

## Message from the CEO



### Performance in 2021

#### Focusing on reform-driven growth amid the ongoing pandemic

The COVID-19 pandemic continued to have a devastating impact around the world for the second year in 2021, with societies worldwide being forced to confront the issue of how to live with the virus. Against this backdrop, as part of the first year of Phase VI of the Excellent Global Corporation Plan formulated in 2020, we harnessed the efforts of the Canon Group to push ahead with a new wave of reforms under the policy of “accelerating our productivity improvement and corporate portfolio transformation through new business creation.”

In April 2021, we reorganized the previously product-based business units and affiliates into four new industry-oriented groups: Printing, Imaging, Medical, and Industrial. Besides helping to streamline development and utilize sales channels, this move aims to support the creation of new products through the integration of different technologies.

In the second half of 2021, we were unable to supply products as expected, due to a combination of lockdowns in response to a resurgence of COVID-19 cases and the impact of parts shortages and distribution stoppages. Nonetheless, on the whole, demand in all business areas made a brisk year-on-year recovery after sluggishness in 2020, supporting significant growth in earnings. Consolidated net sales increased 11.2% to ¥3,513.4 billion, operating profit increased 155.0% to

¥281.9 billion, income before income taxes increased 132.4% to ¥302.7 billion, and net income attributable to Canon Inc. increased 157.7% to ¥214.7 billion.

In office equipment, the sales volume of multifunction devices exceeded the previous year despite the impact of the shortage of semiconductors, while revenue from services and sales of printer consumables increased as workers returned to offices. Our sales of laser printers and inkjet printers declined in terms of volume due to the impact of production stoppages, but there was a significant recovery in sales of consumables for laser printers. In interchangeable-lens cameras, a shortage of components notwithstanding, the EOS R5 and other full-frame mirrorless models continued to perform well, with sales volume staying in line with the previous year. We posted higher sales of network cameras as we strengthened sales efforts, leveraging their varied and expanding range of applications. In the medical equipment business, the pandemic drove growth in sales of CT and X-ray diagnostic scanners, notably in Japan, with both sales and profit reaching record highs. Performance of semiconductor lithography equipment remained solid against the backdrop of rising global demand for semiconductor components, with FPD lithography equipment also exceeding previous-year results.

## Phase VI of the Excellent Global Corporation Plan

### Targeting Excellent Global Corporation status amid major societal shifts

Prospects are still uncertain as we begin 2022. While COVID-19 vaccination programs are advancing worldwide and we are seeing the development and adoption of new treatments, there are fears that new variants will cause major infectious outbreaks. Amid disruptions in the supply chain and the global economy being hard hit by rising inflation, the Russian invasion of Ukraine has ushered in soaring energy and food prices stemming from sanctions against Russia and that country's retaliation. We are likely to see continued volatility in the global economy as inflation gains further momentum.

There could be major impacts on industrial structures and business if these trends were to extend over the longer term. Canon needs to take appropriate and rapid action in response.

Thus we fundamentally reviewed business strategies for each industry group in order to identify areas in which we can improve during Phase VI, which began in 2021, while retaining our basic policy and 2025 performance targets.

Our first key strategy is to focus on enhancing the business competitiveness of each industry group. We will seek to strengthen our development and production capabilities while creating new businesses by comprehensively reviewing the technical strengths and business domains of each of the four groups (Printing, Imaging, Medical, and Industrial) and actively pursuing specific M&A opportunities. Our aim is for Canon's four new businesses of commercial printing, network cameras, medical and industrial equipment to generate collectively at least 36% of total Group sales by 2025, the final year of Phase VI. The Frontier Business Promotion Headquarters, which oversees new business development, will also accelerate efforts to commercialize business operations in the three emerging domains of Life Sciences, Materials and Solutions.

Our second key strategy is to improve group-wide productivity through extensive reinforcement of Canon's global headquarter functions.

In implementing this strategy, we have identified four related objectives. The first is to implement thorough cash flow management. Our aim here is to further strengthen our financial position by focusing

on robust management of cash flows so that we are prepared for post-COVID-19 economic crises and new investment opportunities.

The second objective is to create a more dynamic and merit-based HR management system. Our HR system must move with the times if we are to recruit and retain the best people and help them realize their potential. At the same time, we will redouble efforts to strengthen personnel training and development and encourage internal employee transfers in line with our business portfolio transformation.

