SUSTAINABLE MANAGEMENT
—ESG INITIATIVES

- Sustainable Management
- Initiatives Underpinning Sustainable Growth
- Corporate Governance
- Board of Directors and Audit & Supervisory Board Members
The Canon MJ Group views tackling climate change, bolstering information security, respecting human rights and diversity, and maintaining corporate governance as vital for supporting sustainable growth, and accordingly engages in a range of related initiatives.

We seek to offer products, services, and solutions that embrace social issues (aspects of sustainability*) in keeping with contemporary social demands and expectations. We believe that helping resolve social issues and delivering social value through our operations will contribute to sustainable corporate and social progress. The Canon MJ Group will undertake CSR activities that generate new value that matches current needs in keeping with its “Business with CSR” slogan.

* Comprising such areas as safety and security, health, environmental conservation, effective resources usage, biodiversity, information security, occupational safety and health, measures for the elderly, and community support

**Group Mission**
Help resolve social issues with advanced imaging and IT solutions

**Group Vision**
The Canon Marketing Japan Group understands and grows with its customers.

**Business with CSR**
The Canon MJ Group aims to identify rapidly changing social needs and customer business management issues, helping overcome social issues by providing IT and other solutions.

We will leverage Business with CSR activities to help achieve the Sustainable Development Goals (SDGs).

**Basic CSR**
These CSR activities are essential to address the demands of stakeholders in terms of human rights, labor, the environment, and information security, which are crucial for business health. These activities factor in adherence to ISO 26000, the Keidanren (Japan Business Federation)’s Charter of Corporate Behavior, and other elements.

**Corporate Governance and Compliance**
Our commitment in these respects underpins all business activities and ensures transparent management decisions.

**The “Three Selfs” Spirit**
Our “Three Selfs” spirit is a central guiding principle that dates back to the founding of Canon and is part of our corporate DNA. The principle states that employees should proactively take the initiative (self-motivation), conduct oneself responsibly and with accountability (self-management), and know one’s position, roles, and circumstances (self-awareness). The Three Selfs spirit is the foundation of our CSR activities.
Diversity
Percentage of female managers
3.1%

Worker-Friendliness
Turnover rate (Canon MJ Group, as of December 31, 2019)
2.74%

Ensuring Management Transparency
Number and percentage of outside directors
2 (33%)

Ensuring Independence from the Parent Company
Number of directors from the parent company
None

Helping Resolve Social Issues
FOREMAST, a demand projection and demand and supply planning solution for manufacturing
Reducing inventories without causing shortages through management systems leveraging mathematical technology
mcframe, which provides production and cost control and sales management solutions for manufacturers
More than 600 companies have installed our system, which caters to the diverse needs of manufacturers

Environmental Protection
Contributions to reductions in customer CO2 emissions (t-CO2)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved energy savings of products and carbon offset deployment</td>
<td>19,939</td>
<td>19,546</td>
<td>19,704</td>
</tr>
<tr>
<td>Efficiencies from IT solutions</td>
<td>50,433</td>
<td>57,773</td>
<td>68,786</td>
</tr>
<tr>
<td>Used products and consumables recycling</td>
<td>52,703</td>
<td>50,752</td>
<td>47,024</td>
</tr>
<tr>
<td>Total</td>
<td>123,075</td>
<td>128,071</td>
<td>135,515</td>
</tr>
</tbody>
</table>

Trusted Quality
Certifications acquired

<table>
<thead>
<tr>
<th>Standards</th>
<th>Acquiring companies and business units</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO 9001</td>
<td>Canon System &amp; Support Inc. (companywide)</td>
</tr>
<tr>
<td>ISO 20000</td>
<td>Canon IT Solutions Inc. (department)</td>
</tr>
<tr>
<td>ISO 20000</td>
<td>Canon Production Printing Systems Inc. (department)</td>
</tr>
<tr>
<td>Business Continuity Management System Conformity Assessment Scheme</td>
<td>Canon IT Solutions Inc.</td>
</tr>
<tr>
<td>IT Services Division, IT Services Technology Division, and DC Operations Department (Nishi-Tokyo Data Center)</td>
<td></td>
</tr>
<tr>
<td>ISMS Conformity Assessment Scheme</td>
<td>Canon Marketing Japan Inc. and 13 other companies</td>
</tr>
<tr>
<td>PrivacyMark</td>
<td>Canon Marketing Japan Inc. and 8 other companies</td>
</tr>
<tr>
<td>ISO14001:2015</td>
<td>Canon Marketing Japan Inc. and 12 other companies</td>
</tr>
</tbody>
</table>
Environmental Management
The Canon MJ Group seeks to contribute to social progress by enhancing lifestyles and safeguarding the environment by deploying in-house measures to prevent global warming and reduce waste while pursuing distinctive initiatives as a marketing enterprise.

