



Shaping the Future of Sustainable Society

Annual Report 2015

for the year ended December 31, 2015

Canon

Canon Marketing Japan Inc.

Profile

The globally respected Canon Group engages in diverse activities in more than 180 countries. The role of the Canon Marketing Japan (Canon MJ) Group is to market and propose solutions, primarily in Japan. The Canon MJ Group comprises 25* companies and 18,214* employees and will strive to evolve into a group that adds value and supplies solutions that resolve social issues.

The Canon MJ Group harnesses its Business Solutions, IT Solutions, Imaging Systems, and Industrial/Medical business segments to create new customer value in all areas of life, work, and society. We provide products and services for Canon's profitability growth areas, Canon's growth areas, and our independent growth areas through strategies that we tailor specifically for each domain.

In January 2016, we embarked on Long-Term Management Objectives Phase III and our Three-Year Management Plan. We will continue to leverage our robust customer base that encompasses many of Japan's largest corporations as well as numerous small and medium-sized enterprises, our strengths as a marketing entity of Japan within the Canon Group, and our technological capabilities as a systems integrator to materialize our mission and vision and continue to grow.

* As of April 1, 2016

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements about the performance and management plans of Canon Marketing Japan Inc., based on management's assumptions in light of current information. The following factors may therefore influence actual results. These factors include consumer trends in Japan as well as other major global markets, private capital expenditures, currency fluctuations, notably against the U.S. dollar, materials prices, and political turmoil in certain countries and regions.

Our Mission and Vision

Group Mission

Help resolve social issues with advanced imaging and IT solutions.

Group Vision

The Canon Marketing Japan Group understands and grows with its customers.

Long-Term Management Objectives

Phase I
2006–2010

Phase II
2011–2015

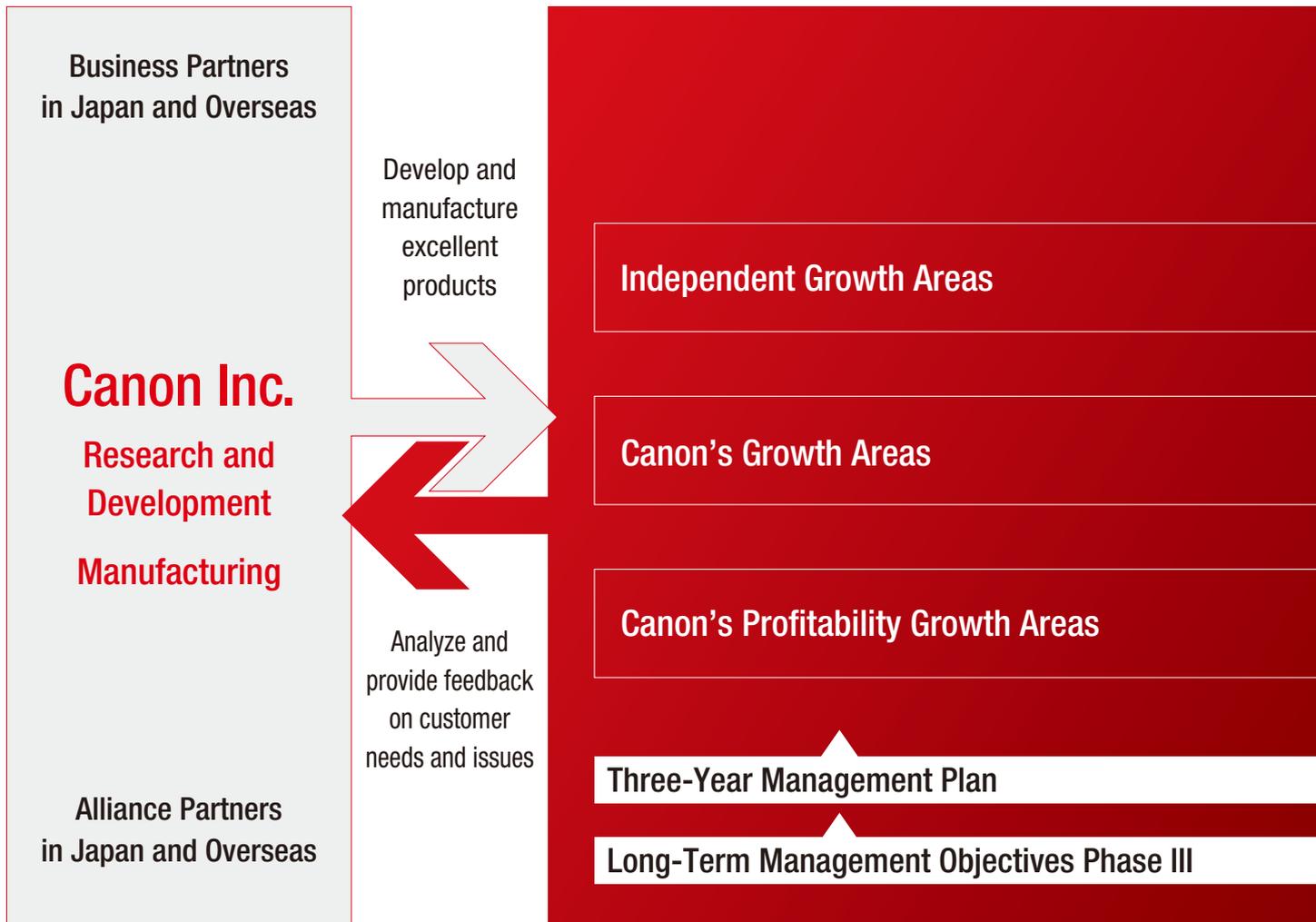
Phase III
2016–2020

This five-year initiative encompasses a mission and vision. This is because we wish to collaborate with customers in resolving social issues by combining Canon's strengths in imaging technologies with our years of expertise in IT technologies. Our Group financial targets for 2020 are ¥800 billion in net sales and ¥40 billion in operating income.

