

Canon Marketing Japan Inc. First Quarter 2014 Results

April 23, 2014

Yo Shibasaki

Director & Senior Vice President

The Canon logo is displayed in its characteristic red color and bold, sans-serif font.

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 Results

1Q 2014 Actual
(from January 1 to March 31)



Summary of Results	1Q 2013	1Q 2014	Changes		(Billions of yen)
			Amount	%	
Net sales	150.2	182.7	+32.5	+22%	
Gross profit	(33.3%) 50.1	(33.4%) 61.0	(+0.1%) +11.0	+22%	
Operating income	(0.3%) 0.4	(5.1%) 9.2	(+4.8%) +8.8	-%	
Ordinary income	(0.4%) 0.5	(5.1%) 9.4	(+4.8%) +8.8	-%	
Net income (loss)	(-0.0%) -0.0	(3.1%) 5.7	(+3.1%) +5.7	-%	

Op. Income Variance Analysis

The Company previously recorded expenses related to the development and management of the Group operating systems that were outsourced to certain consolidated subsidiaries in cost of sales. However, because the importance of the amount of such expenses increased as a result of the progress of in-house production within the Group, effective from the first quarter of the consolidated fiscal year under review, the Company has changed its accounting method and now records these expenses in selling, general and administrative expenses. For reference, this change does not affect operating income.



Segment Outline

1Q 2014 Actual
(from January 1 to March 31)



(Billions of yen)

	1Q 2013		1Q 2014		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	82.3	1.6	92.2	4.5	+9.9	+3.0
IT Solutions	33.9	0.1	43.8	1.2	+9.9	+1.1
Imaging System	34.6	-1.0	48.0	3.2	+13.4	+4.2
Industrial / Medical	6.6	-0.4	9.3	0.1	+2.7	+0.5
Other	-7.2	0.1	-10.6	0.1	-3.4	+0.0
Total	150.2	0.4	182.7	9.2	+32.5	+8.8

“Other” includes the intersegment sales and the corporate expenses that are not allocated to the shared service businesses or to each segment.

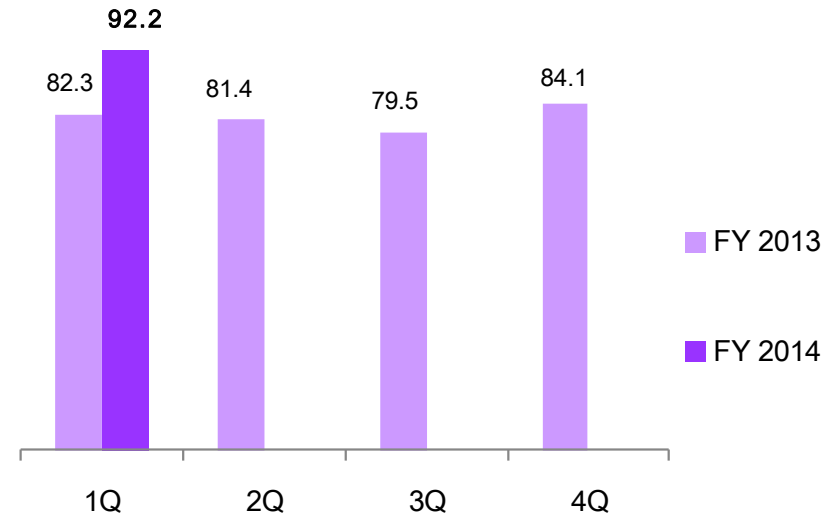
Business Solutions

(Billions of yen)

2014 Actual v. 2013 Actual

	1Q 2013	1Q 2014	Changes
Net sales	82.3	92.2	+9.9
Op. income	1.6	4.5	+3.0

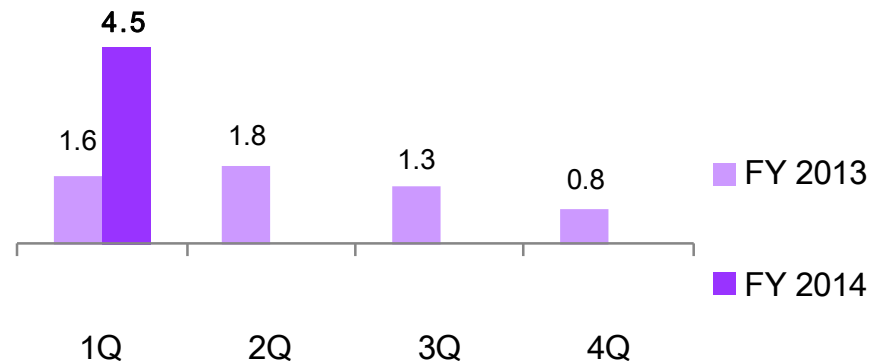
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-6%	-0%	-1%	+3%	-1%
FY 2014	+12%				+12%

Op. income



Points

- ▶ Net sales rose, given a surge in demand reflecting a last-minute shopping spree before the consumption tax hike, in addition to steady sales of mainstay products.
- ▶ Operating income increased significantly, reflecting the fact that the results for the previous year were stagnant, in addition to an increase in sales of profitable toner cartridges.