Future Forest 2020 Environmental Vision
The Canon MJ Group formulated Future Forest 2020 as its medium-term vision for environmental management. This vision draws on the Canon Group’s Kyosei corporate philosophy in the drive to enhance lifestyles while minimizing environmental footprints to preserve forest diversity and people’s hometowns for future generations.

Deploying Green Ratios (FY2016–2020)
The Canon MJ Group formulated the following three Green Ratios as medium-term environmental benchmarks for monitoring annual progress.

<table>
<thead>
<tr>
<th>Targets for 2016 through 2020</th>
<th>2019 results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual improvement in CO2 emissions intensity</td>
<td>1.2% (year on year)</td>
</tr>
<tr>
<td>Contributions to reductions in customer CO2 emissions</td>
<td>More than 150,000 metric tons</td>
</tr>
<tr>
<td>Ratio of customer CO2 emissions reductions divided by the Canon MJ Group’s own reductions</td>
<td>More than triple</td>
</tr>
</tbody>
</table>

Lowering Environmental Impacts with Key IT Solutions
The Canon MJ Group offers a range of document and other IT solutions. These offerings improve operational efficiency and reduce costs while lowering environmental impact by reducing the need for movements of people and objects and conserving resources and energy. We can help customers cut energy consumption, for example, by enabling them to use data centers and reduce storage space by digitizing paper documents.

Product Collection and Recycling Activities
We set up a program to efficiently collect used Canon MFPs, LBPs, and those cartridges from customers and dealers and to recycle valuable resources within the Group, thereby contributing to the creation of a recycling-driven economy.

Group member Canon Ecology Industry Inc. recycles used cartridges, disassembling and cleaning reusable parts and crushing and pelletizing other parts for use in new cartridges.

Information Security
The Canon MJ Group helps realize a secure society by managing information security based on its governance oversight. Products and solutions for customer information security issues draw on our expertise in this field.

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 PrivacyMark. We deployed the Canon MJ Computer Security Incident Response Team to reinforce cybersecurity. We also issue the Information Security Report.

Intellectual Property Strategy
In an increasingly digital world, we seek to innovate IT and other tools that deliver added value. We accordingly engage in intellectual property initiatives to make such added value a key strength.

The Canon MJ Group held 1,269 patents at the end of December 2019 that are the fruit of the efforts of its R&D organization. These patents center on natural language processing, video recognition, mathematical technology, and other tools that help deliver valuable customer solutions.
We distinguish ourselves with outstanding solutions that leverage solid customer solution techniques and robustly protected patents underlying them.

Business Continuity
The Canon MJ Group formulates business continuity measures to prepare for major earthquakes, influenza outbreaks, and other crises.

> Business Continuity Planning

Approach
This planning entails formulating preparatory measures to keep operations running without interruption or to aid swift recoveries following disasters and therefore help the Group fulfill its social responsibilities.

Key initiatives
• Preparing for a major earthquake in Tokyo
We produced a plan to restore services to customers as fast as possible, notably by transferring headquarters functions to alternative locations and undertaking recovery initiatives based on the assumption that such a disaster would disrupt electricity supplies and other key social infrastructure elements.

• Ready for a flu pandemic
We formulated a plan to keep assisting customers that offer vital social services based on the assumption that human resources would be limited in the event of such a disaster while also ensuring the safety of our employees and their families.

> Business Continuity Management

We run business continuity plans based on regular drills and other business continuity management plans and endeavor to enhance their effectiveness.

Approach
Business continuity planning must not only encompass a structure and procedures but also be effective, particularly in the event of a major earthquake in Tokyo or a powerful new flu epidemic. We are accordingly endeavoring to make our PDCA cycles more agile.

Key initiatives
• Building a contact system
We set up this system so relevant parties can properly communicate and respond following disasters. The system leverages social networking services and can can be used outside working hours. By efficiently sharing disaster situation, business damage, and other information, we seek to streamline decision-making, prevent secondary damage, and maintain and swiftly restore business continuity.

• Drills
To prepare for disasters, we regularly conduct drills to ensure that people can properly use social networking services in emergencies, notably by sending messages about safety and disaster situations. Departments formulating business continuity plans conduct desk-based simulations and drills based on scenarios in keeping with themes that match their circumstances. We explore countermeasures for issues that arise in drills.

