

canon

Canon Marketing Japan Inc.

canon

Canon Marketing Japan Inc.

Headquarters

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Canon Marketing Japan Website

About the Canon MJ Group

canon.jp/8060

(in Japanese only)

Investor Relations

canon.jp/8060e-ir

Sustainability

canon.jp/8060-csr

(in Japanese only)

Resolving Social Issues *with* IT Solutions

Integrated Report
2020

For the year ended December 31, 2020

Canon MJ Group Now

(Year Ended December 31, 2020)

**Sales down owing to the COVID-19 pandemic
constraining sales activities**

Net sales**¥545.1 billion**

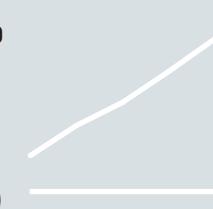
(down 12.2% from fiscal 2019)

**Capital efficiency****ROE****6.6%**

(down 0.5 percentage point from fiscal 2019)

**Robust financial base****Total stockholders' equity ratio****68.2%**

(up 3.8 percentage points from fiscal 2019)



Market share: Canon brand helps boost earnings

Market share in Japan in 2020 (Source: Canon MJ)

Digital interchangeable lens camerasNo.1 market share for
13 consecutive years**Compact digital cameras**No.1 market share for
eight consecutive years**Inkjet printers**No.1 market share for
seven consecutive years**Office multifunction printers (MFPs)**No.1 market share for
29 consecutive years**Laser printers**No.1 market share for
12 consecutive years**Large inkjet printers**No.1 market share for
12 consecutive years

As a true partner, the Canon MJ Group will prioritize creating added value for customers, become an entity that remains resilient and highly profitable even in challenging times, and help resolve social issues.

Record-high operating margin

Operating margin**5.7%**

(up 0.5 percentage point from fiscal 2019)



Tackling climate change

Helping reduce CO₂ at customer sites**120,320 t-CO₂**

- Enhancing energy-saving performance of products and adopting carbon offsets
- Boosting efficiency through IT solutions
- Recycling used products and consumables



Using resources effectively

Recycling rate**99.99%**

Recycling rate =
Amount of resources recycled / Total amount of used products recovered and processed



Expanding IT solutions business through Groupwide efforts

IT solutions as a percentage of net sales**37.3%****(¥203.1 billion)**

(up 1.8 percentage points from fiscal 2019)



Work practice reforms

Total annual working hours (average for Canon MJ union members)**1,697 hours**

(down 44 hours from fiscal 2019)



Diversity

Proportion of women in managerial posts**3.5%**

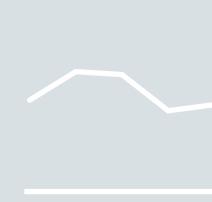
(up 0.4 percentage point from fiscal 2019)



Stable shareholder returns

Payout ratio**35.4%**

(up 0.4 percentage point from fiscal 2019)



The payout ratio has stably exceeded 35% since fiscal 2015.

Undertaking intellectual property activities

Number of patents held**1,302**

Note: Number of patents issued and maintained in the *Patent Gazette* as of December 31, 2020 (Source: Canon MJ)

Including security-related technologies, automated Web app creation technologies, and video and image processing-related technologies



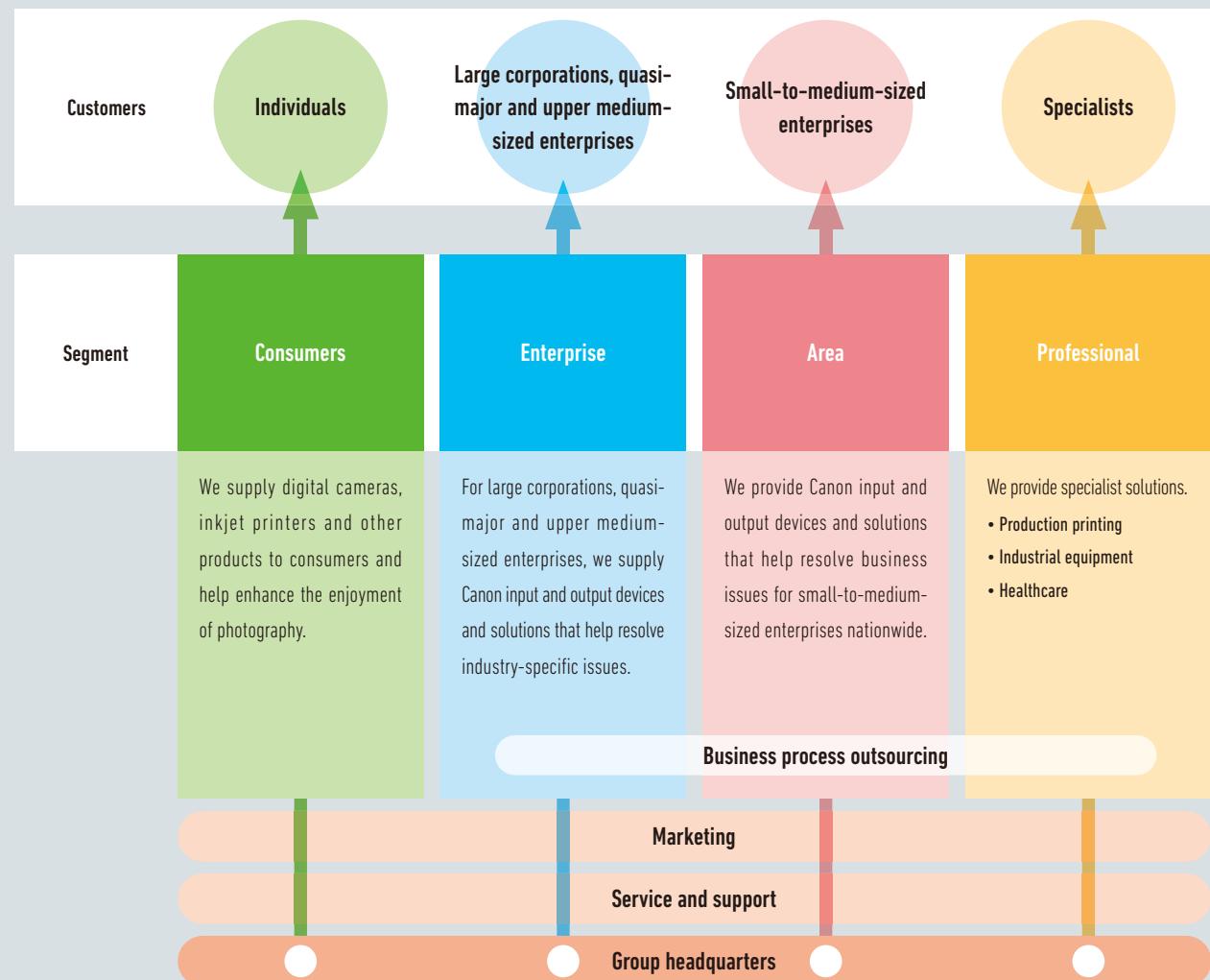
Customer satisfaction survey for security products

Security products**1st place****for eight consecutive years**

Note: Nikkei xTECH and Nikkei Computer Customer Satisfaction Survey 2020-2021

REVIEW BY SEGMENT

We are developing businesses in the Consumers, Enterprise, Area, and Professional segments to help numerous customers create value.



Figures in parentheses represent changes from fiscal 2019.

1. Other includes intersegment sales, shared service business, and BPO services business and other sales not allocated to segments. It also includes corporate and other expenses not allocated to segments.

*2. Shared services are a framework for improving services and reducing costs by centralizing common operations for multiple entities within the Group.

Factors in Sales Changes for Major Products and Services by Segment for Fiscal 2020

Consumers Segment	Enterprise Segment
Sales Digital interchangeable lens cameras and compact digital cameras	Sales Office MFPs
Although the EOS R5, EOSR6, and EOS Kiss M2 mirrorless cameras launched in fiscal 2020 were well received, demand was low because people refrained from going out, thereby dampening purchasing sentiment. Selling opportunities were limited owing to temporary closures and shorter operating hours among camera stores and electronics retailers.	Deals were down as a result of lackluster market conditions from the start of the year and restrictions on sales activities from ongoing closures.
Sales Inkjet printers	Sales Laser printers
Demand rose significantly owing to an increase in online studying and work from home. Sales were therefore strong, particularly for high-value-added products launched in the year under review. Demand remained strong for products equipped with refillable Giga Tanks.	As with office MFPs, performance suffered from the impact on sales activities and the absence of the previous year's large deals.
Sales Ink cartridges	Sales Maintenance services and ink cartridges for laser printers
Market shrank amid decreased color printing and New Year's card production.	Office print volumes declined from ongoing telework and other factors.
Sales IT products	Sales IT solutions for large corporations
Sales of PC peripherals continued to grow owing to rising demand of work from home. Sales of gaming PCs also continued to grow.	<ul style="list-style-type: none"> Although the order situation improved from the fourth quarter, there was a decline in replacement demand for business PCs that was associated with the end of Windows 7 support and an absence of the previous year's large-scale projects for systems integration services and infrastructure systems. We experienced project declines and postponements because of reduced sales activities and other factors.
Area Segment	Professional Segment
Sales Office MFPs and laser printers	Sales Production printing
Notwithstanding progress in securing office MFP deals that had been postponed since the fourth quarter of the previous term, markets were weak from the beginning of the year, and sales activities were limited due to ongoing closures.	<ul style="list-style-type: none"> Lower sales of consumables due to lower print volumes offset higher sales of monochrome continuous-feed printers and other products. The point-of-purchase production-related business experienced a downturn.
Sales Maintenance services and ink cartridges for laser printers	Sales Industrial equipment
Print volumes decreased due to the impact of ongoing telework.	While sales of semiconductor production-related equipment increased, sales of inspection and measurement equipment were down.
Sales IT solutions for small-to-medium-sized enterprises	Sales Healthcare
Demand for building teleworking environment remained high, and the HOME IT support cloud service performed well, while sales of ESET antivirus software and other security products increased. The number of orders for IT systems maintenance and operational services increased. The absence of the previous term's replacement demand surge owing to the termination of Windows 7 support affected sales of business PCs, offsetting some telework-related demand.	Despite the absence of the previous year's major deals for pharmacies, we received orders for several large deals from hospitals to construct electronic medical records and medical IT platforms.

Contents



Third-Party Assessments

The FTSE4Good Index Series has included Canon MJ for the past 17 years. In addition, we became part of FTSE Blossom Japan and the SNAM Sustainability Index for the fourth consecutive time in the year under review. We have been part of the MSCI Japan ESG Select Leaders Index since 2018.



2020 CONSTITUENT MSCIジャパン ESGセレクト・リーダーズ指数

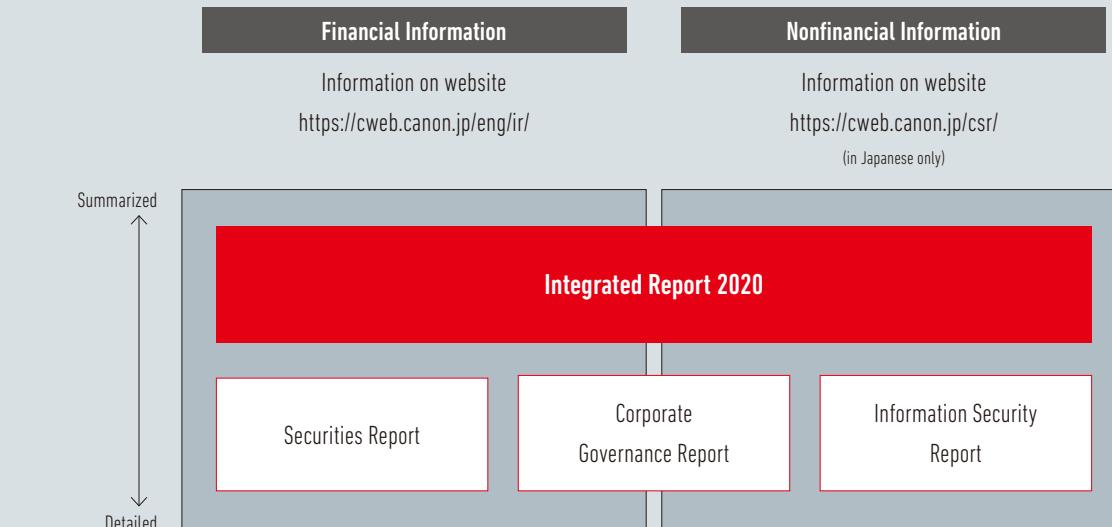
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Editorial Policy

The Canon MJ Group integrated report aims to provide the information its stakeholders need to understand its corporate value creation.

This publication presents the Long-Term Management Objectives (fiscal 2021 through 2025) and the Three-Year Management Plan (fiscal 2021 through 2023) to overview the Canon MJ Group's ability to create value over the medium through long terms and help materialize a sustainable society. The Company incorporated the CSR report and other publications in the integrated report to add environmental, social, and governance (ESG) and other nonfinancial information. Detailed financial information is available from the Company's website and securities report. The website also details sustainability activities.

Categories and Positioning of Disclosed Information



Reference Guidelines

International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC), and Ministry of Economy, Trade and Industry (METI) Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation

Reporting Period

This report covers fiscal 2020, ended December 31, 2020, and also includes activities and information before and after that term.

Scope of Coverage

Canon Marketing Japan Inc. and domestic and overseas Group companies (some information includes that of parent Canon Inc.)

Company Name Abbreviations

This report includes the following company name abbreviations.

Canon Marketing Japan Group → Canon MJ Group

Canon Marketing Japan Inc. → Canon MJ

Disclaimer Regarding Forward-Looking Statements

This integrated report contains forward-looking statements about the future performance and management plans of the Canon MJ Group. All forward-looking statements are based on management's assumptions in light of information available to the Company at the time of publication. The following factors may therefore influence actual results. These factors include consumer trends in Japan as well as other major global markets, private capital expenditures, currency fluctuations, notably against the U.S. dollar, materials prices, and political turmoil in certain countries and regions.

Canon Group's Corporate Philosophy

共生

Kyosei

Living and working together for the common good

The Canon Group's corporate philosophy of *Kyosei* conveys our dedication to seeing all people, regardless of culture, customs, language, or race, harmoniously living and working together in happiness into the future.

Contributing to global prosperity and
the well-being of mankind

The Corporate DNA of the Canon Group*

Enterprising nature

Continue to pursue new values without being limited
by past examples

*Canon Inc. and its consolidated subsidiaries

Canon MJ Group's Sustainability Management

Based on the principle of *Kyosei*, we will strive to create a Company that helps realize a society in which all of humanity can long live, work, and live happily together.



The Canon Group's *Kyosei* corporate philosophy aims to realize a society in which people, society, and nature are in harmony and in which all human beings can live well. This is in keeping with the Sustainable Development Goals (SDGs). We believe that materializing *Kyosei* is the essence of what many call sustainability management. We will accordingly expand areas in which we can combine our Canon products and IT solutions capabilities to resolve social issues through business.

A Message from the President



M. Adachi

Masachika Adachi
President

Resolving Social Issues *with* IT Solutions

We aim to become essential to the economy and our customers and sustainably increase corporate value by resolving social issues with IT solutions.

Thoughts on Taking the Helm

I was recently appointed president of the Canon Marketing Japan. Since joining this organization, I have largely worked in large account sales, and recognize the great importance of people in corporate management. The Company adheres to the "Three Selfs" spirit as the foundation of its guiding principles. These are self-motivation, self-management, and self-awareness. This spirit embraces challenges, takes responsibility, breaks through barriers, and is vital for our people. I also believe that advanced skills and in-depth knowledge are essential to deliver high-level services that lead to customer solutions. Developing people who can do that is an important role for management.

One experience that demonstrated that I had progressed was a systems proposal that I produced while I was a section chief. Another company dominated the market at the time. I took a new approach by identifying and systemizing the customer's needs. We thereby cut costs and improved productivity while simplifying operations for the customer. This system enabled us to sweep across the market and capture an extremely high share. We have transformed our business through digitization. Embodying the spirit of the Three Selfs took me to the next level, and I want to give all Canon MJ Group employees more opportunities to have such experiences.

Reviewing Fiscal 2020

I will begin my review of the year by discussing the impact of the COVID-19 pandemic.

In business-to-consumer (BtoC) markets, sales plunged amid declining demand for digital cameras, as people refrained from travel or faced event cancellations that would have offered photo opportunities. On the upside, demand for inkjet printers and PC peripherals soared on increased working from home and studying at home.

In the business-to-business (BtoB) area, sales of office multifunction printers (MFPs) and laser printers were off amid restricted sales activities. Maintenance services for office MFPs and laser printer cartridges, which are key revenue sources, experienced large declines due to demand for printing in offices dwindling as people refrained from going out and teleworking rose. These businesses account for a great proportion of net sales, so these developments significantly affected overall performance.

Although revenues and earnings for the year were down, our operating margin reached 5.7%, a record high for the second consecutive year. This reflected a rise in sales of high-value-added products and better gross margins. We also benefited from ongoing efforts to slash selling, general and administrative expenses. Our performance commendably resulted from endeavors to bolster profitability.

We have steadily expanded IT solutions, which we have positioned as a growth driver. Sales of this business have grown approximately 10%

annually since fiscal 2015. They accounted for 37% of net sales in the year under review, from 27% five years earlier. In addition, sales from the data center business have increased around five-fold since fiscal 2015. That said, IT solutions sales for the year were down 8% from fiscal 2019. This was because although IT product and security software revenues were robust in keeping with teleworking expansion, demand that we had enjoyed from the end of support for Windows 7 tapered off. We also experienced postponements of large systems projects owing to the pandemic.

Long-Term Management Objectives and Medium-Term Management Plan

Under Long-Term Management Objectives Phase III, which covered fiscal 2016 through 2020, we transformed our business portfolio and positioned the IT solutions business as a growth area. We lifted the profitability of Canon products by streamlining our sales structure and focusing on high-value-added models. We also strove to lower selling, general and administrative expenses to become more robust. We consequently posted our record operating margin in fiscal 2020, the final year of that phase.

From fiscal 2018, we switched from a product-based organizational framework to a market- and customer-centric one, creating the foundations for better employee understanding of how we should operate and use Group resources.

The IT solutions business grew under Long-Term Management Objectives Phase III, while the profitability of Canon products improved. We became a stronger organization, setting the scene to formulate growth strategies under new Long-Term Management Objectives and a new medium-term management plan.

Managing Sustainability and Realizing *Kyosei*

Sustainable Development Goal (SDG) initiatives represent concerted efforts to build an inclusive, sustainable, and resilient future for humankind and our planet and offer companies an opportunity to rethink why they exist. We began formulating our Long-Term Management Objectives by discussing the Canon Group's *Kyosei* corporate philosophy. *Kyosei* is about realizing an economy that harmonizes people, society, and nature and

undertaking business activities that enable everyone to live well. Such thinking mirrors the SDGs and embodies sustainability management. We are taking this opportunity to reaffirm our commitment to *Kyosei* as an underpinning of our corporate activities.

We seek to become indispensable to society and our customers and sustainably enhance corporate value by engaging initiatives that factor in society and the environment. We set up our Sustainability Committee in 2021 to act more effectively. By combining Canon products and IT solutions businesses, we will expand areas in which we can deliver solutions to social issues and pursue sustainability management with all Group employees taking part to become indispensable to society.

SDG and ESG Initiatives

We have made SDG and environmental, social, and governance (ESG) initiatives top priorities as part of our commitment to sustainability management.

On the environmental front, our Sustainability Committee is assessing ways to decarbonize the economy. One specific effort is our participation in the Tokyo metropolitan government's zero emissions program. We are also endeavoring to enhance the power usage efficiency of our data centers, and are considering the use of renewables to help streamline their operations. We are developing solutions that use demand forecasting and supply and demand planning systems to cut food losses.

Our social initiatives entail efforts to increase employee engagement

Management benchmarks and targets for Long-Term Management Objectives and Medium-Term Management Plan

Indicators for Long-Term Management Objectives 2025

- Net sales ¥650 billion
(including ¥300 billion in IT solutions sales)
- Operating profit ¥50 billion
- ROE 8.0%

Medium-Term Management Plan* 2023 targets

- Net sales ¥600 billion
(including ¥265 billion in IT solutions sales)
- Operating profit ¥40 billion
- Operating margin 6.7%
- Profit attributable to owners of parent ¥26.5 billion
- ROE 6.9%

* The Medium-Term Management plan employs the basic strategies of Long-Term Management Objectives and is an action plan to realize the 2025 Vision and management indicators. Please see the overview on pages 25-26.

and enhance skills, centered on IT solutions, while developing and promoting diverse leadership candidates across generations.

The Board of Directors has responded to the revision of the Corporate Governance Code by discussing ways to improve the effectiveness of that body, segregate management oversight and implementation, and review the business portfolio.

Long-Term Management Objectives: 2025 Vision and Business Portfolio Transformation

Our vision for 2025, the final year of Long-Term Management Objectives, is to become a professional corporate group that resolves issues for society and customers by leveraging the power of information and communications technology (ICT) and people.

An outline of our basic strategy is on pages 23-24. Here, I would like to explain the IT solutions and Canon products businesses and the creation of new businesses through a business portfolio shift. We will transform into a corporate group focusing on the IT solutions business and will continue to review and optimize our business portfolio to deliver sustainable growth.

» Accelerating IT Solutions Business Growth

We believe that one of our missions is to accelerate our IT solutions business and assist customers with their digital transformation (DX) plans.

To transform business processes through digital technology, you have to fully understand customers, their industries, and their operations. If we cannot build co-creation structures with customers, we cannot create solutions that dominate markets.

DX encompasses digitization and digitalization. Digitization is about digitizing business processes themselves to improve efficiency and reduce costs. The episode I described earlier in this message was close to a digitization effort. Digitalization is about creating new markets. Co-creation is vital because you even have to factor in the customers of your customers. DX through digitalization is an area in which we can leverage the broad customer base that is one of our strengths. We have built trust with numerous customers, from large corporations to small-to-medium-sized enterprises. That is the foundation on which we can co-create and provide value.

When customers proceed with DX, it is extremely important for them to select partners that deeply understand their businesses. By matching that requirement, we want to be the entity that customers approach first to secure solutions to their issues. We will accordingly focus on IT solutions and thoroughly explore co-creation with our customers.

» Human Resources Strategy for Our IT Solutions Business

We will step up mid-career hiring of project managers who can help

secure large projects and data scientists and other highly skilled people to use big data.

We will obtain the systems engineers we need through business alliances with systems partners. We will also simultaneously strengthen internal human resources development. We are undertaking measures to increase the number of people with Amazon Web Services and Microsoft Azure certifications holders. As well, we have expanded training programs for data scientists and for agile and cloud computing. We are focusing on strengthening our ability to propose cloud computing as the basis for DX in entering 2021. We have launched initiatives to train business co-creation specialists who envision and materialize the transformations of customer businesses and operations.

