

FY2018 1Q Results

April 25, 2018
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* 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 2018 1Q Results



Net sales ¥150.8 B (Y/Y -2.0B, -1%)

- ✓ The Enterprise and Professional segments achieved sales growth, while the Consumers and Area segments suffered a sales decline. Net sales declined.

Operating Income ¥3.7 B (Y/Y -1.9B, -34%)

- ✓ Operating income fell mainly due to the shrinkage of the gross profit in the Consumers segment.

Profit attributable to
owners of parent ¥2.5 B (Y/Y -1.5B, -37%)

Summary of Results

1Q 2018 Actual
(from January 1 to March 31)

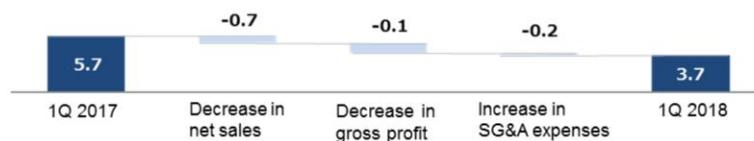


(Billions of yen)

■ Summary of Results

	1Q 2017	1Q 2018	Changes	
			Amount	%
Net sales	152.8	150.8	-2.0	-1%
Gross profit	(35.1%) 53.7	(34.5%) 52.0	(-0.7%) -1.7	-3%
Operating income	(3.7%) 5.7	(2.5%) 3.7	(-1.2%) -1.9	-34%
Ordinary income	(3.8%) 5.8	(2.7%) 4.1	(-1.0%) -1.7	-29%
Profit attributable to owners of parent	(2.6%) 4.0	(1.7%) 2.5	(-0.9%) -1.5	-37%

■ Op. Income Variance Analysis



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In terms of the analysis of operating income, operating income has fallen and the deterioration of the gross profit in Q1 has had a negative impact of ¥1 billion, while the increase in SG&A expenses reduced it by ¥0.2 billion.

Please look at the breakdown of SG&A expenses on page 19. They are almost the same as last year other than personnel expenses, which increased by ¥0.7 billion. This was due to an increase in retirement benefit expenses.

Consumers

Selling Canon products such as digital camera and ink jet printers and products from external suppliers to general individual customers

Enterprise

Providing IT solutions and services catering to the needs of each business category in addition to sales of I/O devices to large enterprises
<Principal group companies>
Canon IT Solutions Inc.
Canon Biz Attenda Inc.

Area

Providing IT solutions including management solutions in addition to sales of I/O devices primarily to medium- and small-sized enterprises across the country
<Principal group company>
Canon System & Support Inc.

Professional

Providing solution businesses targeting customers in specialized fields of each area

Production Printing

Providing continuous feed printings and high-speed cut sheet printings primarily to the printing industry
<Principal group company>
Canon Production Printing Systems Inc.

Industrial Equipment

Providing semiconductor manufacturing equipment and inspection and measurement equipment primarily to manufacturers of semiconductors and other electronic devices

Healthcare

Providing pharmaceutical equipment, IT systems and others to healthcare and health checkup providers
<Principal group companies>
Canon Lifecare Solutions Inc.
Canon ITS Medical Inc.

Imaging Solutions

Providing network camera solutions for surveillance and commercial video equipment to broadcasters

Segment Outline

1Q 2018 Actual
(from January 1 to March 31)



(Billions of yen)

	1Q 2017		1Q 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumer	32.7	0.3	26.8	-2.1	-5.8	-2.4
Enterprise	44.2	2.0	47.1	2.5	+2.9	+0.5
Area	68.1	3.5	66.4	2.9	-1.7	-0.5
Professional	13.5	-0.2	16.5	0.3	+2.9	+0.5
Other	-5.7	0.2	-6.0	0.1	-0.3	-0.1
Total	152.8	5.7	150.8	3.7	-2.0	-1.9

Notes

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

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By segment, while sales and income declined in the Consumer and Area segments, both sales and income rose in B-to-B business overall.

Net sales : 26.8 B (Y/Y -5.8B, -18%)

> While sales of mirrorless cameras surged after the introduction of new products, digital interchangeable lens cameras as a whole declined. Sales and sales volume of inkjet printers and ink cartridges fell due to the impact of an increase in store stock.

