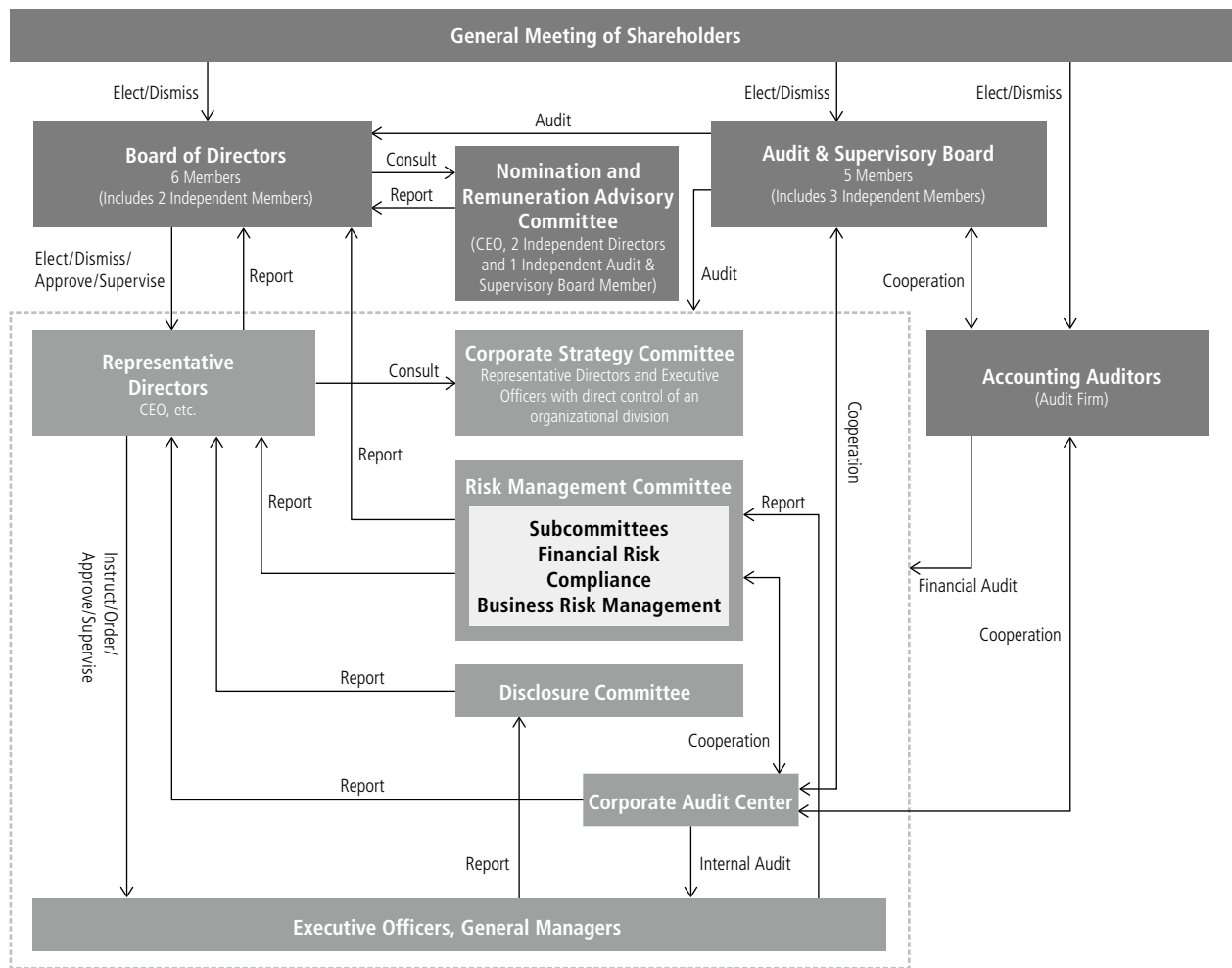
Board of Directors

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, an adequate number of at least 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 six members, four Representative Directors from inside the Company and two Outside Directors that qualify as Independent Directors. Additionally, there are 40 Executive Officers, including two females and one non-Japanese.

Corporate Governance Structure (As of April 1, 2019)



Audit & Supervisory Board

As a body independent from the Board of Directors in charge of the audit of operations, 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, accounting and internal control. The Audit & Supervisory Board, which is composed of these individuals, cooperates with Canon Inc.'s accounting auditors and internal audit division to oversee the Directors in the execution of their duties, the status of corporate assets and other matters in order to ensure 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 and Corporate Strategy Committee meetings, receive reports from directors and employees, review documents related to important decisions, and conduct audits by investigating 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.

Corporate Governance

Board Policies and Procedures in the Appointment of Senior Management and the Nomination of Director and Audit & Supervisory Board Member Candidates

Director and Audit & Supervisory Board Member candidates and Executive Officers are people that have the ability to fairly and effectively execute duties and, in principle, are selected from people that have met the following requirements, regardless of personal attributes such as gender, nationality, age etc.

- **Representative Directors and Executive Directors**
Have a true understanding of the corporate philosophy and code of conduct of the Company. At the same time, have broad familiarity with the Company's businesses and operations, gained through, for example, Executive Officer experience. Have the ability to make effective decisions that overlook multiple businesses and functions. In addition to this, the CEO shall be a person with the ability to lead the Canon Group, having, in particular, a wealth of knowledge and skill related to management and a clear vision and a strong sense of responsibility.