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Canon MJ Group's Value Creation Flow



Relationships with Canon and Other Entities

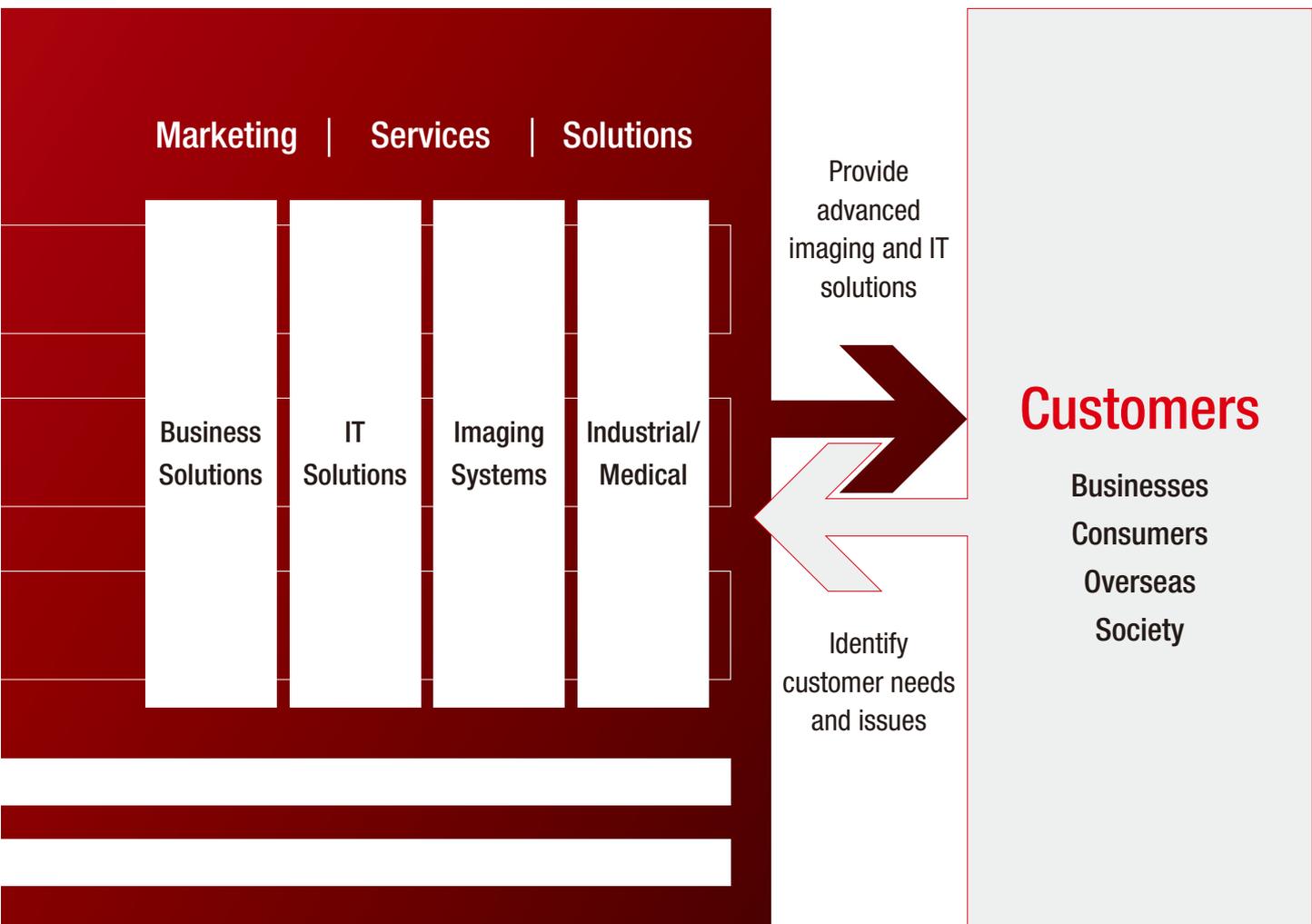
The Canon MJ Group creates value through various relationships.

As part of the Canon Group, we oversee sales, services, and marketing for Canon products in Japan and supply IT solutions. We do more than simply stock and sell products to customers. With the Canon Group deploying a customer-driven approach on the market frontlines, we endeavor to identify customer needs and issues as the closest Group entity to customers. We analyze and feed back to Canon the information we amass in such efforts, thereby contributing to product and service planning and development.

