

FY2017 3Q Results

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Yoshiyuki Matsusaka
Director, Senior Vice President

Canon
Canon Marketing Japan Inc.

* The figures are rounded off to the nearest 100 million yen in this material.

* Forward-looking statements and results forecasts presented in this material are based on the management's assumptions using currently available information and therefore contain inherent risks and uncertainties.
As a consequence, due to a range of possible factors, actual results may materially differ from the forecasts.

Summary of 3rd Quarter 2017 Results

Canon

Net sales **¥152.6 B (Y/Y + 5.1B, +3%)**

✓Net sales increased in each of the four segments. Sales rose particularly in independent growth areas, including IT solutions and industrial equipment.

Operating Income **¥7.4 B (Y/Y + 1.9B, + 35%)**

✓Operating income rose due to an increase in gross profit resulting from the rise in sales and a Company-wide reduction in expenses.

**Profit attributable to
owners of parent** **¥4.1 B (Y/Y + 0.8B, + 23%)**

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- Net sales increased in all four segments. In particular, sales rose in businesses in areas defined as independent growth areas, including IT solutions and industrial equipment.

•The fiscal year commenced with a sales decline in the first quarter, but the increase in sales gradually accelerated in the second and third quarters.

- Operating income rose 1.9 billion yen due to an increase in gross profit and a reduction in expenses.

Summary of Results

3Q 2017 Actual
(from July 1 to September 30)



Summary of Results

(Billions of yen)

	3Q FY2016	3Q FY2017	Changes	
			Amount	%
Net Sales	147.5	152.6	+5.1	+3%
Gross Profit	(36.5%) 53.8	(35.9%) 54.8	(-0.5%) +1.0	+2%
Operating income	(3.8%) 5.5	(4.9%) 7.4	(+1.1%) +1.9	+35%
Ordinary income	(3.8%) 5.6	(4.9%) 7.5	(+1.1%) +1.9	+33%
Profit attributable to owners of parent	(2.3%) 3.4	(2.7%) 4.1	(+0.4%) +0.8	+23%

Op. Income Variance Analysis



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- Operating income was up 1.9 billion yen. This was due to an increase in gross profit of 1 billion yen and a reduction of sales, general and administrative expenses of 0.9 billion yen.

- An extraordinary loss of 1.4 billion yen was posted in the third quarter. (See page 22)
- It resulted from a sale of real estate owned.

Segment Outline

3Q 2017 Actual
(from July 1 to September 30)

Canon

(Billions of yen)

	3Q FY2016		3Q FY2017		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	80.3	2.7	81.3	2.6	+1.0	-0.1
IT Solutions	31.5	0.8	32.9	1.1	+1.4	+0.3
Imaging System	35.0	1.8	35.1	2.9	+0.0	+1.1
Industrial / Medical	7.0	0.1	9.9	0.7	+2.9	+0.6
Other	-6.3	0.2	-6.5	0.1	-0.2	-0.1
Total	147.5	5.5	152.6	7.4	+5.1	+1.9

Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016.

Summary of Results

1Q-3Q 2017 Actual
(from January 1 to September 30)

Canon

(Billions of yen)

■ Summary of Results

	1Q-3Q FY2016	1Q-3Q FY2017	Changes	
			Amount	%
Net Sales	453.7	456.2	+2.5	+1%
Gross Profit	(36.1%) 163.7	(35.6%) 162.6	(-0.4%) -1.1	-1%
Operating income	(3.5%) 15.8	(4.0%) 18.4	(+0.5%) +2.6	+16%
Ordinary income	(3.7%) 16.9	(4.2%) 19.3	(+0.5%) +2.5	+15%
Profit attributable to owners of parent	(2.2%) 10.0	(2.7%) 12.5	(+0.5%) +2.5	+25%

■ Op. Income Variance Analysis



Segment Outline

1Q-3Q 2017 Actual
(from January 1 to September 30)

