This is a translation of the original documents in Japanese language for convenience purposes only, and in the event of any discrepancy, the Japanese language shall prevail.

March 3, 2020

To Our Shareholders

The items posted on the Internet Website in providing the convocation of the 52nd Ordinary General Meeting of Shareholders

Pursuant to applicable laws and Article 14 of the Articles of Incorporation of the Company, the above items are provided to shareholders through the corporate website (canon.jp/8060-ir).

Canon Marketing Japan Inc.

Systems for Ensuring Appropriateness of Business Operations and Outline of Implementation Activities

The content of the resolution of the Board of Directors regarding the systems necessary to ensure the appropriateness of the Company's operations (basic policy) as well as the outline of implementation activities for the aforementioned systems, are as follows:

Systems for Ensuring Appropriateness of Operations (the "Internal Control System")	Content of Basic Policy Resolution To ensure the appropriateness of operations and to work for continuous improvement in corporate value, Canon Marketing Japan Inc. (the "Company") and the enterprises consisting of the Company and its consolidated subsidiaries (the "Group"), shall foster a sound corporate culture based on the Spirit of "Three Self" (Self-motivation, Self-management, and Self-awareness) – guiding principles of Canon Group (Canon Inc., parent company of the Company, and its subsidiaries). The Group shall also work to foster a law-abiding awareness through the "Canon Group Code of Conduct." Furthermore, the Group shall firmly strive to ensure management transparency through clearly defined approval processes of important matters of the Group.
1. System for Compliance (Item 6, Paragraph 4, Article 362 of the Companies Act of Japan (the "Companies Act"), and Item 4, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	Content of Basic Policy Resolution (1) The Board of Directors, in accordance with regulations prescribed by the Board of Directors (the "Regulations of the Board of Directors"), shall make decisions on important the Group managerial matters after careful deliberation. Additionally, the Board of Directors shall have representative directors, executive directors and executive officers (collectively the "Officers") give reports regarding their execution of duties. (2) The Company shall thoroughly instill compliance awareness through training and other programs geared towards new employees, managers, and newly-appointed board members and executive officers, utilizing the "Canon Group Code of Conduct," as a standard to be adhered to in the execution of duties. (3) As a part of the Company's risk management system, the Company shall put in place business procedures/checking systems that prevent violation of laws and regulations and the Company's articles of incorporation in the course of daily business. It shall also maintain a compliance education system. (4) The internal audit office of the Company, which has the authority to audit all executions of duties, shall also conduct audits regarding the status of compliance with laws and regulations and the Company's articles of incorporation. (5) If an act that violates laws and regulations, or the Company's articles of incorporation is discovered in the Group, employees have the ability to report such fact by means of a whistleblowing system. Additionally, the Company shall prohibit any disadvantageous treatment of any whistleblower.
	Outline of Implementation Activities (1) During this year, 16 Board of Directors meetings were held. At these meetings, in addition to deliberating and deciding on important matters, the Board of Directors received reports from Directors in charge of major divisions concerning the execution of business. (2) In addition to implementing compliance training that follows the "Canon Group Code of Conduct," the Company held Compliance Meeting, an event held once every six months to discuss on familiar risks of law-and-regulation violations by each respective workplace. (3) The activity is described in 2 Outline of Implementation Activities, (1) below. (4) The internal audit office conducts audits of each division and subsidiaries for various themes. The results of these audits have been then reported to the President and each Audit & Supervisory Board Member, and when necessary, proposals for improvement are given. (5) The rules on use of the whistleblowing system, including the explicit prohibition of the disadvantageous treatment of whistleblowers, are disseminated via the intranets of the Company, along with information on the contact counter for reporting internal problems. In this year, there were no whistleblower reports relating to serious violations of laws and

