

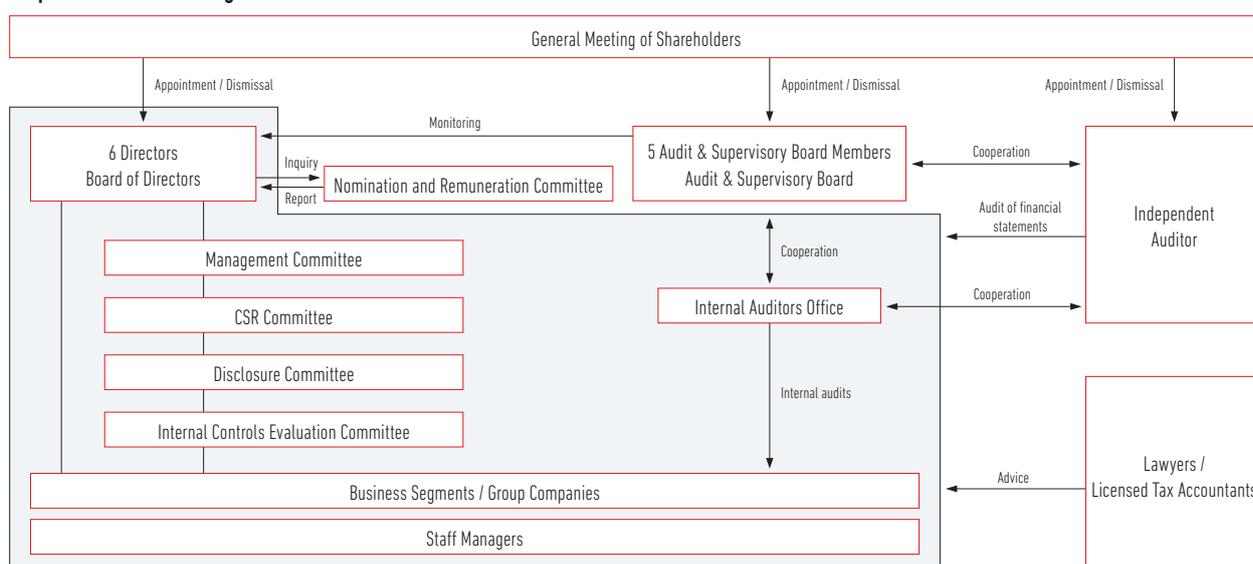
CORPORATE GOVERNANCE

Overview of Corporate Governance at the Canon MJ Group

- Organizational format: Company with Audit & Supervisory Board members
- Number of directors: 6
- Number of outside directors: 2
- Number of outside directors designated as independent: 2
- Term of directors: 1 year
- Number of Audit & Supervisory Board members: 5
- Number of outside Audit & Supervisory Board members: 3
- Number of outside Audit & Supervisory Board members designated as independent: 2
- Term of Audit & Supervisory Board members: 4 years
- Independent auditor: Ernst & Young ShinNihon LLC
- Use of executive officer system: Yes

Corporate Governance Organization

(As of March 29, 2019)



Basic Stance on Corporate Governance

We recognize that sustainable growth in corporate value requires ongoing improvement in such areas as management transparency and the monitoring of progress toward management targets. This is reflected in our wide-ranging initiatives to strengthen corporate governance. We have implemented all principles of Japan's Corporate Governance Code.

Protection of Minority Shareholders in Transactions with the Controlling Shareholder and in General

The Company's controlling shareholder is Canon Inc. The Company concludes important basic agreements with Canon Inc. based on resolutions of the Board of Directors. Such agreements are appropriately and fairly implemented without compromising the Company's interests. The Company acts appropriately and fairly in all transactions, not just those with its controlling shareholder, to avoid compromising its independence and interests and to safeguard the interests of all shareholders.

Independence from the Parent Company

The Company's parent company is Canon Inc., which held 58.5% of the Company's voting rights as of December 31, 2018. Within Canon Inc.'s corporate group, the Company oversees sales, service, and marketing for Canon products in the Japanese market. The Company also supplies IT solutions and other services, clearly compartmentalizing its operations.