Segment Information

1Q 2014 Actual

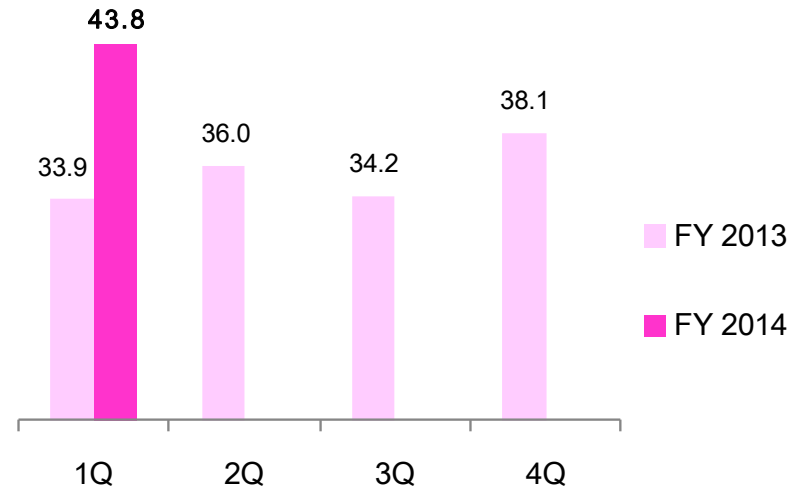


(Billions of yen)

2014 Actual v. 2013 Actual

	1Q 2013	1Q 2014	Changes
Net sales	33.9	43.8	+9.9
Op. income	0.1	1.2	+1.1

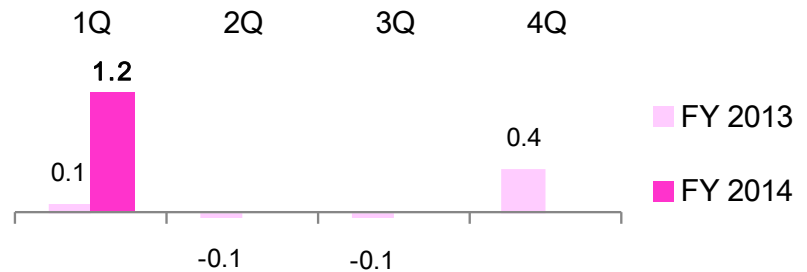
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-1%	+12%	+8%	+17%	+9%
FY 2014	+29%				+29%

Op. income



Points

- ▶ Net sales increased on the back of the strong performance of the Product business, reflecting the termination of support for Windows XP, in addition to steady results from the SI Service business and the IT Infrastructure & Service business.
- ▶ Operating income rose, mainly reflecting an increase in the scale of profitable businesses.

Segment Information

1Q 2014 Actual

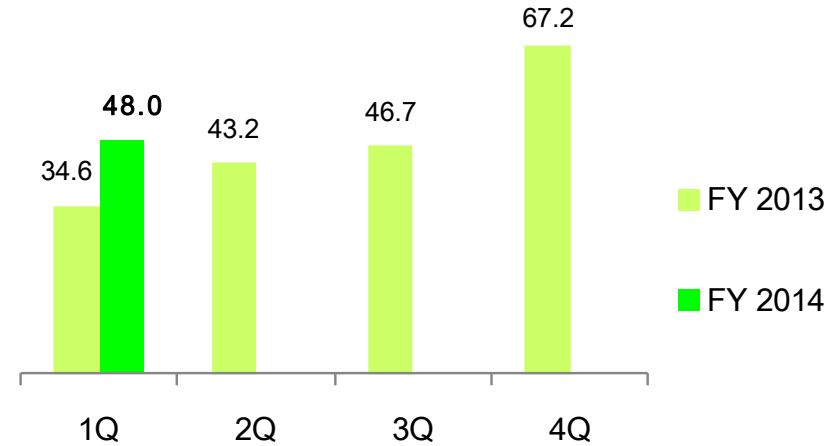


(Billions of yen)

