

Intellectual Property Management

Canon's Intellectual Property Approach

Since its establishment, Canon has actively engaged in technology research and development, achieving solid growth as an R&D-oriented company in creating markets and customer segments by developing products with proprietary technologies.

This history underpins the company's belief that the achievements of R&D activities are products and intellectual property (IP). At Canon, the purpose of IP activities is to support business development. Accordingly, we promote effective utilization of intellectual property rights in all aspects of business, including entry into new business areas, business diversification and global expansion of production and marketing operations.

Basic Policy of Canon IP Activities

- IP activities are vital to support business operations
- The fruits of R&D are products and IP
- Intellectual property rights of other companies should be respected and handled appropriately.

Respecting Intellectual Property Rights

Canon takes a thorough and persistent approach against counterfeit goods and intellectual property infringements. At the same time, we have established clear rules to ensure that the intellectual property rights of other companies are respected and that our products do not infringe on rights held by others.

More specifically, we conduct thorough investigations of third-party patents to prevent use of intellectual property held by others without first obtaining the relevant rights. Such thorough investigations of third-party rights occur at all stages, from R&D onward, based on cooperation between the R&D division involved in the technology and the department responsible for intellectual property rights.

By conducting thorough investigations of third-party patents, Canon smoothly and appropriately enters into partnerships with other companies and external research institutions for cross-licensing or joint research projects. This enables Canon to achieve greater results than it could attain by using only its own patents.

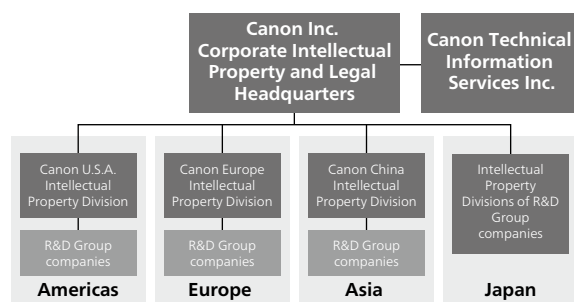
Canon Group Intellectual Property Management System

To carry out Canon's business activities consistent with its intellectual property strategy, intellectual property rights management has been centralized under the direction of the Corporate Intellectual Property and Legal Headquarters at Canon Inc. We manage the Group's intellectual property rights from the standpoint of optimizing the overall intellectual property portfolio.

For example, when concluding a patent licensing agreement with another company (a third party), the Corporate Intellectual Property and Legal Headquarters approves the agreement only after making adjustments reflecting merits for the entire Group. This step ensures that the Group maintains an appropriate intellectual property portfolio. We review our portfolio regularly to ensure that only necessary rights are being reserved.

As a Managing Executive Officer, the Group Executive of Canon Inc.'s Corporate Intellectual Property and Legal Headquarters makes decisions regarding the use of intellectual property from a management perspective, and coordinates with other business divisions.

Intellectual Property Management System



Management to Strengthen Group Companies

The respective roles and responsibilities of Canon Inc.'s Corporate Intellectual Property and Legal Headquarters and the intellectual property divisions at each Group company, along with the process for formulating policies on other shared activities and issues are determined by Canon's management rules.

Moreover, persons in charge at the Corporate Intellectual Property and Legal Headquarters are assigned to or visit Group companies to improve global intellectual property activities and develop human resources.

In-house Intellectual Property Education

Canon Inc. provides intellectual property training so its employees understand the importance of intellectual property and adhere to Canon’s intellectual property policies. This occurs at various stages: during training for new employees, during intellectual property training aimed at development, and during training for newly appointed managers and general managers.

Applying for Patents around the Globe

Canon places importance on applying for patents on a global basis, and as of the end of 2016, had approximately 90,000 patents and utility models worldwide.

When filing patent applications outside Japan, our teams develop detailed patent-filing strategies based on regional business strategies, technologies and product trends to assess the countries/regions where patents are necessary. We have focused on filing patent applications in the large United States market, which has many high-tech companies, in particular. Canon ranks third in the number of U.S. patent registrations, and has been the patent leader among Japanese companies for 12 straight years.

Top 5 Companies Acquiring U.S. Patents in 2016

Rank	Company	Number of patents
1	IBM Corporation	8,088
2	Samsung Electronics Co., Ltd.	5,518
3	Canon Inc.	3,665
4	Qualcomm Inc.	2,897
5	Google Inc.	2,835

Note: Figures were based on preliminary data released by IFI CLAIMS Patent Services, a U.S. research company specialized in patent information (As of January, 2017).

Working with Governments and Other Companies

Promoting Cooperation with Intellectual Property Policies

In order to strengthen international competitiveness through the use of intellectual property, the creation of a nation-wide IP strategy for Japan is absolutely imperative. Having served in a variety of roles relating to intellectual property in Japan, Canon has made various proposals to Japan Patent Office and other government agencies as a member of Intellectual Property Committee of Japan Business Federation, Japan Intellectual Property Association and International Association for the Protection of Intellectual Property Japan.

Currently, the Group Executive of Canon Inc.’s Corporate Intellectual Property and Legal Headquarters serves as a member of the Evaluation, Planning and Verification Committee of the Government’s Intellectual

Property Strategy Headquarters, and actively lobbies for IP policy in Japan. The Group Executive also serves as the Chairman of the International Association for the Protection of Intellectual Property Japan.

In this capacity he is able to proactively exchange views with the World Intellectual Property Organization (WIPO) and Commissioners of Patents in the United States, China, South Korea and Europe, enabling him to lobby for international IP policy. For example, in September, 2016, members of Standing Committee of National People’s Congress came to Canon and discussed Patent law of China under amendment. This visit was realized as patent law training dubbed “Legal system maintenance project for the healthy development of the market economy and security of the public welfare,” which the Japan International Cooperation Agency provided.

Mitigating Patent Litigation Risk through Collaboration with Other Companies

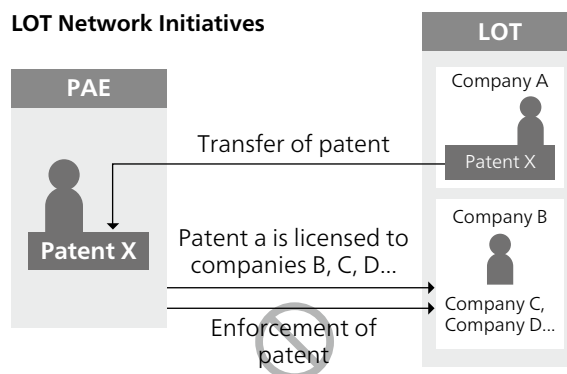
In recent years, due to the sudden increase in the number of patents, there has been a sharp rise in patent lawsuits initiated by Patent Assertion Entities (PAEs). PAEs have no actual business operations and instead attempt to receive large settlements from operating companies. Over 80% of the more than 6,000 patent lawsuits filed annually in the United States are initiated by PAEs.

In 2014, Canon established the License on Transfer Network (LOT Network) together with Google and other companies to curb lawsuits by PAEs.

When a LOT Network member company transfers a patent to a PAE, the license for that patent is granted to other member companies without requiring any compensation. This reduces the risk of litigation from PAEs.

As of June 2017, 148 companies who own more than 680,000 patent assets belonged to the network.

LOT Network Initiatives



Attempt by private-sector companies to work together to combat PAEs