With regard to transactions with the parent company, the Company has the exclusive right to sell all Canon brand products in Japan, the exceptions being semiconductor and LCD lithography systems. Transaction terms are determined by presenting the Company's asking prices and engaging in conventional negotiations. None of the Company's directors concurrently serves the parent company.

It is because of this situation that the Company faces no restrictions from the parent company in terms of operational activities and maintains a certain level of independence from the parent company by making its own management decisions on business activities and operations.

The Company ensures the effectiveness of its corporate governance as a listed enterprise by bolstering its internal auditing department while independently building diverse internal controls systems through collaboration with its Audit & Supervisory Board members and the independent auditor and setting up committees.

Policy on Constructive Dialogue with Shareholders

The Company helps to drive sustainable growth and improve corporate value over the medium and long terms by engaging in constructive dialogue with shareholders, including through general meetings of shareholders, briefings on management plans for the medium and long terms, results briefings, and meetings with major institutional investors.

Board of Directors, Directors, and Executive Officers

We maintain a structure in which the representative director oversees Companywide business strategies and execution, while supervision of business domains and headquarters functions is primarily through executive directors, and add at least two independent external directors to ensure sound management. In accordance with laws and ordinances, the Board of Directors monitors important decisions and implementation.

Other decisions are handled by the representative director or under the representative director’s direction and supervision through executive officers whom the Board of Directors appoints through its resolutions to assume responsibility for making and implementing decisions for business domains and headquarters functions.

The Board of Directors comprises six members, including two outside directors. By limiting the term of office for directors to one year, we have created a management structure capable of adapting quickly to changes in the business environment. Important decisions are made by the Board of Directors, which normally meets once a month, and at Management Committee meetings attended by the directors of Canon MJ and the presidents of major subsidiaries.

On March 29, 2011, we introduced an executive officer system. The purpose of the system is to speed up management decision-making in the Canon MJ Group by separating management decision-making from executive functions and reducing the number of directors. It also clarifies responsibility for the performance of business operations and strengthens executive systems. There were 23 executive officers as of April 1, 2019.

Audit & Supervisory Board and Auditors

The Audit & Supervisory Board functions independently of the Board of Directors, and comprises individuals who are familiar with the Company’s business or corporate management and who have accounting or other

expertise. At least one outside Audit & Supervisory Board member is an outside auditor who fulfills the independence criteria that the Board of Directors separately determines.

The Audit & Supervisory Board cooperates with the independent auditor and the Internal Auditors Office to assess performance and corporate assets and ensure sound management.

There are five Audit & Supervisory Board members, of whom three are outside auditors. Their duties include attending Board of Directors’ meetings, speaking with directors and other parties, and perusing important accounts’ documents in line with the auditing policies and work allocations that the Audit & Supervisory Board stipulates, and conducting rigorous audits by examining operations and property.

Internal Auditors Office

The Internal Auditors Office produces internal audit policies for Canon MJ and its subsidiaries as an independent specialist that reports directly to the president. It also conducts audits, assesses, and advises on all business activities from the perspectives of credibility of financial reports, the validity and efficiency of operations, legal compliance, and the conservation of assets. The auditors of Canon IT Solutions Inc. and Canon System & Support Inc. conduct assessments based on the same policies. The Canon MJ Group had 57 audit staff members (as of the end of January 2019).

Audit of Financial Statements

The Canon MJ Group’s financial statements are audited by the Company’s independent auditor, Ernst & Young ShinNihon LLC. The independent auditor rotates responsible partners who have been involved in audits of any company for more than seven years. (They rotate a chief partner every five years.)