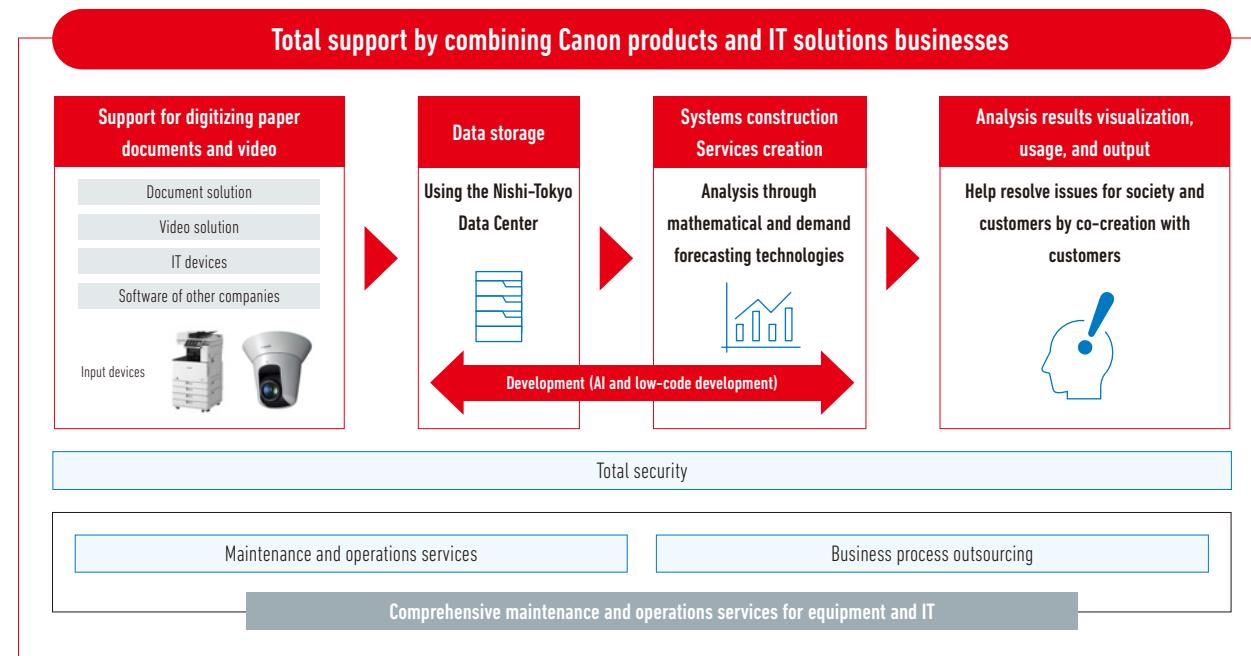
» Improving Profitability of Canon Products Business

Canon products are a key revenue source for the Group. We will endeavor to generate earnings by reinforcing our strategy to offer high-value-added devices linked to our IT solutions business. We will also offer Canon products as data accumulation and collection devices to customers with

which we have started doing business through IT solutions. We will endeavor to differentiate ourselves by drawing on our unique synergies, bringing together our technical capabilities in systems integration with Canon products that work well with the systems we build. At the same time, we will enhance profitability by improving efficiency and cultivating Canon products as a Group revenue source.

» Creating New Businesses

We will seek new business areas based on our IT solutions and Canon products operations to create new businesses. These would include customer services based on our internal practices, such as to reform work practices through internal DX and services that resolve issues that become more apparent to us as our understanding of operations in customer segments deepens. We aim to establish new businesses in areas in which we can help resolve problems by leveraging Group strengths. We will not limit ourselves to existing areas. We believe that collaborating with companies outside the Group and acquisitions will enable us to reach our goals.



Investment Strategy under Medium-Term Management Plan

Over three years from fiscal 2021, we will allocate approximately ¥100 billion to strategic business investments for acquisitions and data center construction and in systems and human resources to drive business growth.

We envision acquiring companies with the expertise we need in IT solutions. We are considering the construction of a third data center because we expect data volumes to increase as 5G becomes ubiquitous and cashless payments expand, increasing the need to store such data safely and securely.

As mentioned earlier, for our IT solutions business we hire project managers midcareer while training existing employees to improve their skills.

In Closing

Outlook for Fiscal 2021

In the Consumers segment, we expect a slight pickup in overall camera unit sales in view of sales of last fiscal year plunging and because demand remains solid for EOS R5 and EOS R6 mirrorless cameras launched in fiscal 2020. We based our projections for inkjet printers on the assumption that demand will not rise as significantly as in fiscal 2020.

In the Enterprise segment, we accord particular attention to changes in document volumes for the office MFPs of large corporations. The pandemic hit these volumes the hardest in fiscal 2020. We do not expect a significant decrease in this segment in the year ahead unless the situation is like that of April and May 2020, when Japan's state of emergency was in force.

In IT solutions, customers are asking us about new projects, principally in the DX field, and we are endeavoring to reach our objectives.

We will focus on capital efficiency and profitability in our decision-making. We also consider it necessary to maintain certain cash reserve levels to ensure business continuity because it is unclear when the pandemic will abate.

Shareholder Returns

Our basic shareholder returns policy is to pay dividends based on a consolidated dividend payout ratio of 30%. We comprehensively take into account our medium-term earnings outlook, investment plans, cash flows, and other factors. Cash dividends for fiscal 2020 were ¥60 per share, unchanged from a year earlier. The dividend payout ratio for fiscal 2020 was 35.4%, and has exceeded 35% since fiscal 2015.

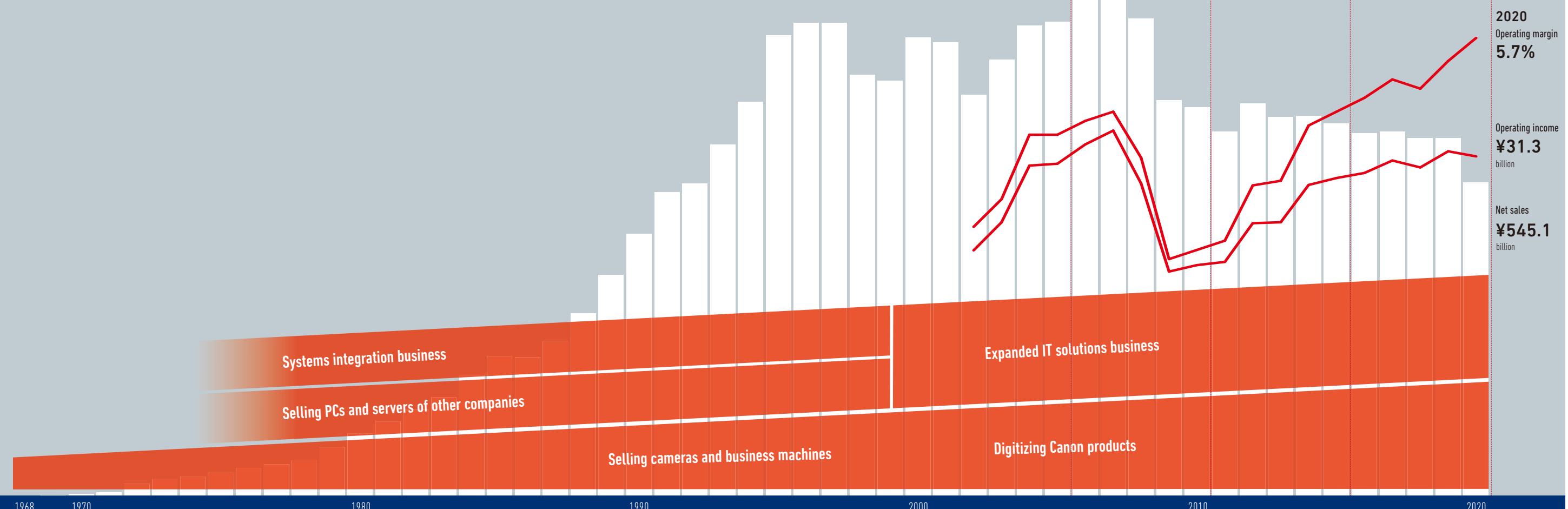
To Our Stakeholders

We would like to become the port of first call for all stakeholders as an organization they can count on. We will accordingly strive to resolve social issues through IT solutions and enhance corporate value. We have established our direction and measures through 2025 and 2023 based on our Long-Term Management Objectives and Medium-Term Management Plan. Speed will be the key to success. It is important for each employee to act decisively to achieve our vision. I will do my utmost to foster such a dynamic corporate culture.

I look forward to the ongoing support and encouragement of our stakeholders in the year ahead.

Milestones

The Canon MJ Group was established in 1968 to sell Canon's business machines, and later expanded beyond selling Canon cameras and business machines to offer PCs from other companies and systems integration (SI) services. Today, the Group combines its IT capabilities, diverse products, and fine-tuned services to supply solutions that support all areas of society.



1968
Canon Business Machines Sales Inc. and Canon Business Machine Services Inc. established

1971
Canon Business Machines Sales Inc., Canon Business Machine Services Inc., and Canon Camera Sales Inc. merge to form Canon Sales Co., Inc.
Releases BP-1000 billing processor, enters office computer field

1981
The Company lists on the Second Section of the Tokyo Stock Exchange
Releases BP-1000 billing processor, enters office computer field

1985
Forms sales alliance with IBM Japan, Ltd., for workstations and PCs
The Company lists on the First Section of the Tokyo Stock Exchange
Forms sales alliance with Apple Computer Inc.

1990
Becomes Ministry of International Trade and Industry-certified systems integrator
Forms sales alliance with Sun Microsystems Japan K.K.

2003
Acquires SUMITOMO METAL System Solutions Co., Ltd., renaming it CANON SYSTEM SOLUTIONS INC., thus fully entering the IT solutions field

2008
Integrates CANON SYSTEM SOLUTIONS INC. and Argo 21 Corporation to create Canon IT Solutions Inc.

2012
Nishi-Tokyo Data Center begins services

2020
Nishi-Tokyo Data Center No. 2 completed

1969
Canon Camera Sales Inc. established

1983
The Company lists on the First Section of the Tokyo Stock Exchange
Forms sales alliance with Apple Computer Inc.

2006

2007
Canon Sales Co., Inc. was renamed Canon Marketing Japan Inc.
Acquires Argo 21 Corporation

2018
The Company's 50th anniversary

1975 Microsoft Corporation established

1976 Apple Computer Inc. established

1993 Internet usage spreads rapidly

2004 Facebook debuts

2010 Smartphones become ubiquitous

2014 Internet of Things (IoT) era emerges

IT Milestones

1983 Swift adoption of word processors and PCs

1995 Windows 95 released

1989 PC industry worth ¥1 trillion

1998 Google created

Value Creation Process

We are committed to resolving social issues through business, by expanding fields in which we can provide social solutions by combining our Canon products and IT solutions businesses.



The value we provide to society in 2025



Business Activities

We aim to become essential to society and customers and contribute to sustainable social and economic progress by helping resolve customer issues with a customer-centric approach.

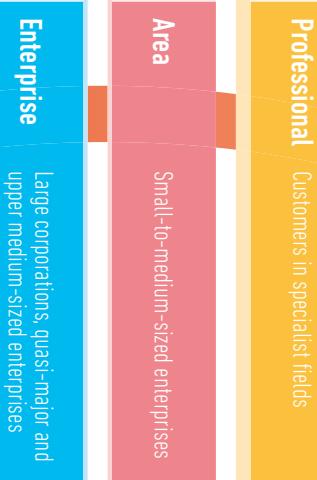
Social and customer issues

With deep understanding of customers, knowledgeable and experienced people provide optimal solutions

Deep understanding of customers

Contributing to value-creation through a service-based business* model comprised of unique solutions for domains, industries and technologies in which we have strengths

Canon products business



Unique solutions

Staying close to customers

Staying close to customers even after delivering products and services with extensive support system of 193 service sites nationwide and online support

*Service-based business model is a business model in which we can highlight added value and deliver ongoing services to customers

- Large corporations: In-house-developed cloud services for specific sectors and operations, data centers, and for business process and IT outsourcing
- Small-to-medium-sized enterprises: Including services providing total support for customer IT environments

IT solutions business

Trading company function

Procuring products and solutions that meet customer needs, including as exclusive distributor in Japan for Canon products* and serving as exclusive distributor in Japan for ESET antivirus software and semiconductor-related equipment

* Excluding semiconductor exposure equipment, LCD substrate exposure equipment, and medical devices

Systems integrator

Supplying optimal systems by fully understanding issues that are common across industries, business sectors, and operations, as well as customer-specific issues, drawing on previous systems development and proprietary technologies

IT provider

Providing solutions to resolve customer issues and full support from implementation through maintenance and operations

Canon MJ Group Strengths

Brand

Customer trust amassed through years of business

Since our establishment as Canon's sales division, we have remained the exclusive distributor in Japan of Canon brand products (excluding semiconductor exposure equipment, LCD substrate exposure equipment, and medical devices), including cameras, inkjet printers, multifunction printers (MFPs), and laser printers that Canon manufactures, and have consistently secured high market shares. We also provide maintenance and support services.

Customer Base

From large corporations to small-to-medium-sized enterprises

Over more than 50 years, we have built robust relationships with numerous customers in selling Canon products. As the world of business has diversified, so too have customer needs. We leverage customer trust and our achievements to provide optimal products and solutions for all of our customers, from large corporations to small-to-medium-sized enterprises.

Technical Capabilities

4,000 systems engineers and a nationwide network of service engineers

We have accumulated technology by acquiring companies with advanced technological capabilities and by developing advanced technologies. We provide such IT solutions as systems development and cloud and data center services by drawing on state-of-the-art development expertise based on our profound business and industry insights.

Financial Structure

Robust financial base

We have long maintained an equity ratio of 50% to 60%, and have built a strong and sound financial position that is essential for sustainable growth. We can therefore continue operating stably even in the face of such unprecedented crises as the COVID-19 pandemic. At the same time, we prioritize capital efficiency and strive to improve our return on equity (ROE).

The Corporate DNA of the Canon Group: Enterprising nature

Our corporate culture continues to take on challenges by encouraging businesses to evolve and change to meet the needs of society and customers

The Capital Components of Corporate Value

We will use profits from Canon products and IT solutions to invest in strengthening our businesses, including through M&As, and in people, which are our most valuable resource.

We will thereby create a virtuous cycle in which businesses become even stronger and we become more profitable and reinvest in further growth, contributing to sustainably expanding corporate value.

(Performance results figures are for fiscal 2020)



Human Capital

We will hire and train people with a wealth of knowledge and experience in products and IT to propose and provide optimal solutions at every customer contact point.

Expanding the IT solutions business

- We have approximately 4,000 systems engineers and highly specialized technicians and customer engineers providing sales and implementation support, training them as needed.
- We recruit talented people. Mid-career hires accounted for 12.4% of new employees in fiscal 2020, up 0.5% from a year earlier.
- We implemented the IT Skills Improvement Program for all Group employees. We also help employees, including those in back office jobs, to acquire IT passports. By April 2021, a total of 3,791 employees had obtained IT passport certification, thus improving IT groupwide knowledge.

Fostering diversity

- We encourage efficient work practices during prescribed hours and enable employees to balance work with childcare and nursing care. As a result, 146 employees, including 26 men, took childcare leave in fiscal 2020. The rate for returning to work was 95.6%, including 100% for men. We strive to empower women, who held 10.4% of managerial positions in fiscal 2020, up 1.0% from the year before.
- Canon Marketing Japan and Canon IT Solutions had received Platinum Kurumin certification as of June 2021.



Social Capital

We have built our customer base over the years by selling and servicing Canon products, forging strong relationships with partner companies, and acquiring exclusive domestic distribution rights for the offerings of overseas companies. Therefore, we are able to continuously create value.

Expanding our customer base

- We have continued to provide better products to become a favored company for many customers. We have thus secured No. 1 shares in the domestic market for such products as interchangeable lens digital cameras, inkjet printers, and laser printers.
- We maintain contacts with customers through nationwide service sites and partnerships. We also build relationships as an IT partner for customers by providing DX support with local business partners.

Providing various products and services through our trading company capabilities

- In the Canon products business, we transform customer feedback into high-value-added information that we send on to Canon Inc.
- We have supported the semiconductor industry by improving our performance as an exclusive distributor in Japan, swiftly identifying outstanding equipment from overseas companies.
- As well as importing and selling products from abroad, we have helped improve customer satisfaction by conveying the views of customers in the Japanese market and localizing offerings. We have accordingly ranked No. 1 in customer satisfaction surveys for security products for eight consecutive years.

Providing safe, secure, and high-value-added IT services to diverse customers

With HOME, a safe and secure IT support cloud service for small-to-medium-sized enterprises, we have provided IT maintenance and operations for roughly 110,000 customers.



Intellectual Capital

We have among the most patents in our industry. We patent the solutions technologies and supporting techniques that we have created through R&D. This enables us to provide superior customer solutions that differentiate us from the competition.

R&D capabilities for visionary, unique solutions

We conduct R&D in low-code development, which has attracted considerable attention in recent years. We have supplied Web Performer since 2005. This product incorporates an automated Java application generation technology (Patent No. 4988226) that received an encouragement prize in the 2020 Kanto Regional Invention Awards.

Intellectual property rights activities

The intellectual capital that our R&D generates is an important corporate asset, so we secure the relevant patents and other intellectual property rights. In 2020, we published 152 patent applications and 146 patents. Security-related, automatic web application generation, video and image-related, and mathematical technologies are key strengths and represent roughly 30% of our patents.



Manufacturing Capital

Our infrastructure enjoys high regard for delivering high-quality products and services, and is the foundation for value creation.

Quality management

Canon System & Support Inc., Canon IT Solutions Inc. and Canon Production Printing Systems Inc. have acquired ISO 9001 certification. This is an international standard for customer satisfaction and ongoing improvement of quality management systems through product and services quality assurance.

Providing high-quality facilities and value-added services

We completed construction of the Nishi-Tokyo Data Center Phase II, which received recognition as a Tier 4 level high-performance facility and the M&O Stamp of Approval for meeting global standards and complying with the guidelines of Japan's Center for Financial Information Systems. We conduct systems failure and other drills, incurring no major malfunctions, in upholding high safety standards.



Financial Capital

While building a solid financial position, we endeavor to generate growth and returns through surplus funds that enable flexible investments.

Establishing a stronger financial base

Despite lower sales and profits, our operating margin reached a record 5.7% for the second consecutive year in fiscal 2020. This reflected higher sales of high-value-added products, improved gross margins, and extensive efforts to cut selling, general and administrative expenses. The equity ratio thus rose 3.8% from a year earlier, to 68.2%, laying the foundation for investing under a medium-term management plan starting in 2021.

Stable shareholder returns

Our basic policy is to pay dividends based on a consolidated payout ratio of 30%. We take into account such factors as our medium-term earnings outlook, investment plans, and cash flow. For fiscal 2020, we maintained stable dividends under a payout ratio of 35.4%. The ratio thus exceeded 35% for the sixth consecutive year.



Natural Capital

We will contribute to a decarbonized economy by providing products and services that lower environmental impact and use resources and energy effectively.

Decarbonization activities

- We have endeavored to reduce energy consumption. In the year under review, we lowered GHG emissions per unit of production by 4.0% from fiscal 2019.
- We strive to contribute to the environment by donating credits to the Tokyo metropolitan government, and obtained certification for the Nishi-

Tokyo Data Center as a quasi-top-level business office.

- We offset emissions by 6,355 metric tons from MFPs we sold.

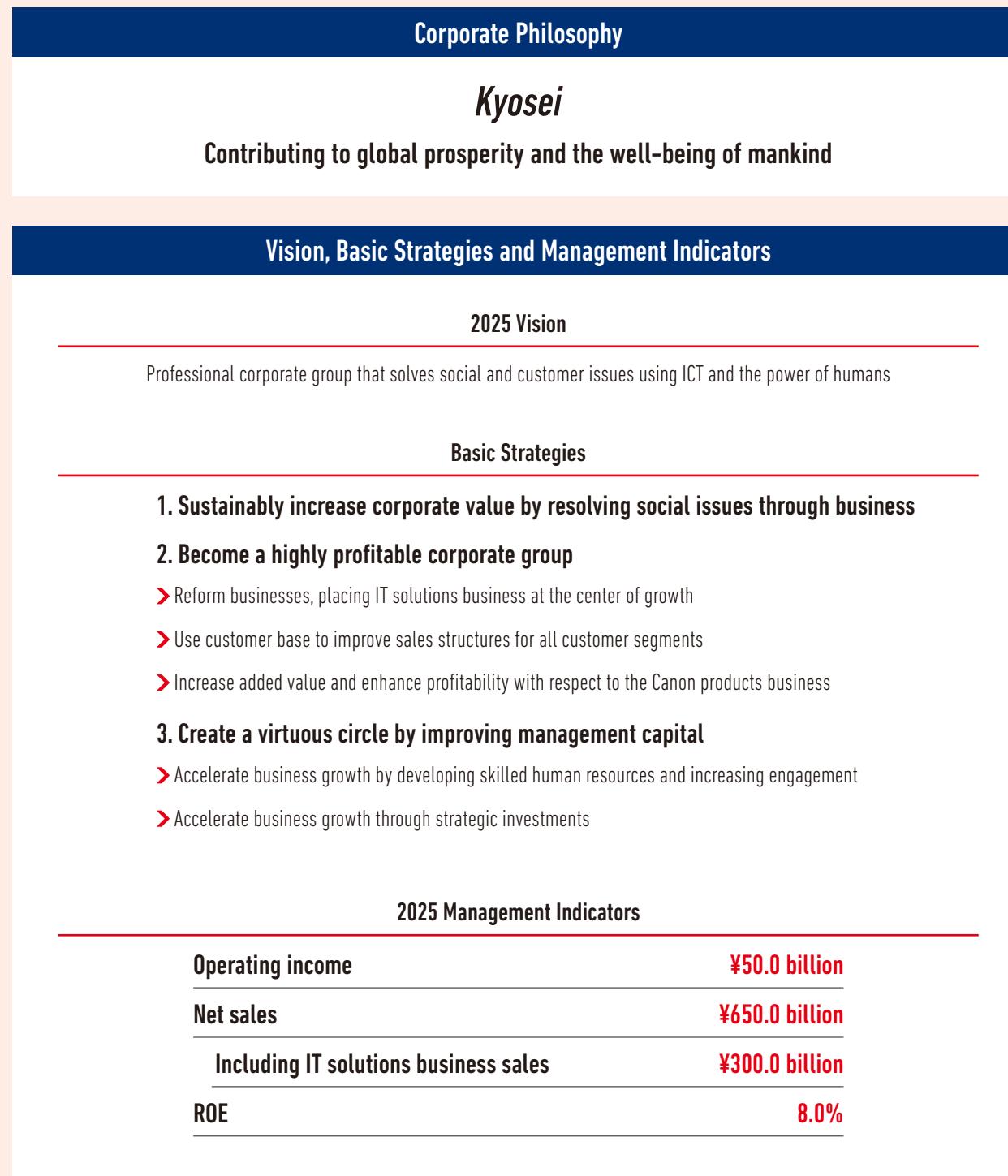
Circular economy initiatives

We collect and recycle office equipment, ink, toner cartridges, and other used products. In fiscal 2020, we collected and processed 12,015 metric tons of these items, recycling 99.9% of them.