	regulations, or the like.
2. System for Risk Management (Item 2, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) The Company shall conduct various measures with regard to improving the risk management system in accordance with the regulations regarding risk management. These measures include the system for grasping any significant risks (violation of laws and regulations, misstatement of financial reporting, quality issues, work-related injuries, disasters, etc.) that the Group may face in the course of business. Additionally, the Company shall evaluate the status of design and implementation of the risk management system and report its findings to the Board of Directors. (2) The Company established the Management Committee, and the Committee shall carefully deliberate items in case it is considered important even if items are not submitted to the Board of the Directors.
	<u>Outline of Implementation Activities</u> (1) The Group categorized the risks which may cause significant impact on the Group into 3 risks of Financial risk, Compliance risk and Business risk, in accordance with the "Regulations of Risk Management." The Group conducted various measures with regard to the risk management system. Additionally, the Company evaluated the status of design and implementation of the risk management system and reported its findings to the Board of Directors, based on the activity plan of this year approved by the Board of Directors. (2) The Management Committee was held 12 times in this year, and important matters were deliberated. In addition to the Directors in charge of executing business operations, Audit & Supervisory Board Members also attended, as necessary, and provided their opinions.
3. System for Efficient Execution of Duties (Item 3, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) Based on regulations regarding approval processes of important matters and the division of duties adopted by the Board of Directors, the Directors and other officers shall execute shared duties under the supervision and direction of the President. (2) The Company shall formulate Long-Term Management Objectives as 5-year management goals and 3-year priority measures, contained in Mid-Term Management Plan(Three-Year Management Plan) at its Management Committee. Based upon these plans, the Company shall manage operations from a unified group approach.
	<u>Outline of Implementation Activities</u> (1) The Officers have executed the duties allocated to them in accordance with the related rules. (2) The Company decides on a mid-term management plan and the necessary measures, which is decided based on discussions such as held at the Management Committee attended by the Officers of the Company and the executive officers of the major subsidiaries, and ensures the cohesion of the Group's corporate management.
4. System for Group Management (Item 5, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> The Company strengthens the internal control system by requiring subsidiaries to follow the respective items: a) to obtain prior approval from the Company or report to the Company important decisions in accordance with the "Regulations of Important Matters Approval of Canon MJ Group Companies," prescribed by the Board of Directors, b) to grasp significant risks that the subsidiary may face in the course of business and to verify and evaluate the status of design and implementation of the risk management system and report their findings to the Company in accordance with the regulations regarding risk management, c) to design an appropriate organization under the governing law of incorporation and to clearly define approval processes and authorities of executive officers,

	d) in addition to thoroughly instilling compliance awareness through the "Canon Group Code of Conduct," to put in place business procedures/checking systems that prevent violation of laws and regulations and subsidiaries' articles of incorporation in the course of daily business and prepare a compliance education system as a part of subsidiaries' risk management system, and e) to establish a whistleblowing system and prohibit any disadvantageous treatment of any whistleblower.
	<u>Outline of Implementation Activities</u> a) The Company received reports from subsidiaries or provided prior approval in accordance with the "Regulations of Important Matters Approval of Canon MJ Group Companies." b) In order to conduct evaluation of the status of design and implementation of the risk management system described in 2 Content of Basic Policy Resolution, (1) above, the subsidiaries being evaluated implemented evaluation of the respective targeted risks. c) Each subsidiary performs, as appropriate, a review of the appropriateness of organizational design, and approval criteria and processes in accordance with the applicable laws and regulations and the nature of business and other factors. d) In addition to the activities of 2 Outline of Implementation Activities, (1) above, each subsidiary establishes places for training and discussion as necessary and ensures utmost compliance. e) Each subsidiary establishes an in-house hotline system and totally prohibits any disadvantageous treatment of any whistleblower.
5. System for Storing and Managing Information (Item 1, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> Information related to the execution of duties of Officers, including meeting minutes of the Board of Directors and approval documents, shall be maintained and managed by respective divisions in charge of such management in accordance with laws and regulations, the "Regulations of the Board of Directors," and other related rules. Directors and Audit & Supervisory Board Members have the ability to inspect this information at any time.
	<u>Outline of Implementation Activities</u> Whenever deemed necessary, Directors, Audit & Supervisory Board Members and members of the internal audit office inspect or obtain copies of minutes of the Board of Directors meeting, minutes of the Management Committee, and other records such as approvals by the President.
6. System for Auditing by Audit & Supervisory Board Members (Paragraph 3, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) Although the Company does not assign a dedicated full-time employee or set an organization to assist the duties of Audit & Supervisory Board Members, the internal audit office, the legal division and other divisions will consult and assign an employee to assist the works of Audit & Supervisory Board Members (the "Assisting Employee"), on matters requested by Audit & Supervisory Board Members. The Assisting Employee shall give priority to execute the duties requested by Audit & Supervisory Board Members. Any change in the Assisting Employee shall require the prior consultation of the Audit & Supervisory Board. (2) Audit & Supervisory Board Members shall grasp the execution of duties by Director and other officers, by attending not only meetings of the Board of Directors, but also other important meetings such as meetings of the Management Committee. (3) The administrative divisions of the headquarters, such as human resources, finance & accounting, and legal affairs, shall hold meetings with Audit & Supervisory Board Members and report on the execution of duties in a timely manner. Additionally, if any material breach of laws and regulations occurs, the relevant division shall immediately report this to Audit & Supervisory Board Members. (4) Audit & Supervisory Board Members shall be reported from accounting auditors periodically and upon necessity.