2014 Actual v. 2013 Actual

	1Q 2013	1Q 2014	Changes
Net sales	34.6	48.0	+13.4
Op. income	-1.0	3.2	+4.2

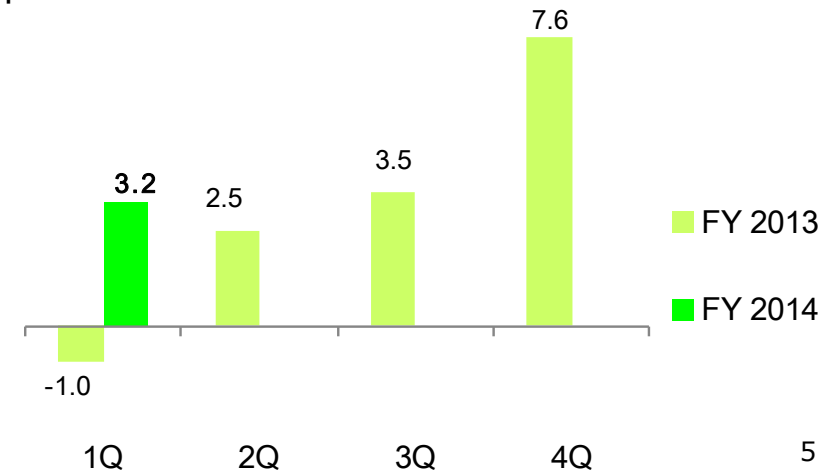
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-8%	-5%	+11%	+1%	-0%
FY 2014	+39%				+39%

Op. income



Points

- ▶ Net sales rose sharply, given the steady performance of digital cameras and inkjet printers.
- ▶ Operating income jumped, reflecting the strong performance of profitable mid-scale interchangeable lens digital cameras and interchangeable lenses.

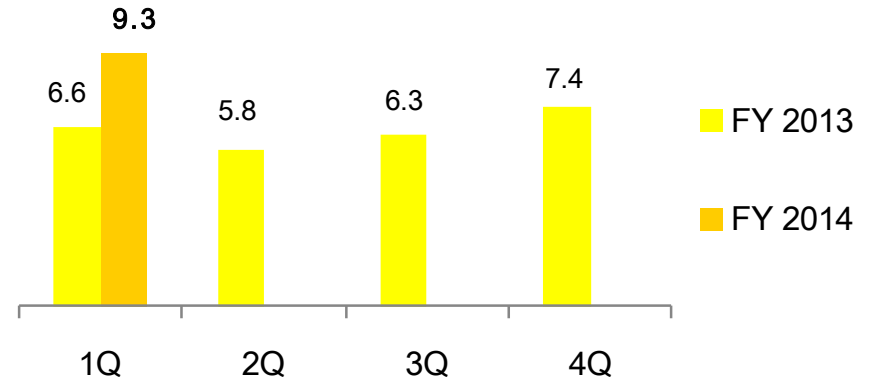


(Billions of yen)

2014 Actual v. 2013 Actual

	1Q 2013	1Q 2014	Changes
Net sales	6.6	9.3	+2.7
Op. income	-0.4	0.1	+0.5

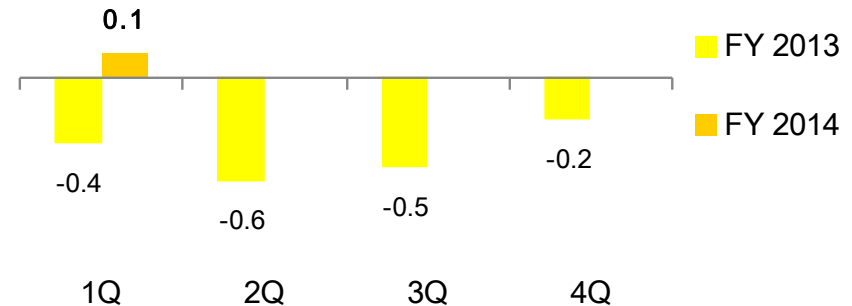
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-38%	-16%	-3%	+13%	-15%
FY 2014	+41%	-	-	-	+41%

Op. income



Points

- ▶ Net sales rose significantly, reflecting a recovery in inspection and measuring equipment and service sales in the industrial equipment category, as well as the steady performance of digital radiography in the medical equipment category.
- ▶ Operating income improved substantially with the increase in sales.

Summary of Projections



(Billions of yen)

* The target for FY2014 is unchanged from the previous update announced in January.

	FY 2013	FY 2014	Changes	
	Actual	Projection	Amount	%
Net sales	657.2	673.2	+16.0	+2%
	(2.6%)	(2.8%)	(+0.2%)	
Operating income	17.0	18.8	+1.8	+11%
	(2.8%)	(3.0%)	(+0.2%)	
Ordinary income	18.2	19.9	+1.7	+9%
	(1.5%)	(1.8%)	(+0.2%)	
Net income	10.2	12.0	+1.8	+18%

Projections Summary Outline



FY2014 Projection v. FY2013 Actual

(Billions of yen)

* The target for FY2014 is unchanged from the previous update announced in January.

