

CANON INC  
Form 6-K  
June 30, 2006

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**FORM 6-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Report of Foreign Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**  
**For the month of JUNE, 2006**  
**CANON INC.**

(Translation of registrant's name into English)  
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-\_\_\_\_\_

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**SIGNATURES**

The following is an overview of Corporate Governance at Canon Inc.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CANON INC.**

(Registrant)

Date **JUNE 29, 2006**

By: /s/ Hiroshi Kawashimo  
(Signature)\*

Hiroshi Kawashimo  
General Manager, Finance Division  
Canon Inc.

\*Print the name and title of the signing officer under his signature.

The following materials are included.

1. The following is an overview of Corporate Governance at Canon Inc.
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NA

(The Company has 4 listed subsidiaries and 2 listed sub-subsidiaries. The Company respects the independence of each company in its managerial decision-making and execution of duties.)

**II. Overview of Corporate Governance Structure in terms of the Organization of Management regarding Managerial Decision-Making, Execution of Duty, Oversight and other matters****1. Items Concerning Institutional Structure, Organizational Operation, etc.**

|                     |  |
|---------------------|--|
| Organizational Form | Company with a Board of Corporate Auditors |
|---------------------|--|

Directors

|                                    |  |
|------------------------------------|--|
| Chairman of the Board of Directors | Chairman of the Company (excluding the case when the chairman of the company concurrently holds position of president) |
|------------------------------------|--|

|                     |    |
|---------------------|----|
| Number of Directors | 26 |
|---------------------|----|

|                           |      |
|---------------------------|------|
| Elected Outside Directors | None |
|---------------------------|------|

**Reasons for Operating Under the Current Structure**

Important business matters are discussed and ratified during meetings of the Board of Directors and Executive Committee, which are, in principle, attended by all Directors. Canon's board consists of 26 Directors (as of March 30, 2006). In order to make more rational and efficient decisions, the board is composed of all Internal Directors who have well-developed knowledge of the Company's affairs.

The Company has five Corporate Auditors, three of whom are Outside Corporate Auditors (as of March 30, 2006). In order to ensure effective corporate governance, the Company employs diverse internal control systems, including enhancing the structure and authority of its internal auditing; having Corporate Auditors and the Corporate Audit Center work closely with the Accounting Auditors; and establishing in 2004 the Corporate Ethics and Compliance Committee and Internal Control Committee. These measures support the effective implementation of the Company's corporate governance, while also making possible the maintaining and strengthening of this structure.

Corporate Auditors

|  |        |
|--|--------|
| Existence or Nonexistence of a Board of Corporate Auditors | Exists |
|--|--------|

|                              |   |
|------------------------------|---|
| Number of Corporate Auditors | 5 |
|------------------------------|---|

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**Cooperation Between Corporate Auditors and Accounting Auditors**

At the beginning of the year, the Corporate Auditors and the Board of Corporate Auditors receive from the Accounting Auditors an outline of their audit plan and a report on important auditing items on which the Corporate Auditors and the Board of Corporate Auditors express their opinion with respect to validity. Also, following each half-year audit, the Corporate Auditors and the Board of Corporate Auditors, working in close cooperation with the Accounting Auditors, exchange opinions on such subjects as the results of audits and the Accounting Auditors' grasp of the Company's internal control systems and their evaluation of risk.

Furthermore, the Corporate Auditors may attend the Accounting Auditors' fieldwork and audit reviews as necessary. The Company also established a system whereby the Corporate Auditors and the Board of Corporate Auditors always receive from the Accounting Auditors an audit report that deals with the accounting audit in regarding the closing of the accounts. Also the Corporate Auditors and the Board of Corporate Auditors constantly work closely with the Accounting Auditors and may, from time to time, request to the Accounting Auditors a report on the progress of their various audits.

**Cooperation Between Corporate Auditors and Internal Auditing**

At the beginning of the year, the Corporate Auditors and the Board of Corporate Auditors confirm with the Corporate Audit Center, which serves as the Company's internal auditing division, the outline of their audit plan and auditing subjects.

