

Financial Strategy

Financial strategy that supports productivity improvement and corporate portfolio transformation through new business creation.

Financial Strategy: Basic Policy

The basic policy of our financial strategy is to maintain sound finances via thorough cash flow management. Our principle for maintaining a sound financial constitution is to keep necessary capital expenditure for medium-term expansion and growth within the scope of depreciation.

Our main uses of cash are, first, growth investment in such areas as R&D and M&A, followed by return to shareholders, mainly in the form of dividends. In 2021, however, we prioritized the repayment of debt, based on operating cash flow, which increased against the backdrop of significant improvement in business performance following the COVID-19 pandemic.

Going forward, our principles of cash flow management and maintaining debt-free operation will not change. However, to achieve the sales target of ¥4,500 billion or more in 2025, we will actively make investments necessary for growth, including large-scale M&As, even if borrowing or other external financing is involved.

Review of 2021

The COVID-19 pandemic continued during 2021 despite the rollout of vaccines. Lockdowns across some parts of Southeast Asia interrupted operations, and production was also impacted in the second half of the year by multiple supply restraints, including shortages of semiconductor components and logistics challenges. Although Canon's sales ended substantially higher than the COVID-ravaged figures of 2020, they did not meet forecasts, and as a result, orders that could not be filled by the end of 2021 remain in the form of a backlog.

Despite the challenging conditions, we recorded significantly higher profits not only compared to 2020,

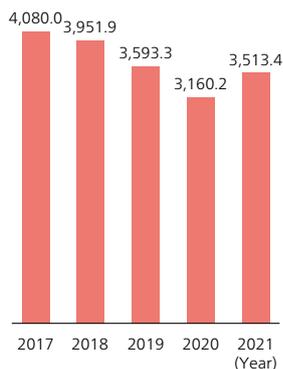
but also compared to pre-COVID 2019. This reflected the steady realization of gains from the business portfolio transformation that had mainly been undertaken in Phase V as well as our new businesses beginning to make contributions not only to consolidated sales but also earnings. There were also larger-than-expected gains, such as the reduction of fixed costs stemming from restructuring undertaken at roughly the same time at sites mainly in Europe and the United States in 2021, as well as the reorganization into four industry-oriented groups, which enabled the more effective use of resources and created synergies.

In addition to our rigorous efforts to boost profitability, performance grew more stable as the market for cameras and laser printers began to bottom out. Also, with selling prices more accurately reflecting supply and demand conditions, and as we made design changes to replace components in tight supply with alternatives, each industry-oriented group posted higher sales and profits, making a strong start toward the targets set for 2025, the final year of Phase VI. On the finance side as well, we recorded free cash flow of over ¥240 billion.

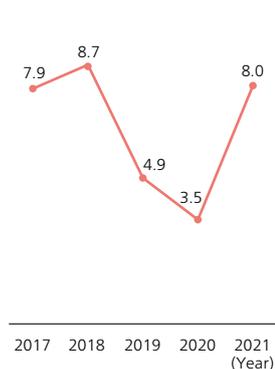
Investments in Growth

Our top priority in terms of using cash is for R&D, acquisitions, and other investments in growth. Since its founding, Canon has invested heavily in R&D to hone its technological capabilities, create superior products, and pioneer new markets. The passage of time and the evolution of technology have created a fiercely competitive market environment, however, rendering the timely development and acquisition of outstanding technologies and products difficult for a company operating alone. Since the early 2000s, therefore, we have made use of acquisitions as a means of

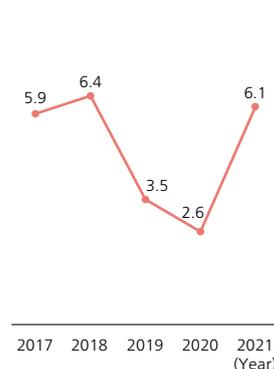
Net Sales
(Billions of yen)



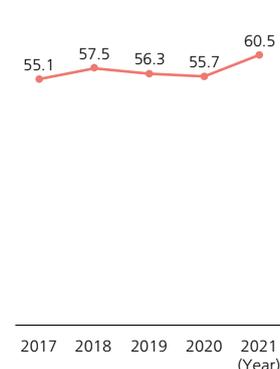
Operating Profit Ratio
(%)



Net Income Attributable to Canon Inc. Ratio
(%)



Shareholders' Equity to Total Assets Ratio
(%)



growing new businesses and getting new businesses off the ground quickly.

We are pursuing acquisitions focusing on new businesses, such as medical devices and network cameras, that address fundamental human needs for safety and security, and which promise growth over the long term. In 2021, we acquired Canada-based Redlen Technologies Inc. to develop a photon counting CT, hailed as the next generation in computed tomography. We are investing heavily in other areas as well. One focus in the Printing Group is on the area of commercial and industrial printing, which is expected to grow in line with advances in digitization. In the Imaging Group, in addition to free-viewpoint video systems, we are investing in new hardware and software that capitalize on optical and image processing technologies, such as virtual reality and mixed reality systems and in-vehicle cameras.

Portfolio Transformation by Industry-oriented Groups

- In 2021, Canon Group operations were reorganized into industry-oriented groups in order to further improve management efficiency by combining the technologies of existing and new businesses, and promoting organizational revitalization.
- We reorganized businesses into industry-oriented groups to more effectively advance our basic strategy of making full use of technological capabilities to alter industrial structures in line with evolving needs
- Expected to realize new cost-reduction and effects of new product development through sharing of resources such as parts, production equipment, product-related technology, production technology and human resources across development, production and sales processes, as well as related efficiency gains

Returns to Shareholders

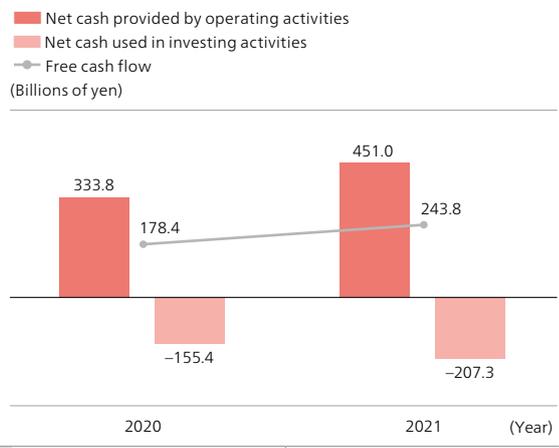
Another major use of cash is shareholder return which mainly focuses on dividends. In light of heightened volatility in our performance after the 2008 global financial crisis, our policy has been to provide returns in a stable and proactive manner mainly in the form of dividends, comprehensively taking into consideration not only short-term, but also medium- to long-term profit outlooks as well as future investment plans and cash flow.

In 2020, we cut the dividend for the first time in 33 years due to the severe impact of the COVID-19 pandemic on results and the high prevailing levels of economic uncertainty. Given improvements in both performance and outlook in 2021, we returned to our policy of increasing dividends. Going forward, we will aim for a payout ratio of 50%.

Debt Repayment

In addition to growth investments and shareholder returns, we have allocated cash to repay debt from financial institutions that was incurred to finance acquisitions in 2016. Although the repayment of debt was hindered in 2020 due to the COVID-19 pandemic, a turnaround in our performance in 2021 enabled steady progress in debt repayment. Going forward, we will continue to promote the repayment of debt with the aim of returning to debt-free management.

Cash Flow



	2020	2021
Net cash provided by operating activities	333.8	451.0
Net cash used in investing activities	-155.4	-207.3
Free cash flow	178.4	243.8