Outside Directors and Outside Audit & Supervisory Board Members (as Defined under the Corporation Law)

Canon MJ has two outside directors and three outside Audit & Supervisory Board members. Pursuant to the consent of all Audit & Supervisory Board members and the Board of Directors, we implemented our independence criteria for outside directors and outside Audit & Supervisory Board members to clarify the standards for ensuring outside directors and outside Audit &

Reasons for Appointing Outside Directors

	Independent director	Reason for appointment
Akio Dobashi*1	☑*4	Mr. Dobashi has amassed ample expertise in corporate management as a senior executive of a general trading company, and also met requirements for appointment as an independent director.
Yoshio Osawa*2	☑*4	Mr. Osawa has amassed ample expertise in corporate management as a senior executive of a general trading company and an IT services firm, and also met requirements for appointment as an independent director.

*1 Mr. Dobashi previously worked at Sojitz Corporation. Although the Company has a contract with Sojitz to maintain business and other equipment, transactions with that company account for less than 1% of the Company’s consolidated net sales.

*2 Mr. Osawa previously worked at Sumitomo Corporation and SCSK Corporation, with which the Company does business. Transactions with Sumitomo are based on sales of business equipment, but such transactions account for less than 1% of the Company’s consolidated net sales. Transactions with SCSK are based on sales of business equipment and on the supply of IT equipment, but such transactions account for less than 1% of the Company’s consolidated net sales.

Reasons for Appointing Outside Audit & Supervisory Board Members

	Independent Audit & Supervisory Board member	Reason for appointment
Kunihiko Tedo	<input type="checkbox"/>	Mr. Tedo worked for many years in accounting in the Canon Group, and served as a Senior Vice President at Canon U.S.A., Inc., with his expertise positioning him well to independently monitor the Company's management.
Nobuyasu Kusumi* ³	<input checked="" type="checkbox"/> * ⁴	Mr. Kusumi served as an insurance company executive for many years, and also met requirements for appointment as an independent audit & supervisory board member.
Shigeo Hasegawa	<input checked="" type="checkbox"/> * ⁴	Mr. Hasegawa has many years of accounting and auditing experience as a certified public accountant, and also met requirements for appointment as an independent audit & supervisory board member.

*³ Mr. Kusumi has served as a senior executive at Sampo Japan Nipponkoa Insurance Inc. and Sampo Japan Nipponkoa Himawari Life Insurance, Inc. The Company has an insurance policy with Sampo Japan Nipponkoa Insurance and a contract with that company to sell business and other equipment. However, annual transaction volume is less than 1% of this company's and the Company's respective consolidated net sales. The Company also has a contract with Sampo Japan Nipponkoa Himawari Life Insurance to sell business and other equipment. However, annual transaction volume is less than 1% of this company's and the Company's respective consolidated net sales.

*⁴ Have notified the Tokyo Stock Exchange as an independent director or an independent audit & supervisory board member as prescribed by the Exchange.

Directors' and Audit & Supervisory Board Members' Attendance at Board Meetings

	Name	Attendance at meetings of the Board of Directors and Audit & Supervisory Board during fiscal 2018
Outside directors	Akio Dobashi	15/15 times (100%) of Board of Directors' meetings
	Yoshio Osawa	10/10 times (100%) of Board of Directors' meetings (attended all 10 Board of Directors' meetings held subsequent to his appointment)
Outside Audit & Supervisory Board members	Kunihiko Tedo	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Nobuyasu Kusumi	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Shigeo Hasegawa	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings

Supervisory Board members in keeping with the Corporate Governance Code and standards of independence. Our outside directors and Audit & Supervisory Board members satisfy the independence criteria and help maintain and improve the transparency and accountability of the Board of Directors.

The Company does not maintain a specialist organization or provide full-time staff to assist outside directors or outside Audit & Supervisory Board members. Directors in charge of operations and other officials provide outside directors with prior explanations of Board of Directors' meeting agendas as needed. Internal auditors, directors in charge of operations, and other officials provide outside Audit & Supervisory Board members with prior explanations of Board of Directors' meeting agendas as needed. Outside Audit & Supervisory Board members attend Audit & Supervisory Board meetings, which are held at least once monthly, as well as liaison meetings and other gatherings conducted as required to exchange information on important items and audit details.