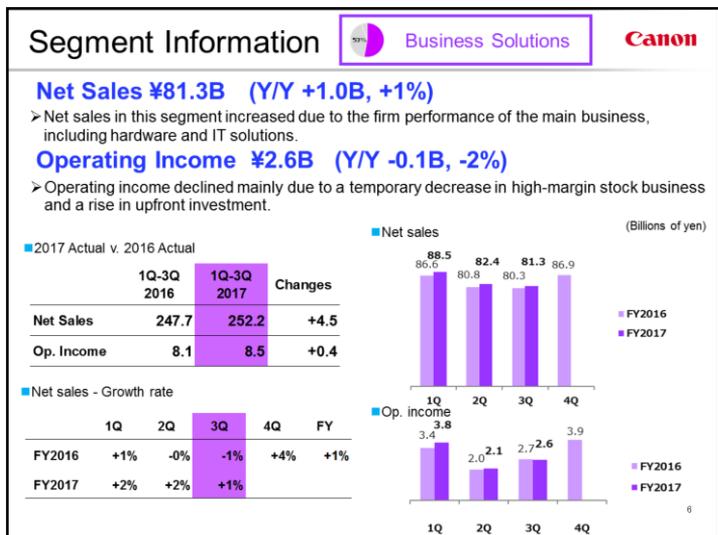


(Billions of yen)

	1Q-3Q FY2016		1Q-3Q FY2017		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	247.7	8.1	252.2	8.5	+4.5	+0.4
IT Solutions	97.6	2.9	98.4	3.2	+0.8	+0.3
Imaging System	103.1	3.5	99.6	4.9	-3.5	+1.5
Industrial / Medical	24.6	0.8	26.1	1.4	+1.5	+0.6
Other	-19.3	0.5	-20.0	0.3	-0.7	-0.2
Total	453.7	15.8	456.2	18.4	+2.5	+2.6

Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016.



(Office MFPs)

The sales volume grew after acquisition of a large project for color MFPs from a large customer and efforts to cultivate new customers from among medium-sized companies.

(Laser printers)

- The sales volume fell year on year. Despite growth of models for specific industrial sectors, there was a fallback from a significant growth of A3-sized monochrome models in the same period a year earlier.
- Sales soared after a rise in unit selling prices for reason of an increase in color models.
- Sales of toner cartridges dropped year on year, because there was a large-sized delivery to government offices in the same period of the previous year.

(Maintenance services)

- Sales slid year on year due to a fall in unit maintenance service prices although an increase in number of units in operation in the market led to a rise in printing quantity.

(Production printing)

- Sales were higher than in the same period of the preceding year. Sales were brisk as demand for internal printing in office was captured.

(Network cameras)

- Sales surged year on year. Orders for the purpose of surveillance in offices and stores were continuously obtained in large numbers. In addition, a large project including Milestone's surveillance camera systems was won.
- In September, an investment was made in Safie Inc., which provides small-sized businesses with a cloud-based image storage service.

After this investment, the Company commences dealing with Safie's image storage service. In addition to the Axis and other camera products, the Company will combine its cloud services, image management software and others in a bid to expand the network cameras business.

(IT solutions)

- Sales of mission-critical software, computers for business, security appliances and other hardware to medium and small companies grew.
- In addition to the cloud-based business including survey efficiency improvement solutions for property insurance companies, the number of licenses for the ESET anti-virus software grew as a result of efforts to gain new licensees.

(Canon systems and support)

- Sales fell slightly to 29.8 billion yen. While the IT maintenance service and security products were strong, orders for laser printers decreased.
- Operating income dropped 0.2 billion yen year on year to 0.8 billion yen, after an increase in expenses attributable to MFP sales expansion.

(Canon production printing systems)

- Sales rose slightly year on year to 3 billion yen. While sales of wide format printers fell due to a delay in shipment, those of cutting, bookbinding and other processing systems grew in addition to production printers.
- Operating income stood at minus 100 million yen, even after a year-on-year rise of 40 million yen through reduction of general, sales and administrative expenses.

Net Sales **¥32.9B** (Y/Y +1.4B, +4%)

➤ Net sales in this segment rose, reflecting strong performance in the SI service business and the product business.