The Canon MJ Group forms alliances with domestic and foreign enterprises that have outstanding technological capabilities to supply optimal solutions to customers. Partnerships in key fields include 3D printers with 3D Systems Corporation; security software with ESET, spol. s r.o.; and metrology systems with Zygo Corporation.

On the sales front, we maintain our own sales network in Japan, and have built alliances with consumer electronics retailers, regional sales companies, and financial institutions.





Relationships with Customers

The Canon MJ Group operates in keeping with the Group's vision of Long-Term Management Objectives Phase III, which is that "the Canon Marketing Japan Group understands and grows with its customers."

The Canon MJ Group caters to both businesses and consumers. Our corporate customer base includes Japan's largest corporations through to small and medium-sized enterprises, served by an extensive domestic sales network. We draw on that network and advanced IT to deploy attentive and efficient sales activities.

Because the needs of larger and smaller corporate customers differ, the Canon MJ Group maintains a structure to optimize solutions according to scale. As well as salespeople, we employ numerous customer and systems engineers, enabling us to become more responsive to customer needs and issues.

Many consumers use Canon's cameras and printers. Promotions are essential to maintaining customer appeal. The Canon MJ Group uses diverse channels as a marketing expert to reach and attract individuals.





**SPECIAL
FEATURE**

A Truly Reliable IT Partner

Imaging and IT—Canon MJ Group's IT Solutions Strengths

The Group's mission under Long-Term Management Objectives Phase III (2016–2020) is “to help resolve social issues with advanced imaging and IT solutions.” Imaging products—including cameras, multifunctional products (MFPs), laser beam and inkjet printers, and medical imaging systems—lie at the heart of Canon's business. Based on such a product lineup, to meet the diversifying needs of each individual customer, it is essential to leverage the power of information technology (IT). The foundations on which we meet these needs are the Canon MJ Group's excellent IT solutions strengths, which we have cultivated over a long period. The source of these strengths is the sound technical capabilities accumulated to date through working closely with a large number of customers to provide solutions to their problems.

Strength as a Systems Integrator—Extensive Track Record of Experience and Results

Our strength as a systems integrator is founded on technical and solution provision capabilities delivered to customers across a diverse

range of industries. We precisely analyze the operations of each customer, which enables us to provide the optimal information system. The experience gained through working on difficult projects for major banks and Japan's leading manufacturers has been accumulated by our workforce of more than 4,000 system engineers (SEs). This gives us the capabilities needed to handle large-scale projects, and is at the core of our strengths.

Why Customers Choose to Work with Canon MJ

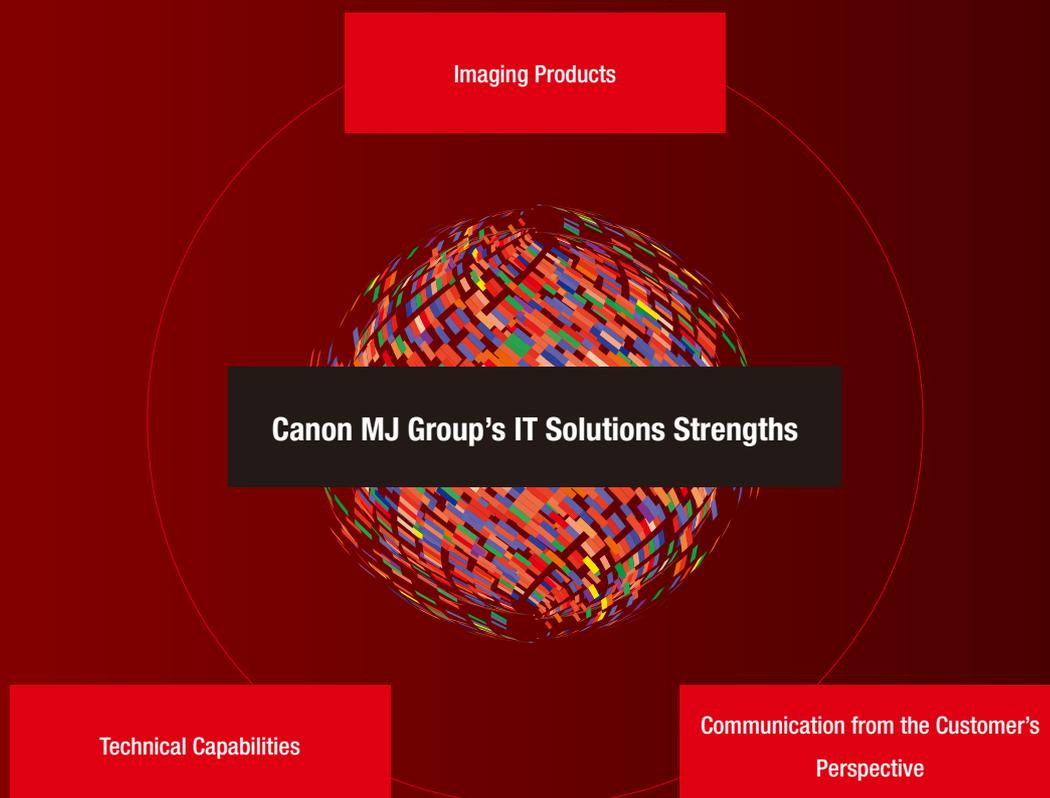
We understand the operations of our customers even more than our customers do. If that were not the case, customers would not choose to work with Canon MJ. Under the supervision of project managers who possess a rich amount of experience, development engineers closely communicate with customers on a daily basis, enabling them to identify and analyze issues faced by customers to a very detailed level. Hence, Canon MJ development engineers provide proposals for operational improvements from the same standpoint as the customers.