	FY 2013		FY 2014		Changes		
	Actual		Projection		Net sales	Op. income	Op. income
	Net sales	Op. income	Net sales	Op. income			
Business Solutions	327.3	5.5	332.5	6.4	+5.2	+2%	+0.9
IT Solutions	142.3	0.4	146.2	1.8	+3.9	+3%	+1.4
Imaging System	191.7	12.5	192.3	11.1	+0.6	+0%	-1.4
Industrial / Medical	26.1	-1.8	30.3	-0.8	+4.2	+16%	+1.0
Other	-30.2	0.4	-28.1	0.3	+2.1	-7%	-0.1
Total	657.2	17.0	673.2	18.8	+16.0	+2%	+1.8

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

Projections Segment Information

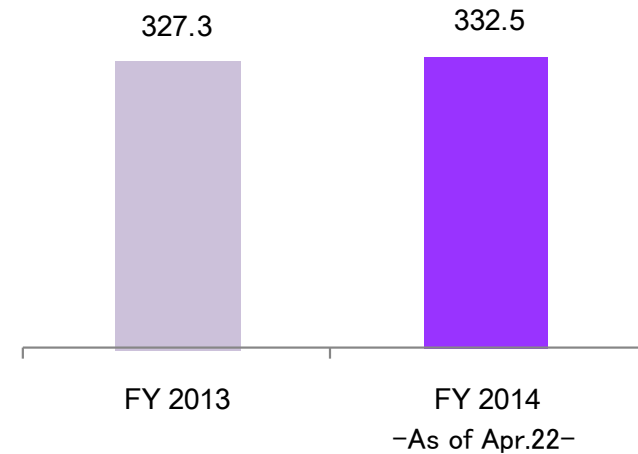


(Billions of yen)

FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes
Net sales	327.3	332.5	+5.2
Op. income	5.5	6.4	+0.9

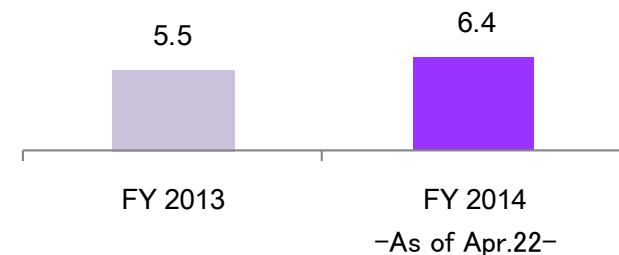
Net sales



Points

- ▶ Net sales are expected to rise, reflecting the aggressive sales promotion centered on MFPs, despite the expectation of negative effects on certain products from consumption taxes and other factors.
- ▶ Operating income is expected to rise, mainly reflecting an increase in the number of mainstay products sold.

Op. income



Projections Segment Information

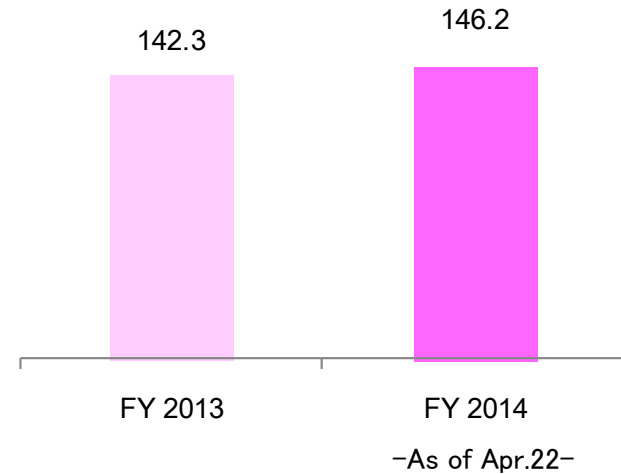


(Billions of yen)

FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes
Net sales	142.3	146.2	+3.9
Op. income	0.4	1.8	+1.4

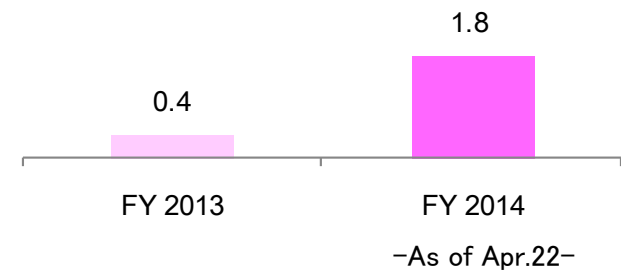
Net sales



Points

- ▶ Net sales are expected to rise, given the implementation of aggressive order-taking activities, offsetting the reaction to the termination of Windows XP in business PCs.
- ▶ Operating income is expected to rise, mainly reflecting higher sales in profitable businesses and an improvement in development productivity.

Op. income



Projections Segment Information

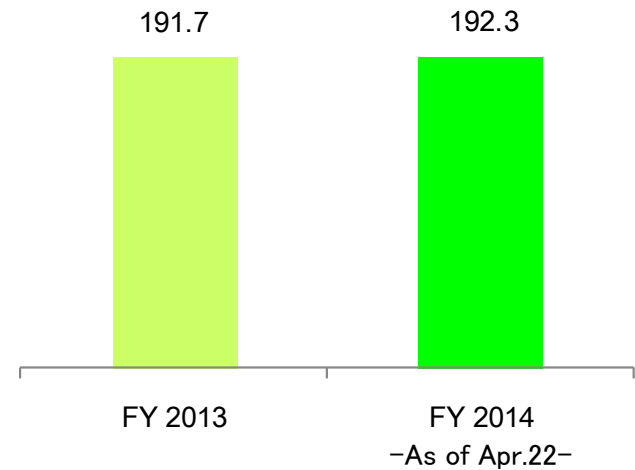


(Billions of yen)

FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes
Net sales	191.7	192.3	+0.6
Op. income	12.5	11.1	-1.4

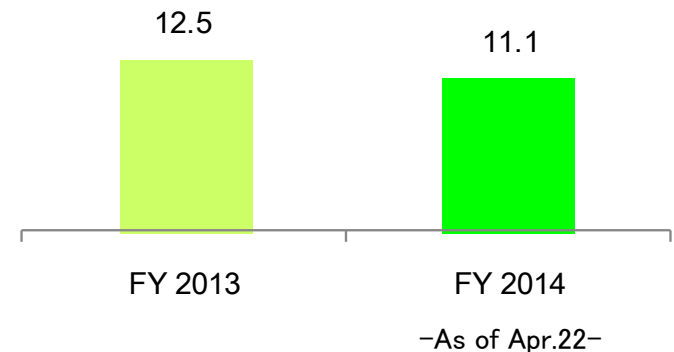
Net sales



Points

- ▶ Net sales are expected to increase by only a slight margin, partly reflecting the impact of the consumption tax hike, although aggressive marketing activities are planned.
- ▶ Operating income is expected to drop due to a fall in the shipment of interchangeable lens digital cameras.

Op. income



Projections Segment Information

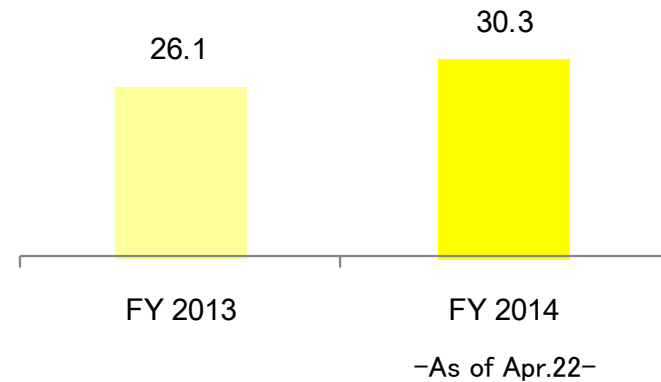


(Billions of yen)

FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes
Net sales	26.1	30.3	+4.2
Op. income	-1.8	-0.8	+1.0

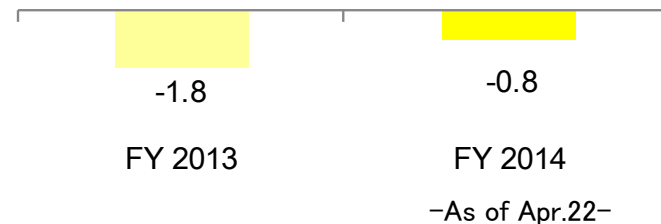
Net sales



Points

- ▶ Net sales are expected to rise, reflecting growing lineups of new products, including 3D printers, in addition to stronger sales of existing products.
- ▶ Operating income is expected to improve due to the increase in sales.