	(5) Audit & Supervisory Board Members shall hold periodic meetings with counterparts of domestic subsidiaries and work to improve the auditing system from a unified group perspective by sharing information. Additionally, Audit & Supervisory Board Members shall grasp the execution of duties by Directors and other officers of subsidiaries, by auditing major subsidiaries in and outside Japan as necessary. (6) The Company prohibits any disadvantageous treatment of any person that reports to Audit & Supervisory Board Members. The Company also seeks its subsidiaries to prohibit any disadvantageous treatment. (7) For expenses that are required in the execution of the Audit & Supervisory Board Members duties, they shall be borne by the Company as requested by the Audit & Supervisory Board Members.
	<u>Outline of Implementation Activities</u> (1) The Company assigned the Assisting Employee from the legal division, and the Assisting Employee executed the duties as requested by Audit & Supervisory Board Members. Change to the Assisting Employee, were decided upon prior consultation with the Audit & Supervisory Board. (2) Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, attended Board of Directors meetings and important meetings such as the Management Committee meetings, and the executive officers meetings. (3) The administrative divisions of the headquarters held periodic meetings with the Audit & Supervisory Board Members, and reported the status of execution of business operations. In addition, the internal audit office reported the results of audits to not only the President but to Audit & Supervisory Board as well. (4) Audit & Supervisory Board Members, in addition to periodically receiving reports from the Accounting Auditor on the results of the audit of this year in accordance with laws and regulations, they also hold hearings with the Accounting Auditor to inquire on the status of audits as necessary. (5) Audit & Supervisory Board Members, as necessary, held meetings with audit & supervisory board members of domestic subsidiaries and exchanged information. In addition, Audit & Supervisory Board Members audited the major subsidiaries. (6) In addition to 1 Outline of Activities, (5) above, the Company did not treat any person that reported to Audit & Supervisory Board Members disadvantageously. (7) In this year, there were no situations of shortfalls in the budget allocated for the implementation of audits in accordance with the audit plan.

Consolidated Statement of Changes in Net Assets

From January 1, 2019 to December 31, 2019

(Millions of yen, amounts less than one million yen are rounded down)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	73,303	82,820	189,957	(31,924)	314,156
Cumulative effects of changes in accounting policies	-	-	(996)	-	(996)
Restated balance	73,303	82,820	188,961	(31,924)	313,160
Changes of items during period					
Cash dividends	-	-	(8,428)	-	(8,428)
Profit attributable to owners of parent	-	-	22,250	-	22,250
Purchase of treasury stock	-	-	-	(2)	(2)
Profit attributable to non-controlling interests	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	-	13,821	(2)	13,819
Balance at end of current period	73,303	82,820	202,783	(31,926)	326,979

	Accumulated other comprehensive Income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plants	Total accumulated other comprehensive income		
Balance at beginning of current period	2,518	1	75	(13,725)	(11,129)	542	303,570
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	(996)
Restated balance	2,518	1	75	(13,725)	(11,129)	542	302,573
Changes of items during period							
Cash dividends	-	-	-	-	-	-	(8,428)
Profit attributable to owners of parent	-	-	-	-	-	-	22,250
Purchase of treasury stock	-	-	-	-	-	-	(2)
Profit attributable to non-controlling interests	-	-	-	-	-	89	89
Dividends paid to non-controlling interests	-	-	-	-	-	(15)	(15)
Net changes of items other than shareholders' equity	1,410	9	(24)	7,228	8,625	0	8,625
Total changes of items during period	1,410	9	(24)	7,228	8,625	74	22,519
Balance at end of current period	3,929	11	51	(6,497)	(2,504)	616	325,092

Notes to Consolidated Financial Statements

(Notes on important items forming the basis of consolidated financial statements)

1. Scope of consolidation

(1) Consolidated subsidiaries・・・・・・・・・・ 19

Major consolidated subsidiaries・・・・・・ Canon IT Solutions Inc., Canon System & Support Inc., Canon Production Printing Systems Inc., Canon Lifecare Solutions Inc.

(2) Non-consolidated subsidiaries・・・・・・・ None

2. Application of equity method

(1) Affiliates subject to equity method・・・・・ None

(2) Affiliates not subject to equity method・・・・ None

3. Fiscal years for consolidated subsidiaries

The closing date for consolidated subsidiaries is the same as all other consolidated closing dates.

4. Accounting policies

(1) Valuation standards and methods for key assets

(i) Securities

Held-to-maturity securities・・・・・・・ Amortized cost method (straight-line method)

Other securities

Securities with market value・・・・・ Market value method, based on market price on last day of fiscal year, etc.

(Valuation differences included in total net assets, cost of products sold calculated based on moving-average method)

Securities with no market value・・・・ At cost based on moving-average method

(ii) Inventory assets

Merchandise・・・・・・・・・・・・ At cost based on monthly moving-average method

(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

Repair parts・・・・・・・・・・・・ At cost based on monthly moving-average method

(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

Work in process・・・・・・・・・・ At cost based on specific identification method

Supplies・・・・・・・・・・・・・・ Last-purchase price method

(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

(2) Method of depreciation for key depreciable assets

(i) Property, plant and equipment

(Excluding Lease assets, net)・・・・・ Based on declining-balance method

Rental assets and selected consolidated subsidiaries are depreciated by the straight-line method.

Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

Useful lives are as follows:

Buildings	Five years to seventy-five years
Furniture and fixtures	Two years to twenty years
Rental assets	Three years

(ii) Intangible assets

(Excluding Lease assets)・・・・・・・ Based on straight-line method

Software for sale is amortized based on the larger of the amortization amount based on expected sales volume or expected sales revenue or the equally allocated amount over the expected effective period (up to three years). In-house software is depreciated the straight-line method based on the length of in-house durability (five years).