The third objective is to promote cost-reduction initiatives across the whole Group. For now, our challenge is to ensure the reliable supply of products to markets by maintaining production at critical levels while coping with shortages of semiconductors and other parts, and we will prioritize efforts to this end. Lockdowns last year in response to the COVID-19 pandemic affected our production sites in Asia, resulting in intermittent output. Going forward, we will partially reshore the manufacturing of major product lines while building more resilient production set-ups by efficiently managing the production infrastructure in each country, transcending industry group boundaries. We will also continue transitioning toward further automation of assembly processes and in-house production of critical components to reduce the cost of sales.

The fourth objective is to cultivate product development-oriented innovation while also responding to the rapid evolution of business conditions. We are deepening the cooperative links between our central R&D Division and each business to speed up development of the technologies and devices that will drive many future advances in fields such as materials, analysis, and simulation. In addition, we are working to respond rapidly to changing business conditions, based on a cross-Group approach that establishes units such as the Sustainability Headquarters and the Economic Security Office.

Through such measures, we aim to anticipate societal shifts so we can transform Canon into a company that embodies excellence in terms of both quality and quantity.

## Towards the Realization of *Kyosei*

### Defining materiality in line with philosophy of *kyosei* to enable to address social issues on a global scale

Canon's corporate philosophy is summarized in the Japanese word *kyosei*, which describes the idea of harmonious coexistence. *Kyosei* expresses our shared aspiration to create a society in which all people live and work together harmoniously for the common good into the future, regardless of race, language or culture. The concept of *kyosei* is consistent with the direction of the SDGs, and Canon is positioning "Creating New Value and Solving Social Issues," "Protecting and Conserving the Environment," and "Responding to People and Society as a Good Corporate Citizen" as categories for material issues based on this philosophy. With a view to economic, social, and environmental sustainability, we will engage in various initiatives to help achieve the SDGs.

Materiality and SDGs P25 

#### Creating New Value and Solving Social Issues

The COVID-19 pandemic has had a profound impact on the world, leading to major changes in people's values and lifestyles and helping to accelerate social changes such as the adoption of digital and environmental technologies. In light of these developments, Canon is also being called on to offer solutions to increasingly complex and diverse social issues.

In the printing field, for instance, the pandemic has led to the widespread adoption of remote working and is driving rapid growth in demand from remote workers to upgrade IT infrastructure at home. From the viewpoint of employers, however, there is increasing concern regarding the risk of information leaks in environments lacking adequate security measures. Thus more companies are seeking printing environments with rigorous information management capabilities. In response, we will continue to expand the lineup of Canon's products and services to offer environments that are secure for printing whether in the office or at home.

New styles of working require data to be uploaded to the cloud for sharing and viewing. To support this, we are enhancing the scanning functions of our

multifunction devices, and also putting more resources into hardware and software development to provide new services that link multifunction devices and cloud-based services and help further streamline tasks.

Newspapers, leaflets, catalogs, pamphlets and other printed matter are also a familiar part of life and work. Drawing on advanced electrophotographic and inkjet technologies, Canon has contributed to reducing the environmental impact of commercial and industrial printing by providing on-demand printing systems. We enable customers to print the volume they need when they need it, with quick turnaround and at low cost. We are also reducing the amount of energy and chemicals used and waste generated in each part of the printing process, while promoting automation to save labor.

In the imaging field, Canon since its founding has provided cameras, lenses, broadcasting equipment, professional video cameras, and other photographic equipment to support humanity's efforts to record and express reality. Photos and videos have the power to inspire people and change the world. They can turn moments into memories and lead us into unknown worlds.

We have recently seen a recovery in sales of digital cameras amid the pandemic, as more people use time freed up by changes in lifestyles for the hobby of photography, and also use cameras for online conferencing and video streaming. Although spectators were sadly not allowed at the Olympic and Paralympic Games Tokyo 2020, cameras and lenses supplied by Canon were able to convey to the rest of the world the passion of the athletes competing.

Network cameras are also finding application in a broad range of fields, including crime and disaster prevention, analysis of in-store customer behavior, and the monitoring of production facilities. Canon is reinforcing its lineup of total solutions that bring together cameras with video management and video analytics software. The pandemic put constraints on behavior and forced people to stay home, but also increased opportunities to use the Internet and gave rise to new needs for the production and distribution of online videos. To capitalize on these developments, we are strengthening the ways we support visual

expression, including extended reality (XR) that blends the real world with virtual reality, remote camera systems for video production, and volumetric video that allows the reconstruction of 3D spaces from captured images, which can be viewed from any position from any desired angle.