Op. income



Supplementary Information

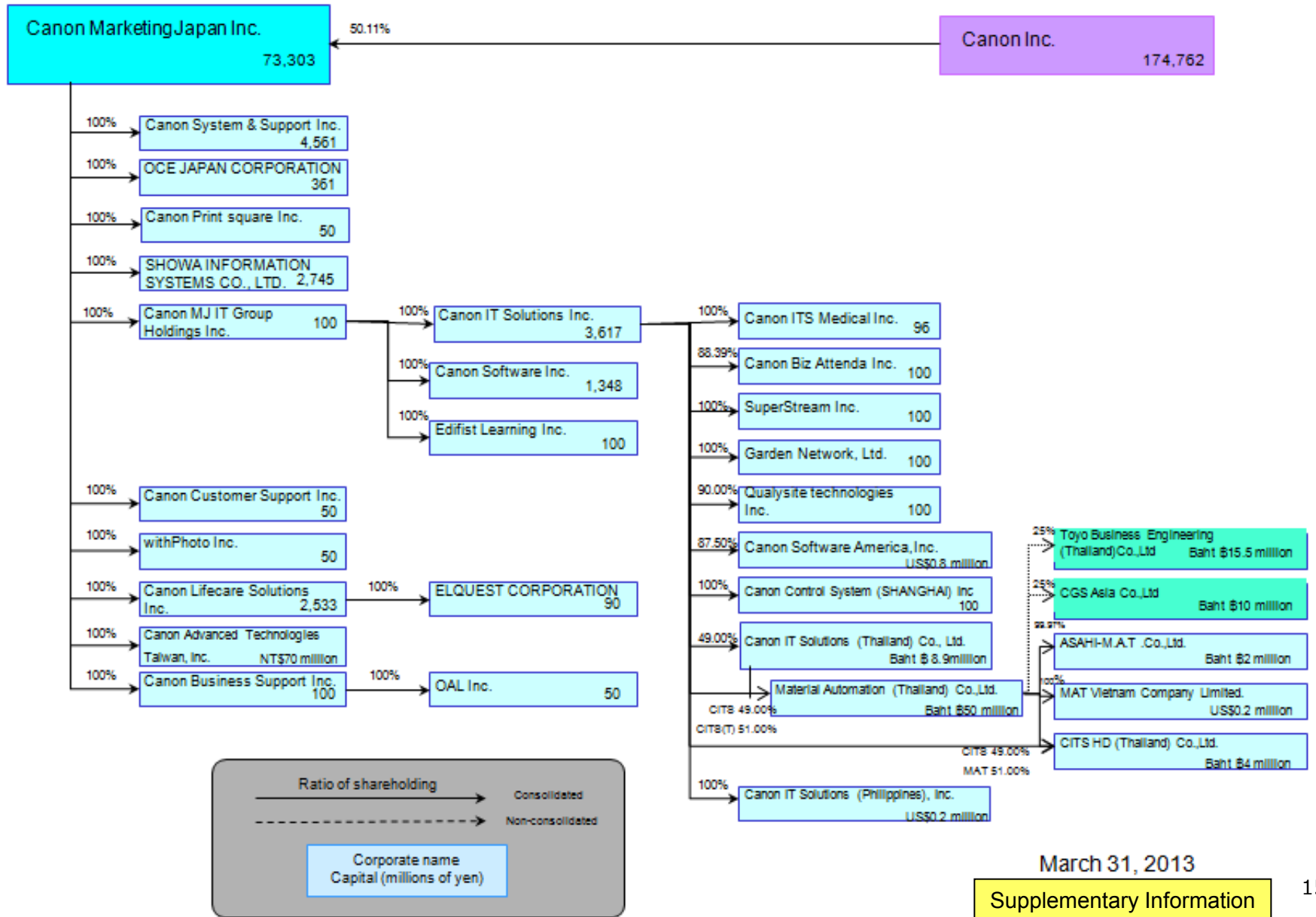
[Reference] Overall sales of IT Solutions



(Billions of yen)

	1Q 2013	1Q 2014	Changes	
			Amount	%
Sales of IT Solutions	33.9	43.8	+9.9	+29%
Sales other than the IT Solutions segment	13.7	19.0	+5.3	+39%
Intersegment (elimination), etc.	-7.1	-10.4	-3.3	+46%
Total	40.6	52.4	+11.9	+29%

Capital Relationship Diagram



Results of main consolidated companies



(Billions of yen)

		1Q 2013		1Q 2014		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net sales	29.3		34.0		+4.6	+16%
	Op. income	1.1	(3.8%)	1.4	(4.2%)	+0.3	(+0.3%)
SHOWA INFORMATION SYSTEMS CO., LTD.	Net sales	2.7		2.6		-0.0	-1%
	Op. income	-0.0	(-)	0.1	(2.8%)	+0.1	(-)
IT Solutions							
Canon IT Solutions (Consolidated)	Net sales	19.9		24.1		+4.2	+21%
	Op. income	0.3	(1.2%)	1.0	(4.3%)	+0.8	(+3.1%)
Canon Software	Net sales	5.2		5.2		+0.1	+1%
	Op. income	0.3	(6.2%)	0.4	(6.9%)	+0.0	(+0.8%)
Total	Net sales	25.1		29.4		+4.3	+17%
	Op. income	0.6	(2.3%)	1.4	(4.8%)	+0.8	(+2.5%)
Industrial / Medical							
Canon Lifecare Solutions (Consolidated)	Net sales	5.4		7.1		+1.6	+30%
	Op. income	-0.0	(-)	0.2	(2.3%)	+0.2	(-)

* The amount is before the elimination on a consolidated basis.

Selling expenses



(Billions of yen)

	FY 2013	FY 2014	Changes
	1Q	1Q	1Q
Advertising expenses	2.0	2.5	+0.5
Promotion expenses	0.8	1.1	+0.3
Warranty expenses	1.9	1.9	-0.1
Other direct selling expenses	4.4	4.6	+0.3
Personnel expenses	31.0	31.9	+0.9
Depreciation and amortization	0.6	0.6	+0.0
Other selling expenses	9.0	9.2	+0.2
Total	49.7	51.8	+2.1

Non-operating income and expenses

(Billions of yen)

■ Non-operating income

	FY 2013	FY 2014	Changes
	1Q	1Q	1Q
Interest & dividends income	0.1	0.1	-0.0
Insurance income	0.0	0.0	+0.0
Other	0.2	0.1	-0.0
Total	0.3	0.2	-0.0

■ Non-operating expenses

	FY 2013	FY 2014	Changes
	1Q	1Q	1Q
Interest expenses	0.0	0.0	+0.0
Share of loss of entities accounted for using equity method	-	0.0	+0.0
Foreign exchange losses	0.1	-	-0.1
Other	0.1	0.1	+0.0
Total	0.1	0.1	-0.0