Toward 2025 and Beyond

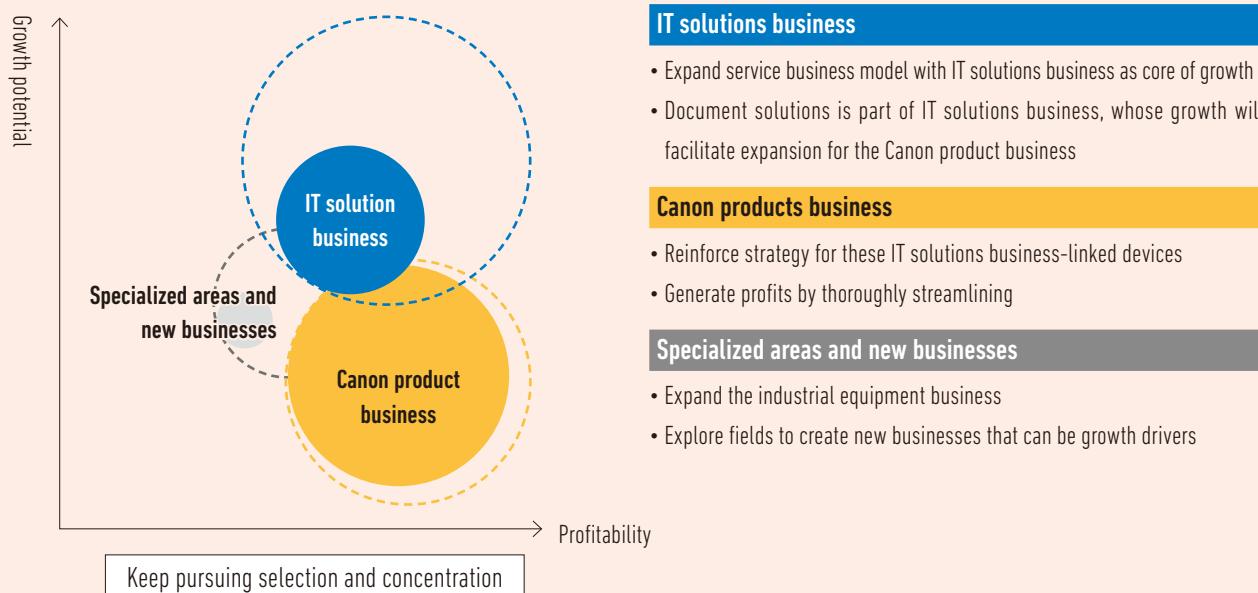
Long-Term Management Objectives (2021–2025)

We formulated Long-Term Management Objectives (2021–2025) to guide management efforts to increase corporate value sustainably. We aim to realize our *Kyosei* corporate philosophy and 2025 Vision to become a highly profitable corporate group by steadily implementing our basic strategies.



Continuing to Review and Optimize Business Portfolio for Sustainable Growth

The Canon MJ Group will continue these efforts by transitioning its business portfolio to focus on IT solutions.



IT solutions business

- Expand service business model with IT solutions business as core of growth
- Document solutions is part of IT solutions business, whose growth will facilitate expansion for the Canon product business

Canon products business

- Reinforce strategy for these IT solutions business-linked devices
- Generate profits by thoroughly streamlining

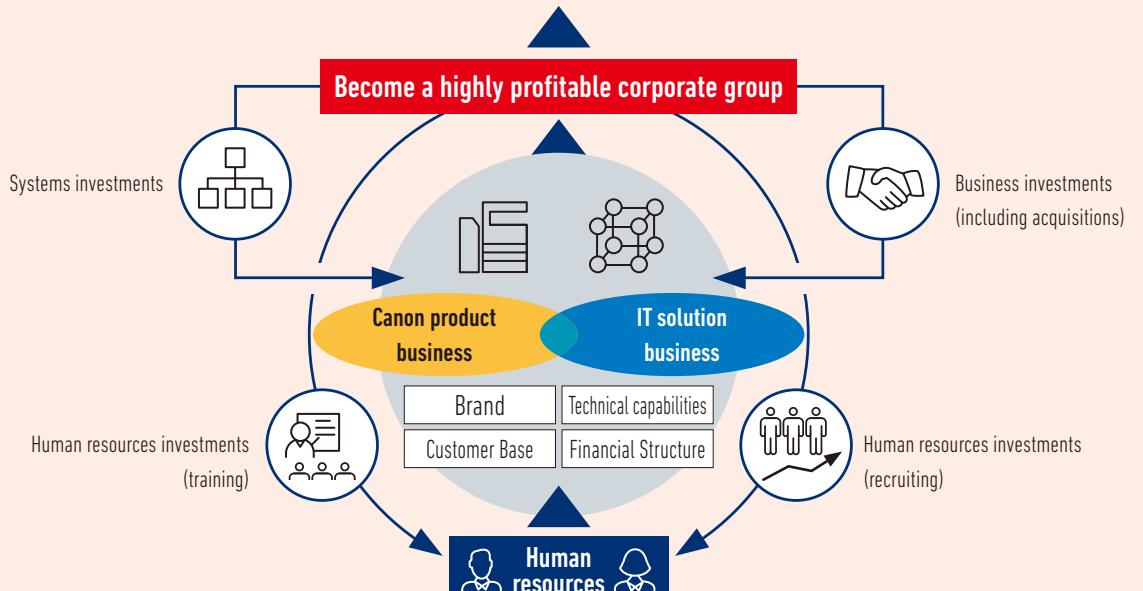
Specialized areas and new businesses

- Expand the industrial equipment business
- Explore fields to create new businesses that can be growth drivers

Investing in Growth to Enhance Corporate Value

The Canon MJ Group aims to become a highly profitable, value-creating corporate group by investing in businesses, human resources, and systems to swiftly resolve social issues.

Sustainably enhance corporate value by resolving social issues through business



Three-Year Management Plan (2021-2023)

Based on the Long-Term Management Objectives (2021-2025), under the Medium-Term Management Plan (2021-2023) we aim to expand earnings through such initiatives as contributing to value through a service-based business model*1 in the IT solutions business, our prime growth driver.

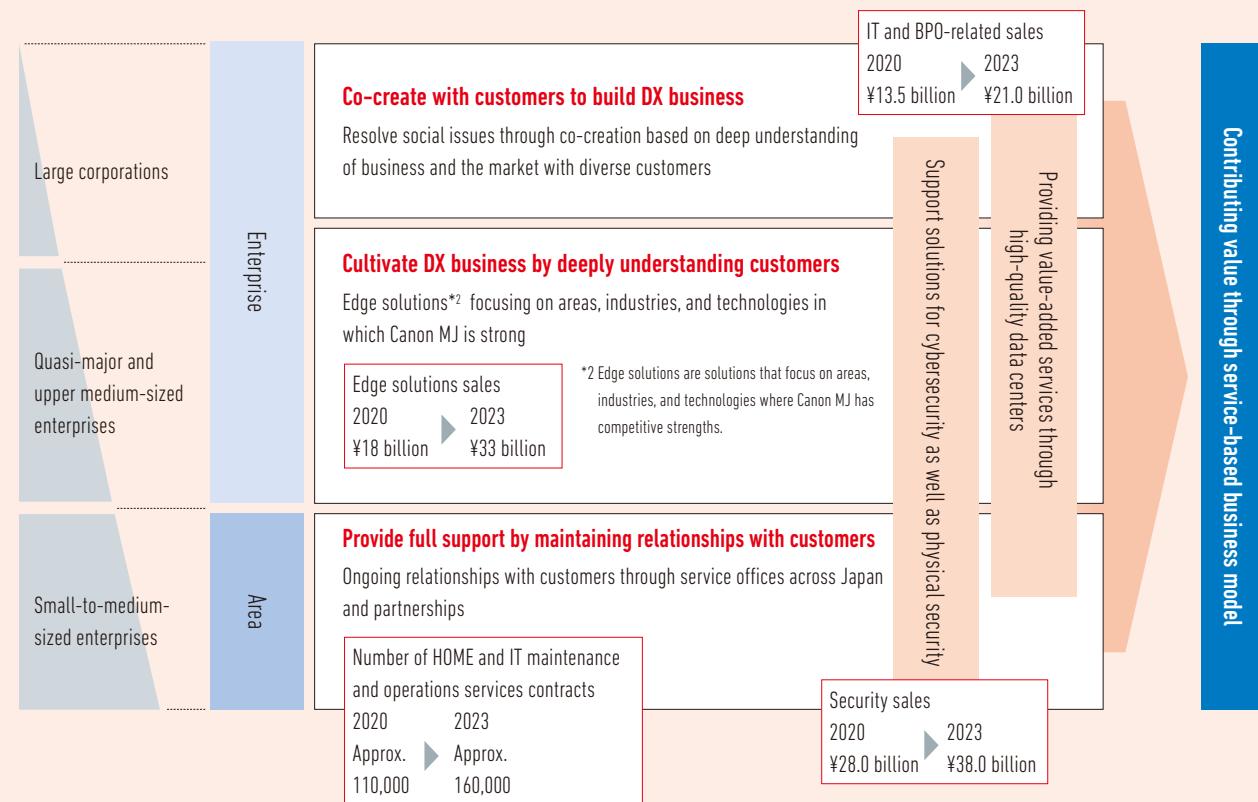
*1 This term refers to a business model under which we provide value-added customer services on an ongoing basis.

Targets

	Results		Three-Year Management Plan	
	2020	2021 (Forecast)	2023 (Plan)	
Net sales	¥545.1 billion	¥567.0 billion	¥600.0 billion	
Operating income	¥31.3 billion	¥34.0 billion	¥40.0 billion	
Operating margin	5.7%	6.0%	6.7%	
Profit attributable to owners of parent	¥22.0 billion	¥23.5 billion	¥26.5 billion	
ROE	6.6%	6.7%	6.9%	

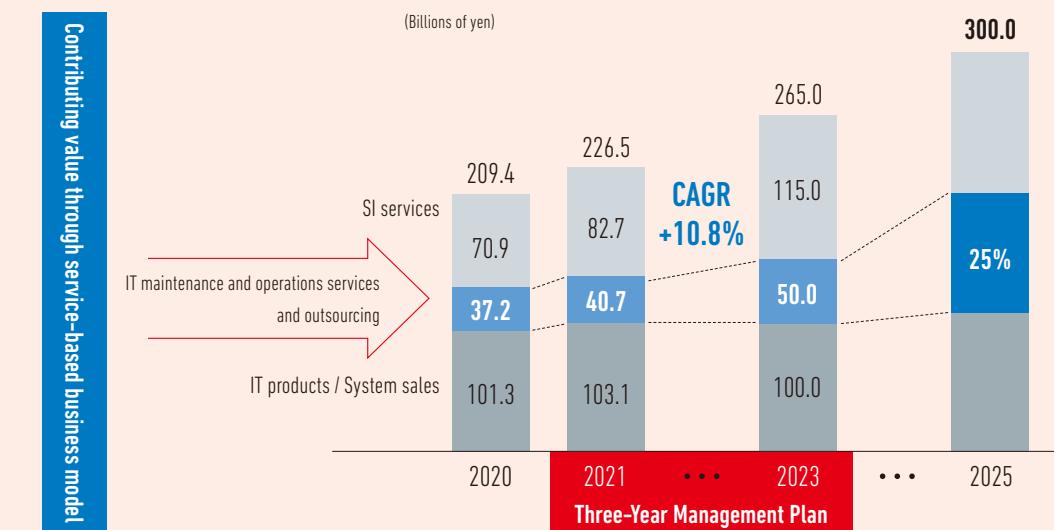
IT Solutions Business Development Direction by Customer Segment

Large corporations, quasi-major and upper medium-sized enterprises, and small-to-medium-sized enterprises have different needs. In developing the IT solutions business, we will cultivate businesses that match the needs of specific customer segments. We will also create and strengthen our service-based business model and strive to sustainably expand earnings.



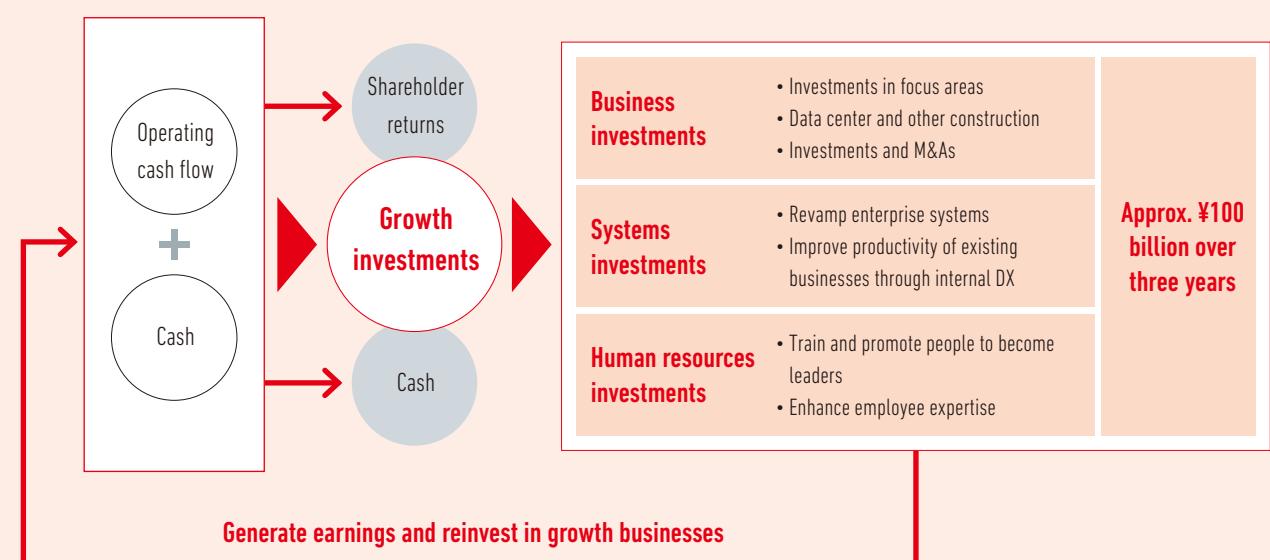
IT Solutions Business Sales Targets (by product and solution)

The sales targets for the IT solutions business are ¥265 billion in fiscal 2023 and ¥300 billion in fiscal 2025. We will establish an extremely profitable IT solutions business by expanding our service-based business model while reinforcing maintenance and operations services and outsourcing.



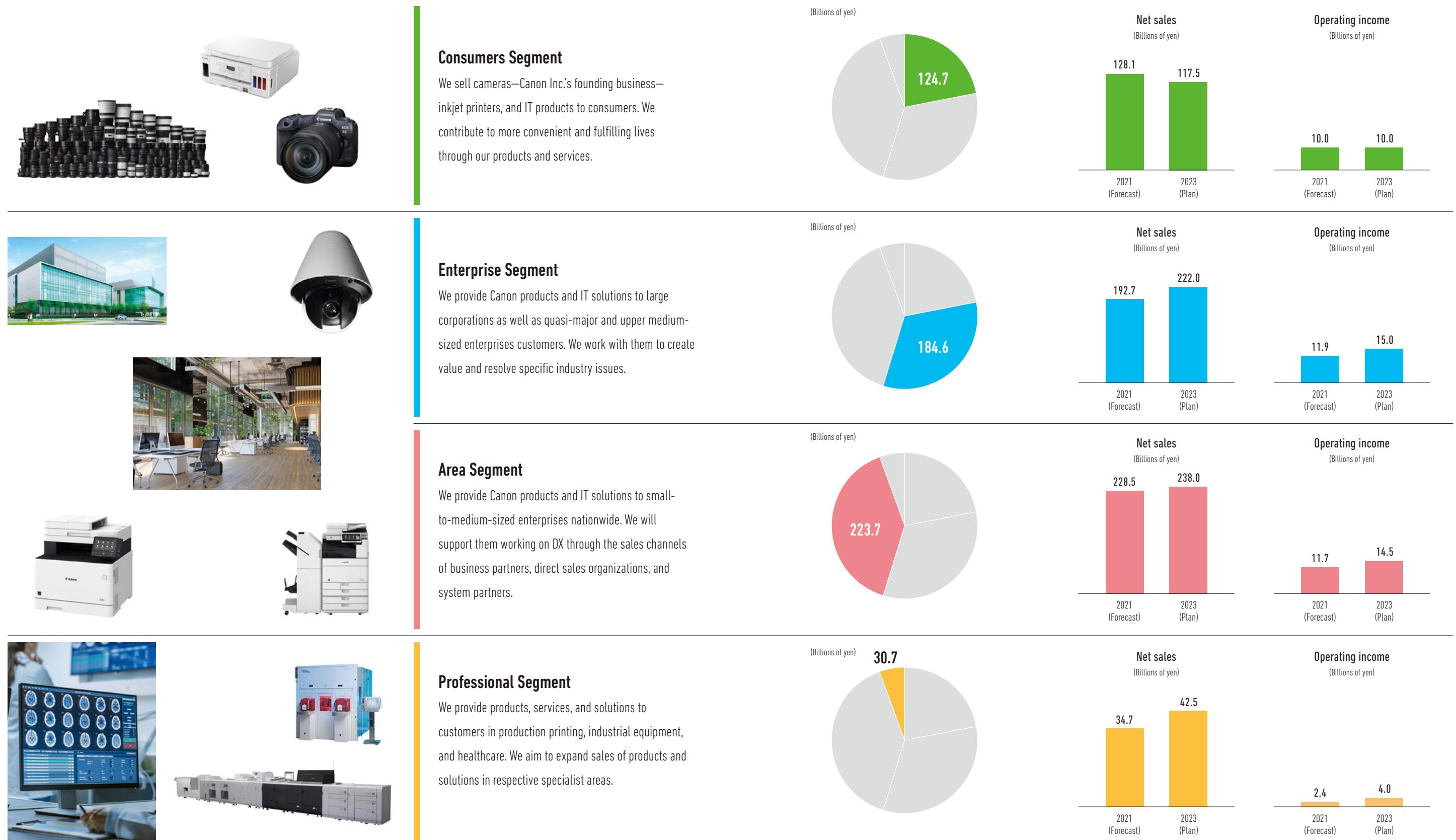
Investment Strategy for Business Growth

Business investments will reflect capital efficiency and profitability goals. We will reinvest profits from these investments in growth businesses.



Overview of Segment Business Strategies

Segments



*From fiscal 2021, we transferred part of our organization engaging in direct sales to upper medium-sized and quasi-major enterprises in the Area segment to the Enterprise segment. We accordingly reclassified results for fiscal 2020. Some figures therefore differ from those on page 3.

Consumers Segment

We will make our existing camera and printer businesses more robust while endeavoring to create new products and services for the years ahead.

Koichi Mikami
Senior Executive Officer
Director of Consumers Segment



Situation analysis

The COVID-19 pandemic has enormously changed the business environment.

We expect demand for digital cameras to recover from a year earlier, when the market shrank significantly because people refrained from going out. That said, we do not expect major market expansion, as movement restraints will likely continue.

At the same time, high-priced full-frame sensor cameras are accounting for a greater proportion of demand because people want to take more impressive photos. The EOS R5 and EOS R6 full-sized mirrorless models launched last year won acclaim for their functionality and for enhancing photography. We will continue to supply products that deliver outstanding value to customers.

We will provide new ways to enjoy photography and videography in a maturing camera market. We aim to increase new demand with products that offer novel photography experiences, such as the iNSPiC REC camera and the PowerShot ZOOM.

The markets for inkjet printers and consumables have dwindled amid decreases in print volumes at home for New Year's cards and photos. On the upside, teleworking and online learning has generated new

demand. We will provide printers that best match emerging demand and expand sales of models with large-capacity ink tanks, which have experienced particular growth.

Opportunities

- Expanded teleworking and online learning
- More photo opportunities as people ease up on refraining from going out
- More engagement with customers through social networking and e-commerce expansion

Risks

- Shrinking camera market as the result of a new wave of COVID-19 infections

Strengths

- Customer relationships owing to a dominant market share in cameras and printers and contacts with customers ranging from electronics retailers through e-commerce and our showrooms and service centers
- Logistics, sales channels, and marketing capabilities that enable us to provide non-Canon products to consumers nationwide
- A compact organization that responds flexibly to market swings

Medium- and long-term vision and business strategy

The Consumer Business Unit's mission is help make consumer lifestyles more convenient and interesting through its products and services, including from the camera line with which Canon started out.

We will solidify our existing camera and printer businesses while endeavoring to create tomorrow's new products and services.

A good example of that stance is ichikara Lab, which we established

in May 2020 to develop new products and services for new customer segments. We are reinforcing marketing to younger consumers.

In 2021, we will continue to sell high-value-added products. These include the EOS R series of full-sized mirrorless cameras and inkjet printers with large-capacity ink tanks. We will strengthen engagement online and physically with consumers to increase the

number of Canon brand devotees. We will accordingly launch a new photo communication site to maintain strong ties with consumers and enhance added value by providing a venue in which people can immerse themselves in our offerings.

We will increase sales by broadening our lineup of in-trend non-Canon products and new services for consumers, including web cameras

for online meetings and gaming PCs for e-sports.

Consumer purchasing patterns have diversified as their lifestyles have changed. We will augment mass retailers, camera stores, and other sales channels by building our e-commerce presence while partnering with other companies to reach our targets for fiscal 2021.

Creating new businesses and services

ichikara Lab

We established ichikara Lab in May 2020. This in-house start-up aims to strengthen marketing and product and services development for young consumers. This entity comprises a cross-organizational team of seven full-time employees and young personnel applied from within the Company.

We initiated Wakamono Study, which explores insights that lies behind the trends, values, purchase behaviors and lifestyles of young consumers by constantly discussing on various themes and works with young people to consider products and services that young people want.

Our first offering from that initiative was iNSPiC PV-123 HELLO KITTY, which we released in November 2020.



ichikara Lab team members (above) and ichikara Lab space (below)

New sites for engaging with consumers

In April 2021, we opened Canon Photo House Ginza and Canon Photo House Osaka so consumers could engage directly with us through photography.

At these venues, customers can shoot with the latest cameras and other equipment, experience editing through printing workflows, and seek advice on creating the images they want. These locations have sections that encourage people to broaden their imagination by viewing outstanding photographic works, including by perusing collections of books by famous photographers.

Canon Photo House communicates with consumers across Japan through online seminars and events.



Canon Photo House Ginza (above) and Canon Photo House Osaka (below)

Enterprise Segment

The mission of our Enterprise Business Unit is to become a true partner by collaborating with customers to create and deliver value. We aim to earn market and industry recognition for our ability to solve problems and provide solutions, with customers valuing us highly. Accumulating a deep understanding of customer operations will enable us to provide differentiated service-based solutions by drawing on our customer base and the sales capabilities of our MA Headquarters and GB Solution Headquarters. We will endeavor to significantly expand our IT solutions business.

MA Headquarters



Hiroyuki Matsumoto
Senior Executive Officer
Group Executive of MA Headquarters
Enterprise Business Unit

We will push forward with our DX business by co-creating with customers.

As economies overall become increasingly digital and online, corporate customers will likely increase IT investments, leading to an expansion of businesses in the DX field.

Large corporations that are the MA Division's customers are stepping up efforts to seek new ways of working in digital, online environments. We will focus on analyzing customer business issues from sophisticated perspectives and offer IT solutions including with Canon products and business process outsourcing.

In the IT solutions business, which will become a key revenue source in the years ahead, we will create core solutions by drawing on our strengths in image, video, document imaging, and other technologies. We will expand our IT solutions business significantly and make it more profitable by drawing on synergies between our sales capabilities, through which we fully understand customers and industries and can approach various customer departments to formulate and execute strategies, and the Canon IT Solutions Group, which has technological and developmental strengths.

GB Solution Headquarters



Koji Ishiwata
Executive Officer
Group Executive of GB Solution Headquarters
Enterprise Business Unit

We will cultivate our DX business by thoroughly understanding our customers.

In January 2021, we reorganized to strengthen our direct sales structure for quasi-major and upper medium-sized enterprises.

We expect that customer DX needs in offices will be in full swing from 2023, when work practice reforms and other measures will have passed a peak. We will draw on synergies with Canon IT Solutions to employ our comprehensive proposal and support capabilities and provide value-added solutions that help customers grow.

We will strive to expand the market share of Canon products and lift sales of the IT solutions business by providing services covering everything from proposals through maintenance, combining Canon products and IT solutions. We will create solutions for quasi-major and upper medium-sized enterprises to match their investment scales and will launch a services model. In addition, we will take on a range of challenges as we grow and expand, building a new sales approach for Canon MJ to trigger Groupwide growth.

Canon IT Solutions Inc.

Positioning in the Canon MJ Group

Canon IT Solutions is an IT partner that helps customer businesses evolve. We prioritize being close to customers, cultivating advanced technologies, and resolutely finishing tasks. We will leverage these qualities to undertake development for customers and help resolve social issues with them. We will also play a leading role in the Canon MJ Group's Long-Term Management Objectives target of ¥300 billion in IT solutions business sales by 2025.