Operating Income **¥1.1B** (Y/Y +0.3B, +41%)

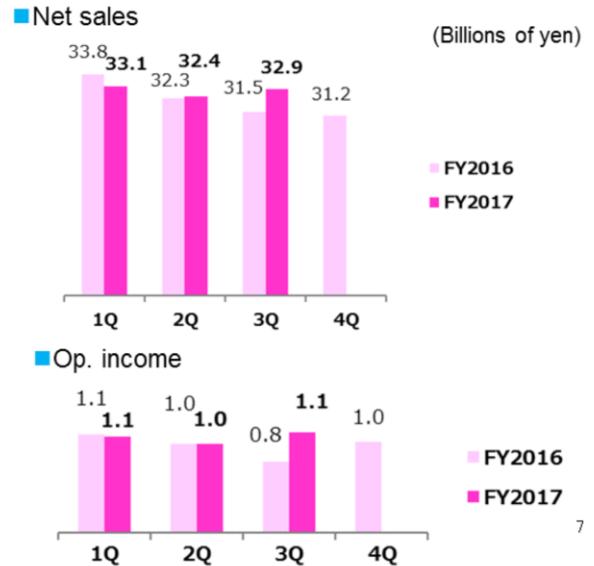
➤ Operating income rose due to an increase in gross profit resulting from the rise in net sales and a fall in SG&A expenses.

■ 2017 Actual v. 2016 Actual

	1Q-3Q 2016	1Q-3Q 2017	Changes
Net Sales	97.6	98.4	+0.8
Op. Income	2.9	3.2	+0.3

■ Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	+3%	+0%	-0%	-4%	-0%
FY2017	-2%	+0%	+4%		



(SI services business)

Sales were higher year on year after a hike in orders from financial institutions and manufacturers. Especially for the financial sector, we deal with more projects on systems integration for card issuers and on system changes for large banks.

(IT infrastructure and services business)

Sales were down year on year, reflecting a reaction from the large infrastructure deal obtained in the same period a year earlier despite healthy performance of data center services.

(Embedded business)

Sales slid year on year. Despite brisk sales to the car industry, projects for principal customers in the manufacturing sector decreased.

(Products business)

Sales soared year on year. Security products including ESET and IT products attained strong sales.

[Orders and order backlog]

Both orders and the order backlog increased. The SI service business gained more projects mainly for the financial industry. The IT infrastructure and services business and the data center services made healthy results.

<Affiliate>

Net sales of Canon IT Solutions Inc. stayed nearly flat at 21 billion yen. Operating income grew 0.4 billion yen to 1.4 billion yen.

[Reference] Overall sales of IT Solutions



(Billions of yen)

	3Q 2016	3Q 2017	Changes	
			Amount	%
Sales of IT Solutions	31.5	32.9	+1.4	+4%
Sales other than the IT Solutions segment	17.3	18.4	+1.1	+6%
Intersegment (elimination), etc.	-6.3	-6.5	-0.2	-%
Total	42.5	44.8	+2.3	+5%

	2016 1Q-3Q	2017 1Q-3Q	Changes	
			Amount	%
Sales of IT Solutions	97.6	98.4	+0.8	+1%
Sales other than the IT Solutions segment	54.8	57.4	+2.7	+5%
Intersegment (elimination), etc.	-19.3	-20.0	-0.7	-%
Total	133.1	135.8	+2.7	+2%

【Reference】 Overall IT Security net sales	YoY 2016 v 2017	
	3Q	1Q-3Q
Overall IT Security	+3%	+6%

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- Among the sales other than the IT Solutions segment, those of the Business Solutions segment mentioned earlier rose.

- Included in the overall sales of IT Solutions, IT security sales increased due to strong sales of ESET.



Net sales: ¥35.1 B (Y/Y +0B, +0%)

➤ Net sales in this segment rose, reflecting strong performance in the SI service business and the product business.