The Corporate Auditors and Board of Corporate Auditors receive from the Corporate Audit Center a report on the audit and the evaluation after the conclusion of the internal audit on such subjects as compliance with laws and internal control systems. The Corporate Audit Center also reports individually on the internal audit results regarding product quality, environmental issues, information security and physical security, areas in which various relevant administrative divisions work very closely with the Corporate Audit Center.

|                            |         |
|----------------------------|---------|
| Outside Corporate Auditors | Elected |
|----------------------------|---------|

|                                      |   |
|--------------------------------------|---|
| Number of Outside Corporate Auditors | 3 |
|--------------------------------------|---|

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## Relation with the Company (1)

| Name              | Occupation                         | Relation with the Company  |
|-------------------|------------------------------------|--|
| Tadashi Ohe       | Attorney                           | A current outside director or outside corporate auditor of another company |
| Yoshinobu Shimizu | Certified Public Accountant        | NA   |
| Minoru Shishikura | Former employee of another company | A current outside director or outside corporate auditor of another company |

## Relation with the Company (2)

| Name              | Supplementary Information in Regard to Applicable Items | Reason(s) for Appointing the Relevant Outside Corporate Auditor                      |
|-------------------|---|--|
| Tadashi Ohe       | NA  | Insight and experience gained through being an attorney                              |
| Yoshinobu Shimizu | NA  | Insight and experience gained through being a certified public accountant            |
| Minoru Shishikura | NA  | Insight and experience gained through many years working for a financial institution |

## Other Items Related to Major Activities of Outside Corporate Auditors

Outside Corporate Auditors conduct audits throughout the year based on the audit policy, audit plan, audit methodology and the allocation of audit work, which are determined by the Board of Corporate Auditors. In the Company's 105th Business Term (fiscal year 2005, which ended December), the Board of Corporate Auditors met 17 times with both Outside Corporate Auditors in attendance. Furthermore, including Extra-ordinary Board of Director Meetings, the Board of Directors met 16 times, 12 times with both Outside Corporate Auditors present, and four times with one Outside Corporate Auditor present.

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**2. Items Concerning Functions such as Execution of Duties, Audit and Supervision, Designation, and Remuneration Determination**

In addition to the director and corporate auditor systems, the Company has a corporate governance structure that incorporates its own internal auditing system.

With a Board consisting of 26 Directors, none of which are Outside Directors (as of March 30, 2006), the Company pursues rational and effective management decision-making. Important matters are ratified by the Board of Directors and Executive Committee, which, in principle, are based on full participation of the Company's Directors. The Company has also established committees to address important management themes with the aim of facilitating efficient decision-making while, at the same time, complementing the business operation structure and realizing a mutual supervisory function.

In addition, there are five Corporate Auditors, including three Outside Corporate Auditors (as of March 30, 2006), who fulfill a monitoring function of management in accordance with audit policies and allocation of responsibilities. The Corporate Auditors conduct strict audits through attending the Board of Directors meetings, Executive Committee meetings and other meetings of various committees, listening to operating reports from Directors and others, inspecting documents of important resolutions, and investigating the Company's business situation and assets. Furthermore, close cooperation among the Corporate Auditors, the Accounting Auditors and the Corporate Audit Center serves to enhance each monitoring function.

With regard to external audits, the Company has introduced the prior approval system by the Board of Corporate Auditors for contents of the auditing and other service contract and the relevant fees through establishing such rules as the prior approval of policies and procedures for both auditing and non-auditing services to reinforce the independence of our accounting firms.

Based on internal audit rules, the Corporate Audit Center (internal auditing) conducts audits covering such areas as compliance with laws and internal control systems, and provides assessments and proposals. The various relevant administrative divisions also work with the Corporate Audit Center to audit such areas as product quality, environmental issues, information security and physical security.

The Company has an Auditing Service contract with Ernst & Young ShinNihon to audit its financial statements.

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The names and other details of the certified public accountants that carried out audit work for the Company for the 105th Business Term (fiscal year 2005, which ended December) is listed below.

| Certified Public Accountant |                   |                   | Accounting Firm            | Number of Years of Consecutive Audits |
|-----------------------------|-------------------|-------------------|----------------------------|---------------------------------------|
| Designated Partner          | Operating Partner | Michio Shibuya    | Ernst & Young<br>ShinNihon | 10 years                              |
| Designated Partner          | Operating Partner | Hideo Kojima      | Ernst & Young<br>ShinNihon |                                       |
| Designated Partner          | Operating Partner | Eiichi Wada       | Ernst & Young<br>ShinNihon | 12 years                              |
| Designated Partner          | Operating Partner | Yuichiro Munakata | Ernst & Young<br>ShinNihon |                                       |
| Designated Partner          | Operating Partner | Hirokazu Tanaka   | Ernst & Young<br>ShinNihon |                                       |

Note 1: For those partners with less than 7 years of consecutive audits, the number of years of consecutive audits have been omitted.

Note 2: The accounting firm has applied the audit partner rotation system in fulfillment of the Certified Public Accountant Law in Japan and Japanese Institute of Certified Public Accountant regulations.