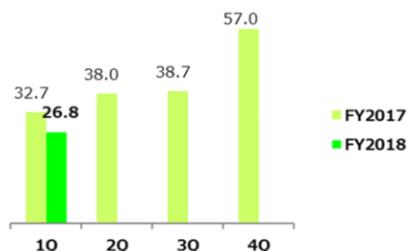
Operating income -2.1 B (Y/Y -2.4B, -%)

> Operating income fell following a decrease in the gross profit due to the sales decline and the additional fee to promote the sales of store stock.

■ 2018 Actual v. 2017 Actual

	1Q 2017	1Q 2018	Changes
Net sales	32.7	26.8	-5.8
Op. income	0.3	-2.1	-2.4

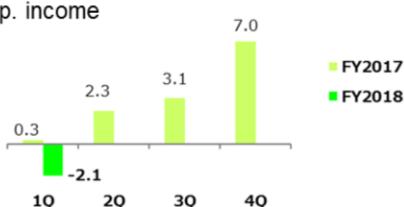
■ Net sales (Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	-18%	-	-	-	-

■ Op. income



[Consumer]

(Digital SLR Cameras)

In addition to the downturn in the market, store inventories rose at the end of last year, and there was a migration from entry-level digital SLR cameras to mirrorless cameras. Because of these and other factors, unit volume was down 42% from the previous year.

(Mirrorless Cameras)

Due to the release of new products, etc., unit sales rose dramatically and finished 24% up year-on-year.

(Digital Interchangeable Lens Cameras)

As a result of these developments, unit sales of digital interchangeable lens cameras overall fell 28%.

(Compact Digital Cameras)

Due to a recoil from the sales rebound in the same time last year after a fall due to the April 2016 Kumamoto Earthquake, along with a general market downturn, unit volume fell 44% year-on-year.

(Inkjet Printers)

Due to a sluggish market in Q1, the sell-out of inkjet printer unit inventory accumulated at the end of last year was later than expected, impacting Q1 shipments. While inventory at the end of March approached normal levels, Q1 shipments were down 12% year-over-year. Additionally, due to an increase in store inventory from price revisions in October 2017 and the continued decrease in print volume, sales of ink cartridges fell 9% year-on-year.

(IT Products)

IT Products, which were incorporated into the Consumer segment from 2018, performed strongly in areas related to PCs and peripherals, and recorded increased sales.

Net sales : 47.1 B (Y/Y +2.9B, +7%)

➤ Net sales increased after a growth in sales of industry-specific solutions for large companies and SI services of Canon IT Solutions.

Operating income 2.5 B (Y/Y +0.5B, +28%)

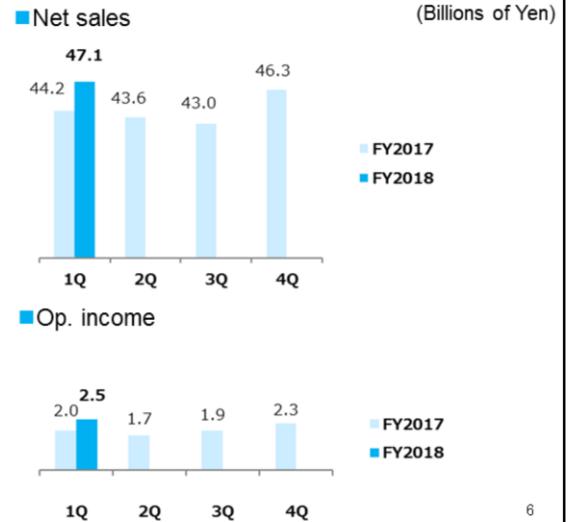
➤ Operating income surged mainly due to an increase in the profitability of SI services.

■ 2018 Actual v. 2017 Actual

	1Q 2017	1Q 2018	Changes
Net sales	44.2	47.1	+2.9
Op. income	2.0	2.5	+0.5

■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	+7%				



(Financial)

Sales to the financial industry increased as we acquired orders for form design related solutions for life insurance and cloud systems to streamline investigative work for non-life insurance providers, and continued strong performance with large-scale system integration for credit card providers.

(Manufacturing)

Sales to the manufacturing industry also rose thanks to sales support systems for auto makers, demand prediction solutions for food producers, and so on.

(Distribution)

We achieved an increase in sales to the distribution industry, driven by sales support systems for rail operators, trade-related designated industry solutions for trading firms, and more.

(Education)

In this field, where our main customers are universities, we proposed solutions based on inCampus, which provides IT infrastructure systems for in-campus information distribution and learning management, etc., recording increased sales.