Akira Kanazawa
Representative Director
President and Chief Executive Officer
Canon IT Solutions Inc.



Situation assessment

In 2020, most companies commonly postponed investment decisions owing to the impact of the COVID-19 pandemic. IT investments are recovering among companies in the manufacturing and other sectors. Although it is unclear when the pandemic will abate, customers still need to invest in IT to expand business. We consider it essential to divine customer intentions and steadily expand opportunities to supply new value.

Opportunities

- Corporate DX momentum and growing need for IT to offset labor shortages
- More opportunities to use IT in SDG initiatives, one example being such advanced mathematical technologies as demand forecasting and logistics optimization to help reduce food losses
- Growing demand for high-level data centers that can securely store and use massive and increasing data volumes owing to the growth of cloud computing and e-commerce and a rising need

for data usage in a data-driven economy

Risks

- Remaining able to adapt rapidly to new technological areas
- Constantly reviewing our business and human resources portfolios to adapt to new management and business trends

Strengths

- Ability to resolve customer issues by employing systems development experience
- R&D capabilities that lead to business, such as mathematical technologies and natural language processing
- Project management skills that enhance entire customer IT life cycles, from systems development and infrastructure construction through operations
- High-quality IT infrastructure and advanced operational capabilities, which the Nishi-Tokyo Data Center exemplifies

Medium- and long-term vision and business strategy

Our long-term vision is to be a co-creator that paves the way toward tomorrow with advanced ICT and enthusiastic employees. We want to continue exploring ideas with customers and create business with them to build a new future for society and customers by refining our technology and motivating our employees.

We will accordingly expand our ICT services to resolve issues that are common to industries, sectors, and operations and engage in consulting to consider ideas with customers and create businesses with them. Another management priority is to transform businesses into services to provide ongoing customer value.

In managing our businesses, we emphasize key performance indicators and use PDCA cycles to check progress. Executives always share progress with each other in implementing their

business strategies.

In January 2021, we significantly changed our organizational structure so we could become closer than ever to customers. Under the new structure, in fiscal 2021 we will focus on serving customers resuming and expanding investment activities, especially in manufacturing, as a key focus in implementing our strategy. For manufacturers, we offer diverse expertise in embedded software development, computer-aided design, product life cycle management, mixed reality, and other engineering solution products. We also have expertise in production management and demand forecasting. We will return to growth by comprehensively employing these resources.

Area Segment

We will support DX for small-to-medium-sized enterprises in Japan by fully leveraging our diverse business and system partners and direct sales channels.

Yasuyuki Uotani
Senior Executive Officer
Director of Area Segment



Situation analysis

In a shifting business environment, small-to-medium-sized enterprises will likely make steady progress in digitizing processes to tackle change and increase corporate value. Japan has more than three million of these enterprises. Overall prospects for IT investments are high, with extensive spending continuing in such areas as security. On the downside, many companies do not know what to invest in because they have no in-house IT experts and are unsure where to get advice from.

We have a nationwide customer base that we have built with our channels, and we are always ready to serve. By sharing issues and collaborating to develop and deliver IT solutions, we can build ongoing relationships with customers as their partner in this field. Our challenge is to create a framework to offer total IT solutions support, including maintenance. We are focusing on creating a structure so that we can deliver one-stop customer support with our channels.

Medium- and long-term vision and business strategy

We will provide IT solutions, including maintenance services, as new value propositions in addition to printing to small-to-medium-sized enterprises nationwide, having built that customer base mainly through document solutions. We aim to offer total support to put them on track for DX.

We will use expertise from these endeavors to attract new customers, increasing our regional and customer business share and transforming our operational portfolio, centered on IT solutions.

We will accordingly create a business approach that enables us to constantly secure business by solidly understanding customers, collaborating with them to consider the evolutions of their setups and

Opportunities

- Small-to-medium-sized enterprise IT investment will probably rise
- Firms lack specialist IT managers, and managers seek consultants

Risks

- The pandemic and other factors are causing customer investment priorities to fluctuate

Strengths

- Community-based business partner channels serving prominent local firms
- Systems partner channel to develop businesses linked to enterprise and other systems
- Key Canon product lines that enjoy high market shares and security products and our ability to formulate comprehensive proposals with those offerings
- Channel synergies, notably by using Canon System & Support's best practices in direct sales

Canon System & Support Inc.

Positioning in the Canon MJ Group

Canon System & Support is our direct sales channel for small-to-medium-sized enterprises in Japan. It provides sales, service, and maintenance for IT solutions and Canon products.

Takeshi Hiraga
Representative Director
President and Chief Executive Officer
Canon System & Support Inc.



Situation analysis

The COVID-19 pandemic has transformed how people work, making small-to-medium-sized enterprises increasingly aware of the need to improve productivity through IT. In practice, however, those entities often find it hard to themselves choose, implement, operate, and maintain IT infrastructure, security measures, telework programs to enhance productivity, and cloud computing setups.

Canon System & Support helps small-to-medium-sized enterprises evolve through IT by providing total services that extend from IT selection to implementation, operations, and maintenance.

Medium- and long-term vision and business strategy

While companies increasingly recognize the importance of IT, many worry that they do not know what systems to install or how to use them or handle issues. Installing IT equipment is the start of a process rather than the end. It is important to update and add functions to resolve problems and check and act on failure causes. Experts are vital for these processes. It is challenging for many customers that are not large corporations to hire the requisite full-time people, and to educate existing employees who are not IT experts.

Canon System & Support aims to keep evolving so that it presents and deploys suitable customer solutions in a fast-changing IT market. We want customers to focus valuable resources on core businesses by entrusting us to handle entire IT selection, implementation, operations, and maintenance processes.

At the same time, we want to help customers resolve management issues and thereby build robust relationships with managements so they seek out our advice first on operational issues.

► Professional Segment

Production Printing



Takashi Izaki
Representative Director
President and Chief Executive Officer
Canon Production Printing Systems Inc.

Canon Production Printing Systems is a positive partner for customers in the form printing sector, catering to their diverse printing needs. We also provide point-of-purchase systems for retailers and large-format drawing output systems for manufacturers.

By combining the systems of Canon Production Printing (called Océ through the end of 2019) with proprietary software technology, we can combine the strengths of the Canon Group to provide customer solutions and add high value to customer businesses.

► Medium- and long-term goals

As a production printing specialist, we will support transformations for customers not just in form printing but also in commercial and industrial printing. Our mission is to offer customer solutions, and we seek to acquire new customers in point-of-purchase systems, large-format printers, and document services to become No. 1 in our industry.

Over the next three to five years, we will move away from a reliance on printer maintenance services to focus on providing customer solutions. By 2025, we aim to be a solutions company that can generate earnings profits by creating new subscription businesses through combining existing and new operations. We will accordingly concentrate our people, products, and financial resources on the solutions business. We will also change our sales approach to propose solutions by more extensively understanding customers and identifying their underlying issues.

► Market trends and strengths

The COVID-19 pandemic has caused customer print volumes to decline. The decreases have been particularly high in commercial and industrial printing for flyers, pamphlets, catalogs, and other materials. At the same

time, data printing service volumes for payment slips and notices from local governments have remained stable, constraining print volume drops.

In document services, the pandemic prompted companies to adopt paperless processes, with print volumes falling amid increased teleworking. We will nevertheless continue to develop new sites and expand content creation even in this operating climate.

For the logistics and retailing sectors, digitization is progressing gradually for various reasons, including such factors as population aging and labor shortages. We will help drive digital transformations in those sectors by providing new solutions for point-of-purchase systems.

Industrial Equipment



Yasuhisa Oba
Senior Executive Officer
Division Manager of Industrial Equipment
Professional Business Unit

In industrial equipment, we sell semiconductor manufacturing-related and inspection and measurement equipment, primarily to semiconductor manufacturers. We also supply components and optical measuring instruments to the automotive, semiconductor, and LCD sectors and provide maintenance services.

Canon MJ has a new business development division and trading company capabilities, importing, selling, and supporting equipment from abroad that meets customer needs, helping to improve Japan's manufacturing productivity.

► Medium- and long-term approach

- Strengthen sales of in-house products and export offerings
- Launch new businesses, further develop new products, and consider maintenance contracts

► Market trends

As with PCs and game consoles, demand recovered for smartphones and

automotive-related products from the second half of fiscal 2020. Demand for memory devices was also robust, reflecting increased shipments for data centers and a range of electronic devices. Shortages of automotive semiconductors will probably boost investments in such devices, particularly power semiconductors.

We will continue to strengthen customer and product diversity and become more robust to adapt to market environment changes. At the same time, we will deploy a services sales growth strategy.

We will reinforce our presence in non-semiconductor markets by beefing up our component OEM business and measuring instrument lineup.

► Strengths

- Originality: A dedicated product development team within our business unit uncovers the world's best products based on market needs and provides them along with our technologies
- Experienced support: Offering field support for an array of domestic and overseas products requiring advanced technologies
- Diverse product line: Providing total solutions, including process improvements

Healthcare



Yoshinobu Kuroi
Representative Director
President
Canon ITS Medical Inc.

Canon ITS Medical is the driver for Canon MJ's medical IT solutions business for the medical and healthcare sectors.

Canon ITS Medical's diverse medical IT solutions and services contribute to customer value. Its one-stop services extend from proposing and developing systems through implementation, operations, and maintenance.

► Medium- and long-term approach

Information sharing among multiple professions in healthcare and nursing care from patient perspectives is becoming increasingly important in regional healthcare and comprehensive care. Remote image diagnosis,

online medical care, and other cloud-based systems and services should enjoy growth.

It is against this market backdrop that Canon ITS Medical will help realize a society that delivers health to all. This will be accomplished by introducing medical IT centered on electronic medical records and by contributing to the effective use of a more advanced and diverse medical cloud infrastructure.

► Market trends

Rising medical and nursing care costs and medical personnel shortages are becoming issues in Japan's increasingly aged society.

There is a growing need for medical information coordination among community healthcare institutions to curb these social security costs by fostering home medical care and reducing medical care duplication.

Medical professional shortages have prompted advocacy for work practice reforms, fueling operational efficiency and work environment improvements within hospitals through the use of IT.

Canon ITS Medical will contribute to medical and nursing care DX by presenting IT solutions centered on electronic records underpinning medical information connections.

► Strengths

- A proven record in introducing IT to hospitals, clinics, pharmacies, medical centers, and other facilities to streamline efficiency, with systems consultation capabilities based on this deployment expertise
- The cloud-based Medical Image Place service offers advanced security that complies with the guidelines of three ministries; we are developing new businesses by taking advantage of medical IT systems shifting to the cloud
- We operate two support centers, one in Tokyo and one in Osaka, as part of business continuity planning, and have built systems to keep running in the event of disruptions from major disasters
- We help reduce CO₂ emissions from medical facilities by encouraging a shift to electronic medical records that reduces paper and data storage space

Analysts Assess Canon Marketing Japan's IT Solutions Business

Securities analysts and top management conducted an online roundtable discussion on the IT solutions business, which will be vital to the Canon MJ Group's growth in the years ahead.

Masahiro Nakanomyo

Jefferies (Japan) Limited

Hiroko Sato

Jefferies (Japan) Limited

Masahiro Sakata

President & Representative Director (now advisor)

Masachika Adachi

Director, Senior Managing Director (now President & Representative Director)



Masahiro Nakanomyo

Precision instrumentation analyst
at Jefferies (Japan) Limited



Hiroko Sato

IT services and internet analyst
at Jefferies (Japan) Limited

(The titles of the participants were current at the time of the discussion in February 2021.)

What do you think of the Canon MJ Group as a domestic seller of Canon products in Japan and provider of proprietary IT solutions?

Nakanomyo: The Canon MJ Group's business domain encompasses everything from offering Canon products through developing systems, selling IT products, and running data centers. It also has a broad customer base and sales network and draws on plentiful solutions resources through its business-to-business and business-to-consumer businesses. So, it differs completely from other office equipment sales companies and from other IT solutions companies. It's unique indeed.

Sato: I agree. At the same time, the Group comes across as a generalist systems integrator. For better or worse, there is little to distinguish it in that respect. The Company will need to clearly position its value proposition to be able to expand its IT solutions business. Still, one option could be to explore making generalist systems integration a strength and take full advantage of that.

Sakata: Insiders and outsiders view the Group in slightly different ways, but I think you're spot on. We believe that the Canon brand's quality and product appeal are highly trustworthy. This clout is extremely valuable to us.

Adachi: Over the past five years, we've built the foundations for focusing away from hardware to services, but I don't think that's enough to keep delivering growth. As you noted, we serve diverse customers, from large corporations to small-to-medium-sized enterprises and individuals. We have a wide product range. We are unusual as both a manufacturer-affiliated trading firm and a systems integrator, and need to work on our strengths and make them more understandable to enhance our reputation.

What are the strengths of the Group's IT solutions business?

Nakanomyo: The breadth of your customer base and business domain are simultaneously strengths and slight weaknesses. From an equity market standpoint, you maintain a wide-ranging IT solutions domain while handling high-quality Canon products. I look for you to clarify the synergies between both capabilities.

Sato: Systems integrators will likely become total service providers. I believe that the Group's strength will be its ability to deliver diverse one-stop IT services that extend from upstream processes to maintenance and operations services and outsourcing through your data centers.

The Canon MJ Group maintains a wide-ranging IT solutions domain while handling high-quality Canon products. I look for the Group to clarify the synergies between both capabilities.

As 5G becomes commonplace, image-based solutions will probably become mainstream in medicine and manufacturing. The Group's strength is that it offers Canon imaging and printing products and has its own expertise.

Adachi: I handled sales for major accounts some years back, and found that customers were particularly interested in imaging-related proposals. Many customers consider Canon strong in imaging and video, and that elevates our brand position. This overlaps with the comments from both of you. We aim to fully leverage these strengths.

We also offer unique solutions that we need to highlight. These include FOREMAST, a demand forecasting solution that draws on our strengths in mathematical technology. Another is WebPerformer, a low-code development platform that more than 1,000 companies have deployed.

The Canon MJ Group is in the top echelon of companies able to offer optimal solutions to large corporations, not just in imaging but also in digital transformation and cloud services.

The Group has a broad client base. Tell us about your strengths for large corporations and small-to-medium-sized enterprises.

Sakata: Canon IT Solutions Inc.—the former Sumitomo Metal Systems Solutions—is a key provider of IT solutions for large corporations. Its numerous systems engineers can identify customer needs and offer solutions. Its strength is being able to carefully construct systems. We have a wealth of experience in deploying systems integration services. It will be important for us to draw on these strengths to create services that resolve customer needs and challenges and offer them to other customers as well.

Adachi: The strength of our IT solutions business to date has been in Canon brand printers, MFPs, and other devices and peripheral IT solutions for those devices. At the same time, Canon IT Solutions is a systems integrator that delves deep into customer issues and builds systems to resolve them. Canon IT Solutions is in the Enterprise segment, which serves large corporations. The sales side of the company has switched its processes to act more like a systems integrator for such corporations. Spreading that process approach to salespeople overseeing quasi-major and upper medium-sized enterprises should make us stronger.



We also offer unique solutions that we need to highlight. These include FOREMAST, a demand forecasting solution that draws on our strengths in mathematical technology. Another is WebPerformer, a low-code development platform.

Masachika Adachi

Sakata: IT solutions for small-to-medium-sized enterprises come with a complete sales and support structure, physical and online, enabling us to fully assist customer IT setups. Our salespeople once tended to offer standalone products, but they now provide total solutions. These combine a range of products and services to resolve customer issues. Our challenge will be for salespeople to deliver total solutions and draw on our strong support structure.

What are the challenges for the IT solutions business? How should the Company tackle them to drive further growth?

Nakanomyo: I think your biggest challenge is to develop your business to provide total solutions rather than standalone products. Winning recognition for a killer application or solution would feed success that attracts many companies. Security is probably closest in that respect. I think it would be easier for us to understand the Canon MJ Group if it becomes clearer what it stands for.

Sato: I think you need to improve your slogan to convey the Group's value proposition succinctly and clearly. You highlighted imaging and IT under Long-Term Management Objectives Phase III. Perhaps you should emphasize that more. I think that by including solutions in what the Group offers, many will be able to understand its strengths and attractiveness.

Sakata: The term IT solutions is somewhat vague. The Group currently defines itself in terms of the digital transformation areas it will pursue, the extent to which it will do so, and identifies its strengths in those fields. We plan to clearly state our direction when we announce our new Long-Term Management Objectives and Medium-Term Management Plan in April 2021.

We are also endeavoring to expand human resources, including by hiring, to increase the number of people who can draw a concept of our IT solutions business and show the way forward.

Adachi: When we present proposals in particular areas, we have to demonstrate that other vendors can't compete or that it would be better to collaborate with us. So, I think it will be important to reinforce area and service strengths for large corporations and small-to-medium-sized enterprises and disseminate information externally.

What are your challenges by customer segment?

Adachi: For large corporations, we need to train more systems engineers and salespeople who can go upstream from consulting or speak on equal footings with customer chief information officers or other executives. We will likely need to approach quasi-major and upper medium-sized enterprises by making good use of solutions that have become services for large corporations. So, in January 2001 we established an organization within the Enterprise segment to strengthen our quasi-major and upper medium-sized enterprises businesses.

For small-to-medium-sized enterprises, security is one of our strengths, as Mr. Nakanomyo noted. But we have been unable to deliver sufficient consulting proposals for processes covering everything from implementation through support. We are thus looking to have more people coordinate complete processes, including for acquisitions.

Where would you like the Canon MJ Group to head in the years ahead?

Nakanomyo: I think that the Group can lead the digital transformation drive in Japan. The COVID-19 pandemic has revealed remaining inefficiencies at Japanese companies. I have high hopes for the Group's ability to resolve such issues as a total service provider by creating a variety of new solutions.

Sato: I believe that the systems integrator sector offers a lot of opportunities today because player positions are changing so dramatically. The Canon MJ Group is in the top echelon of companies able to offer optimal solutions to large corporations, not just in imaging but

also in digital transformation and cloud services. Small-to-medium-sized enterprise customers are shifting computing from on their premises to the cloud and software as a service (SaaS). Japan also lags in business processing. The Group maintains its own data centers. Its success in capitalizing on this transition will depend on how fast it can deliver cloud and SaaS solutions to customers.

Hiring competition is intensifying. A key factor in success as a systems integrator will be the ability to focus on both hiring and retraining internally to secure engineers who are adept with advanced technologies.

The operating margins of IT solutions firms exceed those of companies in other industries. Still, I would like the Group to improve its operating margin a little in view of its overall situation so that it becomes more prominent as an IT solutions player.

Sakata: We seek people externally while developing them internally. This includes executives. All of us are learning more about IT solutions. We're endeavoring to think more in terms of solutions, and constantly exploring ways to resolve issues for society and customers. That's how we can add value. People are pivotal to adding value, so we are committed human resources development.

Adachi: For example, if systems are of the same scale as those we have handled, we need to accumulate expertise to build them with fewer systems engineers, boosting operating margins. We will thus focus on education to enhance the skills of those people.

Thank you, Ms. Sato and Mr. Nakanomyo, for sharing your perspectives today. We have emphasized the IT solutions business under our Long-Term Management Objectives and Medium-Term Management Plan, and will strengthen that business in coming years. We will endeavor to deliver better results by leveraging synergies with Canon's product businesses and bolster corporate value to match your expectations.

Sustainable Management ESG Initiatives

E Environment

S Social

G Corporate Governance

- Board of Directors and Audit & Supervisory Board Members

E Environment

The Canon MJ Group seeks to contribute to social progress by enhancing lifestyles and safeguarding the environment by deploying in-house measures to prevent climate change and reduce waste while pursuing distinctive initiatives as a marketing enterprise.

Preventing Climate Change

Initiatives at Business Sites

We upgrade office equipment to energy-efficient models and implement measures to reduce lighting and air conditioning power consumption. We also shrink our environmental footprint by improving work processes and work practices. Examples include car-sharing sales and service vehicles and no-overtime work days.

We effectively slashed to zero our CO₂ emissions from electricity consumption in the showroom and customer service areas of Canon S Tower and branches. This achievement was made possible through purchases under the J-Credit Scheme*, under which credits for power derived from renewable energy sources offsets electricity consumed from other sources. In 2020, we applied this system to the shuttle bus running between the Canon S Tower and the Makuhari Office to virtually eliminate its CO₂ emissions.

*The Japanese government certifies J-Credits under the J-Credit Scheme of the Ministry of Economy, Trade and Industry, the Ministry of the Environment, and the Ministry of Agriculture, Forestry and Fisheries. The scheme encourages entities to adopt and expand the use of renewable energy by converting intangible CO₂ emissions reductions and absorptions into credits that they can trade in markets.

Product and Services Initiatives

• Reducing environmental impact by providing IT solutions

The Canon MJ Group offers a range of document and other IT solutions. These solutions, for example, improve business efficiency and lower costs by reducing energy consumption at customer sites through the use of data centers and paper document digitization to reduce paper resources. This also lowers environmental impact by reducing resource and energy consumption.

• Introducing carbon offsets

We introduced a carbon offset*¹ scheme to offset CO₂ emissions of our office MFPs and certain production printers throughout product life cycles

at customer requests. Although the eco-friendly technologies of our products lower emissions across the product life cycle, we still purchase offset credits*² equivalent to the emission amounts that cannot be reduced, thereby virtually eliminating emissions*³.

Under this scheme, we transfer offset credits equivalent to emissions reductions from the use of offset products to customers who wish to use them.

Customers can use emissions reductions from offset credits transferred to them as their own reductions. Also, we use offset credits that local governments sell, thereby contributing to regional CO₂ reduction activities.

*1. Carbon offsets reduce GHG emissions to compensate for emissions elsewhere.

*2. Credits issued for carbon offsetting

*3. Emissions for all units shipped in the Refreshed series are offset.

Resource Recycling

Product Collection and Recycling Activities

We set up a program to efficiently collect used Canon MFPs, laser printers, 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.

Canon recycling sites reuse and materially and thermally recycle used products, cartridges, and other items from customers so they become resources instead of landfill.

The Refreshed series of office MFPs exemplifies our approach. After disassembling collected equipment to the component level, we clean and wash parts, replacing deteriorated and worn parts in accordance with strict recycling standards. Refurbished equipment goes through production and inspection lines employing the same standards as those for equipment solely employing new parts. We fully verify quality and reliability in bringing out refurbished offerings as new products.



imageRUNNER ADVANCE C330F-RG

Managing Water Use

We monitor and manage water consumption at key business sites. At our headquarters in Shinagawa, we use water-saving panels in the cafeteria and other areas. We collaborate with the Shinagawa Grand Commons urban development council to use recycled water in restrooms and other areas in keeping with Tokyo metropolitan government objectives. We cut water consumption when verifying semiconductor equipment by minimizing their operations.

Preventing Pollution**Carefully Managing Chemical Substances**

We identify and manage all chemical substances that we use in after-sales support for our products. Steps under our Chemical Substance Management Procedures include monitoring hazardous substance usage amounts and storage.

We determine whether or not we can use new chemical substances by assessing their environmental impacts, and confirm appropriate usage and storage methods.

Conserving Biodiversity**Implementing the Furusato Project**

Our Furusato Project aims to bequeath a better world to future generations in keeping with our recognition that biodiversity is essential for a



Activities of the project held in Miyagi Prefecture

Activities of the project held in Fukui Prefecture

sustainable economy.

We endeavor through the project to encourage participation in the activities of groups with which we are collaborating to raise awareness of biodiversity and conservation through My Action Declaration*, a set of five actions to protect biodiversity.

*To reach the Aichi Diversity Targets, we must all be aware of the impacts of our lifestyles on biodiversity.