(iii) Lease assets, net・・・・・・・・・ Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.

(3) Standards for recording key allowances

(i) Allowance for doubtful receivable・・・ To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.

(ii) Provision for bonuses・・・・・・・ The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.

(iii) Provision for directors' bonuses・・・ The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.

(iv) Provision for product warranties・・・ Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs.

To cover payment of free program maintenance and repairs for selected consolidated subsidiaries, the estimated amount of future costs is recorded based on actual figures for previous years.

(v) Provision for loss on order received・・ The estimated amount of losses from the next fiscal year onwards is recorded for ongoing development projects based on software service contracts, in cases that are expected to result in a loss in the future (as of the end of the current year) and in which it is possible to reasonably estimate the relevant losses, in order to cover losses on orders received.

(vi) 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.

(4) Accounting methods for retirement benefits

(i) Method of aligning estimated retirement benefits・・・・・・・

Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current consolidated accounting year.

(ii) Method of recording actuarial differences and prior service costs・・

Prior service costs are generally expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs. Actuarial differences are generally expensed from the following consolidated accounting year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.

(iii) Using simplified methods for small companies, etc.・・・・・・・

For selected consolidated subsidiaries, simplified
methods are applied in order to calculate retirement benefit liabilities and costs. This entails listing retirement benefit obligations as the amount payable in retirement benefits at the end of the year, based on the relevant company's circumstances.

(5) Standards for recording key revenue and expenses

The Company and its consolidated subsidiaries adopted new revenue recognition accounting standards (Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018), and details of the main performance obligations in key businesses and the usual times for recognizing revenue are as described below.

In addition to Canon product sales and related services, the Group provides products and services in fields such as IT solutions, industrial equipment and healthcare. In the case of sale of a product that are not required inspection by the customer, the Group judges, that the performance obligation has been satisfied at the time of delivery of the relevant product and recognizes revenue because usually the customer gains control of the relevant product at the time of product delivery. Services consists mainly in product maintenance contracts and the Group recognizes revenue either equally over a given period or based on an amount stipulated in the contract according to product usage.

Conditions peculiar to each segment are as described below. The Enterprise Segment and the Area segment are combined due to the similarity of the products and services provided in these two segments.

(Consumers)

Net sales are measured net of the consideration agreed in the contract with the customer and any discounts or sales-based rebates. Revenue is recognized in the extent that it is probable, based on estimate of past trends and other factors known at the time of sale, that a significant reversal in the amount of cumulative revenue recognized will not occur based on estimate of past trends and other factors known at the time of sale.

(Enterprise and Area)

For other services such as product repairs and installation, the Group recognizes revenue on completion of the service, when the performance obligation is satisfied.

For custom developed software, when reasonable estimates of progress can be made, the Group recognizes revenue based on the input method. When reasonable estimates of progress cannot be made, the Group recognizes revenue based on the cost recovery method.

(Professional)

When inspection by the customer for equipment performance is required, the Group recognizes revenue at the time of the receiving inspection by the customer.

(6) Key hedge accounting methods

(i) Hedge accounting method・・・・・ Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.

(ii) Hedging instrument and subject

Hedging instrument・・・・・・・ Forward exchange contracts

Subject of hedging・・・・・・・ Foreign currency denominated payables

(iii) Hedging policy・・・・・・・・ Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.

(iv) Method of evaluating effectiveness of hedging・・

For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

(7) Other important items forming the basis of consolidated financial statements

(i) Accounting methods for consumption tax, etc.・・・

The before-tax method is used for consumption tax, etc.

(ii) Application of the consolidated tax system・・・・

For itself and selected consolidated subsidiaries, the company applies the consolidated tax system, with itself as the consolidated tax parent company.

(Notes on changes in accounting policy)

On January 1, 2019, the Company and its consolidated subsidiaries early adopted new revenue recognition accounting standards (Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, hereinafter referred to as "Revenue Accounting Standard") and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)). The Group recognizes revenue as the amount expected to be received in exchange for the goods or services when the control of the promised goods or services is transferred to the customer. New accounting policy is applied from January 1, 2019.

The Company selected practical expedient set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the aggregate amount of the effects on retroactive application of the new accounting policy prior to January 1, 2019 was adjusted to the retained earnings at January 1, 2019.

In addition, the Group selected practical expedient specified in Paragraph 86 of the Accounting Standard for Revenue Recognition and did not apply the new accounting policy retrospectively to contracts under which almost all revenue has been recognized in accordance with the previous treatment prior to January 1, 2019.

In addition, the Group selected practical expedient the method specified in Paragraph 86 paragraph (1) of the Accounting Standard for Revenue Recognition, and for contract was modified prior to January 1, 2019, the following processes from 1 to 3 were performed based on the conditions of modified contract, and the cumulative effects was adjusted to retained earnings at January 1, 2019.