Image sensors are also drawing increased attention as the “eyes” for IoT applications. Canon has developed a miniaturized single photon avalanche diode (SPAD) sensor capable of capturing images in vivid color of things moving at high speeds, even under pitch-black conditions. The versatility of this device translates to a broad range of potential applications in areas such as autonomous vehicles and medical diagnostic imaging. We see these image sensors as key components for the optics industry, and our efforts will focus on building up this business as part of helping to support a digital society.

The response to the pandemic has been the most pressing issue in the medical field. Canon was among the first companies to develop and put into practical use testing methods for diagnostics support. In 2014, we commercialized an all-in-one medical container CT that can be used for diagnosis even outside the hospital. In response to the COVID-19 crisis, we constructed a new system incorporating infection control measures for technicians to provide a diagnostics framework.

Over the longer term, as populations age globally, the rising cost of medical care and the shortage of healthcare workers will become major issues. Enabling more healthy longevity holds promise as one solution to this problem, and so diagnostic testing to detect abnormalities at an early stage is critical. Canon is alleviating the burden on patients by enabling shorter testing times and lower exposure to radiation for our CT, MRI, diagnostic ultrasound, and other testing equipment. We will continue to draw on our image-processing technologies to pursue clearer imaging, contributing to more accurate diagnosis. In 2021, we made further progress toward the development and early commercialization of the next generation of CT scanners that utilize photon-counting technology. Besides initiating joint research in this field with the National Cancer Center of Japan, we welcomed into the Group Canada-based Redlen Technologies, a global leader in the technology used to create the semiconductor detectors that will be key components of photon-counting CT systems.

We also expect demand to grow for AI-based solutions to support accurate interpretation of radiographic images and related diagnosis. In 2021, we launched *Altivity*, a new brand based on the promise of adding value to medical care through improved diagnostic accuracy. As a manufacturer of frontline medical equipment, Canon will continue to support human health by contributing to medical advances utilizing the latest technology.

In the industrial field, production of a range of products ground to a halt as the pandemic gave rise to a global semiconductor shortage—highlighting the indispensability of the semiconductor sector for the modern world. With China-US tensions giving impetus to moves to relocate semiconductor production domestically, ongoing growth in investment in 5G, AI, electric vehicles, and the virtual reality metaverse is expected.

Demand is also rising for displays, which are indispensable components in many types of digital equipment. Projected areas of growth include foldable devices, automotive displays, large-screen TVs and healthcare applications. Going forward, Canon hopes to contribute to further development of humankind by fully leveraging our leading digital technologies in the latest digital technologies to support the manufacture of semiconductors and displays.

Canon is thus committed to creating new value through technology and innovation in our various business fields in different ways: in the consumer field, more abundant lifestyles; in the office and industrial fields, more productive business environments; in the society field, safer, more secure societies.



Development of a semiconductor detector module at Redlen Technologies

## Message from the CEO

Our employees are on the front line of our quest to create new value. Since its founding, Canon has declared the value of Respect for Humanity, and we have striven to be an organization where the development of the company and the development of the lives of its employees go hand in hand. To this end, we have supported activities to enable employees to build their potential and grow. We are currently expanding our in-house training system in line with the evolving business portfolio, encouraging re-skilling to help a wide range of people find positions most suited to them.

A particular focus is on developing software professionals. Continuing to deliver new value in a wide range of fields calls for combining Canon's imaging technology with a range of services. We have to leverage AI, cloud-based systems, and other IT to connect with the surrounding social infrastructure and the systems of other companies. For this reason, we established the Canon Institute of Software Technology (CIST) in 2018 to augment our training curriculum. We have currently established 190 courses for 14 tracks, including AI, IoT, and cloud-based services. Already, nearly 140 people have switched to become software developers, and the pace will pick up going forward. With regard to *monozukuri* (manufacturing), we have established a system, centered on *monozukuri* training facilities in Toride, Oita, and Utsunomiya, for learning leading-edge knowledge and technical expertise in fields such as processing, assembly, mechanical and electrical design, and control. At the spacious 9,300m<sup>2</sup> training facility in Toride, in addition to normal training, we offer training on automation, in-house production technology, and plant maintenance, and practice for the Skills Olympics. Every year, 7,000 people from throughout the Canon Group take part in training.

Creating New Value and Solving Social Issues P27, P51 

## Protecting and Conserving the Environment

Based on our corporate philosophy of *kyosei*, Canon has also been at the forefront of initiatives to protect the environment because we consider this to be our responsibility as a global enterprise. We have tried to build harmonious relationships with the Earth and the natural environment.