• Assessments
Each year, a secretariat overseeing Groupwide business continuity management activities confirms the effectiveness of business continuity planning by assessing departmental management activities from third-party perspectives. We evaluate the effectiveness of these efforts from those perspectives, identify issues, clarify improvements, and provide feedback on activities for subsequent fiscal years.
Customer Engagement
The Canon MJ Group is committed to meeting customer expectations.

Quality Management System
In keeping with its Basic Policy on Product Safety, the Canon MJ Group established a quality management system and a quality assurance risk management system to provide top-quality products and services that are safe and reliable for customers. For the quality management system, we established policies and targets for the relevant products, services, and support. We pursue ongoing improvements through PDCA cycles and clarify responsibilities and authority for achieving goals.

We manage product quality in the marketplace by collaborating with Canon Inc., which oversees manufacturing through IT systems, and respond swiftly to customer issues.

Relationships with Business Partners
The Canon MJ Group contributes to customer value by helping business partners improve their skills. We foster fair procurement in keeping with laws and ordinances and engage in green procurement practices to shrink our environmental footprint.

Procurement Activities
The Canon MJ Group established the following basic procurement policy.

Basic Procurement Policy
1. Foster efficient and competitive business activities by pursuing safety and quality and endeavoring to stably procure reasonably priced products and services that meet customer needs.
2. Prioritize green procurement of products and services that help shrink our environmental footprint as part of conservation initiatives.
3. Offer fair trading opportunities and procure fairly in keeping with laws and social norms.
4. Engage in procurement activities that foster mutually beneficial long-term relationships with business partners to realize a sustainable economy.

Engaging in Green Procurement
The Canon MJ Group endeavors to eliminate hazardous chemical substances by complying with the Global Canon Green Procurement Standards*.

* These mandatory standards for Canon Group companies stipulate the parent’s green procurement requirements as part of its environmental protection initiatives.

Rigorous Procurement Compliance
The Canon MJ Group educates about its action guidelines and procurement laws and regulations initiative to ensure optimal and fair business transactions. We established the Group Procurement Regulations, maintaining requirements for fair and equitable transactions, environmental protection, and compliance with procurement-related laws and regulations.

As well as stating our requirements of business partners, we conclude basic agreements before engaging in transactions with them, committing to complying strictly with laws and ordinances and to engaging in fair and honest transactions that do not violate corporate ethics or erode social trust. After we start doing business with these partners, we conduct regular surveys to check progress in an array of areas, including from environmental and social perspectives, providing them with feedback on assessments.

Respecting Human Rights and Diversity
The Canon MJ Group endeavors to prevent employee discrimination and harassment and fosters a corporate culture that values diversity.

Preventing Discrimination and Promoting Diversity
The Canon Group aims to ensure that all executives and employees alike understand and adhere to the Canon Group Code of Conduct, which encourages respect for individuals and individuality and prohibits discrimination, including in terms of race, religion, nationality, gender, and age.

Within the Canon MJ Group, we utilize email magazines sent to all employees and compliance meetings for all work units to raise awareness among executives and employees about discrimination issues.
In support of the Women’s Action Plan of Keidanren (Japan Business Federation), Canon Marketing Japan and Canon IT Solutions Inc. submitted voluntary plans to appoint female officers and managers.

Also, Canon System & Support Inc., Canon Production Printing Systems Inc., Canon BizAttenda Inc., and Canon Customer Support Inc. formulated action plans based on their specific challenges to foster the participation of women in workplaces and appoint and recruit female managers. By 2020, Canon MJ looks to have women accounting for 2.0% of managerial positions and 11.0% of deputy manager roles.

> Combating Harassment
The Canon MJ Group engages in various awareness-building initiatives to prevent sexual and power harassment.

Harassment issues are part of the agenda for training new employees and managers. Compliance meetings also position harassment as an issue for discussion within work units.

We make it easier for employees to seek advice about harassment by offering consultations and by enabling the sharing of concerns by email or telephone.

> Initiatives to Employ People with Disabilities
The Canon MJ Group is committed to employing people with disabilities, and accordingly endeavors to create a barrier-free work environment.

As of June 2019, 2.19%* of Canon MJ’s employees were people with disabilities, exceeding the Japanese government’s mandatory rate of 2.0%. The Group will continue pushing ahead with new graduate and midcareer hiring of individuals with disabilities.