CASE STUDY 1**Letter of Appreciation from a Major Bank**

The 2nd Financial Systems Development Department at Canon IT Solutions Inc. received a letter of appreciation from a major bank customer. In the past, the department has received letters expressing gratitude on several occasions, but the reason on this occasion was that Canon IT Solutions contributed to the successful completion of the bank's project to migrate overseas operations to a next-generation system.

In the past, Canon IT Solutions participated in the integration of the bank's domestic enterprise system as the project management office (PMO). For that earlier project, Canon IT Solutions provided support from a central role covering the project as a whole. The project was particularly important since it involved the bank's core management systems. Hence, in a situation where failure could not be tolerated, Canon IT Solutions was tasked with providing project support. Although the system development work was difficult, the system migration was successfully completed and Canon IT Solutions won a high level of trust.

Subsequently, Canon IT Solutions received an inquiry from the bank about participating in an overseas project, and was commissioned to work on the project, which involved renewal of the bank's overseas cash and foreign exchange settlement system. The overseas project required engineers to communicate and coordinate with local staff of the bank—system users—in English. The more detailed the specifications become, the more difficult it becomes to achieve mutual understanding. However, since the Canon IT Solutions manager assigned to the project had a strong understanding of the bank's domestic operational flow, the project team was able to overcome numerous problems to make a successful release of the system. As a result, Canon IT Solutions received this letter of appreciation from the bank. Overseas financial services systems change at a hectic pace, meaning there are significant business opportunities. We are working to make sure that the success of this overseas project leads to Canon MJ winning more system development projects overseas.



**SPECIAL
FEATURE*****A Truly Reliable IT Partner*****CASE STUDY 2****Dedicated IT Manager for SME Customers**

There are strong needs among small and medium-sized enterprise (SME) customers in such areas as improvement of operational efficiency and network security. To respond to such needs, the Canon MJ Group has a large number of engineers who possess advanced technical skills and extensive product knowledge. These engineers work in what is called “Network Support,” which is responsible for providing SMEs with cloud computing services, implementing security systems, and installing and maintaining IT infrastructure. Generally, SME customers do not have their own dedicated IT manager. Hence, as IT specialists, our Network Support engineers listen to the problems customers have, address these issues, and provide improvement proposals. Hence, Canon MJ takes on the role of dedicated IT manager for SME customers. However, being tasked with the responsibility of solving customer problems is not something that happens overnight. If we did not have sound product and technical capabilities, customers would not choose Canon MJ. Furthermore, without building a relationship based on strong trust, we would not gain a stronger understanding of our customers’ businesses than the customers themselves. Network Support, of course, has high-level technical skills

and the ability to communicate from the customer’s perspective. However, it also leverages the latest IT-related knowledge and contributes to business expansion by having a close understanding of the customer’s organization and business.

As a case example of Network Support contributing to business expansion, let us introduce a case from Canon System & Support Inc. A Network Support engineer who was assigned to a project to replace a new customer’s network cameras noticed that the server room in which the video-recording server was installed was very small, making the situation for managing the server less than ideal. By making a proposal to improve the server usage situation by changing the existing server to a space-saving rack-type setup, the customer was very happy. This became an opportunity for the customer to discuss a wide range of IT issues with the Network Support engineer, and subsequently led to a proposal and orders for an IT maintenance contract, anti-virus software replacement, the installation of a firewall, and changeover to a Canon MFP from a competitor’s product.



Protecting Customers' Businesses—Meeting Increasingly Sophisticated Security Needs through Advanced Security Products and Proprietary Technology

Important IT assets owned by customers are exposed to very significant threats of server attack and criminal penetration. Such threats are becoming more cunning and sophisticated each year. In addition, in the case of a data leak or other security breach, the company concerned is likely to come in for severe criticism from a range of stakeholders, and if the company's response is slow it can have a major impact on the company's business.

In response to such security needs, the Canon MJ Group exclusively imports and markets ESET, an end-point anti-virus software product for which Canon MJ has an exclusive distributorship in Japan. The Canon MJ Group also markets "FortiGate" and "CLAVISTER," which are next-generation firewall and unified threat management (UTM) products. These security products and services help to protect customers from malware and other threats. Furthermore, Canon MJ provides solutions to prevent information leaks, and these solutions extend to cloud services. Solutions are mainly provided through the "GUARDIAN" series of products, which utilizes software development technology cultivated to date in-house.

Working toward Further Technical Advances

To enhance the level of customer satisfaction and raise Canon MJ's presence in the industry, we are working to strengthen our capabilities

in malware analysis. As part of this strategy, we have established the Malware Lab Project Office, and are providing information based on in-house malware analysis through the ESET website. From the third quarter of 2016, we plan to launch a fee-based malware analysis service. This will involve responding to individual inquiries regarding malware received and what the malware is doing within a system. The service will provide analysis reports on each specific malware incursion, and we will work to increase customer satisfaction in this area.