Extraordinary income and expenses



(Billions of yen)

■ Extraordinary income

	FY 2013	FY 2014	Changes
	1Q	1Q	1Q
Gain on sales of non-current assets	0.0	0.0	+0.0
Gain on sales of investment securities	0.1	0.0	-0.1
Other	0.0	0.0	-0.0
Total	0.1	0.0	-0.1

■ Extraordinary expenses

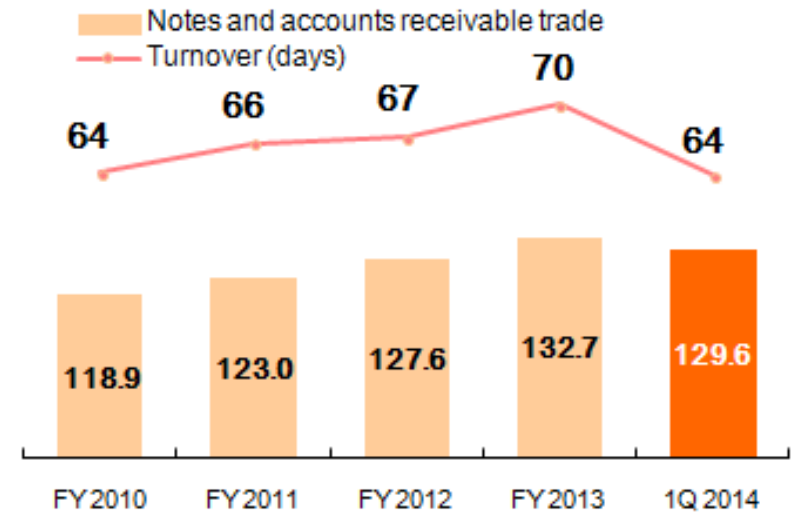
	FY 2013	FY 2014	Changes
	1Q	1Q	1Q
Loss on sales and retirement of non-current assets	0.1	0.0	-0.1
Office transfer expenses	0.0	-	-0.0
Other	0.0	0.1	+0.1
Total	0.1	0.1	-0.0

Balance Sheets

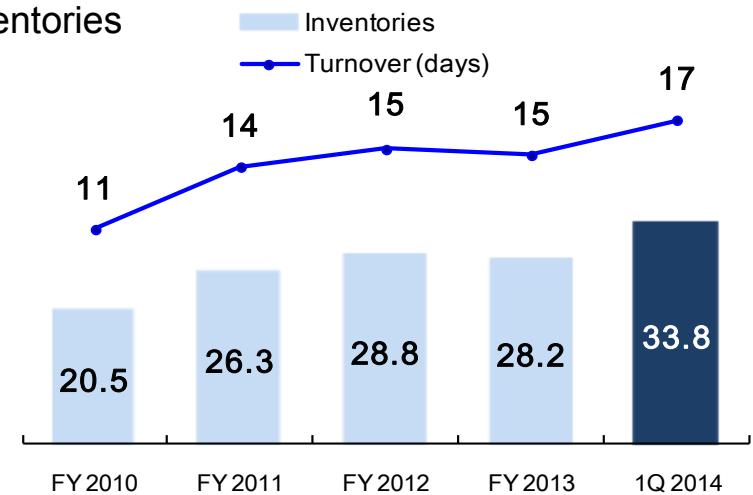
	Dec. 31 2013	Mar. 31 2014	Changes
Assets	467.1	478.2	+11.1
Current assets	324.9	338.4	+13.5
Cash and deposits	102.3	113.0	+10.7
Notes and accounts receivable trade	132.7	129.6	-3.1
Inventories	28.2	33.8	+5.5
Other	61.7	62.1	+0.3
Noncurrent assets	142.1	139.7	-2.4
Property, plant and equipment	99.7	98.5	-1.2
Intangible assets	12.9	11.9	-1.0
Investments and other assets	29.6	29.3	-0.2
Liabilities	210.0	217.0	+7.0
Current liabilities	164.9	172.3	+7.4
Notes and accounts payable-trade	108.5	114.6	+6.1
Other	56.4	57.7	+1.3
Noncurrent liabilities	45.1	44.7	-0.4
Net assets	257.1	261.1	+4.1
Shareholders' equity	255.6	259.7	+4.2
(Treasury stock)	-31.9	-31.9	-0.0
Accumulated other comprehensive income	1.2	1.2	-0.1
Minority interests	0.3	0.3	-0.0
Equity ratio	55%	55%	-0%

Notes and accounts receivable trade

(Billions of yen)