Note 3: In accordance with the Certified Public Accountant Law, operating partners are able to conduct audits within a period of 7 consecutive fiscal years for fiscal years beginning in and after April 2004. Meanwhile, the accounting firm takes voluntary measures to rotate operating partners that exceed 7 years, for companies whose business term starts on or after November 1, 2005. Accordingly, it is planned to voluntarily rotate Mr. Michio Shibuya, Mr. Eiichi Wada and Mr. Hirokazu Tanaka in the 106th Business Term (fiscal 2006, ending December).

Auditing assistants that carried out audit work for the Company: (Certified Public Accountants: 24; Junior Accountants: 22; Others: 11)

**III. Implementation of Measures Related to Shareholders and Other Stakeholders****1. Measures to Revitalize the Shareholders Meetings and Facilitate the Exercise of Voting Rights**

## Supplementary Information

|   |  |
|---|--|
| Early Distribution of Notice Regarding the Ordinary General Meeting of Shareholders | The Company sent its Notice of Convocation of the Ordinary General Meeting of Shareholders 27 days prior to its latest Ordinary General Meeting of Shareholders. |
|---|--|

|       |  |
|-------|--|
| Other | For foreign shareholders, the Company prepares English translations of its Notice of Convocation of the Ordinary General Meeting of Shareholders and Business Report and distributes this information to standing proxies. |
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|  | Existence or<br>Nonexistence of<br>explanations by a<br>company representative | Supplementary Information  |
|--|--|--|
| Holding of Periodic Conferences for Individual Investors                 | Exists   | A Representative Director holds a conference once a year.  |
| Holding of Periodic Conferences for Analysts and Institutional Investors | Exists   | A Representative Director holds a conference on management policy (Corporate Strategy Conference) once a year. On the day financial results are announced, the Senior Managing Director and Group Executive of Finance & Accounting Headquarters also holds a conference for analysts and institutional investors to report the results. In addition, twice a year the Company holds conferences, which focus on product groups and are usually hosted by the executive in charge of each group. |
| Holding of Periodic Conferences for Overseas Investors                   | NA   | Once a year the Senior Managing Director and Group Executive of Finance & Accounting Headquarters meets with overseas investors to discuss the Company's management and business strategies. On the day financial results are announced, the Senior Managing Director and Group Executive of the Finance & Accounting Headquarters also holds a conference call to report the results. In addition, a Representative Director may occasionally hold a conference with overseas investors.        |
| Posting of IR Materials on Homepage                                      | Exists   | As a general rule, the Company strives to post all disclosed materials on its Japanese and English language websites. The websites also include information on the Company's stock price, historical financial data (10-year summary), and audio or video from various recently held investor-related conferences.   |
| Establishment of a Post for IR   | NA   | The IR Promotion Division, which is a part of the Global Finance Center, organized under Finance & Accounting Headquarters, is in charge of investor relations. The Director in charge of investor relations is the Senior Managing Director and Group Executive of Finance & Accounting Headquarters. The person in charge of the investor relations program on a day-to-day basis is the senior general manager of the IR Promotion Division.  |

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**3. Measures Concerning Respecting the Position of Stakeholders**

Supplementary Information

Internal Rules, etc. Regarding Respecting the Position of Stakeholders

In line with Canon's corporate philosophy of *kyosei* (living and working together for the common good) the Company works to fulfill its social responsibilities, fostering good relations, not only with its customers, the communities in which the Company operates, and shareholders, but also with nations and the environment. These objectives are outlined in the Canon Group Code of Conduct, which Canon Directors and employees adhere to when conducting business activities.

Implementation of Environmental Conservation Activities, CSR Activities, etc.

Regarding the Company's environmental conservation activities and CSR activities, related divisions are in charge of handling these responsibilities in accordance with Canon's corporate philosophy of *kyosei*.

Detailed information on these activities appears in the Sustainability Report, which the Company publishes to ensure accountability to its stakeholders.

Establishment of Policies, etc. Concerning Supplying Information for Stakeholders

As for information-disclosure policies, the Company has drawn up its own guidelines, which it adheres to when disclosing information. In addition, the Company established the Disclosure Committee in 2005 to ensure that important management information is disclosed in an accurate, comprehensive, and fair manner.

**IV. Basic Policy Concerning Internal Control Systems and Overview of their Implementation**

The following is an overview of Canon's Basic Policy regarding Internal Control Systems and the Company's implementation of such systems.