Operating income: ¥2.9 B (Y/Y +1.1B, +63%)

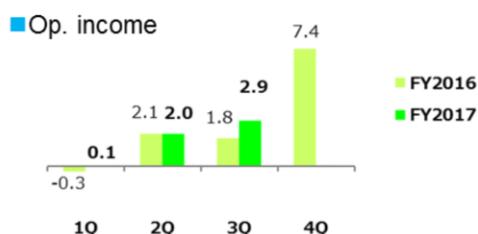
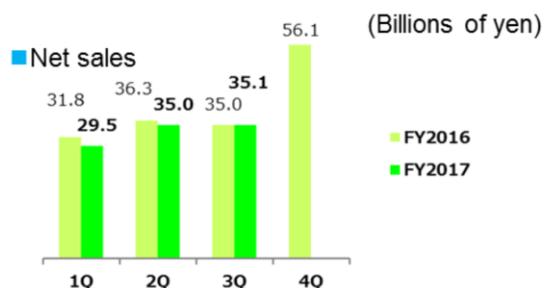
➤ Operating income rose due to an increase in gross profit resulting from the rise in net sales and a fall in SG&A expenses.

■ 2017 Actual v. 2016 Actual

	1Q-3Q 2016	1Q-3Q 2017	Changes
Net Sales	103.1	99.6	-3.5
Op. Income	3.5	4.9	+1.5

■ Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	-8%	-18%	-15%	-4%	-11%
FY2017	-7%	-4%	+0%		



(Digital interchangeable lens cameras)

- Sales of mirrorless cameras jumped considerably because of the healthy market situation and the release of new products.
- Sales of SLR cameras declined, given that their market was dull and that low-priced SLR camera shipments contracted.
- The total sales volume decreased year on year.

(Compact digital cameras)

- The sales volume soared sharply year on year. In addition to the rebound from a big dip in shipment in the same period a year earlier following the Kumamoto Earthquake, high-priced models achieved bullish sales.

(Inkjet printers)

- The sales volume was down year on year amid the stagnant market.
- The ink cartridge sales grew from the same period in the preceding year. It was partly due to rush demand before the upward price revision on October 1.

(Commercial imaging equipment)

- Sales rose year on year. It is due to acquisition of a large project concerning TV lenses for broadcasting, and steady sales of the EOS C200 digital cinema camera released in July and other products.

Net sales: ¥9.9 B (Y/Y +2.9B, +41%)

➢ Net sales in the Industrial segment increased thanks to the strong performance of semiconductor manufacturing equipment and inspection and measurement equipment. Net sales in the Medical segment rose mainly due to new digital radiography products.

Operating income: ¥0.7 B (Y/Y +0.6B, +598 %)

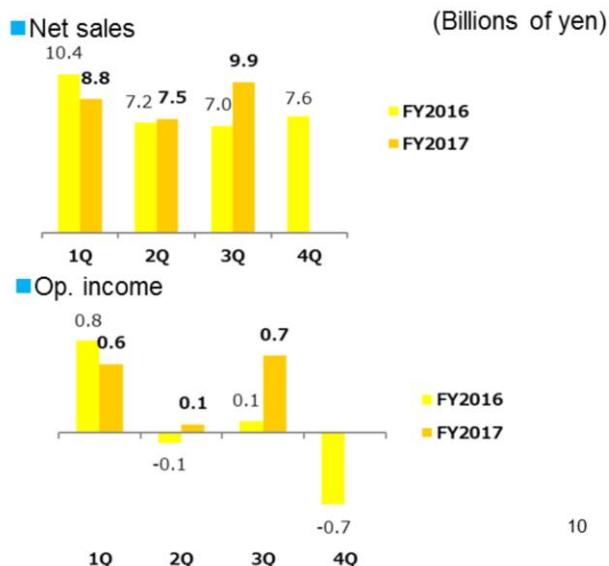
➢ Operating income increased both in the Industrial segment and the Medical segment, reflecting the increase in net sales.

2017 Actual v. 2016 Actual

	1Q-3Q 2016	1Q-3Q 2017	Changes
Net Sales	24.6	26.1	+1.5
Op. Income	0.8	1.4	+0.6

Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	+11%	-14%	-16%	-7%	-6%
FY2017	-16%	+3%	+41%		



(Industrial segment)

- Net sales hiked year on year. Capital investment in the semiconductor-related market continued to be active, and sales of semiconductor manufacturing equipment inspection and measuring devices and services increased.
- The rise in sales resulted in an hike of operating income.