Analysis and Evaluation of Effectiveness of Board of Directors

The Company interviewed all directors and Audit & Supervisory Board members about the effectiveness of the Board of Directors, and the Board of Directors analyzed and evaluated the findings. Although this process broadly confirmed the effectiveness of the Board of Directors, some members suggested ways to enhance decision-making effectiveness in meetings, including of the Board of Directors. Of special note were agenda items at these meetings, criteria for agendas, and the adequacy of reported matters. The Board of Directors will draw on such feedback in its operations.

Policies and Procedures for Determining Remuneration for Senior Executives and Directors

Remuneration for the representative director and directors consists of basic remuneration, which is a fixed basic monthly fee for executing their roles and duties, a bonus linked to performance during the fiscal year, and stock incentives also linked to performance to promote improvements in medium- to long-term business performances and corporate value. The same applies to remuneration for executive officers, who are senior executive officers or above. Outside directors only receive basic remuneration.

The Company maintains a voluntary four-person Nomination and Remuneration Committee comprising the president, one director, and two independent outside directors. The committee verifies the appropriateness of the remuneration system for directors and executive officers who are senior executive officers or above, including ideas on calculating basic remunerations and bonuses. Remunerations are all in line with the remuneration structure, whose basic calculation approaches were resolved at meetings of the Board of Directors and are verified by the Nomination and Remuneration Committee.

The total of basic remuneration and performance-linked stock incentives for directors must be less than the maximum total remuneration approved at general meetings of shareholders. Bonuses, however, are determined when proposals for them are approved at ordinary general meetings of shareholders.

Appointment and Nomination Procedures

The Company maintains a voluntary four-person Nomination and Remuneration Committee comprising the president, one director, and two independent outside directors.

To nominate director or Audit & Supervisory Board member candidates and appoint senior executive officers (including successors and president and representative director candidates), the president and representative director first nominates candidates from among those fulfilling requirements. The nomination is submitted at a meeting of the Board of Directors after the Nomination and Remuneration Committee confirms that it is fair and appropriate.

Dismissal Procedures for Management Team Executives

Directors and Audit & Supervisory Board members can ask the Nomination and Remuneration Committee for deliberations at any time to decide whether the dismissal of a representative director, executive director, or executive officer who is a senior executive officer or above (collectively, "management team executives") is necessary in the event of illegal, unfair, or treasonous behavior among such individuals, if they have failed to fulfill their roles, or for other reasons that make such people unsuited to retain their posts as management team executives.

All results of Nomination and Remuneration Committee deliberations shall be submitted to the Board of Directors, regardless of the outcome of Board of Directors' deliberations on the necessity of dismissal. The management team executives subject to deliberations cannot join in discussions.

Resignations from Representative Director and Other Posts

Canon MJ maintains engagement with retired directors that have business association activities for the Company, but these retired directors are not in any way involved in management decisions and functions.

Name	Former post	Post	Work arrangement and terms (full-time, part-time, with or without compensation, and others)	Date of retirement from former posts	Engagement term
Haruo Murase	Chairman	Advisor	Work arrangement: Part-time Compensation: Yes	March 28, 2018	Renew after one year
Masami Kawasaki	President	Special advisor	Work arrangement: Part-time Compensation: Yes	March 26, 2015	Renew after one year

IR Activities

We formulated the Canon MJ IR Policy in 2008 to clarify our stance, which is disclosed on the official investor relations (IR) website below. For retail investors, the president, the managing executive officer overseeing IR, or other executives conduct Company briefings. In 2018, the Company exhibited at events and conducted Company briefings for many retail investors in February, May, August, and December. Also, the Company holds seminars on camera usage for retail investors at branches of securities firms to help these people familiarize themselves with the Company's products. For analysts and institutional investors, the Company augments medium- to long-term management plan briefings by the president at the beginning of year with quarterly results briefings at which the managing executive officer in charge of

IR outlines performances. The Company also embraces individual interview requests, meeting requests from analysts and institutional investors, and teleconferences with foreign institutional investors. In 2018, it participated in a security firm-sponsored conference in New York and met with local institutional investors. The Company also participated in a domestic security firm-sponsored conference and held a meeting between the president and overseas institutional investors.