Disseminating Website Contents

The Canon website offers access to the Animarium, an online virtual town, river, sea, and mountain space in which visitors can learn about the environment and biodiversity through photos about the wonders of living things.

TOPIC**Canon IT Solutions Receives Letter of Appreciation from Governor of Tokyo for Helping to Realize Zero Emission Tokyo Strategy**

Canon IT Solutions endorsed the Tokyo metropolitan government's efforts to realize its Zero Emission Tokyo strategy, donating 19,893 metric tons of CO₂ reduction credits from the Nishi-Tokyo Data Center. That facility participates in the Tokyo Cap-and-Trade Program*, a mandatory emissions trading scheme. The company received a letter of appreciation from the Governor of Tokyo for donating credits after lowering emissions and energy consumption more than required.

*This program obliges office building occupants and other energy users to reduce their CO₂ emissions, and allows them to trade emissions excesses or shortfalls as credits.



S Society

The Canon MJ Group contributes to society in a variety of ways, including by creating frameworks to provide safe and reliable products and services to customers and by developing workplaces that prize the contributions of each employee.

Relations with Employees**Respect for Human Rights and Diversity**

We strive to prevent unfair discrimination and harassment of employees. We foster a corporate culture in which diverse people with different personalities and values can play an active role and grow with one another.

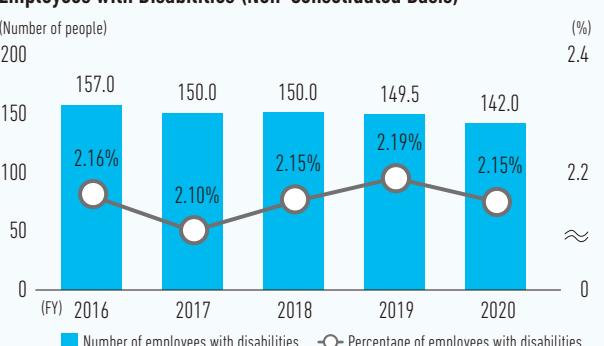
Supporting women's advancement

In support of the Women's Action Plan of Keidanren (Japan Business Federation), Canon MJ 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 2025, Canon MJ looks to have women accounting for 6.0% of managerial positions and 20.0% of deputy manager roles.

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

Employees with Disabilities (Non-Consolidated Basis)

*Calculated according to prescribed working hours, disability degrees, and other factors in keeping with the Ministry of Health, Labour and Welfare standards.

of June 2020, 2.15% of Canon MJ's employees were people with disabilities. The Group will continue pushing ahead with new graduate and midcareer hiring of individuals with disabilities.

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 April 2021, we received Platinum Kurumin Certification from the Minister of Health, Labour and Welfare for excellence in offering childcare support.

**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.

Developing Human Resources

We empower all employees to learn and grow by providing the support they need while encouraging voluntary learning. Our Human Resources Department oversees overall training. It joins hands with departments handling specialist training and workplace supervisors overseeing day-to-day operations to design ideal experiences for each employee and foster their growth.

Asia trainee system

The Canon Group maintains the Asia Trainee System, through which it sends young employees to undertake language and practical training at overseas subsidiaries in Asia. The goal is to foster professionals who are familiar with local languages, cultures, and business practices. This is

one of the training programs of Canon Inc. We want those participating in the program to become strong candidates for future overseas assignments.

• In-house recruiting program

We support career development through the Job Opening Bulletin System. This program encourages employees to take on new positions and more fully tap our human resources.

Enhancing Job Satisfaction

Our meritocracy-based corporate culture fully recognizes achievements in important and responsible jobs, regardless of age or gender. Our work environment encourages employees to grow and develop personally and benefit our organization.

• Work practice reform initiatives

We launched the Work Practice Reform Promotion Project to enhance productivity Groupwide so employees can complete their tasks during regular working hours.

We staggered work hours and broadened the scope of teleworking to help safeguard employees from COVID-19.

- Raise awareness by implementing no-overtime work days and sharing results on our information site
- Diversify work practices by using satellite offices and telework and staggering work hours
- Enhance work efficiency by encouraging the use of IT tools and robotic process automation (RPA), through which software robots run applications on PCs

Procurement Activities

Basic Procurement Policy

The Canon MJ Group established the following 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.

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.

We established a department that oversees our Procurement Department, and aim to regulate the Canon MJ Group overall by educating about procurement-related laws and rules and monitoring compliance.

We provide buyer education for Procurement Department employees to raise compliance awareness based on the Group Procurement 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.

Engaging in Green Procurement

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

We brief new suppliers on these standards. We confirm compliance by checking that they have established product chemical substance management systems based on the standards and by surveying environmentally hazardous substances in raw materials, parts and auxiliary materials of products for which we consign production.

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

Procuring Minerals Responsibly

The Canon MJ Group tackles the challenge of sourcing minerals responsibly in conflict-affected areas* in accordance with a basic policy of the Canon Group. We ensure peace of mind for Canon product customers by requesting suppliers to confirm the provenances of minerals in their products and help us eliminate the use of conflict minerals.

* Some minerals from the Democratic Republic of Congo and adjoining countries are prevalent across the global supply chain. They are called conflict minerals because they fund armed groups in Central Africa. The United States enacted legislation that requires U.S.-listed companies to disclose their use of conflict minerals, raising interest worldwide in this issue. From 2020, we took the impact of the European Union's conflict minerals regulations into account in expanding the scope of our assessments to cover all conflict and high-risk areas worldwide in line with the OECD Due Diligence Guidance.

Quality Management

Quality Management System

The Canon MJ Group established a quality management system that augments the requirements of ISO9001, the international standard for quality management systems to control quality risks. This approach is in keeping with our Basic Policy on Product Safety and ensures that we 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 plan-do-check-act (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 and other manufacturers, and respond swiftly to customer issues.

TOPIC

Telework Supporter Service Helps Enhance Work Practices and Prevent Spread of COVID-19 Infections

BellSystem24, Inc., a leading call center company, introduced Telework Supporter in 2019. About 25% of its home-based operation booths use this cloud-based service from Canon IT Solutions.

Telework Supporter uses facial recognition to manage work attendance. People find this less stressful than camera monitoring systems in which managers check videos of employees on the job. The system also reduces the risk of information leaks.

BellSystem24 views security as a top priority, so it was impressed with the system's ability to detect peeping and spoofing, lowering the risk of information leaks.

The pandemic has prompted many companies to adopt telework as part of work practice reforms. We will keep contributing to the expansion of telework and business progress in various markets by providing Telework Supporter and other IT solutions.



G 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: 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 Japanese Corporate Governance Code.

Initiatives to Enhance Corporate Governance

- | | |
|------|---|
| 2011 | Adopts executive officer system |
| 2014 | Appoints one outside director |
| 2016 | Increases number of outside directors to two |
| 2016 | Establishes standards for independent outside directors |
| 2016 | Japanese Corporate Governance Code and Audit & Supervisory Board members (Standard) |
| 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.

Relationship with the Parent Company

Our parent company is Canon Inc., whose policy is to list its subsidiaries on stock exchanges to optimize its consolidated results, ensuring earnings stability by maintaining the independence and dynamic management structures of those companies. This approach enhances Group value in keeping with the interests of all shareholders, including minority ones.

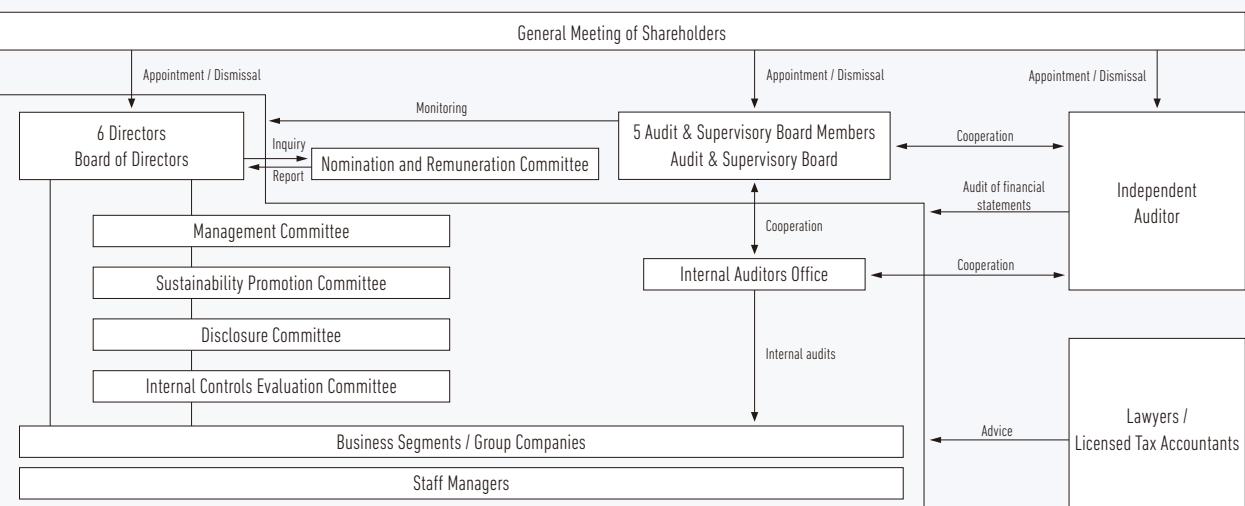
Canon MJ sells and services Canon products. It also sells and services the products and IT solutions of other entities in response to customer requests. To develop our own businesses, we have to make swift decisions, procure funds flexibly, and attract talented people. We are able to do this because we are listed and operate independently. We thus believe that expanding earnings through our businesses help increase the Canon Group's corporate value while benefiting shareholders overall.

The parent company's involvement in running our organization is limited to exercising voting rights as a shareholder. No parent directors hold concurrent positions with us. More than half of the members of our voluntary Nomination and Remuneration Committee are independent outside directors, ensuring transparency and fairness. We confirm that transactions with Canon Inc., such as to determine purchase prices and interest rates on loans, do not disadvantage either party. We only implement these transactions after signing contracts.

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.

Corporate Governance Organization



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 extensively discusses and decides about important matters relating to legal affairs and Board regulations at gatherings that are normally held once monthly, or as needed, 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 person who fulfills the independence criteria of Standard 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, communicating with directors and other parties, and perusing important 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 has 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 Standard for outside directors and outside Audit & Supervisory Board members to clarify for the independence of outside directors and outside Audit & Supervisory Board members in keeping with the Japanese Corporate

Governance Code and standard. 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, as well as liaison meetings conducted as needed, to exchange information on important audit details among Audit & Supervisory Board members.

Outside Directors' and Outside Audit & Supervisory Board Members'

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

	Name	Attendance at meetings of the Board of Directors and Audit & Supervisory Board during fiscal 2020
Outside directors	Akio Dobashi	18/18 times (100%) of Board of Directors' meetings
	Yoshio Osawa	18/18 times (100%) of Board of Directors' meetings
Outside Audit & Supervisory Board members	Iwao Hashimoto	13/13 times (100%) of Board of Directors' meetings 10/10 times (100%) of Audit & Supervisory Board meetings There were 18 meetings of the Board of Directors in fiscal 2020. He attended all 13 gatherings subsequent to his appointment. There were 17 meetings of the Audit & Supervisory Board in fiscal 2020. He attended all 10 gatherings subsequent to his appointment.
	Nobutoshi Matsumoto	13/13 times (100%) of Board of Directors' meetings 10/10 times (100%) of Audit & Supervisory Board meetings There were 18 meetings of the Board of Directors in fiscal 2020. He attended all 13 gatherings subsequent to his appointment. There were 17 meetings of the Audit & Supervisory Board in fiscal 2020. He attended all 10 gatherings subsequent to his appointment.
Shigeo Hasegawa		18/18 times (100%) of Board of Directors' meetings 17/17 times (100%) of Audit & Supervisory Board meetings

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 management index) 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.

Members of Nomination and Remuneration Committee

Masachika Adachi: Chairperson, President & Representative Director

Minoru Mizoguchi: Director, Senior Executive Officer

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.

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 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 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.

All officers and employees of the Canon MJ Group receive copies of the Canon Group Code of Conduct, which presents the standards that they should uphold in performing their duties, and Compliance Cards, which describe the "Three Selfs" spirit (covering self-motivation, self-management and self-awareness). We educate and train employees to enhance awareness. In addition, we distribute compliance-related email newsletters to help our people better understand and adhere to laws and rules relating to our business.

We normally convene the compliance meeting to confirm compliance risks and countermeasures at each work site. There were no such gatherings in 2020 because of the pandemic, but we have resumed them in 2021. We also maintain an ongoing internal reporting system.

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 an information security report.

Business Continuity

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

Business Continuity Planning

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. We choose important operations that should continue and formulate business continuity plans for each of them.

Business Continuity Management

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

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 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

It is important to remain constantly ready for disasters and prepare specific responses.

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.

Ongoing training enables us to respond decisively to emergencies.

• Assessments

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.

Tackling the COVID-19 Pandemic

We make the health and safety of customers and Canon MJ Group employees our first priority, and have taken the following preventive steps to maintain business continuity even as infections spread across Japan.

1. Work practices

- Implement teleworking (to reduce office headcounts by 70%)
- Stagger work hours and have people work from satellite offices

2. Employee behavior

- Ensure that employees practice social distancing, wear masks and wash hands thoroughly, and avoid closed, crowded, and close-contact settings
- Ensure that employees step up health management and swiftly report suspected infections
- Generally prohibit overseas business travel and cancel or postpone unnecessary domestic business trips

• Hold online meetings with customers, business partners, and employees, and prohibit large-scale in-person gatherings internally

• Consider caution in holding in-person face events

• In principle, prohibit overseas travel for personal purposes

3. Measures at business sites

- Regularly disinfect office floors and common areas

Messages from Outside Directors



Akio Dobashi
Outside Director

As I stated in the previous integrated report, the Company has had no governance issues to the best of my knowledge. I have been an outside director for five years, since which I have found that directors increasingly speak at meetings and engage in more vigorous discussions.

If I had to highlight an issue, it would be that the Company could operate more swiftly in everything from setting policies and goals to implementing specific strategies. In IT solutions in particular, which we have positioned as a growth business, clearly communicating growth strategy progress internally and externally should accelerate expansion. I believe that we can improve our corporate value by better informing our customers and the market of the social issues that we seek to resolve through IT.

Having ample funds should benefit us greatly as we accelerate growth. Demonstrating to capital markets that we are willing to invest in talent development and acquisitions should make it easier for us to obtain useful acquisitions information. In reinforcing human resources, we need to make our IT solutions growth strategy clear and more proactively hire new graduates and midcareer people who want to work in IT-related areas.



Yoshio Osawa
Outside Director

I believe that our corporate governance setup has evolved since my appointment in 2018. The COVID-19 pandemic has changed how our people work. We have been able to constrain infections, which is testament to our governance approach working well.

The four members of the Nomination and Remuneration Committee, which the Company launched in 2018, held fruitful deliberations in 2020. I think that the Board of Directors has deepened discussions not just about the organization and structure but has also enhanced awareness about corporate governance while materially improving it. In the years ahead, I think we will need to focus more on risk and crisis management and pursuing the SDGs to address a range of risks.

We did not sense that the Company fully employed its business strengths despite having a broad customer base, supporting its product capabilities with a solid Canon brand and advanced technologies. The Board of Directors has continued to discuss the need to provide more total solutions, including Canon products and IT solutions, and maintenance and operations services to satisfy customers. Over the past three years, the entire organization seems to have taken a new tack. The Company and its customers rapidly increased teleworking last year in response to the pandemic. I think this situation increased an internal awareness of the need to provide total solutions, as IT is part and parcel of telework.

It will be essential for all employees to become knowledgeable about IT to move forward. We should become speedier, notably in investing in human resources development, providing services that integrate Canon products and IT solutions, and undertaking acquisitions.

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 2020, Canon MJ conducted Company briefings for retail investors in July. 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.

Canon MJ IR website

canon.jp/8060e-ir

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.

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 business partners, including parent company 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.

Systems Development

We develop systems under contract in diverse fields to provide solutions to customers. In moving forward with projects, we endeavor to reduce the risk of unprofitable projects by establishing internal deliberation frameworks and carefully managing projects and work hours.

Significantly higher man-hours to accommodate customer requests for additional specifications or changes, disagreements with customers about specifications and progress, or other factors could greatly increase costs and affect business performance.

Data Center Business

Our Nishi-Tokyo Data Center offers data center, cloud, and systems operations subscription services. The advanced facilities are on stable ground and provide robust security, meeting strict facilities and operating quality standards. We obtained the M&O Stamp of Approval in 2017* from a third-party organization as recognition for meeting global data center operations expertise standards over the years.

Nonetheless, an earthquake, major flood, fire, or other disaster or an infectious disease outbreak, operational error, or cyberattack could cause facilities and systems to halt operations or result in leaks of important customer information, harming business partners and other related parties. Such situations could erode trust and adversely affect the Group's operations, results, and financial position.

*The Uptime Institute, a private entity in the United States, has established global standards for data center operational quality.

Information Management

The Canon MJ Group holds important information about various Group operations. It has also amassed a considerable amount of sensitive information about companies and individuals in the course of providing customer solutions. We accordingly formulated the Basic Policy on Information Security and the Basic Policy on Information Security Rules for the Group, 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.

For subcontractors, we established and oversee rules and management systems stipulating selection criteria and methods for confirming security management measures.

We additionally set up the Computer Security Incident Response Team to prevent, detect, and tackle cyberattacks.

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 it maintains redundant equipment and information systems as backup, the Group cannot guarantee it 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. Depending on how this situation affects Canon Inc. and other business partners, they may not be sufficiently able to provide products and services.

If the pandemic were to worsen and stretch out, the global economy and our operations could stagnate, the business activities and investment appetites of business partners could decline, and our business activities could face restrictions owing to government requests, adversely affecting our results and financial position.

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, 2020. The Company has the exclusive right to sell all Canon brand products in Japan, the exceptions being semiconductor exposure equipment, LCD substrate exposure equipment, and medical devices. In fiscal 2020, Canon Inc. accounted for a large proportion of our overall 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.

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.

Board of Directors and Audit & Supervisory Board Members

As of March 26, 2021



10-Year Consolidated Financial Summary

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31

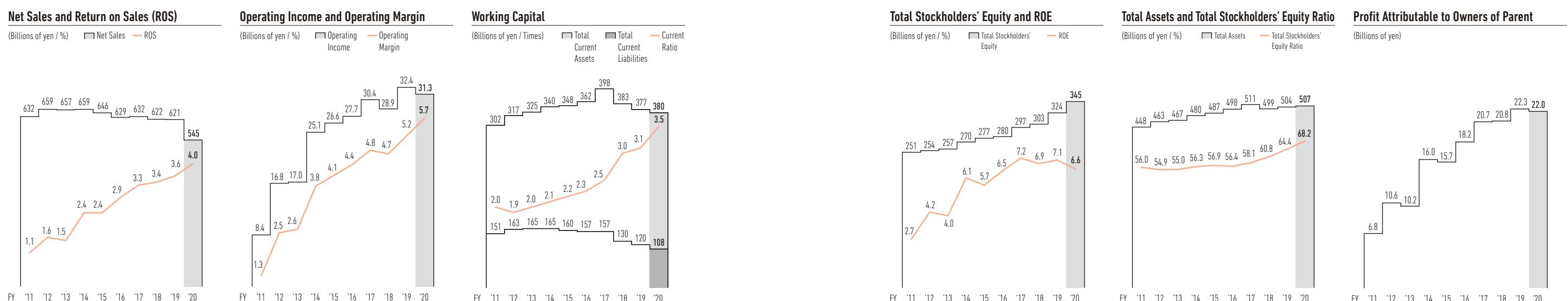
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2020
For the year:											
Net sales (Note 5)	¥ 545,060	¥ 621,134	¥ 621,591	¥ 632,190	¥ 629,314	¥ 646,003	¥ 659,432	¥ 657,216	¥ 659,218	¥ 632,419	\$ 5,240,962
Operating income	31,318	32,440	28,941	30,407	27,676	26,647	25,088	17,013	16,802	8,442	301,135
Profit before income taxes	33,463	33,303	30,708	30,919	28,903	27,498	25,858	17,055	17,529	10,972	321,760
Profit attributable to owners of parent	21,997	22,250	20,826	20,680	18,162	15,670	16,030	10,168	10,579	6,764	211,510
At year-end:											
Total assets	506,605	503,699	498,791	510,833	497,728	486,502	479,747	467,076	462,574	447,765	4,871,202
Total stockholders' equity (Note 4)	345,459	324,476	303,028	297,032	280,473	277,008	270,061	256,795	253,862	250,671	3,321,721
Cash flows:											
Cash flows from operating activities	38,490	22,053	16,990	28,885	33,306	29,730	38,191	28,781	33,767	8,716	370,096
Cash flows from investing activities	(26,175)	(94,585)	(10,526)	7,964	(19,461)	(44,536)	(15,221)	(25,757)	(16,067)	(12,108)	(251,683)
Cash flows from financing activities	(6,587)	(8,557)	(7,839)	(7,145)	(6,086)	(6,225)	(4,545)	(9,105)	(11,813)	(3,811)	(63,337)
Cash and cash equivalents at end of year	60,131	54,494	135,572	136,980	107,286	99,574	120,607	102,183	108,260	102,373	578,183
Per share of common stock:											
Profit attributable to owners of parent (Note 2)	¥ 169.65	¥ 171.60	¥ 160.61	¥ 159.48	¥ 140.06	¥ 120.84	¥ 123.62	¥ 76.67	¥ 77.45	¥ 49.30	\$ 1.63
Cash dividends (Note 3)	60.00	60.00	60.00	60.00	50.00	45.00	40.00	24.00	24.00	20.00	0.58
Stockholders' equity (Note 4)	2,664.20	2,502.39	2,336.97	2,290.70	2,162.96	2,136.22	2,082.60	1,980.22	1,907.50	1,827.25	25.62

Notes 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥104 to U.S.\$1, the prevailing exchange rate as of December 31, 2020.

4. Total stockholders' equity in the above table represents the total of stockholders' equity and accumulated other comprehensive income (loss) in the consolidated balance sheets.

2. Profit attributable to owners of parent per share is based on the weighted-average number of shares of common stock outstanding during the respective fiscal years.
3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the respective fiscal years.

5. Effective fiscal 2013, we have changed to an accounting method that deducts a portion of sales incentives (which had previously been accounted for under selling, general and administrative expenses) from net sales; therefore, the amount of net sales for fiscal 2012 and relevant key management indicators have been adjusted retroactively.



Financial Review

Business Performance

Net Sales

Consolidated net sales for the year ended December 31, 2020, decreased 12.2% from a year earlier, to ¥545,060 million. This stemmed from significant demand downturns in key business equipment and digital interchangeable lens cameras. There were also rolling Companywide shutdowns from April through May due to the spread of the COVID-19, which hampered business activities. These factors offset gains in related products and services to meet rising teleworking demand.

Segment Information

• Consumers Segment

While sales of digital cameras spiked temporarily on the strength of a government travel incentive program and other factors, demand remained generally sluggish because constraints on mobility damped purchasing interest. Temporary closures and shorter business hours among camera and appliance retailers limited selling opportunities. Sales of digital interchangeable lens and compact digital cameras thus declined significantly despite favorable reviews of our EOS R5, EOS R6, and EOS Kiss M2 mirrorless models, launched in the year under review.

Demand for consumer inkjet printers jumped as a result of greater teleworking and online learning. Sales were robust, particularly of new and other high-value-added offerings. Refillable GIGA TANK models continued to do well, helping boost inkjet printer sales. Ink cartridge sales were off because the market for these items contracted amid lower color printing and New Year's card volume.