① Identification of satisfied portion and unsatisfied portion of performance obligations

② Calculation of transaction price

③ Allocation of transaction price to satisfied portion and unsatisfied portion of performance obligations

As a result, net sales in the current consolidated fiscal year decreased by 1,952 million yen, cost of sales decreased by 1,921 million yen, and operating income, ordinary income, and profit before income taxes decreased by 30 million yen. In addition, the balance of retained earnings brought forward at the beginning of the year decreased by 996 million yen.

Moreover, starting from the current consolidated fiscal year, the Group records a portion of personnel expenses and other expenses as cost of sales which were previously recorded as sales expenses. This is because the early application of Accounting Standard for Revenue Recognition starting from the current consolidated fiscal year prompted the Group to examine the positioning of costs in relation to performance obligations pertaining to services, which have increased in importance in recent years, and this examination led to a review of the scope of cost aggregation. As a result of this change, compared with the previous method, cost of sales for the current consolidated fiscal year increased by 20,072 million yen and gross profit decreased by the same amount. This change has no impact on operating income, ordinary income or profit before income taxes.

(Notes on changes in presentation method)

Changes as a result of application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

The Group applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) starting from the beginning of the current consolidated fiscal year and deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under noncurrent liabilities.

(Notes on consolidated balance sheets)

1. Accumulated depreciation on property, plant and equipment 68,748 million yen

2. Guarantee liabilities

Guarantees for employees' housing loans 7 million yen

(Notes to consolidated statements of changes in equity)

1. Type and total number of issued shares as of end of current year Common share 151,079,972 shares

2. Dividends paid from retained earnings during the current year

Resolution	Type of share	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 27, 2019 General shareholders' meeting	Common share	4,538	35	December 31, 2018	March 28, 2019
July 23, 2019 Board of Directors' meeting	Common share	3,890	30	June 30, 2019	August 26, 2019

3. Dividends for which the base date falls within the current year, and the date effective in the following year

Discussion	Type of share	Funds used to pay dividends	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 26, 2020 General shareholders' meeting	Common share	Retained earnings	3,889	30	December 31, 2019	March 27, 2020

(Notes on financial instruments)

1. Status of financial instruments

(1) Policies for financial instruments

As the Group, we limit asset management to financial instruments characterized as very safe, and believe that financing should mainly be conducted through the use of group funds whenever necessary. We enter into derivative transactions to hedge against foreign exchange fluctuation risks, but have a policy of not engaging in speculative transactions.

(2) Details of financial instruments, risks, and systems to control risks

Operating receivables, consisting of notes and accounts receivable, are exposed to customer credit risks. We aim to mitigate such risks through strict credit control, based on credit data provided by external credit agencies, and through credit insurance and other risk-hedging measures.

Short-term loans receivable are mainly loans to the parent company, provided in accordance with internal regulations on investment and management of funds.

Securities and investments in securities consist primarily of held-to-maturity debt securities and shares in companies with business ties to the Group, and are exposed to market price fluctuation risks. To counter such risks, we regularly monitor fair values and the financial condition of companies issuing shares (business counterparties). For securities other than held-to-maturity debt securities, we continuously review the status of our holdings, taking into consideration market conditions and relationships with business counterparties.

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

Derivative transactions consist of forward exchange contracts to hedge against the risk of fluctuations in foreign currency denominated trade payables. With regard to hedge accounting, notes on important items forming the basis for compiling the aforementioned consolidated accounting documents are outlined under “4. Accounting policies (6) Key hedge accounting methods.”

(3) Supplementary explanation of fair values of financial instruments

Fair values of financial instruments include not only values based on market quotations, but also values calculated on a theoretical basis in cases where market quotations are not available. Values may vary depending on different assumptions, due to the fact that variables are factored into the calculation of such values.

2. Fair values of financial instruments

Book values on consolidated balance sheets as of December 31, 2019, their corresponding fair values, and the difference between the two are as follows.

	Book value on consolidated balance sheets (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and deposits	53,993	53,993	—
(2) Notes and accounts receivable	112,666	112,666	—
(3) Securities and investments in securities	9,059	9,059	—
(4) Short-term loans receivable	170,012	170,012	—
Total assets	345,731	345,731	—
(5) Notes and accounts payable	51,542	51,542	—
Total liabilities	51,542	51,542	—

(*) 1. Calculation methods for fair values of financial instruments, and other details relating to securities

Assets

(1) Cash and deposits, (2) Notes and accounts receivable, and (4) Short-term loans receivable

Book values are used as the fair values of these assets, because they are to be settled in the short term, meaning that their fair values approximate their book values.

(3) Securities and investments in securities

Fair values of equity securities are based on prices at security exchanges. Fair values of debt securities are based on prices at security exchanges or quotations obtained from counterparty financial institutions.

Liabilities

(5) Notes and accounts payable

Book values are used as the fair values of these liabilities, because they are to be settled in the short term, meaning that their fair values approximate their book values.