(Medical segment)

- Net sales grew year on year, after the effect of introducing new digital radiography product and an increase in large projects for hospitals.
- Operating income also soared, following the sales growth.

<Affiliate>

- Net sales of Canon Lifecare Solutions Inc. were up 37% year on year to 4.1 billion yen. Operating income grew 0.2 billion yen year on year to 0.2 billion yen.

Summary of Projections



(Billions of yen)

	FY2017		Changes		【Reference】		
	FY2017	FY2017			FY2016	Changes	
	Previous projection	Current Projection	Amount	%	Actual	Amount	%
Net Sales	645.0	641.0	- 4.0	-1%	629.3	+11.7	+2%
	(4.5%)	(4.6%)	(+0.2%)		(4.4%)	(+0.3%)	
Operating Income	28.8	29.8	+1.0	+3%	27.7	+2.1	+8%
	(4.6%)	(4.8%)	(+0.2%)		(4.6%)	(+0.2%)	
Ordinary Income	29.6	30.6	+1.0	+3%	28.7	+1.9	+7%
	(3.1%)	(3.1%)	(+0.1%)		(2.9%)	(+0.2%)	
Profit attributable to owners of parent	19.8	20.0	+0.2	+1%	18.2	+1.8	+10%

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- The annual plan is reconsidered in view of the results until the third quarter.

Projections Summary Outline



FY2017 Current Projection v. Previous Projection

(Billions of yen)

	FY2017		FY2017		Changes		
	Previous projection		Current projection		Net Sales	Op. income	
	Net Sales	Op. income	Net Sales	Op. income			
Business Solutions	345.0	12.3	343.0	12.3	-2.0	-1%	-
IT Solutions	130.0	4.1	132.0	4.3	+2.0	+2%	+0.2
Imaging System	158.0	11.0	157.0	11.5	-1.0	-1%	+0.5
Industrial / Medical	36.5	1.2	35.5	1.4	-1.0	-3%	+0.2
Other	-24.5	0.2	-26.5	0.3	-2.0	-	+0.1
Total	645.0	28.8	641.0	29.8	-4.0	-1%	+1.0

"Other" includes intersegment sales, shared service businesses, and corporate expenses that are not allocated to each segment.

Projections Summary Outline



FY2017 Projection v. FY2016 Actual

(Billions of yen)

	FY2016		FY2017		Changes		
	Actual		Projection				
	Net Sales	Op. income	Net Sales	Op. income	Net Sales		Op. income
Business Solutions	334.6	12.1	343.0	12.3	+8.4	+3%	+0.2
IT Solutions	128.8	4.0	132.0	4.3	+3.2	+2%	+0.3
Imaging System	159.2	10.9	157.0	11.5	-2.2	-1%	+0.6
Industrial / Medical	32.2	0.2	35.5	1.4	+3.3	+10%	+1.2
Other	-25.5	0.6	-26.5	0.3	-1.0	-%	-0.3
Total	629.3	27.7	641.0	29.8	+11.7	+2%	+2.1

Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016.

Projections by Segment		Canon
Business Solutions	<ul style="list-style-type: none"> ✓ 4Q: The Company forecasts an increase in sales in all businesses. Operating income is expected to decline mainly due to an increase in upfront investment. ✓ Full year: The Company revises the sales forecast down 2.0 billion yen due to changes in plans for production printing and network cameras. The operating income forecast remains unchanged. It is forecast to rise 0.2 billion yen, to 12.3 billion yen, with the downward revision in the sales forecast offset by a reduction in SG&A expenses. 	
IT solutions	<ul style="list-style-type: none"> ✓ 4Q: The Company forecasts an increase in overall sales due to the steady performance in the SI service business and the product business. Operating income is projected to rise with the increase in sales. ✓ Full year: The Company is revising its sales forecast up 2.0 billion yen, expecting the expansion of the SI service business and the product business. The operating income forecast is revised up 0.2 billion yen due to the expected rise in sales. 	14

(Business Solutions)

(MFP)

- MFP sales are expected to grow year on year, given that several large projects are anticipated in the fourth quarter and that we will work to increase sales of new products to medium-level customers.
- On an annual basis, shipments are estimated to rise from the previous year.