(Major Business Equipment)

For business equipment in the Enterprise Segment, we gained major projects for government offices and achieved significant growth in rental MFP shipments. Regarding laser printers, consolidation under MFPs has continued and sales have declined due to sluggish performance in related projects.

[Standalone Performance of Canon IT Solutions]

■ For SI services, as explained earlier, we achieved growth with solutions for specific industries, recording a 10% increase in sales year-on-year.

■ For IT infrastructure services, data center services and security products such as ESET performed strongly, leading to an 8% rise in year-on-year sales.

■ In Engineering, the bulk of growth was in CAD, with sales up 2% year-on-year.

As a result of these developments, we recorded sales of 21.9 billion yen, a 7% jump over the previous year, and posted 1.8 billion yen in operating income, an increase of 0.5 billion yen.

[Orders and Order Backlog]

Orders and the order backlog rose 8% and 21% respectively, driven by major SI services projects and data center services.

Segment Information Area Segment



Net sales : 66.4B (Y/Y -1.7B, -3%)

> Net sales declined after a fall in sales of main hardware and maintenance services.

Operating income 2.9B (Y/Y -0.5B, -15%)

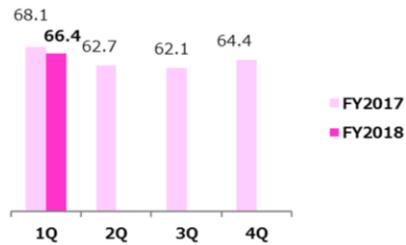
> Operating income fell following a decrease in the gross profit due to the sales decline.

■ 2018 Actual v. 2017 Actual

	1Q 2017	1Q 2018	Changes
Net sales	68.1	66.4	-1.7
Op. income	3.5	2.9	-0.5

■ Net sales

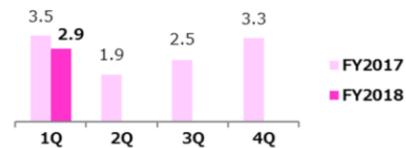
(Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	-3%	-	-	-	-

■ Op. income



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<Business Equipment>

Shipments of office MFP units declined slightly due to a decelerating trend among small-to-medium-sized businesses. For maintenance services, sales fell due to the lower number of operating days.

While sales of laser printers have declined due to the continuing migration to MFPs and sluggish demand from local governments, in terms of cartridges, shipments to specific industries have remained strong, resulting in increased sales.

<IT Solutions>

Through IT solutions in the Area segment, we offer business package software and security solutions as well as cloud service and IT products, primarily to small and mid-sized businesses.

In Q1, the HOME IT support cloud service for small-to-medium-sized businesses and the ESET anti-virus software enjoyed strong sales, but due to a decline in backup solutions that achieved significant growth in shipments at the same time last year, results were on par with the previous year.

[Canon Systems and Support]

While performance was strong in the area of business PCs, etc. business equipment overall experienced a poor quarter. Sales declined 5% year-over-year to 30.6 billion yen, while operating income recorded a 0.4 billion yen drop, ending at 0.8 billion yen.

Canon System and Support is currently implementing structural reforms in an effort to shift its customer base to a slightly higher level. As the market for small and mid-sized businesses is not overly weak, if the structural reforms function well, we expect new growth moving forward.

[Major Business Equipment]

For the state of total business equipment across the company, please refer to the supplementary material you have been given, under the "Business Equipment" section.

Net sales : 16.5 B (Y/Y +2.9B, +22%)

➤ Net sales grew after brisk sales of semiconductor manufacturing equipment and inspection and measurement equipment among industrial equipment.

Operating income 0.3 B (Y/Y +0.5B, -%)

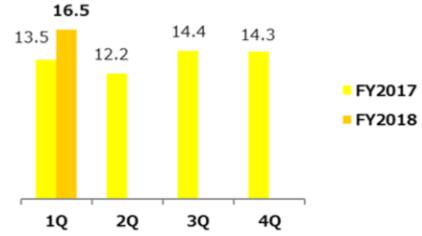
➤ Operating income increased due to sales growth of industrial equipment.