2. As it can be extremely difficult to assess the fair value of unlisted share or funds from investment partnerships (book value on consolidated balance sheets: 2,478 million yen), because they do not have a market value, they are not included in “(3) Short-term investments in securities and investments in securities” above.

(Notes on rented and other real estate)

No notes are required due to the low level of importance.

(Notes on information per share)

1. Net assets per share 2,502.39 yen
2. Profit attributable to owners of parent per share 171.60 yen

(Notes on significant subsequent events)

(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 is now excluded from Company’s consolidation.

(1) Reason for transfer of shares

The Group’s Healthcare business consists of medical systems business focused on diagnostic medical imaging equipment and healthcare-related business conducted by Canon LCS as well as hospital information systems based on electronic health records and SI business conducted by Canon ITS Medical Inc. The Company judged 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.

(2) Name of transferee of shares

Canon Medical Systems Corporation

(3) Date of share transfer

January 1, 2020

(4) Name and description of business of the relevant subsidiary and its business relationship with the Company

Name: Canon Lifecare Solutions Inc.

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

Business relationship with the Company: Sale of Canon products

(5) Number of shares transferred, transfer price, gain or loss on transfer and number of shares owned after transfer

Number of shares transferred: 29 shares

Transfer price: 3,680 million yen

Loss on transfer: 737 million yen

Number of shares owned after transfer: 0 shares

(6) Outline of accounting treatment

The transaction was accounted for in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

(7) Name of segment to which the relevant subsidiary belonged

Professional Segment

(8) Estimate of gain or loss relating to the relevant subsidiary recorded in the consolidated statement of income for the current consolidated fiscal year

Net sales	11,072 million yen
Operating income	191 million yen

Non-Consolidated Statement of Changes in Net Assets

From January 1, 2019 to December 31, 2019

(Millions of yen, amounts less than one million yen are rounded down)

	Shareholders' equity				
		Capital surplus			Retained earnings
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings
Balance at beginning of current period	73,303	85,198	5	85,204	2,853
Cumulative effects of changes in accounting policies	-	-	-	-	-
Restated balance	73,303	85,198	5	85,204	2,853
Changes of items during period					
Cash dividends	-	-	-	-	-
Profit	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	-	-	-	-
Balance at end of current period	73,303	85,198	5	85,204	2,853

	Shareholders' equity				
	Retained earnings				
	Other retained earnings				
	General reserve	Retained earnings brought forward	Total capital surplus	Treasury stock	Total shareholders' equity
Balance at beginning of current period	81,700	79,460	164,013	△31,928	290,593
Cumulative effects of changes in accounting policies	-	△968	△968	-	△968
Restated balance	81,700	78,492	163,045	△31,928	289,624
Changes of items during period					
Cash dividends	-	△8,428	△8,428	-	△8,428
Profit	-	13,287	13,287	-	13,287
Purchase of treasury stock	-	-	-	△2	△2
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	4,859	4,859	△2	4,857
Balance at end of current period	81,700	83,351	167,905	△31,930	294,482

	Valuation and translation adjustments			
	Valuation difference on available-for-sale securities	Deferred gains or losses hedges	Total valuation and translation adjustments	Total net assets
Balance at beginning of current period	1,926	1	1,927	292,521
Cumulative effects of changes in accounting policies	-	-	-	△968
Restated balance	1,926	1	1,927	291,552
Changes of items during period				
Cash dividends	-	-	-	△8,428
Profit	-	-	-	13,287
Purchase of treasury stock	-	-	-	△2
Net changes of items other than shareholders' equity	1,006	9	1,015	1,015
Total changes of items during period	1,006	9	1,015	5,873
Balance at end of current period	2,932	11	2,943	297,426

Notes to Non-Consolidated Financial Statements

(Notes regarding key accounting policies)

1. Asset valuation standards and methods

(1) Valuation standards and methods for securities

Held-to-maturity securities・・・・・・	Amortized cost method (straight-line method)
Shares in subsidiaries and affiliates・・	At cost based on moving average method
Other securities	
Securities with market value・・・・・	Market value method, based on market price on last day of fiscal year, etc. (valuation differences included in total net assets, cost of products sold calculated based on moving-average method)
Securities with no market value・・・・	At cost based on moving average method

(2) Valuation standards and methods for inventory assets

Merchandise・・・・・・・・・・・・・	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Repair parts・・・・・・・・・・・・・	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Work in process・・・・・・・・・・・・	At cost based on specific identification method
Supplies・・・・・・・・・・・・・・・	Last-purchase price method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

2. Method of depreciation for long-term assets

(1) Property, plant and equipment

(Excluding Lease assets)・・・・・・・ Based on declining-balance method

Rental assets are depreciated by the straight-line method.

Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

Useful lives are as follows:

Buildings	Five years to seventy-five year
Furniture and fixtures	Two years to twenty years
Rental assets	Three years

(2) Intangible fixed assets

(Excluding Lease assets)・・・・・・ Based on straight-line method

Software for sale is amortized based on the larger of the amortization amount based on expected sales volume or expected sales revenue or the equally allocated amount over the expected effective period (up to three years). In-house software is depreciated the straight-line method based on the length of in-house durability (five years).

(3) Lease assets・・・・・・・・・・・ Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.

3. Standards for recording allowances

(1) Allowance for doubtful receivables・・・ To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.

(2) Provision for bonuses・・・・・・・・・ The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.

(3) Provision for directors' bonuses・・・・・ The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.

(4) Provision for product warranties・・・・・ Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs.

(5) Provision for retirement benefits・・・・・ The estimated amount of benefit obligations and pension assets as of the end of the current fiscal year is recorded in order to cover retirement benefits payable to employees.

Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current fiscal year. Prior service costs are expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.

Actuarial differences are expensed from the following fiscal year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.

(6) 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.

4. Standards for recording revenue and expenses

The Company adopted new revenue recognition accounting standards (Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018), and details of the main performance obligations in key businesses and the usual times for recognizing revenue are as described below.

In addition to Canon product sales and related services, the Company provides products and services in fields such as IT solutions, industrial equipment and healthcare. In the case of sale of a product that are not required inspection by the customer, the Company judges, that the performance obligation has been satisfied at the time of delivery of the relevant product and recognizes revenue because usually the customer gains control of the relevant product at the time of product delivery. Services consists mainly in product maintenance contracts and the Company recognizes revenue either equally over a given period or based on an amount stipulated in the contract according to product usage.

Conditions peculiar to each segment are as described below. The Enterprise Segment and the Area segment are combined due to the similarity of the products and services provided in these two segments.

(Consumers)

Net sales are measured net of the consideration agreed in the contract with the customer any discounts or sales-based rebates. Revenue is recognized in the extent that it is probable, based on estimate of past trends and other factors known at the time of sale, that a significant reversal in the amount of cumulative revenue recognized will not occur based on estimate of past trends and other factors known at the time of sale.

(Enterprise and Area)

For other services such as product repairs and installation, the Company recognizes revenue on completion of the service, when the performance obligation is satisfied.

For custom developed software, when reasonable estimates of progress can be made, the Company recognizes revenue based on the input method. When reasonable estimates of progress cannot be made, the Company recognizes revenue based on the cost recovery method.

(Professional)

When inspection by the customer for equipment performance is required, the Company recognizes revenue at the time of the receiving inspection by the customer.

5. Key hedge accounting methods

(1) Hedge accounting method・・・・・・ Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.

(2) Hedging instrument and subject

Hedging instrument・・・・・・・・ Forward exchange contracts

Subject of hedging・・・・・・・・・ Foreign currency denominated payables

(3) Hedging policy・・・・・・・・・ Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.

(4) Method of evaluating effectiveness of hedging・・ For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

6. Other important items forming the basis of financial statements

(1) Accounting methods for consumption tax, etc.・・・The before-tax method is used for consumption tax, etc.

(2) Application of the consolidated tax system・・・・ The company applies the consolidated tax system.

(3) Retirement benefit accounting・・・・・・・ Different methods of accounting are used for unrecognized actuarial differences and unrecognized prior service costs in relation to retirement benefits, as opposed to accounting methods used for consolidated financial statements.

(Notes on changes in accounting policy)

On January 1, 2019, the Company and its consolidated subsidiaries early adopted new revenue recognition accounting standards (Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, hereinafter referred to as "Revenue Accounting Standard") and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)). The company recognizes revenue as the amount expected to be received in exchange for the goods or services when the control of the promised goods or services is transferred to the customer. New accounting policy is applied from January 1, 2019.

The Company selected practical expedient set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the aggregate amount of the effects on retroactive application of the new accounting policy prior to January 1, 2019 was adjusted to the retained earnings at January 1, 2019.

However, the Company selected practical expedient specified in Paragraph 86 of the Accounting Standard for Revenue Recognition and did not apply the new accounting policy retrospectively to contracts under which almost all revenue has been recognized in accordance with the previous treatment prior to January 1, 2019.

In addition, the Company selected practical expedient the method specified in Paragraph 86 paragraph (1) of the Accounting Standard for Revenue Recognition, and for contract was modified prior to January 1, 2019, the following processes from 1 to 3 were performed based on the conditions of modified contract, and the cumulative effects was adjusted to retained earnings at January 1, 2019.

① Identification of satisfied portion and unsatisfied portion of performance obligations

② Calculation of transaction price

③ Allocation of transaction price to satisfied portion and unsatisfied portion of performance obligations

As a result, net sales in the current business year decreased by 2,029 million yen, cost of sales decreased by 1,987 million yen, and operating income, ordinary income, and profit before income taxes decreased by 41 million yen. In addition, the balance of retained earnings brought forward at the beginning of the year decreased by 968 million yen.