Sales of IT products were up significantly on gains in PC peripherals from rising telework demand and ongoing growth in gaming PC sales.

These factors caused segment sales to drop 6.0%, to ¥124,875 million. Segment income rocketed 78.0%, to ¥12,219 million. This reflected efforts to generate earnings by lifting the sales contributions of high-value-added products, evaluating market conditions, and constraining selling, general and administrative expenses centering on advertising spending.

• Enterprise Segment

Sales of office multifunction printers (MFPs) declined amid sluggish markets from the start of the year, as well as owing to rolling shutdowns that constrained business activities. Sales of laser printers were also down because of the business activity impact and owing to the absence

of large deals like those of the previous year. Maintenance service sales for office MFPs and laser printer cartridges decreased, as ongoing teleworking lowered office print volumes.

Sales of IT solutions for large enterprises declined despite improved orders toward the fourth quarter. This reflected the absence of two of the previous year's performance drivers. They were business PC replacement demand following the end of support for Windows 7 and major projects for systems integration (SI) services and infrastructure systems. Another factor was decreases in or postponements of projects owing to curtailed business activities.

Segment sales thus decreased 12.6%, to ¥171,238 million. Segment income declined 11.4%, to ¥8,920 million.

• Area Segment

Sales fell for office MFPs, laser printers, and other mainstay business equipment. This was despite progress in the fourth quarter with MFP projects that had experienced delays, and reflected sluggish markets from the start of the year and business activity restrictions from rolling shutdowns. Sales of maintenance services and laser printer cartridges dropped amid lower print volumes from an ongoing impact of teleworking, although markets gradually picked up.

Demand for building teleworking environments remained high in IT solutions for small-to-medium-sized enterprises. Sales of the HOME IT support cloud service were steady. Sales were up for ESET antivirus software and firewall and other security equipment. We focused on securing maintenance and operation services for customers' IT equipment, boosting order numbers. Despite increased teleworking demand, sales of business PCs dwindled in the absence of high replacement demand growth experienced in the previous term in line with the end of support for Windows 7. Sales of IT solutions therefore fell.

Segment sales accordingly decreased 12.1%, to ¥235,767 million.

Segment income dropped 31.3%, to ¥9,898 million.

• Professional Segment

Production Printing

We supply fast continuous feed and cut-paper printers mainly to the printing industry. We also offer point-of-purchase systems for the retail sector. In the year under review, sales of monochrome continuous-feed printers and other products were up, but sales of consumables dropped

amid lower print volumes, while sales of point-of-purchase production-related businesses were down.

Industrial Equipment

In this business unit, we provide manufacturing, inspection, and measurement equipment, and other products, mainly for semiconductor manufacturers. Sales of semiconductor manufacturing equipment rose during the term, but sales of inspection and measurement equipment were down, lowering sales.

Healthcare

Here, we develop systems, mainly for hospital and clinic electronic medical records, and build infrastructure. We also provide receipt computers and other offerings to dispensaries. During the year, sales rose

on the strength of several large projects for building electronic medical records and medical IT infrastructure for hospitals. This offset the impact of the absence of the previous year's major projects for dispensaries.

In January 2020, the Company transferred the shares of consolidated subsidiary Canon Lifecare Solutions Inc. to Canon Medical Systems Corporation. In the year ended December 31, 2019, Canon Lifecare Solutions posted net sales of ¥11.0 billion and operating income of ¥0.1 billion.

As a result of these factors, segment sales fell 29.7%, to ¥30,710 million. Segment income was up 16.3%, to ¥1,880 million, reflecting lower selling, general and administrative expenses.

Income Analysis

Consolidated net sales decreased 12.2%, to ¥545,060 million.

Cost of sales dropped 14.1%, to ¥361,077 million. Gross profit was down 8.5%, to ¥183,983 million. Selling, general and administrative expenses declined 9.4%, to ¥152,665 million.

Financial Position

Total current assets increased ¥2,945 million from the end of the previous year, to ¥380,349 million. This was due mainly to a ¥15,632 million rise in cash and cash equivalents and short-term loans receivable, a ¥7,339 million decrease in notes and accounts receivable, and a ¥6,190 million drop in merchandise and finished goods.

Total non-current assets decreased ¥39 million, to ¥126,256 million. This reflected a ¥18,213 million increase in buildings and structures, owing largely to the completion of the second phase of the Nishi-Tokyo Data Center, with construction in progress dropping ¥12,518 million. Also, rental assets declined ¥1,478 million and deferred tax assets were down ¥1,573 million.

Total current liabilities decreased ¥11,584 million, to ¥108,440 million,

Cash Flows

Net cash provided by operating activities was ¥38,490 million, compared with ¥22,053 million a year earlier. Prime factors were ¥33,463 million in profit before income taxes, ¥11,254 million in depreciation and amortization, ¥5,358 million in a decrease in inventories, ¥5,277 million in a decrease in notes and accounts receivable-trade, and ¥6,263 million in a decrease in notes and accounts payable-trade and ¥13,575 million in income taxes paid.

Net cash used in investing activities was ¥26,175 million, compared with ¥94,585 million a year earlier. This was due to a ¥14,695 million in

Operating income thus dropped 3.5%, to ¥31,318 million. Total other income jumped 148.5%, to ¥2,145 million.

Profit attributable to owners of parent therefore decreased 1.1%, to ¥21,997 million. Net income per share was down ¥1.95, to ¥169.65.

largely because of a ¥7,436 million decline in notes and accounts payable.

Total long-term liabilities decreased ¥6,532 million, to ¥52,050 million, principally because of a ¥6,072 million decrease in net defined benefit liabilities.

Total net assets climbed ¥21,022 million, to ¥346,115 million. This was due mainly to ¥21,997 million in profit attributable to owners of parent, ¥6,483 million in dividends paid, and ¥5,253 million in remeasurements of defined benefit plans.

Total liabilities and net assets thus increased ¥2,906 million, to ¥506,605 million.

The total stockholders' equity ratio rose 3.8 percentage points, to 68.2%. Stockholders' equity per share rose ¥161.81, to ¥2,664.20.

payments for purchases of property, plant and equipment, ¥9,995 million in an increase in short-term loans receivable, net, and ¥3,730 million in payments for purchases of intangible assets.

Net cash used in financing activities was ¥6,587 million, compared with ¥8,557 million a year earlier. This was due mainly to ¥6,512 million in dividends paid.

Cash and cash equivalents at the end of the year were up ¥5,637 million from a year earlier, at ¥60,131 million.

Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2020 and 2019

Millions of yen

ASSETS	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents (Notes 10 and 11)		
Cash and cash equivalents (Notes 10 and 11)	¥ 60,131	¥ 54,494
Notes and accounts receivable (Note 10)	105,328	112,667
Inventories (Note 4)	27,826	34,110
Short-term loans receivable (Note 10)	180,007	170,012
Other current assets	7,123	6,197
Allowance for doubtful receivables	(66)	(76)
Total current assets	380,349	377,404
PROPERTY, PLANT AND EQUIPMENT:		
Land	28,360	28,918
Buildings and structures	69,905	51,692
Machinery and vehicles	167	167
Furniture and fixtures	16,266	16,887
Rental assets	38,178	39,656
Lease assets	79	147
Construction in progress	1,577	14,095
Total	154,532	151,562
Accumulated depreciation	(70,802)	(68,748)
Net property, plant and equipment	83,730	82,814
INTANGIBLE ASSETS:		
Software	5,374	4,148
Lease assets	1	2
Utilization rights	294	316
Other intangible assets	1	3
Total intangible assets	5,670	4,469
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 10 and 11)	11,303	11,038
Long-term loans receivable	36	36
Net defined benefit assets (Note 12)	416	393
Lease deposits (Notes 17 and 18)	3,427	4,359
Deferred tax assets (Note 13)	19,220	20,793
Other investments and other assets	2,659	2,775
Allowance for doubtful receivables	(205)	(382)
Total investments and other assets	36,856	39,012
Total non-current assets	126,256	126,295
Total assets (Note 14)	¥ 506,605	¥ 503,699

LIABILITIES AND NET ASSETS	2020	2019
CURRENT LIABILITIES:		
Notes and accounts payable (Note 10)		
Notes and accounts payable (Note 10)	¥ 44,107	¥ 51,543
Lease obligations (Notes 10 and 18)	54	72
Accrued income taxes	7,005	8,236
Consumption taxes payable	5,548	5,902
Accrued expenses	16,167	17,856
Accrued bonuses	5,664	3,373
Accrued directors' bonuses	75	100
Accrued product warranties	454	652
Accrued loss on order received (Note 4)	9	189
Other current liabilities	29,357	32,101
Total current liabilities	108,440	120,024
LONG-TERM LIABILITIES:		
Lease obligations (Notes 10 and 18)	74	103
Deferred tax liabilities (Note 13)	1	—
Allowance for long-term continuous service rewards	952	1,043
Net defined benefit liabilities (Note 12)	47,884	53,956
Other long-term liabilities (Note 18)	3,139	3,480
Total long-term liabilities	52,050	58,582
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3 and 9)		
NET ASSETS:		
STOCKHOLDERS' EQUITY (Notes 8 and 19):		
Common stock		
Authorized 299,500,000 shares; Issued 131,079,972 and 151,079,972 shares as of December 31, 2020 and 2019, respectively	73,303	73,303
Capital surplus	82,815	82,820
Retained earnings	188,482	202,783
Treasury stock	(2,104)	(31,926)
Total stockholders' equity	342,496	326,980
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Net unrealized gains on available-for-sale securities	4,231	3,930
Deferred gains or losses on hedges	(29)	11
Foreign currency translation adjustments	5	52
Remeasurements of defined benefit plans	(1,244)	(6,497)
Total accumulated other comprehensive income (loss)	2,963	(2,504)
NON-CONTROLLING INTERESTS		
Total net assets	346,115	325,093
Total liabilities and net assets	¥ 506,605	¥ 503,699

• See accompanying notes to consolidated financial statements.

• Certain reclassifications have been made in the consolidated financial statements of the previous fiscal year to conform to the classifications used in the current fiscal year.

Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2020 and 2019

	2020	2019
NET SALES (Note 14)	¥ 545,060	¥ 621,134
COST OF SALES (Note 4)	361,077	420,108
Gross profit	183,983	201,026
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5)	152,665	168,586
Operating income (Note 14)	31,318	32,440
OTHER INCOME (EXPENSES):		
Interest and dividend income	399	350
Interest expense	(12)	(13)
Insurance income	452	768
Foreign exchange losses	(6)	—
Gain on investments in partnership	231	248
Subsidies for employment adjustment	2,744	—
Gain on sales of fixed assets (Note 6)	283	13
Loss on impairment of fixed assets	—	(83)
Gain on sales of investments in securities (Note 11)	278	2
Loss on sales of shares of subsidiaries and associates (Note 16)	(738)	—
Loss on sales and disposal of fixed assets (Note 6)	(1,021)	(207)
Loss on devaluation of investments in securities (Note 11)	(317)	(329)
Loss on COVID-19 (Note 6)	(274)	—
Other, net	126	114
Total other income	2,145	863
Profit before income taxes	33,463	33,303
INCOME TAXES (Note 13):		
Current	12,526	12,626
Deferred	(1,134)	(1,663)
Total income taxes	11,392	10,963
Profit	¥ 22,071	¥ 22,340
PROFIT ATTRIBUTABLE TO:		
Non-controlling interests	¥ 74	¥ 90
Owners of parent	21,997	22,250
Profit	¥ 22,071	¥ 22,340
Yen		
PER SHARE DATA:		
Profit attributable to owners of parent		
Basic	¥ 169.65	¥ 171.60
Diluted	¥ 169.62	¥ 171.58
Cash dividends applicable to the year	¥ 60.00	¥ 60.00

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2020 and 2019

	2020	2019
PROFIT	¥ 22,071	¥ 22,340
OTHER COMPREHENSIVE INCOME (LOSS) (Note 7):		
Net unrealized gains or losses on available-for-sale securities	303	1,412
Deferred gains / (losses) on hedges	(40)	9
Foreign currency translation adjustments	(56)	(25)
Remeasurements of defined benefit plans, net of tax	5,253	7,229
Total other comprehensive income (loss)	5,460	8,625
Comprehensive income	¥ 27,531	¥ 30,965
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of parent	¥ 27,464	¥ 30,875
Non-controlling interests	67	90

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2020 and 2019

	Stockholders' equity					Millions of yen
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	
BALANCE AT JANUARY 1, 2019	151,079,972	¥ 73,303	¥ 82,820	¥ 189,958	¥ (31,924)	
Cumulative effect of changes in accounting policies (Note 2)				(997)		
Restated balance at beginning of year	151,079,972	73,303	82,820	188,961	(31,924)	
Profit attributable to owners of parent				22,250		12,257
Cash dividends				(8,428)		83
Purchase of treasury stock				(2)		(67)
Profit attributable to non-controlling interests						2,028
Cash dividends paid to non-controlling interests						4,469
Other, net						(19)
BALANCE AT JANUARY 1, 2020	151,079,972	¥ 73,303	¥ 82,820	¥ 202,783	¥ (31,926)	
Profit attributable to owners of parent				21,997		13
Cash dividends				(6,483)		190
Purchase of treasury stock				(3)		(2)
Disposition of treasury stock			2			329
Cancellation of treasury stock			(29,822)		3	
Transfer from retained earnings to capital surplus			29,815		29,822	
Profit attributable to non-controlling interests				(29,815)		
Cash dividends paid to non-controlling interests						(231)
Other, net						(248)
BALANCE AT DECEMBER 31, 2020	131,079,972	¥ 73,303	¥ 82,815	¥ 188,482	¥ (2,104)	
						5,277
						4,858
						5,358
						(1,805)
						(6,263)
						(24,301)
						(1,568)
						4,039
						Subtotal
						51,683
						32,684
						Interest and dividends received
						395
						347
						Interest paid
						(13)
						(13)
						Income taxes paid
						(13,575)
						(10,965)
						Net cash provided by operating activities
						38,490
						22,053
						CASH FLOWS FROM INVESTING ACTIVITIES:
						Payments for purchases of property, plant and equipment
						(14,695)
						(11,651)
						Proceeds from sales of property, plant and equipment
						1,010
						17
						Payments for purchases of intangible assets
						(3,730)
						(1,451)
						Payments for purchases of investments in securities
						(311)
						(1,384)
						Proceeds from sales of investments in securities
						697
						328
						Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation
						829
						—
						Decrease (increase) in short-term loans receivable, net
						(9,995)
						(79,998)
						Other, net
						20
						(446)
						Net cash provided by (used in) investing activities
						(26,175)
						(94,585)
						CASH FLOWS FROM FINANCING ACTIVITIES:
						Repayments of finance lease obligations
						(73)
						(110)
						Payments for purchases of treasury stock
						(3)
						(2)
						Dividends paid
						(6,512)
						(8,442)
						Other, net
						1
						(3)
						Net cash used in financing activities
						(6,587)
						(8,557)
						Effect of exchange rate changes on cash and cash equivalents
						(91)
						11
						Net increase (decrease) in cash and cash equivalents
						5,637
						(81,078)
						Cash and cash equivalents at beginning of year
						54,494
						135,572
						Cash and cash equivalents at end of year
						¥ 60,131
						¥ 54,494

* See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥ 33,463	¥ 33,303
Adjustments for:		
Depreciation and amortization	11,254	12,257
Loss on impairment of fixed assets	—	83
Increase (decrease) in allowance for doubtful receivables	(180)	(67)
Increase (decrease) in net defined benefit liabilities	2,028	4,469
Decrease (increase) in net defined benefit assets	(19)	(19)
Increase (decrease) in accrued bonuses	2,324	(65)
Interest and dividend income	(399)	(350)
Interest expense	12	13
Loss (gain) on sales and disposal of property, plant and equipment, net	(150)	190
Loss (gain) on sales of investments in securities	(278)	(2)
Loss (gain) on valuation of investments in securities	317	329
Loss (gain) on sales of shares of subsidiaries and associates	738	—
Loss (gain) on investments in partnership	(231)	(248)
Decrease (increase) in notes and accounts receivable-trade	5,277	4,858
Decrease (increase) in inventories	5,358	(1,805)
Increase (decrease) in notes and accounts payable-trade	(6,263)	(24,301)
Other, net	(1,568)	4,039
Subtotal	51,683	32,684
Interest and dividends received	395	347
Interest paid	(13)	(13)
Income taxes paid	(13,575)	(10,965)
Net cash provided by operating activities	38,490	22,053
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(14,695)	(11,651)
Proceeds from sales of property, plant and equipment	1,010	17
Payments for purchases of intangible assets	(3,730)	(1,451)
Payments for purchases of investments in securities	(311)	(1,384)
Proceeds from sales of investments in securities	697	328
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	829	—
Decrease (increase) in short-term loans receivable, net	(9,995)	(79,998)
Other, net	20	(446)
Net cash provided by (used in) investing activities	(26,175)	(94,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of finance lease obligations	(73)	(110)
Payments for purchases of treasury stock	(3)	(2)
Dividends paid	(6,512)	(8,442)
Other, net	1	(3)
Net cash used in financing activities	(6,587)	(8,557)
Effect of exchange rate changes on cash and cash equivalents	(91)	11
Net increase (decrease) in cash and cash equivalents	5,637	(81,078)
Cash and cash equivalents at beginning of year	54,494	135,572
Cash and cash equivalents at end of year	¥ 60,131	¥ 54,494

* See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Marketing Japan Inc. (the "Company") and its consolidated subsidiaries (the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from

the consolidated financial statements prepared by the Company as required by the Japanese Financial Instruments and Exchange Act.

Certain accounts and items presented in the original consolidated financial statements in Japanese have been reclassified for the convenience of readers outside of Japan.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2020 and 2019, include the accounts of the Company and all of its 17 (19 in 2019) subsidiaries. The changes include sale of Canon Lifecare Solutions Inc. and liquidation of Canon IT solutions (Philippines), Inc.

All intercompany accounts and transactions are eliminated in consolidation.

(b) Cash Equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments, including securities, time deposits, and certificates of deposit, all of which mature or become due within three months of the date of acquisition, to be cash equivalents.

(c) Securities

Securities consist of debt and equity securities. Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale marketable securities are stated at fair market value, with unrealized gain or loss, net of the applicable taxes, reported as a separate component of net assets. Available-for-sale securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

(d) Inventories

Merchandise and service parts are valued at cost determined by the monthly moving-average method. The carrying amount in the balance sheet represents the amount after write-downs due to decreased profitability.

Work in process is valued at cost determined by the specific identification method.

Supplies are valued at cost determined by the last-purchase price method. The carrying amount in the balance sheet represents the amount after write-downs due to decreased profitability.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method for property and

equipment, with the exception of items that are depreciated by the straight-line method at rates based on the estimated useful lives of the respective assets.

Such items are leased assets, certain assets of consolidated subsidiaries, buildings purchased on or after April 1, 1998 (exclusive of furniture and fixtures), and furniture and fixtures and structures purchased on or after April 1, 2016.

The useful lives are as follows:

Buildings and structures, from 3 years to 75 years; furniture and fixtures, from 2 years to 20 years; and rental assets, 3 years.

(f) Intangible Assets

Software for sales is depreciated by the amount larger of the depreciation calculated based on the estimated sales quantity, the estimated sales revenue, or the straight-line method using the estimated effective duration of sales (up to three years). Internal-use software is depreciated by the straight-line method based on the length of in-house durability (five years).

(g) Leases

Leased assets under finance lease contracts are depreciated by the straight-line method over their respective lease contract term with zero residual value.

(h) Allowance for Doubtful Receivable

To cover possible losses on collection, an allowance for receivables with higher risk of collectability is estimated on an individual basis. For all other receivables, an allowance is calculated based on the past experiences of uncollected amount.

(i) Provision for Accrued Bonuses

The estimated payable for current year's portion of employees' bonus is recorded based on the next round payment.

(j) Provision for Accrued Directors' Bonuses

The estimated payable for current year's portion of director's bonus is recorded based on the next round payment.

(k) Provision for Accrued Product Warranties

Costs arising from a one-year free warranty contract for consumer products are recorded based on the past experiences of free repairs. To cover payment of free program maintenance and repairs for certain consolidated subsidiaries, the estimated amount of future costs is recorded based on past experiences.

(l) Provision for Accrued Loss on Order Received

Certain consolidated subsidiaries provide the service under software development contracts. Expected loss from those contracts is recorded as provision for accrued loss on order received at each year end, if occurrence of loss is probable and loss amount is reasonably estimated.

(m) Allowance for Long-Term Continuous Service Rewards

The estimated amount payable is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.

(n) Accounting Method for Retirement Benefits

(1) Method of attributing estimated amounts of retirement benefits to periods

In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current fiscal year is primarily determined using the benefit formula basis.

(2) Amortization of unrecognized actuarial gains and losses and prior service cost

Unrecognized prior service cost is amortized by the straight-line method over the average remaining service period of the eligible employees at the time when it arose. Unrecognized actuarial gains and losses are amortized from the fiscal year following the year in which they arose by the straight-line method over the average remaining service period of the eligible employees.

(3) Application of simplified method at smaller-sized companies

Certain consolidated subsidiaries apply the simplified method for calculating net defined benefit liabilities and net periodic benefit costs. Under this method, the payments for voluntary early retirement of all eligible employees at the end of the fiscal year are recognized as retirement benefit obligations.

(o) Income Taxes

Deferred tax assets and liabilities are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying the statutory income tax rate to the temporary differences.

(p) Translation of Foreign Currency Accounts

All short-term and long-term receivables and payables denominated

in foreign currencies are translated into Japanese yen at the current exchange rates in effect at the balance sheet date except for foreign currency-denominated payables covered by exchange contracts for hedge purpose. The foreign exchange gains and losses on translation are recognized in the accompanying consolidated statements of income.

(q) Foreign Currency Financial Statements

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates in effect at the balance sheet date, except for the components of net assets, excluding non-controlling interests, which are translated at their historical exchange rates.

Revenue and expense accounts are translated at the average exchange rates prevailing during the year.

(r) Per Share Amounts

Basic earnings (profit attributable to owners of parent) per share is computed based on the weighted-average number of shares of common stock outstanding during each period. The computation of diluted earnings per share reflects the maximum possible dilution from exercise of option.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the respective fiscal years.

(s) Standards for Recognizing Significant Revenues and Expenses

The Company and its consolidated subsidiaries adopted Accounting Standards Board of Japan (ASBJ) Statement No. 29, Accounting Standard for Revenue Recognition, March 30, 2018, and ASBJ Guidance No.30, Implementation Guidance on Accounting Standard for Revenue Recognition, March 30, 2018. The normal timing for recognizing key performance obligations and revenues in core businesses is as follows.

The Group sells and provides services for Canon products. It also provides products and services in the IT solutions and industrial equipment and healthcare fields. For sales of offerings that do not require customer acceptance inspections, customers normally obtain control of products upon delivery. The Group's performance obligations are thereby deemed fulfilled, so revenue is recognized upon product delivery. Services mainly entail maintenance agreements, so revenue is recognized evenly over the lengths of these agreements or, in accordance with the extent of product usage, based on amounts determined in those agreements.

Each reporting segment has unique revenue recognition methods, as outlined below. The Enterprise and Area segments provide similar products and services, so their revenues are stated collectively.

Consumers segment

Sales are measured at discounted prices pledged in agreements with customers, net of rebates and other factors in line with sales. Estimates are based on past trends and other known factors at times of sale. Sales are recognized to the extent that significant reversals are unlikely.

Enterprise and Area segments

For product repairs and installations and other services, sales are recognized when it is deemed that services have been completed in keeping with performance obligations. Contract development software sales are recognized based on input methods for software for which reasonable progress can be estimated. If it is impossible to estimate reasonable progress, sales are recognized based on cost recovery methods for recoverable expenses.