Highlights of FY2015

Financial Highlights of FY2015

For the year:

<p>▶ Net sales</p> <p>¥646,003 million</p> <p>2.0% decrease 2014: ¥659,432 million</p>	<p>▶ Cost of sales</p> <p>¥412,898 million</p> <p>3.1% decrease 2014: ¥425,896 million</p>	<p>▶ Gross profit</p> <p>¥233,105 million</p> <p>0.2% decrease 2014: ¥233,536 million</p>
<p>▶ SG&A expenses</p> <p>¥206,458 million</p> <p>1.0% decrease 2014: ¥208,448 million</p>	<p>▶ Operating income</p> <p>¥26,647 million</p> <p>6.2% increase 2014: ¥25,088 million</p>	<p>▶ Net income</p> <p>¥15,670 million</p> <p>2.2% decrease 2014: ¥16,030 million</p>

At year-end:

<p>▶ Total assets</p> <p>¥486,502 million</p> <p>1.4% increase 2014: ¥479,747 million</p>	<p>▶ Total stockholders' equity</p> <p>¥277,008 million</p> <p>2.6% increase 2014: ¥270,061 million</p>
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Key ratios:

<p>▶ Total stockholders' equity ratio</p> <p>56.9%</p> <p>0.6pp increase 2014: 56.3%</p>	<p>▶ ROE</p> <p>5.7%</p> <p>0.4pp decrease 2014: 6.1%</p>
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Per share data:

<p>▶ Stockholders' equity</p> <p>¥2,136.22</p> <p>2.6% increase 2014: ¥2,082.60</p>	<p>▶ Net income</p> <p>¥120.84</p> <p>2.2% decrease 2014: ¥123.62</p>	<p>▶ Cash dividends</p> <p>¥45.00</p> <p>12.5% increase 2014: ¥40.00</p>
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Business Highlights of FY2015

Reinforced operations

▶ **Improved profitability**

Operating margin was a record 4.1%

Accelerated operating margin gains

Operating margin



Canon's growth areas

▶ **Network cameras**

Greatly increased sales

Leveraged our sales channels amid market expansion to boost sales

Independent growth areas

▶ **Data center business performed favorably**

Orders surged

Backlog orders of data center business rose, reflecting large orders

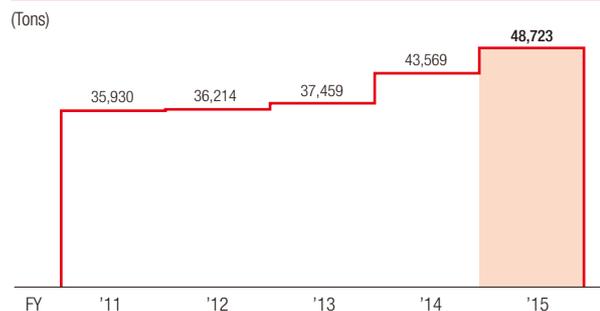
Non-Financial Highlights of FY2015

▶ **CO₂ emissions**

48,723 tons

12% increase
2014: 43,569 tons

CO₂ emissions



Pursuing Even Greater Growth

Haruo Murase
Chairman

Masahiro Sakata
President



To Our Stockholders and Stakeholders

It is a pleasure to report that Canon MJ progressed solidly with its growth initiatives for the year ended December 31, 2015. Operating income rose for the sixth consecutive term as a result of those efforts.

Management therefore lifted the dividend for the year by ¥5, to ¥45 per share.

Canon MJ resolved to pursue even greater growth as it prepared to enter 2016. Accordingly, we launched Long-Term Management Objectives Phase III, covering 2016 through 2020. Under this initiative, we aim to progress with our Group mission of helping to resolve social issues with advanced imaging and IT solutions while deploying our Group vision, which is to understand and grow with our customers. The Canon MJ Group has the resources to materialize these objectives, and management will endeavor to optimally employ them.

In our view, the Japanese market still offers ample growth potential. This is because we are able to cultivate the market as a customer-driven entity.

The Canon MJ Group will continue endeavoring to grow as a true partner for its customers in its marketing efforts.

We look forward to the ongoing support and encouragement of our stockholders and stakeholders in our endeavors.



Haruo Murase
Chairman



Masahiro Sakata
President

An Interview with the President



Masahiro Sakata
President

**Shaping the Future of
Sustainable Society**

Q1

How do you assess your performance in fiscal 2015?

A

“We again boosted earnings in a lackluster operating climate.”

The Japanese economy was generally sluggish in fiscal 2015, reflecting slow growth in personal consumption and capital expenditure.

It was against this backdrop that the Canon MJ Group strove to expand sales of new products and propose various solutions in keeping with its Three-Year Management Plan through 2017 while focusing more on high-margin offerings and services to boost earnings.

In Canon's profitability growth areas, we maintained our No. 1 share of the domestic market for key offerings. These included laser printers, interchangeable lens digital cameras, compact digital cameras, and inkjet printers. In interchangeable lens digital cameras, we expanded sales of semi-pro models, interchangeable lenses, and other highly competitive products while increasing sales on the strength of new mirrorless cameras.