■ 2018 Actual v. 2017 Actual

	1Q 2017	1Q 2018	Changes
Net sales	13.5	16.5	+2.9
Op. income	-0.2	0.3	+0.5

■ Net sales

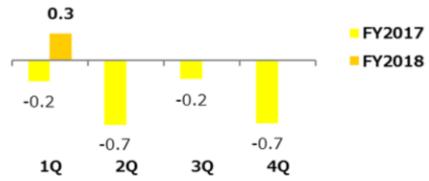
(Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	+22%	-	-	-	-

■ Op. income



■ Net sales - Growth rate (Y/Y)

	FY2018
	1Q Results
Production Printing	-7%
Industrial Equipment	+125%
Healthcare Business	-5%
Imaging Solutions	-9%

■ **Production Printing**

Sales dropped as a result of sluggish sales of continuous feed printers.

■ **Industrial Equipment**

Sales jumped after brisk sales of semiconductor manufacturing equipment, inspection and measurement equipment, industrial components and others.

■ **Healthcare Business**

Sales slid due mainly to the weakness of modality projects for hospitals.

■ **Imaging Solutions**

Sales fell due to the postponement of network camera deals despite healthy sales of products for broadcasters.

[Professional] Subsegment

(Production Printing)

Sales of cut sheets remained almost unchanged, but sales declined 7% due to sluggish sales of continuous feed printers.

(Industrial Equipment)

The semiconductor-related market continued to be brisk, and sales of semiconductor manufacturing equipment and inspection and measuring equipment remained robust. Even in the non-semiconductor business, we saw a substantial 125% increase in sales because the industrial component remained strong.

(Health Care)

Sales of modality projects for hospitals remained sluggish.

(Video Solution)

Sales of TV lenses for broadcast and 4K displays remained strong for broadcasting operators. However, sales of network cameras remained slow, affected by the delayed implementation of projects and capturing large projects in the same quarter of the previous year. As a result, sales declined by 9%.

Overall Sales of IT Solutions



(Billions of Yen)

■ Sales of IT Solutions by Segment

	1Q 2017	1Q 2018	Changes	
			Amount	%
Enterprise segment	26.6	29.9	+3.3	+12%
Area segment	15.2	15.1	-0.1	-1%
Other	4.6	5.2	+0.6	+13%
Total	46.4	50.2	+3.7	+8%

■ Reference: Overall IT Security

	Y/Y 2017 vs 2018
	1Q
Overall IT Security Amount	+0%

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These are the sales of IT Solutions for the entire Company.

As I explained earlier, the IT Solution business in the Enterprise Segment remains favorable.

In the Area Segment, sales of ESET anti-virus software, the HOME IT support cloud service for small and medium-sized enterprises, business PCs, etc. remained steady. However, sales declined somewhat on the back of significant growth in backup solutions in the same quarter of the previous year.

As for Security, although there was a decrease in backup solutions in Area, business including ESET grew, and sales remained steady year on year.

Summary of Projections



(Billions of Yen)

- There is no revision of projection for FY2018.

	FY2018 Projection	FY2017 Actual	Changes	
			Amount	%
Net Sales	645.0	632.2	+12.8	+2%
Operating Income	(5.0%) 32.0	(4.8%) 30.4	(+0.2%) +1.6	+5%
Ordinary Income	(5.1%) 33.0	(5.0%) 31.5	(+0.1%) +1.5	+5%
Profit attributable to owners of parent	(3.4%) 21.7	(3.3%) 20.7	(+0.1%) +1.0	+5%

Summary of Projections by Segment



FY2018 Current Projection v. Previous Projection

(Billions of Yen)

	FY2018	FY2018		Changes	
	Previous Projection	Current Projection			
	Net Sales	Net Sales	Op. Income	Net Sales Amount	%
Consumer	163.4	163.0	11.6	-0.4	-0%
Enterprise	182.7	183.0	8.5	+0.3	+0%
Area	263.3	261.0	13.2	-2.3	-1%
Professional	61.5	61.0	-1.3	-0.5	-1%
Other	-25.9	-23.0	0.0	+2.9	-
Total	645.0	645.0	32.0	-	-

Notes

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

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This is a forecast of operating performance by segment compared to the previous forecast. There are no changes in terms of the total, but we have made slight adjustments by segment.

When we announced it in January, we disclosed the sales forecasts of individual segments only. However, the forecasts of operating income are disclosed from this time on.

The progress status of the plan at the end of Q1 varies from segment to segment and from product to product. The plan will be reviewed again at the interim stage.

