

Corporate Governance

Fundamental Policy

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

Reference: An Overview of Corporate Governance at Canon Inc. <https://global.canon/en/ir/strategies/governance.html>

Governance Structure

Fundamental Policy

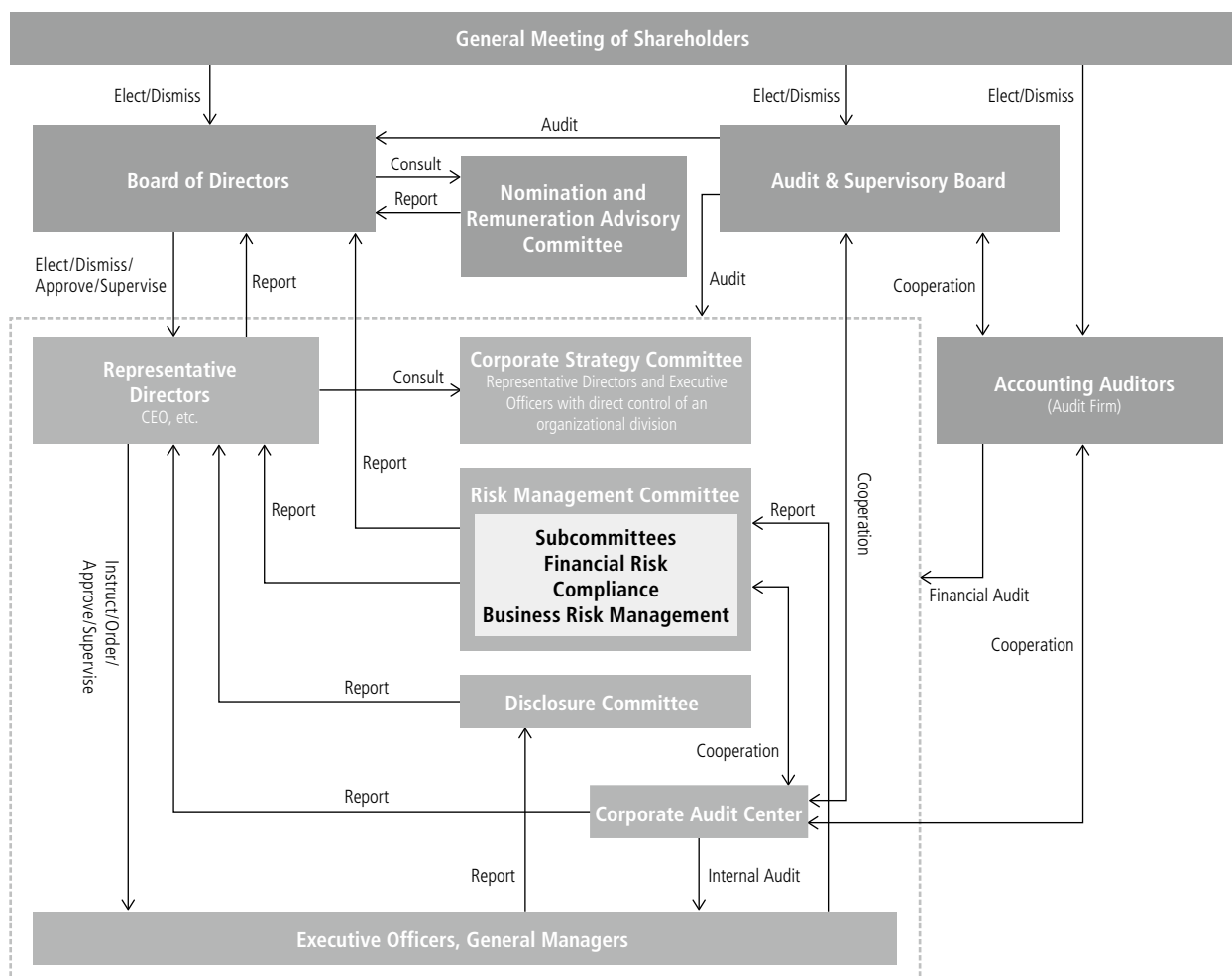
Canon Inc. is globally expanding its businesses in various business fields, including office equipment, consumer products, medical equipment, and industrial equipment, and aims to aggressively expand into new business fields in the future. In order to make prompt decisions in each business field, and make important decisions for the entire Canon Group or on matters that straddle several business

fields from a company-wide perspective and at the same time secure appropriate decision making and execution of operation, Canon Inc. judges the corporate governance structure below to be effective.