We introduced a system for printer cartridge recycling in 1990. Since then, we have worked throughout our organization to reduce the lifecycle CO<sub>2</sub> emissions of Canon products at every stage from R&D, design, procurement and production to logistics, sale, servicing and post-use collection and recycling. Since 2008, we have been working to achieve an annual average improvement of 3% in life cycle CO<sub>2</sub> emissions per product. We have achieved a cumulative improvement of 42% in the life cycle of products from development to recycling through energy and resource conservation and streamlining of distribution.

Maintaining this target, we aim to achieve a 50% improvement in CO<sub>2</sub> emissions by 2030 compared to 2008. We also aim to achieve net-zero CO<sub>2</sub> emissions throughout the product life cycle by 2050 in cooperation with society.

We are actively contributing to realizing a circular economy through the operations of five Canon Group recycling sites around the world, located in Japan, the US, Germany, France and China. As of the end of 2021, these facilities had collected a total of around 444,000 tons of toner cartridges and 2,600 tons of inkjet cartridges for post-use recycling. Furthermore, we have sought to conserve resources by automating assembly to reduce waste and by implementing just-in-time manufacturing and using common parts to lower inventories.

Canon will continue striving to enable abundant lifestyles while protecting the environment, by harnessing the power of technology and innovation to provide greater value while using fewer resources throughout all product life cycles.



Cartridge recycling at Canon Bretagne

Protecting and Conserving the Environment P29, P55 

## Responding to People and Society as a Good Corporate Citizen

Alongside our business activities, Canon is engaged in a range of corporate citizenship initiatives. Our goal is to be a company that contributes to a world in which people are able to fulfill their potential, and a company which can flourish together with local communities over the long term. Historically, our commitment to be a good corporate citizen has nurtured mutually successful and long-lasting collaborations with global leading corporations. This has also been expressed in the establishment of overseas operations for marketing, production and research, during which we have proactively taken into account local circumstances and characteristics. Through localization of management, we respect regional cultures and customs, employ local talent, and transfer technologies from our headquarters to regional operations. In 2021, in accordance with international human rights standards and the principle of Respect for Humanity that we have upheld since the founding of Canon, we formulated the Canon Group Human Rights Policy. We are conducting related educational activities and dialogue with stakeholders.

We aspire to be a company that prospers along with local communities and that earns the admiration and respect of people worldwide. In line with the *San-ji Spirit* ("Three Selves": self-motivation, self-management, and self-awareness) that guides all our actions, Canon Group employees worldwide are committed to our corporate citizenship activities in different countries and regions. Working hand in hand with local firms and affiliates, and in close cooperation with our customers, we will focus on realizing the philosophy of *kyosei*.

Canon Europe has developed the Young People Program (YPP) to provide young people in Europe, the Middle East and Africa with opportunities for creative expression through photographs and videos. In March 2021, we also participated in the United Nations SDG Global Festival of Action 2021 and emphasized the usefulness of photos and videos for addressing social issues.

In Africa, where underemployment is a major issue, we also created the *Miraisha* Programme in 2014, through which Canon Central and North Africa works to help young people acquire skills in the fields of imaging and printing. The program creates a triple win scenario that provides a source of skilled workers for the local photographic and printing industries, allows the young to earn an income and thus potentially increasing numbers of avid Canon users. At the Canon Summit Awards in 2021, the program was recognized as an outstanding activity that embodies the philosophy of *kyosei*.

The Philippine Economic Zone Authority (PEZA) also recently honored Canon Business Machines (Philippines), Inc. (CBMP), with three out of its five awards for environmental and CSR activities, in recognition of CBMP's community contributions through environmental protection programs and educational support for local schools. Since it was the third time for CBMP to receive the Environmental Performance Award, the subsidiary was inducted into PEZA's Hall of Fame in this category.

Responding to People and Society as a Good Corporate Citizen   
P33, P77

## A Globally Loved and Respected Company That Always Contributes to Society Through Technology

As we move ahead, based on our philosophy of *kyosei*, Canon is committed to helping realize a better society by engaging in dialogue with customers, business partners, partnering companies, local communities, shareholders, and all of our stakeholders to address the various issues faced by people worldwide. To that end, we will focus on generating growth by transforming our business portfolio, and on contributing through technology, with the aim of being a company that is loved and respected throughout the world.

In closing, I humbly ask for your continued support.



**Fujio Mitarai**  
Chairman & CEO  
Canon Inc.