At the same time, unit shipments and sales in Japan of laser printers declined amid a shift toward MFPs. Domestic unit shipments and sales were also down for compact digital cameras

and inkjet printers.

In Canon's growth areas, a new focus for us, we successfully cultivated markets for network cameras and projectors, generating solid sales.

In such independent growth areas as IT solutions, industrial equipment, and medical solutions, we boosted sales of such offerings as systems integration for financial and medical institutions and data center services, as well as semiconductor manufacturing equipment and measurement equipment.

Notwithstanding such progress, net sales for the year decreased 2.0%, to ¥646,003 million. This reflected significantly lower revenues in the first quarter as demand plunged after spiking ahead of a consumption tax rate hike.

Operating income rose 6.2%, to ¥26,647 million. This was our sixth straight gain, and it stemmed from favorable showings of highly profitable products and services and solutions, as well as efforts to streamline operations and bolster productivity.

Q2

Why did you formulate Long-Term Management Objectives Phase III (2016 to 2020)? Could you overview this initiative for us?

A

“We formulated fixed goals that we are determined to reach.”

The Canon MJ Group has diverse resources. We have tremendous expertise in human resources, products, and markets, and are unique for a marketing infrastructure that services both other businesses and consumers.

Under Long-Term Management Objectives Phase II, which ended in 2015, we steadily increased operating income by shifting toward highly profitable businesses.

But sales were basically flat. And while this reflected various external factors, there were growth issues for various reasons. We did not fully leverage our strong Groupwide resources. We were still in the process of restructuring existing businesses and did not progress as fast as we would have liked in shifting toward new services businesses and growth areas. Our business process reforms went little further than improvements. And there remained plenty of scope for decisive action under radical reforms to deploy new IT systems and drive efficiencies.

In light of such issues, we decided to formulate Long-Term Management Objectives Phase III, through which we aim to

optimally harness our Group resources and cultivate growth in new business areas.

2020 Group Mission

Help resolve social issues with advanced imaging and IT solutions.

Imaging encompasses input and output technologies for cameras, printers, and other consumer products and MFPs, laser printers, and other business offerings. Our mission is about combining imaging hardware with applications and services for IT solutions to deliver more attractive offerings to customers and resolve social issues.

2020 Group Vision

The Canon Marketing Japan Group understands and grows with its customers.

Our vision might be better understood in the context of the

customer-centricity of the Canon MJ Group Code of Conduct.

In my many years in marketing I found that there can be significant gaps between products and customer needs.

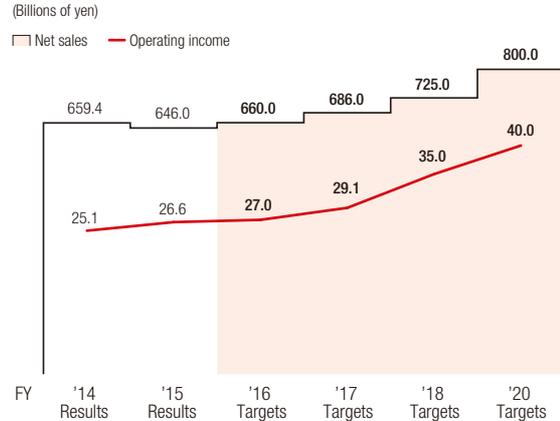
Sellers cannot satisfy customers by making selfish and arbitrary assumptions about the products and services that they provide. So, sellers must identify customer issues and requirements in commercializing or proposing offerings. They also need to understand that society changes. As a seller, you cannot delight customers these days just by highlighting the performance of your hardware. What is far more important is whether what you propose will resolve customers' issues.

So, we must first and foremost ask customers what they think and build truly trusting partnerships with them, drawing on internal and external resources in the process of working out customers' issues and wants. That is customer-centricity.

And as part of that process, we will shift away from a structure that focuses on specific existing products and channels toward one that focuses on market and customer categories and solutions.

The key goals of Long-Term Management Objectives Phase III are financial. We are targeting ¥800 billion in net sales and ¥40 billion in operating income by 2020.