> Reforming Work Practices
The basic policy of the Canon MJ Group’s Long-Term Management Objectives Phase III is to become a corporate group in which its people can shine, and we are undertaking work practice reforms as part of that approach. We are helping our people to work more efficiently so they can complete their tasks during regular work hours, notably by instituting days without overtime, using satellite offices and teleworking, encouraging the use of IT tools, and leveraging AI and RPA.

> Balancing Professional and Private Commitments
Canon MJ has rolled out a range of programs to foster career plans and create more attractive employment environments by empowering its people to balance work with childcare and nursing care commitments.

In January 2008, we received Kurumin Mark certification from the director of the Tokyo Labor Bureau in recognition of our commitment to providing childcare-friendly workplaces.

Employees with Disabilities (Non-Consolidated Basis)

<table>
<thead>
<tr>
<th>(Number of people)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>161</td>
<td>2.17%</td>
</tr>
<tr>
<td>157</td>
<td>2.16%</td>
</tr>
<tr>
<td>150</td>
<td>2.10%</td>
</tr>
<tr>
<td>151</td>
<td>2.15%</td>
</tr>
<tr>
<td>150</td>
<td>2.19%</td>
</tr>
</tbody>
</table>

* Calculated according to prescribed working hours, disability degrees, and other factors in keeping with the Ministry of Health, Labour and Welfare standards.
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: Deloitte Touche Tohmatsu LLC
- Use of executive officer system: Yes
- Number of executive officers: 23

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.

Initiatives to Enhance Corporate Governance
- 2011: Adopts executive officer system
- 2014: Appoints outside director
- 2016: Increases number of outside directors to two
- 2016: Establishes standards for independent outside directors
- 2016: Complies with Corporate Governance Code
- 2018: Sets up Nomination and Remuneration Committee

Protection of Minority Shareholders in Transactions with the Controlling Shareholder
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, 2019. 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 and medical equipment. 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 the Internal Auditors Office 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
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 outside 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.

As well as engaging in regular deliberations about results, executive appointments, and other matters, the Board of Directors discusses and makes decisions on important matters relating to legal affairs and Board regulations at gatherings that are normally held once monthly and at Management Committee meetings attended by the directors of Canon MJ and the presidents of major subsidiaries.

Audit & Supervisory Board
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 50 audit staff members.
Outside Directors and Outside Audit & Supervisory Board Members
(as Defined under the Companies Act)

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 & Supervisory Board members in keeping with the Corporate Governance Code and standards of independence. Our outside directors and outside 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.

Outside Directors’ and Outside Audit & Supervisory Board Members’ Attendance at Board of Directors’ Meetings and Audit & Supervisory Board Meetings

<table>
<thead>
<tr>
<th>Name</th>
<th>Attendance at meetings of the Board of Directors and Audit &amp; Supervisory Board during fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside directors</td>
<td></td>
</tr>
<tr>
<td>Akio Dobashi</td>
<td>14/16 times (88%) of Board of Directors’ meetings</td>
</tr>
<tr>
<td>Yoshio Osawa</td>
<td>16/16 times (100%) of Board of Directors’ meetings</td>
</tr>
<tr>
<td>Outside Audit &amp; Supervisory Board members</td>
<td></td>
</tr>
<tr>
<td>Kunihiko Tedo</td>
<td>16/16 times (100%) of Board of Directors’ meetings</td>
</tr>
<tr>
<td>Nobuyasu Kusumi</td>
<td>16/16 times (100%) of Board of Directors’ meetings</td>
</tr>
<tr>
<td>Shigeo Hasegawa</td>
<td>15/16 times (94%) of Board of Directors’ meetings</td>
</tr>
</tbody>
</table>

Analysis and Evaluation of Effectiveness of the Board of Directors

The Company consulted with directors and Audit & Supervisory Board members about the effectiveness of the Board of Directors, and the Board of Directors analyzed and evaluated the findings. These talks confirmed the overall effectiveness of the Board of Directors. We will draw on the views of directors and auditors (in matters relating to the roles of directors) in running the Board of Directors to further improve its effectiveness in the course of discussions.

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 and the criteria for granting performance-linked remuneration. 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.

Nomination and Remuneration Committee
Masahiro Sakata: Chairperson, President & Representative Director
Masachika Adachi: Director, Senior Managing Director
Akio Dobashi: Outside Director
Yoshio Osawa: Outside Director

Appointment and Nomination Procedures
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.

The Audit & Supervisory Board discusses and consents to nominees before deliberations by the Board of Directors.

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.

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 2019, the Company conducted Company briefings for a large number of retail investors in February, May, August, and December. For analysts and institutional investors, the Company augments medium- to long-term management plan briefings by the president at the beginning of the 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. The Company participated in a domestic securities firm-sponsored conference and held a meeting between the president and overseas institutional investors.