Professional segment

Where equipment performance is subject to customer acceptance inspections, sales are recognized upon such acceptance inspections.

(t) Key Hedge Accounting Methods**(1) Hedge accounting method**

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations is translated at the contracted rate if the forward contracts qualify for hedge accounting.

(2) Hedging instrument and Hedged item

Hedging instrument—Forward exchange contracts
Hedged item—Foreign currency-denominated payables

(3) Hedging policy

The Company hedges the risk of changes in foreign currency-denominated payables' Japanese Yen equivalent cash flow attributable to changes in the related foreign currency exchange rates.

(4) Hedging instrument's effectiveness

The Company does not assess hedge effectiveness at fiscal year-end because hedging instrument and hedged item have the same currency, amount, and due date in accordance with the Company's hedging policy.

(u) Application of Consolidated Taxation System

The Company and certain consolidated subsidiaries have adopted the consolidated taxation system.

The Company plans to shift from current consolidated taxation system to group tax sharing system which is to be established in near future. With regard to differences under the group tax sharing system established by Act on Partial Revision of the Income Tax Act (Act No. 8, 2020) and differences under the single tax return filing system

reexamined together with transition to the group tax sharing system, the Company and certain consolidated subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act before the revision, not applying Paragraph 44 of ASBJ Guidance No. 28, Implementation Guidance on Tax Effect

Accounting, issued on February 16, 2018, as permitted by Paragraph 3 of the PITF No. 39, Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System, issued on March 31, 2020.

(v) New Accounting Pronouncements**(Accounting Standard and Implementation Guidance on Revenue Recognition)**

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)

(1) Summary

ASBJ established the requirements for presentation and disclosure related to revenue recognition.

(2) Scheduled application date

The Group plans to apply the relevant accounting standards from the beginning of the fiscal year ending December 31, 2022.

(Accounting Standard for Fair Value Measurement and other)

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)

Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)

Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1)Summary

In order to improve the comparability with the international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" were developed and guidance on fair value measurement was established. The accounting standard and the implementation guidance apply to the fair value of the following items:

- Financial instruments under "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes under "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair

Value of Financial Instruments" was revised and established the principles regarding disclosures such as a breakdown of the fair value of financial instruments by level of the fair value hierarchy.

(2) Scheduled application date

The Group plans to apply the relevant accounting standards from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of applying relevant accounting standards

The Group is assessing the impact on the consolidated financial statements of applying the Accounting Standard for Fair Value Measurement.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Summary

This accounting standard clarifies the disclosure requirement for accounting principles and procedures which are not covered by

current accounting standards.

(2) Scheduled application date

The Group plans to apply the accounting standard from the end of the fiscal year ending December 31, 2021.

(Accounting Standard for Disclosure of Accounting Estimates)

Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Summary

The purpose of this accounting standard is to disclose information to assist users of the financial statements to understand the content of accounting estimates of the items whose risks materially affect the financial statements in the following fiscal year.

(2) Scheduled application date

The Group plans to apply the accounting standard from the end of the fiscal year ending December 31, 2021.

3 Contingent Liabilities

Contingent liabilities as of December 31, 2020 and 2019, were as follows:

	2020	2019
Guarantees for employees' housing loans	¥ 6	¥ 7
Total	¥ 6	¥ 7

4 Inventories

Inventories as of December 31, 2020 and 2019, were composed of the following:

	2020	2019
Merchandise	¥ 23,198	¥ 29,512
Service parts	3,893	3,769
Work in process	104	206
Supplies	631	623
Total	¥ 27,826	¥ 34,110

Note: For the software development contracts from which contract losses are expected, the inventory related to such contracts and relevant reserves for contract losses do not offset each other and have been recorded in gross amounts in current assets and current liabilities, respectively.

Write-downs of inventories for the years ended December 31, 2020 and 2019, net of the amount of the reversal, were included in the following account:

	2020	2019
Cost of sales	¥ 964	¥ 1,381

5 Selling, General and Administrative Expenses

The primary components of "Selling, general and administrative expenses" for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Salaries and allowances	¥ 69,828	¥ 76,235
Provision for accrued bonuses	4,988	2,795
Provision for accrued directors' bonuses	75	100
Provision of allowance for long-term continuous service rewards	368	397
Retirement benefit costs	7,119	9,203
Provision for accrued product warranties	446	534
Provision of allowance for doubtful receivables	4	1

Research and development costs included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended December 31, 2020 and 2019, amounted to ¥427 million and ¥495 million, respectively.

6 Other Income (Expenses)

1. The components of "Gain on sales of fixed assets" for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Buildings and structures	¥ 103	¥ 8
Machinery and vehicles	2	3
Furniture and fixtures	2	2
Rental assets	1	—
Land	175	—
Software	0	0
Other	—	0
Total	¥ 283	¥ 13

2. The components of "Loss on sales and disposal of fixed assets" for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Buildings and structures	¥ (26)	¥ (91)
Furniture and fixtures	(36)	(40)
Rental assets	(62)	(73)
Software	(888)	(3)
Other	(9)	(0)
Total	¥ (1,021)	¥ (207)

3. Loss on COVID-19 mainly related to event cancellation fees, resulted from the government's restrictions on events and outdoor gatherings in response to the outbreak of COVID-19.

7 Other Comprehensive Income (Loss)

The following table shows amount arising during the year, reclassification adjustments, pre-tax amount, tax effect, and net-of-tax amount for each component of other comprehensive income (loss) for the years ended December 31, 2020 and 2019:

	2020	2019
Net unrealized gains or losses on available-for-sale securities:		
Amount arising during the year	¥ 667	¥ 2,207
Reclassification adjustments	(221)	(160)
Pre-tax amount	446	2,047
Tax effect	(143)	(635)
Net-of-tax amount	303	1,412
Deferred gains or losses on hedges:		
Amount arising during the year	(59)	14
Pre-tax amount	(59)	14
Tax effect	19	(5)
Net-of-tax amount	(40)	9
Foreign currency translation adjustments:		
Amount arising during the year	(56)	(25)
Pre-tax amount	(56)	(25)
Tax effect	—	—
Net-of-tax amount	(56)	(25)
Remeasurements of defined benefit plans:		
Amount arising during the year	4,744	5,731
Reclassification adjustments	2,877	4,739
Pre-tax amount	7,621	10,470
Tax effect	(2,368)	(3,241)
Net-of-tax amount	5,253	7,229
Total other comprehensive income (loss)	¥ 5,460	¥ 8,625

8 Common Stock and Dividends

1. The following table shows the movement of number of common stock for the years ended December 31, 2020 and 2019.

	As of January 1, 2019	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2019	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2020
Issued stock	151,080	—	—	151,080	—	20,000	131,080
Treasury stock	21,413	1	—	21,414	1	20,002	1,413

Notes: 1. The decrease of issued stock of 20,000 thousand shares was due to the cancellation of treasury stock.

2. The increase of treasury stock of 1 thousand shares was due to the purchase of fractional stock.

3. The decrease of treasury stock of 20,002 thousand shares was due to the cancellation of treasury stock, the disposal of performance-linked stock incentives, and the sale of fractional stock.

2. Matters regarding dividends

The Company distributes a semiannual interim dividend by resolution of the Board of Directors and annual dividend by resolution of the General Meeting of Shareholders.

Semiannual interim dividends is paid to the common stock holders of the Company as of semiannual period-end and annual dividend is paid to the common stock holders of the Company as of year-end.

Resolution date, total dividends, and dividend per share for the years ended December 31, 2020 and 2019, were as follows:

	2020			2019		
Dividends	Resolution date	Total dividends (Millions of yen)	Dividend per share (Yen)	Resolution date	Total dividends (Millions of yen)	Dividend per share (Yen)
Annual dividend	March 26, 2020	¥ 3,890	¥ 30	March 27, 2019	¥ 4,538	¥ 35
Interim dividend	July 27, 2020	¥ 2,593	¥ 20	July 23, 2019	¥ 3,890	¥ 30

Annual dividend of ¥5,187 million (¥40 dividend per share) was resolved by the General Meeting of Shareholders held on March 26, 2021.

Total dividend per share was ¥60 for fiscal 2020 and fiscal 2019.

9 Lease Transactions

1. Lessees' accounting

The following table shows future minimum lease payments subsequent to December 31, 2020 and 2019, for noncancelable operating leases:

	2020		2019	
	Millions of yen			
Due within one year		¥ 2,611		¥ 2,486
Due after one year		8,479		9,203
Total		¥ 11,090		¥ 11,689

2. Lessors' accounting

The following table shows future minimum lease income subsequent to December 31, 2020 and 2019, for noncancelable operating leases:

	2020		2019	
	Millions of yen			
Due within one year		¥ 1,819		¥ 2,148
Due after one year		2,998		2,406
Total		¥ 4,817		¥ 4,554

10 Financial Instruments

1. Information on financial instruments

(1) Policies for financial instruments

The Group limits its asset management to financial instruments characterized as very safe and believes that financing should mainly be conducted through the use of Group finances whenever necessary.

The Company enters into derivative transactions to hedge against foreign exchange fluctuation risks and not for speculative purposes.

(2) Types and risks of financial instruments and systems to control those risks

Operating receivables, consisting of notes and accounts receivable, are exposed to credit risks of customers. The Group strives to mitigate these risks by strict credit control utilizing credit information provided by external credit agencies, as well as by credit insurance and other risk-hedging means.

Short-term loans receivable are mainly the loans to the parent company by the Company, rendered in compliance with the internal regulations for investment and management of funds.

Short-term investments in securities and investments in securities consist primarily of held-to-maturity debt securities and

equity securities issued by business counterparties of the Group, and are exposed to market price fluctuation risk. Regarding this risk, the Group periodically monitors the fair values of the securities and the financial condition of their issuers, i.e., business counterparties. In addition, for securities other than held-to-maturity debt securities, the Group continuously reviews the status of security holdings, taking market conditions and relationships with business counterparties into consideration.

Trade payables, consisting of notes and accounts payable, are mainly those due within six months.

2. Fair values of financial instruments

The book values of financial instruments in the consolidated balance sheets as of December 31, 2020 and 2019, their fair values, and the differences between the two are as follows. The table below, however, excludes the financial instruments whose fair values are not readily determinable (see Note 2).

	Book value	Fair value	Difference
(1) Cash and deposits	¥ 59,631	¥ 59,631	—
(2) Notes and accounts receivable	105,328	105,328	—
Allowance for doubtful accounts	(66)	(66)	—
Notes and accounts receivable, net	105,262	105,262	—
(3) Short-term investments in securities and investments in securities	9,558	9,558	—
(4) Short-term loans receivable	180,007	180,007	—
Total assets	¥ 354,458	¥ 354,458	—
(5) Notes and accounts payable	¥ 44,107	¥ 44,107	—
Total liabilities	¥ 44,107	¥ 44,107	—

	Book value	Fair value	Difference
(1) Cash and deposits	¥ 53,994	¥ 53,994	—
(2) Notes and accounts receivable	112,667	112,667	—
Allowance for doubtful accounts	(76)	(76)	—
Notes and accounts receivable, net	112,591	112,591	—
(3) Short-term investments in securities and investments in securities	9,059	9,059	—
(4) Short-term loans receivable	170,012	170,012	—
Total assets	¥ 345,656	¥ 345,656	—
(5) Notes and accounts payable	¥ 51,543	¥ 51,543	—
Total liabilities	¥ 51,543	¥ 51,543	—

Notes: 1. Calculation methods of fair values of financial instruments and other matters related to securities are as below:

Assets

(1) Cash and deposits, (2) Notes and accounts receivable, and

(4) Short-term loans receivable

The book values of these assets are used as their fair values, since they are to be settled in the short term and, accordingly, their book values approximate their fair values.

(3) Short-term investments in securities and investments in securities

The fair values of equity securities are based on the prices at the security exchanges, and those of debt securities are based on

the prices at the security exchanges or quotations obtained from counterparty financial institutions. Details of securities by holding objectives are described in Note 11 Securities.

Liabilities

(5) Notes and accounts payable

The book values of these liabilities are used as their fair values, since they are to be settled in the short term and, accordingly, their book values approximate their fair values.

Notes: 2. The book values of financial instruments whose fair values are not readily determinable as of December 31, 2020 and 2019, were as follows:

	2020	2019
Equity securities	¥ 1,380	¥ 1,564
Investments in investment partnerships	¥ 865	¥ 915

These financial instruments are not included in (3) Short-term investments in securities and investments in securities in the preceding table of fair values, since they do not have market prices and, therefore, their fair values are not readily determinable.

Notes: 3. The redemption schedule of monetary claims and securities with maturities as of December 31, 2020 and 2019, were summarized as follows:

	2020		2019	
	Due within 1 year	Due after 1 year	Due within 1 year	Due after 1 year
Cash and deposits	¥ 59,631		¥ 53,994	—
Notes and accounts receivable	105,328		112,667	—
Short-term investments in securities and investments in securities				
Held-to-maturity debt securities:				
(1) Corporate bonds	—		—	—
(2) Other	500		500	—
Short-term loans receivable	180,007		170,012	—
Total	¥ 345,466		¥ 337,173	—

Notes: 4. The repayment schedule of lease obligations as of December 31, 2020 and 2019, was as follows:

	2020					2019				
	Due within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Due within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years
¥ 54	¥ 39	¥ 23	¥ 10	¥ 2	—	¥ 72	¥ 49	¥ 33	¥ 17	¥ 4

11 Securities

Securities as of December 31, 2020 and 2019, were classified and included in the following accounts:

	2020	2019
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 11,303	¥ 11,038
Held-to-maturity:		
Cash and cash equivalents	500	500
Total	¥ 11,803	¥ 11,538

The carrying amounts and aggregate fair values of investments in securities as of December 31, 2020 and 2019, were as follows:

	2020	2019		
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,993	¥ 6,163	¥ (98)	¥ 9,058
Held-to-maturity:				
Cash and cash equivalents	500	—	—	500
Total	¥ 3,493	¥ 6,163	¥ (98)	¥ 9,558

	2019			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,014	¥ 5,594	¥ (49)	¥ 8,559
Held-to-maturity:				
Cash and cash equivalents	500	—	—	500
Total	¥ 3,514	¥ 5,594	¥ (49)	¥ 9,059

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2020 and 2019, were as follows:

	2020	2019
Available-for-sale:		
Equity securities	¥ 1,380	¥ 1,564
Investments in investment partnerships	865	915
Total	¥ 2,245	¥ 2,479

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended December 31, 2020 and 2019, were as follows:

	2020			2019		
	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
Available-for-sale:						
Equity securities	¥ 250	¥ 229	0	¥ 0	¥ 0	—
Others	93	49	—	19	2	0
Total	¥ 343	¥ 278	0	¥ 19	¥ 2	0

Impairment loss of ¥1 million and ¥8 million was recorded on listed equity securities in the years ended December 31, 2020 and 2019, respectively.

Impairment loss of ¥316 million and ¥321 million was recorded on unlisted equity securities in the years ended December 31, 2020 and 2019, respectively.

12 Employees' Retirement and Severance Benefits

1. Overview

The Company has a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan), and a lump-sum severance payment plan, and its domestic consolidated subsidiaries have defined benefit corporate pension

plans, and lump-sum severance payment plans. The Company sometimes provides retiring employees with extra retirement payments not included in the retirement benefit obligations actuarially calculated in line with its retirement benefit accounting.

2. Defined benefit plans

(1) Reconciliation of retirement benefit obligations at beginning and end of year (excluding the simplified method)

	Millions of yen	
	2020	2019
Retirement benefit obligations at beginning of year	¥ 219,653	¥ 218,637
Service costs	6,142	6,360
Interest costs	940	1,187
Actuarial gains and losses	(3,547)	2,149
Benefit paid	(8,163)	(8,011)
Prior service costs	—	(669)
Decrease resulting from exclusion of subsidiaries in consolidation	(1,904)	—
Other	0	—
Retirement benefit obligations at end of year	¥ 213,121	¥ 219,653

(2) Reconciliation of plan assets at beginning and end of year (excluding the simplified method)

	Millions of yen	
	2020	2019
Plan assets at beginning of year	¥ 166,870	¥ 159,766
Expected return on plan assets	4,127	3,980
Actuarial gains and losses	1,198	7,211
Contributions from the employer	2,927	3,001
Benefit paid	(7,088)	(7,088)
Decrease resulting from exclusion of subsidiaries in consolidation	(1,536)	—
Plan assets at end of year	¥ 166,498	¥ 166,870

(3) Reconciliation of retirement benefit obligations at beginning and end of year for which the simplified method was applied

	Millions of yen	
	2020	2019
Net defined benefit liabilities at beginning of year	¥ 780	¥ 712
Net periodic benefit costs	116	125
Benefit paid	(8)	(24)
Contributions to plans	(43)	(33)
Net defined benefit liabilities at end of year	¥ 845	¥ 780

(4) Reconciliation of retirement benefit obligations and plan assets at year-end and net defined benefit liabilities and assets in consolidated balance sheets

	Millions of yen	
	2020	2019
Funded retirement benefit obligations	¥ 193,609	¥ 200,318
Plan assets	166,852	167,214
Unfunded retirement benefit obligations	26,757	33,104
Net liabilities and assets in consolidated balance sheets	20,711	20,459
Net defined benefit liabilities	¥ 47,468	¥ 53,563
Net defined benefit assets	¥ 47,884	¥ 53,956
Net liabilities and assets in consolidated balance sheets	(416)	(393)
Note: Plan assets include plan assets for which the simplified method was applied.	¥ 47,468	¥ 53,563

Note: Plan assets include plan assets for which the simplified method was applied.

(5) Retirement benefit costs

	Millions of yen	
	2020	2019
Service costs	¥ 6,142	¥ 6,360
Interest costs	940	1,187
Expected return on plan assets	(4,127)	(3,980)
Amortization of actuarial gains and losses	3,282	5,012
Amortization of prior service costs	(293)	(273)
Net periodic benefit costs using the simplified method	116	125
Retirement benefit costs of defined benefit plans	¥ 6,060	¥ 8,431

Note: In addition to the above retirement benefit costs, the Group recorded ¥441 million and ¥584 million for extra retirement payments for the years ended December 31, 2020 and 2019, respectively.

(6) Remeasurements of defined benefit plans before income tax effect adjustment

Changes in unrecognized prior service costs and unrecognized actuarial gains and losses for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen	
	2020	2019
Unrecognized prior service costs	¥ 11,234	¥ 9,431
Unrecognized actuarial gains and losses	¥ (1,407)	¥ 21,308
Total	¥ 9,827	¥ 19,901
At beginning of year	¥ (1,803)	¥ 9,431
Net change	294	(7,915)
At end of year	¥ (1,509)	¥ 1,810
Unrecognized prior service costs	¥ (1,803)	¥ 11,234
Unrecognized actuarial gains and losses	¥ 21,308	¥ 9,431
Total	¥ 19,901	¥ 9,431

(7) Plan assets

1. Main components of plan assets

Ratios for main components of plan assets were as follows:

	2020	2019
Bonds	22%	21%
Stocks	3	3
Pooled funds	52	52
Life insurance company general accounts	17	18
Other	6	6
Total	100%	100%

Note: The composition of pooled funds was 47% in bonds and 53% in stocks for the year ended December 31, 2020, and 47% in bonds and 53% in stocks for the year ended December 31, 2019.

2. Methodology for setting long-term expected rates of return

The long-term expected rate of return on plan assets is determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

(8) Actuarial assumptions

The principal actuarial assumptions as of December 31, 2020 and 2019, were as follows:

	2020	2019
Discount rates	0.24 - 0.59%	0.21 - 0.48%
Long-term expected rates of return on plan assets	2.0 - 2.5%	2.0 - 2.5%
Estimated rates of salary increases	1.9 - 2.6%	1.9 - 2.6%

3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥1,949 million and ¥1,964 million for the years ended December 31, 2020 and 2019, respectively.

13 Income Taxes

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2020 and 2019, were as follows:

	2020	2019
DEFERRED TAX ASSETS:		
Net defined benefit liabilities	¥ 14,882	¥ 16,769
Accrued bonuses	1,953	1,155
Excess depreciation of fixed assets	840	808
Recording of estimated future variable consideration	726	1,092
Accrued business tax and business office tax	712	804
Excess amortization of software	676	721
Asset retirement obligations	607	487
Loss on devaluation of investments in securities	566	281
Loss on disposal and devaluation of inventories	432	542
Allowance for long-term continuous service rewards	295	323
Accrued product warranties	141	202
Loss on valuation of golf club membership	103	106
Loss carryforward	91	308
Lump-sum depreciable assets	68	84
Loss on impairment of fixed assets	32	36
Other	1,215	1,184
Gross deferred tax assets	23,339	24,902
Less: valuation allowance	(856)	(986)
Total deferred tax assets	¥ 22,483	¥ 23,916
DEFERRED TAX LIABILITIES:		
Net unrealized gains on available-for-sale securities	¥ (1,888)	¥ (1,747)
Deferred capital gain	(1,280)	(1,280)
Deferred gains or losses on hedges	—	(5)
Other	(96)	(91)
Total deferred tax liabilities	¥ (3,264)	¥ (3,123)
Net deferred tax assets	¥ 19,219	¥ 20,793

Note: Net deferred tax assets as of December 31, 2020 and 2019, are reflected in the following accounts in the consolidated balance sheet:

	2020	2019
Investments and other assets—deferred tax assets	¥ 19,220	¥ 20,793
Long-term liabilities—deferred tax liabilities	(1)	—
Net deferred tax assets	¥ 19,219	¥ 20,793

A reconciliation between the statutory income tax rate and the effective income tax rate for the years ended December 31, 2020 and 2019, was as follows:

	2020	2019
Statutory income tax rate	31.0%	31.0%
Entertainment and other expenses permanently not deductible for tax purposes	0.3	0.7
Per-capita levy of inhabitants' taxes	0.9	1.0
Dividend income not taxable	(0.1)	(0.1)
Adjustment of book value of stocks of subsidiary for consolidated tax payment system	2.4	—
Other	(0.5)	0.3
Effective income tax rate	34.0%	32.9%

14 Segment Information

1. Segment Information

(1) Description of Reportable Segments

Reportable segments are constituent units of the Group for which separate financial information is available and they are subject to periodic reviews by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

Major Business Areas and Group Companies

Reportable Segment	Major Business Areas and Group Companies
Consumers	Sells products such as digital cameras and inkjet printers primarily to individual customers.
Enterprise	Sells products such as office MFPs and laser printers, provides maintenance services, and provides solutions that contribute to solving business problems in each industry for large companies. [Major Group company] Canon IT Solutions Inc.
Area	Sells products such as office MFPs and laser printers, provides maintenance services, and provides solutions that help customers solve business problems for small and medium-sized businesses in Japan. [Major Group company] Canon System & Support Inc.
Professional	Provides solutions for customers in each area. <ul style="list-style-type: none"> • Production Printing Sells high-speed continuous feed printers and high-speed cut sheet printers to the printing industry. [Major Group company] Canon Production Printing Systems Inc. • Industrial Equipment Sells products such as semiconductor manufacturing systems and inspection and measurement devices mainly to semiconductor manufacturers and other electronics device manufacturers. • Healthcare Provides IT solutions, system development, network construction, and sells hardware for the medical and healthcare field. [Major Group companies] Canon Lifecare Solutions Inc.

Note: The Company transferred all of the shares of consolidated subsidiary Canon Lifecare Solutions Inc. to Canon Medical Systems Corporation, effective January 1, 2020. (Note 16)

(2) Methods of measurement for sales, segment income (loss), assets, and other items for reportable segments

Accounting methods for reportable segments are the same as the accounting methods described in Note 2 Summary of significant accounting policies.