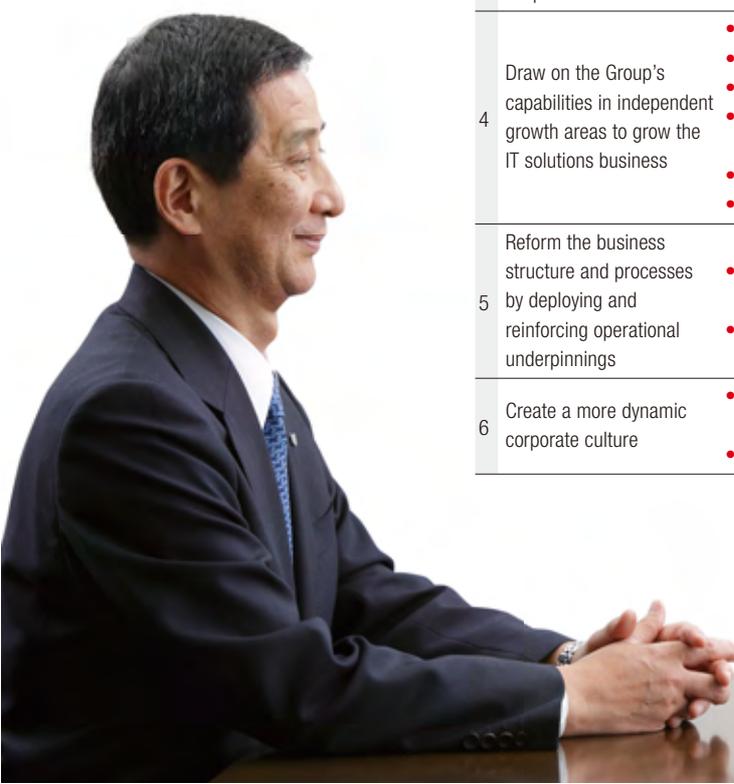
Group Management Goals



We will annually update the medium-term management plan that I will outline a little later. But the goals of Long-Term Management Objectives Phase III are fixed, and we are

Our six basic policies and priority strategies are as follows:

Basic Policies	Priority Strategies
1 Become a true partner of customers	<ul style="list-style-type: none"> Expand large company solutions by industry and solutions for small and medium-sized enterprises Strengthen customer relations through digital marketing
2 Maintain the high earnings base of Canon's profitability growth areas	<ul style="list-style-type: none"> Attain and maintain No. 1 market shares for key products Reform sales approach by improving customer relationship management (CRM) and pushing ahead with e-commerce
3 Transform Canon growth areas into core businesses by improving solution skills and encouraging cooperation	<ul style="list-style-type: none"> Broaden network camera business by collaborating with Axis Communications AB and Milestone Systems A/S Expand into the upstream and downstream commercial printing processes and enter the package and industrial printing markets
4 Draw on the Group's capabilities in independent growth areas to grow the IT solutions business	<ul style="list-style-type: none"> Make IT-based high-value-added solution services central to all businesses Switch from entrusted development business to solution proposing Sier Migrate in-house packaged products to the cloud to create a stock-based business Expand cross-industry solutions through Group synergies in such areas as security and outsourcing Transform the industrial business unit into a commercial firm Strengthen the medical solutions business
5 Reform the business structure and processes by deploying and reinforcing operational underpinnings	<ul style="list-style-type: none"> Overhaul business process reforms in existing operations, leveraging progress to build next-generation IT systems Transform the cost structure to transition to a new business framework
6 Create a more dynamic corporate culture	<ul style="list-style-type: none"> Cultivate professionals who fully understand customers' businesses and spearhead growth area improvements and new business creation Swiftly create new value through interpersonal collaboration and promote diversity



determined to reach them. In fact, our commitment to such goals is even stronger than under predecessor initiatives.

Under Long-Term Management Objectives Phase III, the Canon MJ Group will endeavor to expand its business areas by leveraging a solid customer base, Canon's highly competitive product lineup, IT, and other strengths.

Key Management Indicators

	FY2015 Results	FY2018 Targets	FY2020 Targets
Net sales (Billions of yen)	646.0	725.0	800.0
Gross margin	36.1%	35.0%	35%
SG&A expenses to net sales	32.0%	30.2%	30%
Operating margin	4.1%	4.8%	5.0%

Q3

How are you positioning your medium-term management plan for 2016 through 2018?

A

“We will manage progress under this growth strategy.”

Our medium-term management plan for materializing Long-Term Management Objectives Phase III comprises growth strategies for Canon's profitability growth areas, Canon's growth areas, and our independent growth areas. (See Growth Scenario by Category on page 21.)

Canon's Profitability Growth Areas

MFPs, laser printers, cameras, inkjet printers, and CXDI digital radiography systems

We aim to maintain or secure No. 1 market shares in Canon's existing business areas while boosting productivity and earnings.

- (1) Strengthen sales capabilities and MFP market share, expand sales of related solutions products, and cultivate key industry customers for laser printers, thereby boosting document business earnings.
- (2) Expand number of novice photographers and cultivate amateur enthusiasts, reinforce product appeal, and maintain the profitability of consumer inkjet printers to enhance imaging systems earnings.
- (3) Leverage IT to increase operational efficiencies through digital marketing, expand CRM and e-commerce, and draw on IT to raise maintenance service productivity and thereby drive sales and service reforms.

Canon's Growth Areas

Network cameras, projectors, production printing, business inkjet printers, commercial imaging equipment, DreamLabo, and machine vision

We seek to increase sales in these new priority business areas for Canon.

- (1) Bolster solutions through cloud services, reinforce our sales structure, and collaborate with Axis Communications, Milestone Systems, and other companies to increase network camera sales.
- (2) Reinforce capabilities in book, newspaper, and other commercial printing areas and enter package and industrial printing fields to boost production printing sales.
- (3) Bolster our 4K and 8K product lineup and equipment and solutions in peripheral areas to grow sales in commercial imaging equipment.

Independent Growth Areas

IT solutions, industrial equipment (semiconductors and non-semiconductors), medical solutions, infection control, and dispensing equipment

We look to boost sales in the Group's independent growth areas.

- (1) Become a solutions and services delivery business and reinforce cloud business to increase IT solutions sales.
- (2) Broaden service offerings through security-related products and IT services to boost security business sales.
- (3) Leverage specialty capabilities of Group companies to expand outsourcing businesses.
- (4) Harness IT to increase medical solutions sales.