Summary of Projections by Segment



FY2018 Projection v. FY2017 Actual

(Billions of Yen)

	FY2017		FY2018		Changes		
	Actual		Current Projection		Net Sales		Op.
	Net Sales	Op. Income	Net Sales	Op. Income	Amount	%	Income
Consumer	166.3	12.7	163.0	11.6	-3.3	-2%	-1.1
Enterprise	177.1	7.9	183.0	8.5	+5.9	+3%	+0.6
Area	257.3	11.2	261.0	13.2	+3.7	+1%	+2.0
Professional	54.5	-1.9	61.0	-1.3	+6.5	+12%	+0.6
Other	-23.0	0.5	-23.0	0.0	-0.0	+0%	-0.5
Total	632.2	30.4	645.0	32.0	+12.8	+2%	+1.6

Notes

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

Consumers

- Sales of digital SLR cameras is expected to be weak and to shrink despite a rally in the shipment of some models as a result of the rectification of store stock. As for mirrorless cameras, positive promotional activities will be conducted with a focus on new models and a massive sales rise is anticipated. The segment aims to achieve growth in all models for beginners.
- The compact digital camera market is forecasted to remain weak. However, the segment will make intensive efforts to expand sales of high magnification models with high unit prices.
- For inkjet printers, sales volume is expected to fall, but efforts will be made to promote high capacity cartridge models and high unit price models. The segment will aim to achieve sales growth of all printers, including printers for SOHO and laser printers.

Enterprise

- Net sales is expected to rise year-on-year, because the manufacturing sector will make a strong investment in boosting operational efficiency. The segment will strive to win new SI development projects and to propose and offer strong financial solutions to the financial industry with a view toward sales growth. For cultural and educational institutions, it will increase Canon's unique solutions, such as the *in Campus* series, to speed up the shift from hardware to solutions and to attain a rise in sales.
- The segment anticipates that data center services in the category of IT infrastructure services will expand, and will continue with the shift of the embedded business to external sales, with a focus on the industrial field, including automotive control systems, to external sales.
- With respect to business equipment, the segment foresees a slight decline in sales of MFPs and sales growth in laser printers as a result of large deals.

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Supplementary explanation

[Enterprise]

As for solutions by business type, although large development projects of SI for the financial business, which has been a driver, have peaked out, we will aim for growth from the previous year by acquiring development projects for banks and online securities firms, proposing/providing financial solutions in areas such as imaging technology or document solutions, in which we have strength. For manufacturers, there is strong demand to speed up or increase the efficiency of the design/development businesses, and we expect that the business will remain strong compared to the previous year. In addition, we will increase Canon's unique solutions such as *in Campus* for cultural and educational institutions and accelerate a switchover from hardware to solutions in each type of business with an aim to increase sales.

As for major business equipment, although Office MFP remained strong in Q1, the annual number of shipments is expected to decline slightly due to a reaction to multiple large projects for customers in the distribution industry obtained in the previous year. We have received orders for large projects for customers in the financial industry with regard to laser printers, so we expect a rise in the annual number of shipments for the products compared to the previous year.

Area

- The Area segment should see an increase in office MFP shipments, reflecting proposals that will broaden the range of situations in which customers use them in business by linking it with cloud computing. For production MFPs, the segment will endeavor to gain new customers in a bid to expand Machine in Field (MIF). For laser printers, while foreseeing a decline in quantity due to integration into MFPs and a decrease in deals, the segment will continue its promotion of applications for specific purposes in a bid to achieve growth of cartridge sales.
- For IT solutions, the segment will make proposals aimed at increasing customers' security in the area of security solutions to achieve sales growth. In addition, a sales of "HOME" and IT Maintenance Services will continue to increase.

Professional

- Production Printing: Growth in sales volume and sales after the release of new models of color light printers for cut sheets and replacing monochrome continuous feed printers to color ones is forecast.
- Industrial Equipment: An increase in sales based on the continued briskness of the semiconductor market is anticipated.
- Healthcare: A sales hike arising from the sales expansion of digital radiography systems and medical IT systems is expected.
- Imaging Solutions: Deals with broadcasters relating to replacements with 4K-ready equipment are expected to increase. The segment will promote network cameras for customers operating multiple stores in a bid to attain sales growth.

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Supplementary explanation

[Professional]

(Industrial equipment)

In the non-semiconductor business, we expect a decrease in sales due to the termination of distributorship agreements with some overseas business partners.

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