**1. System for ensuring Directors and Employees Compliance with Laws and Articles of Incorporation**

- (1) Based on the spirit of the Three Selves (self-motivation, self-management, and self-awareness) a Canon universal principle dating back to the Company's founding the Company established the Canon Group Code of Conduct as a standard to which Directors and employees must adhere when performing their work. Canon's Corporate Ethics and Compliance Committee, which manages and oversees this initiative, promotes compliance activities through compliance staff assigned to each division.
- (2) The Company's internal auditing, legal, and other divisions work to strengthen compliance through law-abidance guidance and monitoring.
- (3) An in-house hotline system is employed to help prevent improprieties.

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**2. System for Maintaining and Managing Information Relating to the Performance of Duties by Directors**

Information relating to the performance of duties by Directors is maintained and managed in accordance with the Company's basic rules for document management and other in-house rules. A system has been established that enables Directors, Corporate Auditors, and internal auditing to access this information anytime.

**3. Rules and Other Systems Regarding Management of Risk of Loss**

- (1) Important matters are carefully deliberated at the Executive Committee and in other various Committees to eliminate or reduce business risks.
- (2) Business processes are specified and risks are evaluated based on guidelines of the Internal Control Committee to ensure the accuracy and reliability of financial reporting. This must be documented in writing, and the status of control activity is regularly confirmed.
- (3) A risk management system has been created through the formulation and observance of various in-house rules to respond to diversifying risks.
- (4) Auditing by internal auditing is carried out for the early detection and resolution of risks.

**4. System for Assuring Directors' Efficient Execution of Duties**

- (1) Important matters are carefully deliberated in advance by the Executive Committee and in various Committees to promote prompt and appropriate decision making by Directors.
- (2) Management policies are explained in long-term management plans, and Company goals are given concrete shape in medium-term plans. In addition, annual and quarterly short-term plans and monthly budgetary control are used to monitor performance progress, through which the Company makes optimum use of management resources.

**5. System for Ensuring Appropriate Groupwide Operations**

- (1) Based on the Canon Group Code of Conduct, the Company promotes Groupwide compliance and infuses an awareness of compliance and corporate ethics.
  - (2) The internal auditing, legal, and other divisions provide guidance and monitoring with regard to the observance of laws in the business activities of all Group companies.
  - (3) The soundness and efficiency of the Group's business activities are ensured by means of Groupwide medium-term plans and deliberations in the various Committees.
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**6. Matters Regarding Employees Who Assist the Duties of Corporate Auditors and Their Independence**

- (1) The Office of Corporate Auditors has been established, and full-time employees of a requisite size have been assigned to it.
- (2) The Office is an organization independent of the Board of Directors, and changes in its personnel require the prior consent of the Board of Corporate Auditors.

**7. System of Reporting to Corporate Auditors and Other Systems for Securing the Effectiveness of Auditing by Corporate Auditors**

- (1) Directors promptly report to corporate auditors matters that may have a significant impact on the Company, and deliver reports periodically to corporate auditors regarding matters they and the corporate auditors have previously agreed upon in consultations.
  - (2) Corporate auditors periodically receive reports from accounting auditors.
  - (3) Corporate auditors attend Executive Committee and other important meetings.
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**V. Other**

**1. Matters Regarding Takeover Defense**

Not introduced.

**2. Other Items Concerning Corporate Governance Systems, etc.**

The following is an overview of recently implemented measures aimed at enhancing corporate governance.

In 2004, the Company established the Corporate Ethics and Compliance Committee and Internal Control Committee as standing committees with the president appointed as chairman of both organizations. The aim of the Corporate Ethics and Compliance Committee is to raise and infuse compliance and ethical awareness throughout the Company.

To raise the effectiveness of these activities, the related administrative department, which had been part of the General Affairs Headquarters, was made an independent unit the Corporate Ethics and Compliance Administration Office under the direct control of the Company's president. A Company Director was appointed to head the office.

The Internal Control Committee has built a highly effective own internal control system and has started activities, which not only aim to ensure the reliability of the Company's financial reporting, but also to ensure the effectiveness and efficiency of the Company's business operations, as well as compliance with related laws.

In order to enhance the management monitoring function of the Board of Corporate Auditors, from March 30, 2006, the number of Corporate Auditors was increased from four (two Non-outside Corporate Auditors, two Outside Corporate Auditors) to five (two Non-outside Corporate Auditors, three Outside Corporate Auditors).

Through these measures, the Company has placed emphasis on building systems to ensure the proper functioning of corporate governance. Going forward, to ensure the everlasting functioning of corporate governance and the Company's continued growth and development, the Company will foster a corporate culture whereby all Directors and all employees conduct themselves with an awareness of compliance and corporate ethics.