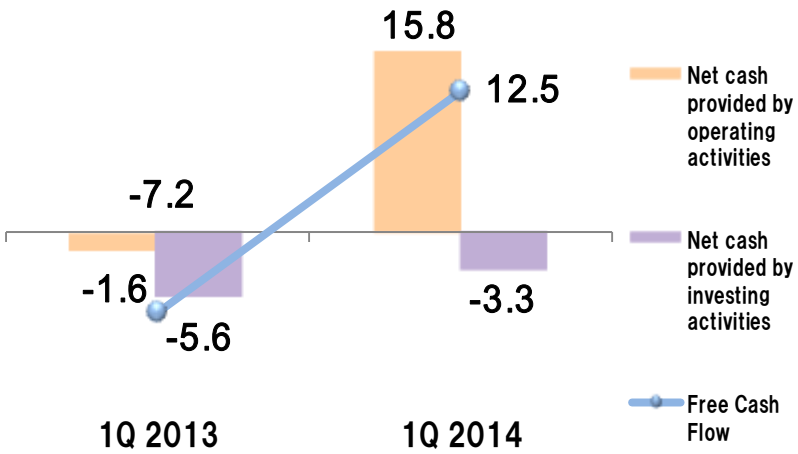


Inventories



Cash Flow / Investment / Depreciation and amortization / Financial indicator

Cash Flow



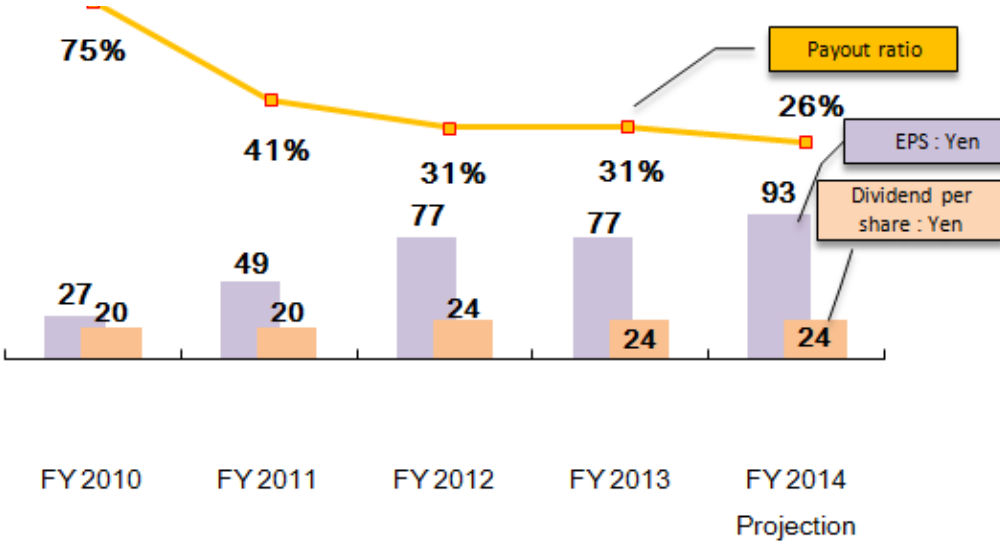
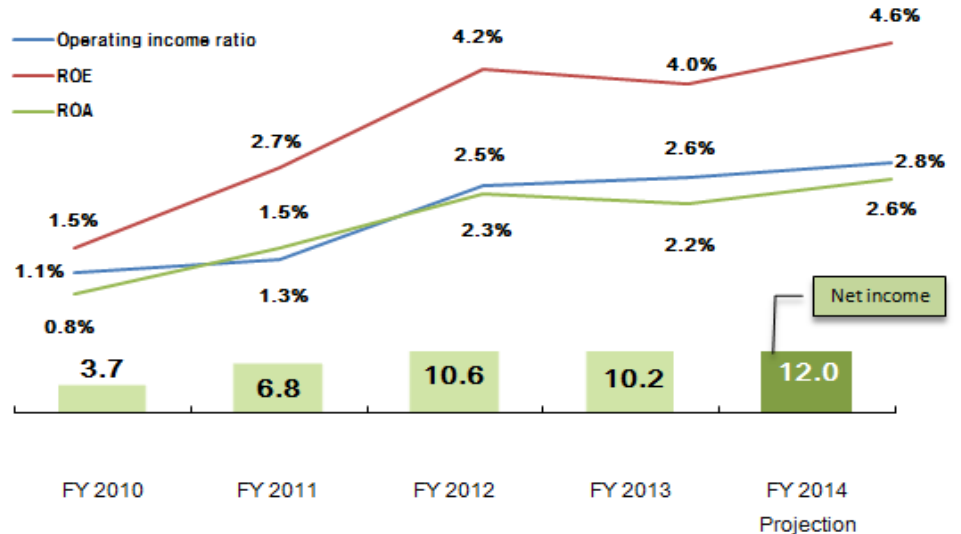
Investment

	1Q Actual	FY Projection
FY 2013	3.1	14.4
FY 2014	2.0	15.8

Depreciation and amortization

	1Q Actual	FY Projection
FY 2013	4.3	17.4
FY 2014	4.2	16.9

(Billions of yen)



Canon

Canon Marketing Japan Inc.