(Laser printers)

- Sales volume growth is foreseen. A large project for color models anticipated in the fourth quarter will lead to shipment growth, and the Company will continue its efforts to cultivate customers for specific applications.
- In light of the progress until the third quarter, the Company plans to achieve full-year net sales at almost the same level as the preceding year.
- Sales of toner cartridges are expected to be higher year on year in the fourth quarter, given that the cause of the temporary decline disappeared in the third quarter.

(Production printing)

- A year-on-year sales hike is expected. In the fourth quarter, new projects for middle- and high-end cut paper printers will increase in the fourth quarter. With respect to continuous feed printers, there are several projects for which acceptance inspections are scheduled.
- The expected annual net sales figure has been revised downward from the level in the previous plan in view of the delay in the shipment of Océ continuous feed printers.

(Network cameras)

- Sales are projected to rise year on year. A number of large projects are expected in the fourth quarter, and the Company will endeavor to cultivate new customers with an extensive lineup including new products to be released in November and Axis products.
- The expected annual net sales figure has been revised downwards from the level in the previous plan in consideration of the progress until the third quarter.
- On the basis of this outlook, the Company anticipates a net sales rise of 3.9 billion yen for the fourth quarter from the same period a year earlier. On the other hand, operating income is expected to fall 0.2 billion yen in view of a continued rise in prior investment expenses as in the third quarter and a reaction from the temporary rise of operating income after substantial growth in demand for software of a group company in the preceding year.

(IT Solutions)

- For the fourth quarter, net sales and operating income are both expected to increase in consideration of healthy growth in projects for the financial industry and for educational institutions in the SI services business and the expansion of the products business supported by strong sales of security products and other IT products.

Projections by Segment

Imaging System

✓ 4Q: The Company forecasts a year-on-year increase in sales due to a rise in unit price in the digital interchangeable lens camera business and an increase in sales of commercial imaging equipment. Operating income is projected to fall due to a decrease in gross profit resulting from a decline in ink cartridges and an increase in SG&A expenses.

✓ Full year: The Company revises its sales forecast down 1.0 billion yen, reflecting a downward revision in digital cameras and inkjet printers. The operating income forecast is revised up 0.5 billion yen, reflecting the fact that operating income in the first nine months outperformed expectations. Operating income is projected to rise 0.6 billion year on year, to 11.5 billion yen.

Industrial / Medical

✓ 4Q: The Company forecasts an increase in both sales and income in this segment due to the strong performance in the Industrial segment.

✓ Full year: The Company revises its sales forecast down 1.0 billion yen based on its performance this fiscal year. Nevertheless, net sales are expected to increase from a year earlier. The operating income forecast is revised up 0.2 billion yen due to a rise in gross profit in the Industrial segment, and operating income is projected to rise year on year.

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(Imaging System)

(Digital interchangeable lens cameras)

- For the fourth quarter, sales of mirrorless cameras will be higher than in the same period of the preceding year because of the release of a new product in October and the implementation of a user campaign.
- The SLR camera market will be weaker than expected.
- The sales volume is planned to decrease overall.
- The annual sales volume forecast has been revised downward in view of the progress until the third quarter.

(Compact cameras)

- For the fourth quarter, the sales volume is expected to diminish year on year because the market will be sluggish.
- The annual sales volume forecast has been revised downward in view of the progress until the third quarter.

(Inkjet printers)

- For the fourth quarter, the sales volume is expected to fall below the level in the same period a year earlier since the market will remain sluggish.
- The annual sales volume forecast has been revised downwards from the previous plan in view of the progress until the third quarter.
- Sales of ink cartridges are forecast to shrink year on year due to a reaction from the rush demand prior to the price increase in the third quarter.
- The annual sales forecast has been revised upwards in consideration of the progress until the third quarter.

(Industrial/Medical)

* As portrayed on the slide

Canon

Canon Marketing Japan Inc.