History of the Governance Structure

2008	<ul style="list-style-type: none"> Introduced the Executive Officer system
2009	<ul style="list-style-type: none"> Appointed non-Japanese Executive Officer
2010	<ul style="list-style-type: none"> Reduced the number of Directors (from 25 to 17)
2014	<ul style="list-style-type: none"> Appointed Outside Directors (two)
2015	<ul style="list-style-type: none"> Appointed female Executive Officer Started an effectiveness evaluation of the Board of Directors
2016	<ul style="list-style-type: none"> Reduced the number of Directors (from 17 to 6) Established Nomination and Remuneration Advisory Committee Established the Independence Standards for Independent Directors/Audit and Supervisory Board Members

Corporate Governance Structure



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, at least two Independent Outside Directors are appointed while also assuring that they account for one third or more of the total number of Directors, in order to secure sound management. 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 five members, three Representative Directors from inside Canon Inc. and two Outside Directors that qualify as Independent Directors. Additionally, there are 42 Executive Officers, including two females and one 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, and internal control. 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.

There are five Audit & Supervisory Board Members of which three 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 other important gatherings such as Corporate Strategy Committee meetings. They are also able to listen to reports from Directors and employees, review documents related to important decisions, and conduct audits by investigating etc. the situation of businesses and property of Canon Inc. and its subsidiaries. Additionally, the Office of Audit & Supervisory Board Members is independent, and it has a dedicated staff. The Audit & Supervisory Board Members can order headquarter management and other operations to conduct investigations in cases of necessity. 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 Canon Inc.'s internal auditing arm, and such cooperation services to improve each monitoring function.

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 Inc. 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.

Internal Audit Division

Canon Inc. has established the Corporate Audit Center as its internal auditing division, which audits, evaluates, and makes recommendations on compliance and internal control systems etc. The Corporate Audit Center also conducts audits on topics such as quality, the environment, and information security. Audit results are reported not only to the CEO and CFO, but also to the Audit & Supervisory Board Members and the Audit & Supervisory Board as described in "Cooperation between Audit & Supervisory Board Members and Internal Auditing" (→P111). In addition, Canon Inc. has established a system in which reports are also regularly given to Outside Directors and those Outside Directors can request submission of proposals to the Board of Directors, as necessary.

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.

Requirements of Director and Audit & Supervisory Board Member Candidates and Executive Officers

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.

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 appointed, including 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.

In particular, with regard to chief executive officer candidates, it is the CEO’s responsibility to select and train candidates through an executive training system and a mechanism for accumulating management experience, including the transfer of persons who have been selected as Executive Officers and involvement in company-wide projects. And the process is confirmed by the Nomination and Remuneration Advisory Committee.

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.

Board of Directors’ Skill Matrix

The skills that Canon Inc.’s Board of Directors should generally possess overall, and the skills possessed by each current Director are publically disclosed on the website below. Canon Inc., taking into account the changing

business environment, and as appropriate, will continue to explore the most suitable makeup of the Board of Directors, reviewing the skills that Canon Inc.’s Board of Directors should possess overall.

Reference: Corporate Governance
<https://global.canon/en/csr/management/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 time spend 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 2021, at the Board of Directors meeting held in February 2022, it was determined that there was no problem with the effectiveness of Board of Directors meetings due to ongoing measures to enhance deliberation at these meetings. These measures include, providing Outside Directors and the Audit & Supervisory Board with prior explanations of the meeting agendas, sharing management information by having Outside Directors attend Corporate Strategy Committee meeting, etc., and the periodical exchanging of opinions between Outside Directors and the Audit & Supervisory Board based on the findings of Audit & Supervisory Board Members, and creating opportunities for Outside Directors and Audit & Supervisory Board Members to receive individual explanations from each business group about their business strategy. 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.

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 Canon Inc.'s expense, attend training courses held inside and 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 operation sites as necessary.

Function, Role, Independence, 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 and Supervisory Board Members, in order to clarify the standards for ensuring independence of Independent Directors / Audit and 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 Inc.'s website. All of Canon Inc.'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 has been serving as an attorney in corporate legal affairs subsequent to his distinguished career as Superintending Prosecutor of High Public Prosecutors Offices (in Takamatsu, Hiroshima, and Osaka), and also has experience serving as an Outside Director and an Outside Audit & Supervisory Board Member for other companies. Canon Inc. elected him as an Outside Director in hopes that he will furnish particularly useful advice, drawing on his wealth of experience and high level of expertise regarding legal affairs when taking part in discussions on internal control mechanisms and corporate governance, including from the perspective of ensuring compliance.
	Yusuke Kawamura	Yusuke Kawamura has a wealth of experience as an Outside Director along with capacity as an expert with respect to financial and securities systems as well as strategy for managing financial institutions, given that he worked as a securities company and subsequently served in various positions, including as a university professor, a commissioner of councils of Japan's Ministry of Finance and Financial Services Agency, and an Executive Counselor of the Japan Securities Dealers Association. Canon Inc. elected him as an Outside Director in hopes that he will furnish particularly useful advice, drawing on his wealth of experience and high level of expertise regarding finance and securities, especially when taking part in discussions on M&A and ESG-related topics from a shareholder and investor perspective.
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 an 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 engaged in the practice of corporate accounting as a certified public accountant for many years. Canon Inc. elected him as an Outside Audit & Supervisory Board Member so that Canon Inc.'s management may utilize his wealth of experience and advanced expert knowledge related to corporate accounting in improving the appropriateness of audits.
	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.