Moreover, starting from the current fiscal year, the Company records a portion of personnel expenses and other expenses as cost of sales which were previously recorded as sales expenses. This is because the early application of Accounting Standard for Revenue Recognition starting from the current fiscal year prompted the Company to examine the positioning of costs in relation to performance obligations pertaining to services, which have increased in importance in recent years, and this examination led to a review of the scope of cost aggregation. As a result of this change, compared with the previous method, cost of sales for the current fiscal year increased by 1,161 million yen and gross profit decreased by the same amount. This change has no impact on operating income, ordinary income or profit before income taxes.

(Notes on changes in presentation method)

Changes as a result of application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) starting from the beginning of the current fiscal year and deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under noncurrent liabilities.

(Notes on balance sheets)

1. Accumulated depreciation on property, plant and equipment	55,493 million yen
2. Guarantee liabilities	
Guarantees for employees’ housing loans	7 million yen
3. Receivables from and payable from affiliates	
Short-term monetary receivables	193,550 million yen
Short-term monetary payables	90,225 million yen
Long-term monetary receivables	44 million yen
Long-term monetary payables	419 million yen

(Notes on statements of income)

Transactions with affiliates

Net sales	67,522 million yen
Purchasing	231,377 million yen
Other business transactions	4,279 million yen
Non-business transactions	2,397 million yen

(Notes on statement of changes in equity)

Type and total of treasury stock owned as of end of current fiscal year Common share 21,413,743 shares

(Notes on tax allocation)

Breakdown of main causes of deferred tax assets and liabilities

Deferred tax assets	
Provision for retirement benefits	10,547 million yen
Additions to deemed dividends	1,212 million yen
Sales promotion costs	1,091 million yen
Over-depreciation of property, plant and equipment	804 million yen
Loss on valuation of investment securities	728 million yen
Over-depreciation of software	639 million yen
Provision for bonuses	593 million yen
Accrued enterprise tax and business office tax	420 million yen
Loss on disposal or sale of inventory assets	369 million yen
Allowance for long-term continuous service rewards	208 million yen
Provision for product warranties	165 million yen
Allowance for asset retirement obligations	154 million yen
Allowance for doubtful receivables	108 million yen
Other	597 million yen
Subtotal deferred tax assets	17,642 million yen
Valuation allowance	(1,981) million yen
Total deferred tax assets	15,660 million yen
Deferred tax liabilities	
Net unrealized gain on securities	1,317 million yen
Reserve for tax purpose reduction entry of non-current assets.	1,279 million yen
Deferred gains or losses on hedges	5 million yen
Total deferred tax liabilities	2,602 million yen
Net deferred tax assets	13,058 million yen

(Notes on transactions with related parties)

1. Parent company and major corporate shareholders, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	Year-end balance (million yen)
Parent company	Canon Inc.	Ohta-ku, Tokyo	174,761	Development and production for the office, imaging systems and industrial equipment sectors, etc.	(Ownership in the company) Direct: 58.5 Indirect: 0.0	Production of the company's merchandise	Business	Purchase of merchandise (*1)	182,019	Accounts payable	17,877
								Sale of consumables for office equipment, etc. (*2)	7,171	Accounts receivable, other	1,560
							Non-business	Provision of funds (*3)	80,000	Short-term loans receivable	170,000

Of the above figures, "value of transaction" does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

(*1) When purchasing merchandise, the company sets out its preferred price, taking into account market prices, and then enters into price negotiations to determine a final price for the relevant period.

(*2) Sales of consumables for office equipment are based on the same terms as regular transactions.

(*3) When lending funds, a reasonable loan rate is determined by taking into account market rates. There is no provision for security.

2. Subsidiaries, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	Year-end balance (million yen)
Subsidiary	Canon IT Solutions Inc.	Shinagawa-ku, Tokyo	3,617	SI and consulting, IT service and development and sale of various software	(Ownership in the company) Direct: 100.0	Production of the company's merchandise Concurrent Officers: 3	Non-business	Provision of funds (*3)	3,700	Short-term loans payable	21,600
Subsidiary	Canon System & Support Inc.	Minato-ku, Tokyo	4,561	Consultation of a solution, sale, support and maintenance service, mainly for Canon products	(Ownership in the company) Direct: 100.0	Sale of the company's merchandise Concurrent Officers: 2	Business	Payment of service charges for business equipment, etc. (*1)	32,307	Accounts payable	5,664
								Sale of consumables for office equipment, etc. (*2)	51,646	Accounts receivable	14,463
							Non-business	Provision of funds (*3)	2,200	Short-term loans payable	34,400

Of the above figures, "value of transaction" does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

(*1) When making payment of service charges for office equipment, prices are determined through negotiation, based on the price calculated by the company.

(*2) When selling office equipment and its consumables, prices are determined through negotiation, based on the price calculated by the company.

(*3) When lending funds, a reasonable loan rate is determined by taking into account market rates.
There is no provision for security.

(Notes on information per share)

1. Net assets per share	2,293.78 yen
2. Net income per share	102.48 yen