Canon MJ IR website
canon.jp/8t60e-ir

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 the policy.

Chaired by the president, the Internal Controls Evaluation Committee
Messages from Outside Directors

Corporate governance can be both proactive and defensive. Proactive governance fosters transparent and responsive management that lifts corporate value over the medium through long terms. Defensive governance is about thoroughly monitoring systems that prevent corporate scandals and compliance violations and thereby safeguard corporate value.

I have been an outside director of Canon MJ for five years. During that time, the Company has expanded IT solutions, which it has positioned as a growth business, while remaining free of scandals. As such, in my view the Company has had no issues in terms of either proactive or defensive governance.

Canon MJ set up its Nomination and Remuneration Committee in December 2018 to ensure that executive selections and remuneration decisions are more objective. In that respect, I think that the Company has driven further governance progress.

Participants in Board of Directors’ meetings always engage in a spirited debate, so I consider the Board of Directors as effective as those of other companies with which I have been involved.

The COVID-19 pandemic has accelerated the use of IT to transform work practices. I think that now is the right time for Canon MJ to contribute to society with its technologies. It is to that end that the Company needs to focus its business resources on IT solutions, undertaking bold human resources strategies and pursuing M&As.

The launch of the Nomination and Remuneration Committee by Canon MJ in December 2018 was a step in the right direction for its corporate governance. The committee deliberates executive appointments, remuneration, and successor planning. I believe that such deliberations have resulted in a fairer and more rational governance structure regarding human resources and remuneration today and for future efforts in those areas.

In an increasingly challenging climate, the Board of Directors has engaged in lively debate on a range of matters. These have included future management strategies, medium-term planning, and investments. As Chairman of the Board, Masahiro Sakata champions open discussion. This has empowered directors to be more vocal, revitalizing the Board of Directors.

The Group has continued to steadily expand IT solutions, which it has positioned as a growth business. I think that such progress is the fruit of our strengths. These include a customer base and sales network across Japan and a subsidiary with a total of approximately 4,000 systems engineers. Still, to grow further I believe that we should do more to assess and execute M&As and other expansionary investments that draw on our ample cash position.

I have found the Group extremely systematic and disciplined in addressing such crises as typhoon damage in 2019 and the COVID-19 pandemic in 2020 by ensuring that its human resources, organizational, governance, and other underpinnings are rock solid. I think that these qualities are tremendous strengths for Canon MJ.
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 adapted 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 also commit to complying with laws and social rules, maintaining social justice, and continuing to meet the expectations of society. We engage in compliance from the perspectives of initiatives to raise awareness, educating, and undertaking organizational activities to ensure that all of our people act ethically and obey the law.

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.

Business Risks
Impacts of Market Competition and Fluctuations
In office MFPS and maintenance services, price competition continues. 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 could continue to shrink as the overall market shifts 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.

Credit Risks
The Canon MJ Group could experience unforeseen credit losses, as it engages in numerous 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 the Parent Company
Canon MJ is a subsidiary of Canon Inc., which owned 58.5% of its stock as of December 31, 2019. The Company has the exclusive right to sell all Canon brand products in Japan, the exceptions being semiconductor and LCD lithography systems and medical equipment. In fiscal 2019, Canon MJ’s purchases from Canon Inc. amounted to ¥182,019 million, or 54.8% 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.

Natural Disasters
Earthquakes, typhoons, and other natural disasters and outbreaks of serious infectious diseases in areas in which the Group does business could affect its operations. While we maintain redundant equipment and information systems as backup, the Group cannot guarantee that we would sufficiently avert damage from such disasters, which could adversely affect its performance and financial position.

The COVID-19 pandemic has caused supply chain and production turmoil, particularly in Asia. Depending on how this situation affects Canon Inc. and other partners, the Group may not be sufficiently able to provide products and services. The pandemic could hamper sales owing to its impact on the domestic economy and market. It is hard to predict the performance impact at this juncture because the scale of the pandemic and an idea of when it might abate are unclear.

IT Governance: Investing in IT to Boost Corporate Value
The Group endeavors in various ways to enhance corporate governance and keep improving corporate value. IT is important to corporate management and the Group is deploying IT governance. We are institutionalizing IT investment management and have set up IT investment assessment committees under the auspices of the Management Committee. These assessment committees approve and evaluate investment projects from the perspectives of business growth and productivity improvement to optimize the effectiveness of IT investment and reduce risks.