Segment income (loss) is measured based on the amount of operating income. Intersegment sales and transfers are based on market prices.

(3) Information by reportable segment for the years ended December 31, 2020 and 2019, was as follows:

	Year ended or as of December 31								Millions of yen	
	Reportable Segment				Other	Total	Adjustments	Consolidated		
	Consumers	Enterprise	Area	Professional						
Net sales:										
External customers	¥ 124,830	¥ 162,069	¥ 225,893	¥ 29,195	¥ 3,073	¥ 545,060	—	¥ 545,060		
Intersegment	45	9,169	9,874	1,515	6,297	26,900	¥ (26,900)	—		
Total	124,875	171,238	235,767	30,710	9,370	571,960	(26,900)	545,060		
Segment income (loss)	12,219	8,920	9,898	1,880	(1,566)	31,351	(33)	31,318		
Segment assets	44,100	98,152	68,943	14,956	2,815	228,966	277,639	506,605		
Other items:										
Depreciation and amortization	570	7,190	2,746	339	27	10,872	382	11,254		
Changes in the amount of property, plant and equipment and intangible assets	1,355	11,747	2,839	338	41	16,320	32	16,352		

Notes: 1. "Other" includes call center business and BPO service business, which are not included in reportable segments.

2. Adjustments are as follows:

(1) Adjustment of segment income (loss) eliminates intersegment transactions.

(2) Adjustment of segment assets is for corporate assets that do not belong to reportable segments. These assets mainly comprise surplus funds (cash and marketable securities) and assets related to head office land, buildings, and head office administrative units.

(3) Adjustment of depreciation and amortization is for head office building expenses that do not belong to reportable segments.

(4) Adjustment of increase of property, plant and equipment and intangible assets consists of capital investments in head office buildings that do not belong to reportable segments.

3. Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statements of income.

	Year ended or as of December 31								Millions of yen	
	Reportable Segment				Other	Total	Adjustments	Consolidated		
	Consumers	Enterprise	Area	Professional						
Net sales:										
External customers	¥ 132,737	¥ 186,652	¥ 256,139	¥ 41,888	¥ 3,718	¥ 621,134	—	¥ 621,134		
Intersegment	53	9,176	12,171	1,788	5,579	28,767	¥ (28,767)	—		
Total	132,790	195,828	268,310	43,676	9,297	649,901	(28,767)	621,134		
Segment income (loss)	6,865	10,070	14,398	1,617	(714)	32,236	204	32,440		
Segment assets	44,761	94,424	74,465	24,737	2,352	240,739	262,960	503,699		
Other items:										
Depreciation and amortization	641	7,462	3,218	387	29	11,737	520	12,257		
Changes in the amount of property, plant and equipment and intangible assets	618	17,723	2,516	544	23	21,424	27	21,451		

Notes: 1. "Other" includes call center business and BPO service business, which are not included in reportable segments.

2. Adjustments are as follows:

(1) Adjustment of segment income (loss) eliminates intersegment transactions.

(2) Adjustment of segment assets is for corporate assets that do not belong to reportable segments. These assets mainly comprise surplus funds (cash and marketable securities) and assets related to head office land, buildings, and head office administrative units.

(3) Adjustment of depreciation and amortization is for head office building expenses that do not belong to reportable segments.

(4) Adjustment of increase of property, plant and equipment and intangible assets consists of capital investments in head office buildings that do not belong to reportable segments.

3. Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statements of income.

2. Related Information

(1) Information by product and service

Disclosure of information by product and service is omitted since the segment information contains the same information.

(2) Information by geographical area

1. Sales

Disclosure of information on sales by geographical area is omitted since sales to domestic external customers accounts for more than 90% of consolidated net sales.

2. Property, plant and equipment

Disclosure of information on property, plant and equipment by geographical area is omitted since the amount of domestic property, plant and equipment accounts for more than 90% of total property, plant and equipment recorded in the consolidated balance sheets.

(3) Information by major customers

Disclosure of information by major customers is omitted since no customer accounts for 10% or more of consolidated net sales.

3. Information on impairment loss on property, plant and equipment by reportable segment

Impairment losses on property, plant and equipment by reportable segment for the year ended December 31, 2019, were as follows:

There were no applicable items for the year ended December 31, 2020.

Year ended or as of December 31	Reportable Segment						Recorded amount	Millions of yen	2019
	Consumers	Enterprise	Area	Professional	Other	Total			
Impairment loss	¥ 50	¥ 33	—	—	—	¥ 83	—	¥ 83	

Note: "Other" represents operating segments which are not included in the reportable segments and includes operations such as the shared-services business.

4. Information on amortization and balance of goodwill by reportable segment

There were no applicable items for the years ended December 31, 2020 and 2019.

5. Information on gain on negative goodwill

There were no applicable items for the years ended December 31, 2020 and 2019.

15 Related Party Transactions

Transaction conditions and policies for deciding transaction conditions with related party

(1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.

(2) Sales of office equipment, consumables, and other inventories are subject to similar conditions as general transactions.

(3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Transaction with major corporate stockholders for the year ended December 31, 2020, and related balance as of December 31, 2020, were as follows:

Category	Name of company	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of fiscal year (Millions of yen)	
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku,Tokyo	¥174,762	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5 Indirect 0.0	0 hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 144,943	Accounts payable	¥ 17,302
									Sales of office equipment and consumables, and other inventories	¥ 3,480	Accounts receivable and others	¥ 1,848
								Non-operating transactions	Loans of capital	¥ 10,000	Short-term loans	¥ 180,000

Note: Transaction amounts do not include consumption tax or other taxes, however, the account balances include consumption tax.

Transaction with major corporate stockholders for the year ended December 31, 2019, and related balance as of December 31, 2019, were as follows:

Category	Name of company	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of fiscal year (Millions of yen)	
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku,Tokyo	¥174,762	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5 Indirect 0.0	0 hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 182,020	Accounts payable	¥ 17,878
									Sales of office equipment and consumables, and other inventories	¥ 7,172	Accounts receivable and others	¥ 1,560
								Non-operating transactions	Loans of capital	¥ 80,000	Short-term loans	¥ 170,000

Note: Transaction amounts do not include consumption tax or other taxes, however, the account balances include consumption tax.

16 Business Combination

(Transfer of shares of a subsidiary)

The Company transferred all the shares of Canon Lifecare Solutions Inc. (hereinafter "Canon LCS"), a consolidated subsidiary, to Canon Medical Systems Corporation (hereinafter "Canon Medical") on January 1, 2020, based on a resolution of a meeting of the Board of Directors held on November 26, 2019. As a result of this share transfer, Canon LCS was excluded from the Company's consolidation.

1. Overview of transfer of shares

(1) Name of transferee of shares

Canon Medical Systems Corporation

(2) Name and description of business of the transferred subsidiary

1. Name: Canon Lifecare Solutions Inc.

2. Description of business: Sale of medical and healthcare equipment and related consumables, and medical imaging systems

(3) Reason for transfer of shares

The Group's healthcare business had consisted of a medical systems business focused on diagnostic medical imaging equipment and a healthcare-related business conducted by Canon LCS, as well as hospital information systems based on electronic health records and system integration business conducted by Canon ITS Medical Inc.

The Company determined that for Canon LCS, the best move for future growth was to join the Canon Medical Group.

In addition, this latest restructuring is consistent with the medical business restructuring policy being implemented by the Canon Group. The Group will continue to collaborate with the Canon Group in the future, aiming for growth of the medical IT solutions business.

(4) Date of share transfer

January 1, 2020

(5) Other matters regarding the outline of transaction, including legal form

Transfer of shares for cash

2. Outline of accounting treatment

(1) Amount of gain or loss on transfer

Loss on sales of shares of subsidiaries and associates ¥738 million

(2) Proper book value of assets and liabilities related to the transferred subsidiary and breakdown thereof

Current assets ¥7,047 million

Non-current assets ¥326 million

Total assets ¥7,373 million

Current liabilities ¥2,303 million

Non-current liabilities ¥603 million

Total liabilities ¥2,906 million

(3) Accounting treatment

The difference between consolidated book value and sales price of transferred shares is recorded as "Loss on sales of shares of subsidiaries and associates" under other income (expenses).

3. Reportable segment that included the transferred subsidiary

Professional segment

4. Estimated amount of gain or loss from the business divestiture recorded in the consolidated statements of income for the fiscal year ended December 31, 2020

Gain or loss from the business divestiture is not included in the consolidated statements of income for the fiscal year ended December 31, 2020, since the business was divested at the beginning of the year then ended.

17 Asset Retirement Obligations

The Group recognizes restoration obligations under real estate rental agreements of buildings and other real estates as asset retirement obligations.

Instead of recognizing liabilities, the Group reasonably estimates the uncollectible amount of lease deposits related to the real estate

rental agreements, and accounts for the portion of such estimated amount attributable to the current fiscal year as an expense.

The outstanding balances of lease deposits considered uncollectible as of December 31, 2020 and 2019, were ¥3,195 million and ¥2,853 million, respectively.

18 Lease Obligations and Deposits

Lease obligations and deposits as of December 31, 2020 and 2019, were as follows:

	Average interest rate (2020)	2020	2019
Lease obligations:			
Current portion of lease obligations	¥ 54	¥ 72	
Lease obligations (excluding current portion)	74	103	
	128	175	
Deposits	0.00%	2,967	3,330
Total		¥ 3,095	¥ 3,505

19 Stockholders' Equity

The Corporate Law of Japan went into effect on May 1, 2006, replacing the Commercial Code. It is applicable to events or transactions of companies in Japan occurring on or after May 1, 2006, and for fiscal years ending on or after May 1, 2006.

The Corporate Law stipulates that the amounts actually paid in or provided in consideration for newly issued stock shall be recorded as common stock. However, it also allows 50% or less of such amounts to be recorded as additional paid-in capital.

Under the Corporate Law, a company that meets certain criteria can establish its Articles of Incorporation so that dividends can be paid to its existing stockholders by resolution of the Board of Directors, without requiring the approval of a resolution at a General

Meeting of Shareholders. The Company has met said criteria and amended its Articles of Incorporation at the annual General Meeting of Shareholders for the year ended December 31, 2006. The Corporate Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. However, such appropriation cannot be made if the aggregate amount of the legal reserve exceeds 25% of common stock (i.e., the aggregate amount of the Company's legal reserve has already reached 25% of its common stock).

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Canon Marketing Japan Inc.:

Opinion

We have audited the consolidated financial statements of Canon Marketing Japan Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on March 25, 2020.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of
Deloitte Touche Tohmatsu Limited

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

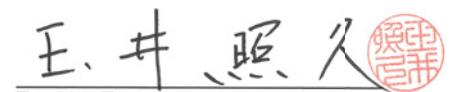
We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

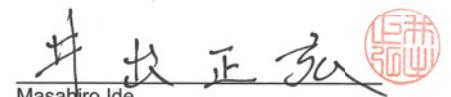
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Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Teruhisa Tamai
Designated Engagement Partner
Certified Public Accountant



Masahiro Ide
Designated Engagement Partner
Certified Public Accountant



Shinji Hatano
Designated Engagement Partner
Certified Public Accountant

Deloitte Touche Tohmatsu LLC

March 25, 2021

ESG Data

ENVIRONMENT	2016	2017	2018	2019	2020
GHG emissions (Scope 1 and 2) (t-CO₂)					
Scope 1	8,339	7,995	7,579	6,975	5,765
Scope 2	32,174	33,879	41,207	43,800	45,733
Total	40,513	41,874	48,786	50,775	51,498
GHG emissions (Scope 3) (t-CO₂)					
Category 1. Purchased goods and services (Note 1)	—	219,377	199,906	283,983	252,705
Category 2. Capital goods (Note 2)	—	40,292	27,726	65,341	41,807
Category 3. Fuel- and energy-related activities not included in Category 1 or 2 (Note 3)	—	4,012	4,601	8,993	9,061
Category 4. Upstream transportation and distribution (Note 4)	—	4,701	4,039	4,175	3,922
Category 5. Waste generated in operations (Note 5)	—	90	137	153	92
Category 6. Business travel (Note 6)	—	9,918	9,048	12,032	6,119
Category 7. Employee commuting (Note 7)	—	5,154	5,401	6,915	7,445
Category 8. Upstream leased assets (Note 8)	—	0	0	0	0
Category 9. Downstream transportation and distribution (Note 9)	—	1,271	1,122	1,073	1,104
Category 10. Processing of sold products	—	0	0	0	0
Category 11. Use of sold products (Note 10)	—	101,111	88,590	86,309	83,331
Category 12. End-of-life treatment of sold products (Note 11)	—	18,566	15,749	6,422	5,241
Category 13. Downstream leased assets (Note 12)	—	222	219	5,587	4,473
Category 14. Franchises	—	0	0	0	0
Category 15. Investments	—	0	0	0	0
Total	—	404,714	356,538	480,983	415,299
Water consumption by source (m³)					
Tap water	120,215	148,857	154,283	161,912	160,884
Groundwater	20,363	19,943	21,438	21,895	22,001
Industrial water	0	0	0	0	0
Total	140,578	168,800	175,721	183,807	182,885
Industrial waste emissions					
Total emissions (metric tons)	19,940	21,244	20,947	21,372	16,204
Sales units (metric tons per million yen)	0.032	0.034	0.034	0.034	0.030
Amounts recycled (metric tons)					
Total volume of products recovered and processed from marketplace	14,424	13,777	14,109	14,840	12,015
Recycled amount (Note 13)	14,394	13,773	14,108	14,839	12,015
Recycling rate (%) (Note 14)	99.79	99.97	99.99	99.99	99.99

ESG Data Notes

- Note 1. Calculated by multiplying weights of product materials and product wastes by materials and process units
- Note 2. Calculated by multiplying totals for each capital goods purchases category by category units
- Note 3. Total fuel and power consumed at each site totaled and multiplied by units from fuel extraction through combustion/power generation
- Note 4. Distribution from suppliers to production sites are calculated by multiplying the unit of transportation by seeking the average transportation distance and transport weight. Logistics from production bases to customers are calculated by multiplying logistics results by the unit of transportation.
- Note 5. Materials-specific waste amounts at each site added, multiplied by materials waste disposal units
- Note 6. Total payments per transportation mode multiplied by units per mode. For accommodations, total amounts paid converted into average number of nights, for multiplying by accommodation units
- Note 7. Total payments per transportation mode multiplied by units per mode. In the case of private car commuting, after converting the total mileage associated with commuting to fuel usage, add by multiplying the unit of fuel combustion.

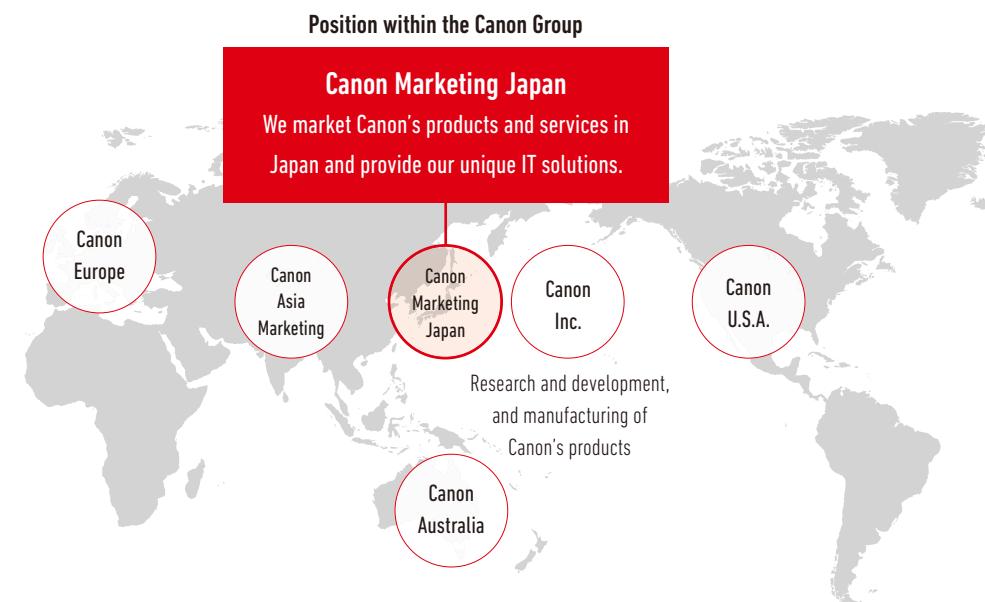
- Note 8. Encompassing leased buildings and vehicles and included in Scope 1 and 2
- Note 9. Calculated by determining average transportation distances and weights of products transported by region multiplied by transportation units
- Note 10. Calculated by determining lifetime power consumption for each product multiplied by average power consumption units
- Note 11. Calculated by classifying products sold by waste disposal units for the weights of each material
- Note 12. Calculated by determining annual power consumption of each leased product multiplied by average power consumption units
- Note 13. Total weight after excluding simple incineration and landfill disposal from total volumes of products recovered and processed from marketplace
- Note 14. Amounts recycled divided by total volume of products recovered and processed from marketplace
- Note 15. Averages for directors and Audit & Supervisory Board members
- Note 16. At December 31 each year

SOCIETY	2016	2017	2018	2019	2020
Group employees					
Number of men	14,681	14,502	14,202	13,890	13,385
Number of women	3,206	3,150	3,078	3,110	3,159
Total	17,887	17,652	17,280	17,000	16,544
Group management					
Number of men	3,303	3,228	3,131	3,037	2,898
Number of women	80	85	92	97	106
Total	3,383	3,313	3,223	3,134	3,004
Percentage of Group employees taking paid leave (%)	—	60.7	68.3	74.5	64.5
Number of Group employees taking childcare and nursing care leave					
Childcare leave	134	140	202	144	143
Nursing care leave	10	7	9	4	9
Percentage of Group employees returning to work after taking childcare and nursing care leave (%)					
Childcare leave	—	98.7	97.1	82.4	95.6
Nursing care leave	—	100.0	87.5	75.0	100.0
Number of Group retirees and reemployed workers					
Number of retirees	279	288	290	316	304
Number of reemployed workers	199	189	175	163	192
Average age of Group employees	—	44.3	44.6	44.7	44.8
Average length of service of Group employees (years)	—	18.7	18.9	19.6	19.6
Number of parent company employees with disabilities					
Number of employees	157	150	151	150	142
Percentage of employees (%)	2.16	2.10	2.15	2.19	2.15

GOVERNANCE	2016	2017	2018	2019	2020
Number of directors					
In-house (men)	8	8	5	4	4
In-house (women)	0	0	0	0	0
In-house total	8	8	5	4	4
Outside (men)	2	2	2	2	2
Outside (women)	0	0	0	0	0
Outside total	2	2	2	2	2
Total	10	10	7	6	6
Number of Audit & Supervisory Board members					
In-house (men)	2	2	2	2	2
In-house (women)	0	0	0	0	0
In-house total	2	2	2	2	2
Outside (men)	3	3	3	3	3
Outside (women)	0	0	0	0	0
Outside total	3	3	3	3	3
Total	5	5	5	5	5
Average age of corporate officers (Notes 15 and 16)	62.9	63.9	62.6	63.4	62.3
Number of Board of Directors' and Audit & Supervisory Board meetings					
Number of Board of Directors' meetings	16	17	15	16	18
Number of Audit & Supervisory Board meetings	16	18	18	20	17
Number of executive officers	28	23	23	23	23

Canon MJ Group

As of March 31, 2021



Segment	Company name	Lines of business	
Enterprise BU	Canon IT Solutions Inc.	Systems integration (SI) and consulting, IT services, and software development and sales	
	SuperStream Inc.	Planning, development, and sales of SuperStream NX management infrastructure solution for accounting and salaries	
	Qualysite Technologies Inc.	Java systems development, and data center operations, maintenance, and auxiliary services	
	Canon Software America, Inc.	Development of business applications software for Group companies	
	Canon Information Systems (Shanghai) Inc.	Consulting for companies in China (Group companies, Japanese, Western and Chinese companies), development of systems integration (SI), and implementation of various solutions	
	Canon IT Solutions (Thailand) Co., Ltd.	Supervision of businesses of Group companies in Thailand and Vietnam	
	Material Automation (Thailand) Co., Ltd.	Proposals, sales, and service related to IT hardware through software	
Area BU	ASAHI-M.A.T. Co., Ltd.	Sales and support for CAD, CAM, and CAE in Thailand	
	MAT Vietnam Company Limited	Proposals, sales, and service related to IT hardware through software in Vietnam	
	Canon System & Support Inc.	IT solutions consulting, sales, support, and maintenance services for Canon's and third parties' products	
Professional BU	A&A Co., Ltd.	Exclusive domestic sales of 3D CAD software Vectorworks Japanese version and planning, development, and sales of related software	
	Production Printing	Canon Production Printing Systems Inc.	Sales and maintenance services for production printers and consumables, development and delivery of workflow systems, and provision of printing services
	Healthcare	Canon ITS Medical Inc.	Providing IT solutions for the medical and healthcare field, systems development, network construction, and hardware sales
BPO Services	Canon BizAttenda Inc.	Consulting, business support BPO, back office BPO, office support outsourcing, contact center outsourcing, temp staffing, and services	
	Canon Business Support Inc.	Office services for Group companies and BPO-related services	
Service & Support	Canon Customer Support Inc.	Customer inquiry service, service center business, and photoculture support, primarily for Canon products	

The Group comprises 16 consolidated subsidiaries.

Corporate Data

As of December 31, 2020

Headquarters

Canon S Tower, 16-6, Konan 2-chome, Minato-ku,
Tokyo 108-8011, Japan

Date of Establishment

February 1, 1968

Common Stock

¥73,303 million

Number of Shares Issued

131,079,972 shares

Stock Listing

Canon Marketing Japan Inc.'s common stock is traded on the First Section of the Tokyo Stock Exchange. (Ticker Symbol: 8060)

Number of Shareholders

11,254

Description of Business

Domestic marketing of Canon products and related solutions

Number of Employees

Consolidated: 16,544

Non-consolidated: 4,908

Main Locations of Operations

Headquarters, Konan office, Makuhari office and branches
(Sapporo, Sendai, Nagoya, Osaka, Hiroshima, and Fukuoka)

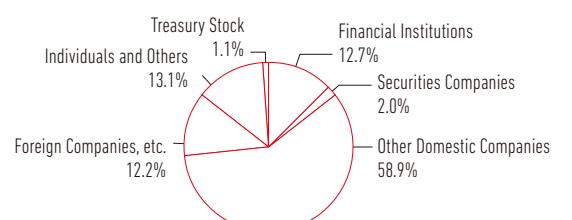
Major Shareholders

Name of shareholder	Number of shares held (Thousands)	Percentage of ownership (%)
Canon Inc.	75,708	58.4%
Canon Marketing Japan Group Employee Stock Ownership Association	5,860	4.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,754	3.7
Custody Bank of Japan, Ltd. (Trust Account)	2,669	2.1
STATE STREET BANK AND TRUST COMPANY 505001	1,517	1.2
SMBC Nikko Securities Inc.	1,347	1.0
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,219	0.9
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	1,192	0.9
Mizuho Bank, Ltd.	1,001	0.8
Custody Bank of Japan, Ltd. (Trust Account 9)	997	0.8

* The company possesses 1,412,822 shares of its treasury shares (1.1% of the total number of issued shares).

* The percentage of ownership is calculated by deducting the number of treasury shares from the total number of issued shares.

Shareholder Composition



Canon MJ Investor Relations Website

Canon MJ maintains a comprehensive investor relations (IR) website to further facilitate communication with shareholders. The website contains:

- News for investors • IR calendar
- Financial results and other financial information
- Information on Long-Term Management Objectives (2021-2025) and Three-Year Management Plan (2021-2023)
- Stock information • Integrated reports

canon.jp/8060e-ir

Stock Price Range and Trading Volume