- **Independent Outside Directors**
In addition to meeting the independence standard that is separately determined by the Board of Directors, have an abundance of experience and superior insight into fields such as business management, risk management, law, and economics.

- **Audit & Supervisory Board Members**
Be familiar with the Company's businesses or its management structure, or have an abundance of experience and superior insight into professional fields such as law, finance, accounting, and internal control. As for Outside Audit & Supervisory Board Members, additionally meet the independence standards that are separately determined by the Board of Directors.

- **Executive Officers**
Have been highly evaluated in terms of character and ability in managerial assessment and managerial talent training programs, and also have sufficient knowledge, experience and judgment, to shoulder the responsibility of execution in specific fields, and truly understand the corporate philosophy and code of conduct of the Company.

The Company 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 appointed (includes the selection of a successor for the chief executive officer position), 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 recommendation prior to submission to and deliberation by the Board of Directors.

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

Training Policy for Directors and Audit & Supervisory Board Members

For Directors and Audit & Supervisory Board Members, when assuming their positions, training is carried out with the aim of thoroughly understanding their roles and responsibilities and securing necessary or useful knowledge for them to properly fulfill their duties. Also incumbent Directors and Audit &

Supervisory Board Members can, at the Company's expense, attend training courses held inside or outside the Company.

Furthermore, Outside Directors and Outside Audit & Supervisory Board Members, to familiarize them with the Company's business, are given opportunities, including attending important meetings such as meetings of the Corporate Strategy Committee, holding meetings with the person in charge of business divisions, and visiting operational sites as necessary.

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 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. 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 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 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 registered as Independent Directors/Audit & Supervisory Board Members with the stock exchanges of Tokyo, Nagoya, Fukuoka and Sapporo in accordance with the requirements of the relevant stock exchange.

Reference: Independence Standards for Independent Directors/Audit and Supervisory Board Members
<https://global.canon/en/ir/strategies/governance.html>

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'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	Yutaka Tanaka	Yutaka Tanaka had for many years served as a judge in charge of civil cases, and subsequently has been engaging in corporate legal affairs as an attorney and as a law school professor. Canon Inc. elected him as a candidate for Outside Audit & Supervisory Board Member as it desires to leverage his considerable experience and high level of expert knowledge about legal affairs to further enhance Canon Inc.'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.
	Koichi Kashimoto	Koichi Kashimoto has, over many years, been involved in business management of a major life insurance company, has served as a supervisor of general affairs including legal affairs, and furthermore has extensive international experience. Canon Inc. elected him as an Outside Audit & Supervisory Board Member given expectations that he will utilize such knowledge and experience in performing audits encompassing the entire Group, including its overseas operations.

Internal Audit Division

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 and the environment, 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 specialized viewpoints and there are plans to increase the number of members from 78 (as of April 1, 2019) 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 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' understanding of the company's internal control systems, including how they are being implemented and maintained, and risk evaluations. Furthermore, in addition to observing the Accounting Auditors' fieldwork and audit reviews 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 preapproval system for the content of auditing contracts and remuneration.

Corporate Governance

Executive Compensation

The remuneration of Representative Directors and Executive Directors consists of a basic remuneration, which is a fixed amount, paid each month, as compensation for execution of duties required in accordance with their role; a bonus that is linked to the Company's business performance in each business year; and, a stock-type compensation stock option plan to provide an incentive to improve medium- to long-term performance and raise corporate value.

As for Outside Directors and Audit & Supervisory Board Members, remuneration is limited to the basic remuneration, which is a fixed amount, paid each month.

The Company 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 standards for calculating basic remuneration and bonuses as well as standards for granting a stock-type compensation stock option plan, and reported to the Board of Directors that they considered such a remuneration system to be reasonable.

The amount of basic remuneration is determined for each Director and Executive Officer by the Board of Directors in accordance with calculation standards verified by the Nomination and Remuneration Advisory Committee.

The total amount of basic remuneration and stock-type compensation stock option plan for Directors is within the limit of the remuneration amount approved by the general meeting of shareholders. As for Directors' bonuses, the payment is fixed following approval of the submitted proposal at the Ordinary General Meeting of Shareholders.

Remuneration for individual Audit & Supervisory Board Members is determined through discussion among the Audit & Supervisory Board Members within the limit of the remuneration amount approved 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 an ordinary general meeting of shareholders, corporate strategy conferences, financial results conferences, and interviews with major institutional investors.

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 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."

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.

Reference: Investor Relations
<https://global.canon/en/ir/>

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.

2018 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	Stock-Type Compensation Stock Option	
Directors (excl. Outside Directors)	5	785	113	88	986
Outside Directors	2	48	–	–	48
Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members)	3	52	–	–	52
Outside Audit & Supervisory Board Members	4	59	–	–	59

* The above number of Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members) includes 1 Audit & Supervisory Board Member who retired at the conclusion of the Ordinary General Meeting of Shareholders for the 117th Business Term held on March 29, 2018.

* The above number of Outside Audit & Supervisory Board Members includes 1 Outside Audit & Supervisory Board Member who retired at the conclusion of the Ordinary General Meeting of Shareholders for the 117th Business Term held on March 29, 2018.

* "Bonus" represents the accrued directors' bonuses.

* The figure for stock-type compensation stock option indicates expenses recorded in the relevant fiscal year.