Canon MJ IR website
canon.jp/8060e-ir

Messages from Outside Directors



Akio Dobashi
Outside Director

It's not a difficult thing to make some money with a little effort. But you need more than a little effort to become extremely profitable. You have to keep up to date on the latest trends, and in doing so you will soon discover that making money comes more naturally. It's crucial to pay attention to and to identify trends.

A key priority of Canon MJ's medium-term management plan is to draw on IT solutions to drive growth. I think this is the right direction as it is in line with trends.

A challenge with this is the Company's ability to secure the right people to help realize this objective. As such, the Company must urgently develop a bold strategy to hire IT experts, such as through scouting.

Canon MJ set up its Nomination and Remuneration Committee this fiscal year, marking a major step forward in corporate governance. As one of its members, I will work diligently to ensure that the committee is effective.

The Board of Directors encourages free-spirited debate, and I feel very at home with this organization because of how it values its people. Employees are highly motivated, and if I were ever offered the opportunity to become a regular worker in this organization I would gladly join.



Yoshio Osawa
Outside Director

Canon MJ's medium-term management plan focuses particularly on the IT solutions market, which has considerable growth potential. The Company seeks to make IT solutions an engine of expansion. As an outside director, I endeavor to ensure transparent corporate governance. I also recognize that another important role is to advise on efforts to drive growth.

I have amassed roughly 15 years of executive experience, including my time at a trading firm and thereafter heading an IT solutions company. People and organizations are adopting IT faster than ever and in more complex ways. I believe that it's essential for the Canon MJ Group to stay one step ahead in this fast-moving environment to generate further growth.

The Canon brand is a unique strength for the Company. It maintains a powerful nationwide sales network serving small-to-medium-sized enterprises. On top of that, the Company maintains a data center and as part of its offering of services it centralizes the management of camera image, copier, and PC data over the cloud. In addition to selling copiers, cameras, PCs, and other products, I believe that the Canon MJ Group has the potential to generate tremendous growth by taking advantage of its unique strengths through a service model in which its IT solutions provide added value. I will do my utmost to advise management regarding its strategies.

Management Systems

Raising the value of the Canon MJ Group's corporate brand is an ongoing priority. We do this by maintaining high standards of corporate ethics Groupwide, and by developing structures capable of responding to a variety of management risks.

Risk Management

The Canon MJ Group has taken steps to ensure the continuity of its business activities in the event of a major earthquake, an influenza outbreak, or other contingencies that could impact its activities. These initiatives for the Group overall are coordinated by the BCM* Committee, a subsidiary organization of the Management Committee.

*BCM: Business continuity management

Internal Controls

Based on the Companies Act, the Board of Directors resolved the basic policy for an internal controls system to ensure appropriate business practices, and is deploying that system in line with that policy.

Chaired by the president, the Internal Controls Evaluation Committee

consists of officials representing corporate departments and subsidiaries. Its task is to develop internal controls systems for the entire Canon MJ Group.

Canon Inc., which is listed on the New York Stock Exchange, has adopted systems that comply with the Sarbanes-Oxley Act, a U.S. law designed to improve corporate governance. As a member of the global Canon Group, Canon MJ has also applied global perspectives by establishing systems based on the same standards.

Corporate Ethics and Compliance

For the Canon MJ Group, compliance is not simply a matter of obeying laws and regulations. We define compliance as obedience to regulatory requirements and social rules, a commitment to social justice, and continuing efforts to meet the expectations of society. Our compliance activities are designed to encourage high ethical values and respect for the law in individual employees through awareness activities, employee education, and organizational activities.

In keeping with the rules that it sets, the Board of Directors carefully deliberates and decides on important management matters and receives reports from representative and executive directors and executive officers on

business implementation progress.

We distribute the Canon Group Code of Conduct and other handbooks and Compliance Cards to all Group employees and enhance awareness through education and training. We convene the semiannual Compliance Meeting to confirm compliance risks and countermeasures at each work site. We also maintain an ongoing internal reporting system.