Cooperation between Audit & Supervisory Board Members and Internal Auditing

The Audit & Supervisory Board Members and the Audit & Supervisory Board receive from the internal auditing division outlines 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 is being worked for through, for example, the exchanging of opinions and information as necessary.

Cooperation between Audit & Supervisory Board Members and Accounting Auditors

Audit & Supervisory Board Members and the Audit and Supervisory Board, prior to the start of an audit, receive briefs from the Accounting Auditors which include an overview of the audit plan and an explanation of important audit matters, and confirms validity. Additionally, information is shared when necessary, by receiving reports regarding the results of internal audits, and through audits and quarterly reviews given by Accounting Auditors. Furthermore, on top of being present for audits, meetings are held with the Accounting Auditors that are in charge of auditing major related companies, during which efforts are made to grasp the audit situation.

As for the Accounting Auditors' system for managing the quality of the audit, detailed explanations are received during which validity is confirmed. For the purpose of monitoring the independence of the Accounting Auditors, an Audit & Supervisory Board pre-approval system, targeting details of the auditing contract and amount of remuneration was introduced.

Executive Compensation

The remuneration of Representative Directors and Executive Directors consists of a basic remuneration, a bonus and stock-type compensation stock options as described below.

<Basic Remuneration>

Basic remuneration consists of a fixed amount of monetary remuneration paid monthly as consideration for the performance of duties of Directors. The amount is prescribed according to each Director's position and the degree to which the Director contributes in this role and the total remuneration amount is within the limit approved at the General Meeting of Shareholders. (Total remuneration amount here refers to the total basic remuneration of all Directors including Outside Directors.)

<Bonus>

As a reward for Director over a one-year term, Directors receive a bonus once a year for which "consolidated income before income taxes" is used as a financial indicator to measure the results of annual group-wide corporate activities. The total amount of the Director's bonus is determined by multiplying such consolidated income with a given predetermined coefficient that corresponds with

the Director's position. It is also determined through individual assessment based on the degree to which the Director contributes in this role.

Matters including whether a payment is allowed or the total amount of bonus as calculated above, are deliberated during the General Meeting of Shareholders every year.

<Stock-type Compensation Stock Options>

Once a year, stock acquisition rights on Canon Inc.'s shares are granted with the intent of providing an incentive for Directors to further contribute to the improvement of medium- and long-term performance and raising corporate value through sharing the benefits and risks of share price fluctuations with Canon Inc.'s shareholders.

The total amount of the stock acquisition rights is within the amount approved at the General Meeting of Shareholders and the number of those stock acquisition rights granted is calculated based on the amount determined by the Director's position, the consolidated income before income taxes in the previous year, as well as the degree to which the Director has contributed in this role (the amount of monetary compensation claims granted to Directors for the payment in exchange for the stock acquisition rights), and the stock price level at the time of grant. As remuneration is linked to the achievements throughout one's term in office, Canon Inc. has a system in place that allows the exercising of acquisition rights at the time of retirement.

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

Canon Inc., with the aim of ensuring the transparency and objectivity of the remuneration decision-making process as well as the validity of the remuneration system, 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, after examining the rationale of the remuneration system, including calculation standards of the basic remuneration, the bonus and the granting standards of stock-type compensation stock option plan, reports to the Board of Directors to the effect that the system is reasonable.

Decisions regarding the amount and content of remuneration (the amount of basic remuneration and bonus as well as the number of stock-type compensation stock options) of each Director is delegated to the CEO. However, the CEO must make decisions based on the prescribed criteria in accordance with the policy described above and, prior to making a decision, the CEO must present the proposal to the Nomination and Remuneration Advisory Committee for confirmation.

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.

2021 Executive Compensation by Executive Category, Type of Compensation, and Number of Executives

Category of Position	Number of Directors and Audit & Supervisory Board Members	Remuneration Amounts by Classification (millions of yen)			Remuneration Amounts (millions of yen)
		Basic Remuneration	Bonus	Stock-type Compensation Stock Option	
Directors (excl. Outside Directors)	3	565	232	36	833
Outside Directors	3	48	–	–	48
Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members)	2	43	–	–	43
Outside Audit & Supervisory Board Members	3	58	–	–	58

* The above number of Outside Directors includes one Outside Director who has resigned at the end of the Ordinary General Meeting of Shareholders for the 120th Business Term held on March 30, 2021.

* "Bonus" represents the accrued Director's bonuses for this term.

* In the column Stock-type Compensation Stock Options, expense for this term are presented.

Policy for Constructive Dialogue with Shareholders

Policy

For sustainable growth and to help improve corporate value over a medium- 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, on Canon Inc.'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. provides opportunities to meet with executive officers, Outside Directors, Audit & Supervisory Board Members etc., as necessary, to engage in dialogue with analysts and institutional investors in Japan and overseas. 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 reports 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.