Information Security

The Canon MJ Group regards the reinforcement of information security as part of its responsibilities toward the creation of a more secure society, and as essential to meeting customers' expectations in line with its Customer Focus philosophy.

Business Risks

Impacts of Market Competition and Fluctuations

In office MFPs and maintenance services, price competition continues. Although print volumes using MFPs are on a rising trend, the unit price for maintenance services continues to fall, and profitability could deteriorate if price competition intensifies. A decline in print volumes driven by the trend toward paperless offices could affect the Canon MJ Group's results. An increase in unit sales of third-party laser printer toner cartridges could constrain revenues from genuine Canon counterparts.

In IT Solutions, the Company carefully manages work hours in various SI projects to prevent losses. Nonetheless, such factors as additional customer specifications, altered requirements, or mismatches in the Company's and customers' interpretations of specifications or progress could hamper results.

The digital interchangeable lens camera market may shrink amid an accelerating market shift from SLR to mirrorless models. Sales declines of inkjet printers and inkjet cartridges may accelerate amid the decrease in the print volume associated with the declining demand for printing New Year's greeting cards.

In the industrial equipment business, capital spending among semiconductor and device manufacturers greatly affects orders for semiconductor fabrication and measuring equipment. Results could stagnate if these manufacturers reduced such expenditure.

In the medical equipment business, the Pharmaceutical and Medical Device Act (formerly, the Pharmaceutical Affairs Act) makes it mandatory to appoint sales administrators, set up post-marketing traceability information systems, and reinforce safety management structures. While the Group does its utmost to maintain systems to comply with such requirements, transactions with medical institutions and medical equipment dealers could decline if its safety management structure or information systems do not perform as envisaged.

As we purchase products and services from many partners, including parent Canon Inc., we may face the risk of insufficient supplies of goods owing to certain partner circumstances, including natural disasters and major accidents. Results could be affected if such situations hamper sales activities.

We have taken various steps to bolster information security governance, moving forward with objective assessments and ongoing improvements. We formulated the Basic Policy on Information Security for the Canon MJ Group and rolled out the Information Security Management System (ISMS) and Personal Information Protection Management System (PMS) for the Group to standardize and streamline management. We are optimizing our information security countermeasures, training information security personnel, and have secured and maintained certification under the ISMS Conformity Assessment Scheme and Privacy Mark. We deployed the Canon MJ Computer Security Incident Response Team to reinforce cybersecurity. We also issue the Information Security Report.

Credit Risks

The Canon MJ Group could experience unforeseen credit losses, as it engages in many transactions in which it collects payments after providing goods and services. The Company therefore draws on credit information from external credit bureaus and other sources as part of thorough credit management efforts while hedging risks through factoring and other means. The Company provides allowances for doubtful receivables to cover the risks of losses on collection. Large unforeseen uncollectible amounts could detract from the Group's results and financial position.

Relationship with Parent Company

Canon MJ is a subsidiary of Canon Inc., which owned 58.5% of its stock as of December 31, 2018. The Company has the exclusive right to sell all Canon brand products in Japan, the exceptions being semiconductor and LCD lithography systems. In fiscal 2018, Canon MJ's purchases from Canon Inc. amounted to ¥198.4 billion, or 58.5% of its total purchases.

Because of this relationship, a major shift in the management policies or business activities of Canon Inc. could have a significant impact on the business activities, performance, and financial position of the Canon MJ Group. If it becomes impossible to maintain the superiority of Canon products in relevant industries for whatever reason, the Group's results could be adversely affected.

Information Management

The Canon MJ Group holds important information about various Group operations as well as a considerable amount of sensitive information about companies and individuals. As such, we formulate information management policies and rules, educate and train employees to increase awareness of the importance of information management, implement and check the status of system security measures, and create and deploy an ISMS. Notwithstanding these measures, information that leaks externally as a result of cyberattacks could greatly inconvenience business partners and other stakeholders or lower the credit standing of the Canon MJ Group, thus possibly hampering its operations, results, and financial position.