In addition to these growth strategies, we will establish specific numerical targets and manage progress.

Under our medium-term management plan, we are targeting net sales of ¥725 billion, operating income of ¥35 billion, and a return on equity of 7.5% in fiscal 2018.

Consolidated Performance Targets

(Billions of yen)	Results		Medium-Term Management Plan Targets		
	FY2014 Results	FY2015 Results	FY2016 Targets	FY2017 Targets	FY2018 Targets
Net sales	659.4	646.0	660.0	686.0	725.0
YoY growth rate	—	-2.0%	2.2%	3.9%	5.7%
Operating income	25.1	26.6	27.0	29.1	35.0
Operating margin	3.8%	4.1%	4.1%	4.2%	4.8%
Ordinary income	26.6	28.0	28.2	30.2	36.0
Ordinary income margin	4.0%	4.3%	4.3%	4.4%	5.0%
Net income	16.0	15.7	17.7	19.1	23.0
Net income margin	2.4%	2.4%	2.7%	2.8%	3.2%
EPS (Yen)	124	121	137	147	177
ROE	6.1%	5.7%	6.3%	6.5%	7.5%
Free cash flow (Three years cumulative amount)	112 (2013 to 2015)		287 (2016 to 2018)		

Investment Plan

We will make ¥54 billion in general investments from 2016 through to 2018. This will include allocations of ¥8.5 billion to upgrade the Nishi-Tokyo Data Center, ¥25 billion for our MFP and other rental businesses, and ¥8.5 billion for IT investments.

We have set aside ¥40 billion in funds for M&As and other strategic investments.

Such extensive investments should help us to build even more value.

Q4 What is your stance on IT solutions?

A

“IT solutions are a key strength for us.”

IT solutions are key to the Group's growth in the years ahead, and not simply in terms of the IT Solutions segment. We will leverage IT solutions in collaboration with other segments to bolster the value of our overall products and services.

For example, in fiscal 2015 we generated ¥141.2 billion in

sales in our IT Solutions segment as well as another ¥58.3 billion in IT solutions sales in other business segments.

We were able to do this because we have our own IT engineers, and we will leverage this strength to generate even further IT solutions growth Groupwide.

Q5 How do you position the Canon brand?

A

“The Canon brand is an unchanging strength.”

While our independent business domains, IT solutions, and other operations are important for the Canon MJ Group, Canon brand products will remain our greatest strength.

That said, we would never hesitate to collaborate with other

companies if Canon's products alone are not sufficient to resolve customer issues. So, we will continue to position Canon as our core brand while also handling offerings from other Japanese and overseas companies.

Q6 Tell us about your corporate governance approach.

A

“We will endeavor to enhance corporate governance through dialogues with investors and other stakeholders.”

Japan formulated and launched its Corporate Governance Code in 2015, making it a particularly important year in terms of social interest in that area.

Executives naturally have a duty to enhance corporate management transparency and to endeavor to generate sustainable growth and enhance corporate value.

We have worked tirelessly at Canon MJ to improve corporate governance as a platform for pursuing transparent, fair, and swift decision-making.

We endeavor to enhance corporate governance through dialogues with investors and other stakeholders.



Q7 What steps are you taking in terms of CSR?

A “We are driving forward with CSR management.”

Our Group mission under Long-Term Management Objectives Phase III is to help resolve social issues with advanced imaging and IT solutions. We see social changes underpinning customer

issues, so we seek to resolve social issues to deliver value-added solutions from new perspectives. In other words, we aim to resolve social issues in the course of business.

Q8 What are you doing in terms of shareholder returns?

A “We aim to pay dividends based on comprehensively considering factors based on a consolidated payout ratio of at least 30%.”

The basic policy of our new medium-term management plan is to target a consolidated payout ratio of at least 30%, paying dividends after comprehensively considering our medium-term earnings forecasts, investment plans, and cash flows.

For fiscal 2015, we paid cash dividends of ¥45.00 per share, up ¥5.00 from a year earlier. This lifted the payout ratio from 32.4% to 37.2%.

Q9 How do you see the year ahead?

A “We are solidly positioned to drive growth to reach our objectives regardless of economic trends.”

I believe that my prime task as an executive is to clarify where the Company will head. Long-Term Management Objectives Phase III and the medium-term management plan that we formulated in fiscal 2015 determine that direction.

The outlook for the Japanese economy remains uncertain at this stage, as although there have been some positive developments, overseas economic downturns could adversely affect the Japanese economy.

We are solidly positioned to drive growth to reach our objectives regardless of economic trends, and are already doing our best in that regard.

I look forward to the ongoing support and encouragement of all our stockholders and other stakeholders for our efforts in the year ahead.

March 2016

Masahiro Sakata
President

Canon EXPO 2015 Tokyo

Overview

The Canon Group has held Canon EXPO every five years since 2000 to present key Canon technologies and products and solutions. Canon EXPO 2015 Tokyo, held in November 2015, showcased achievements under Phase IV of the Group's Excellent Global Corporation Plan (2011–2015) and presented objectives for the years ahead. The approximately 20,000 guests enjoyed glimpses of the work and social value that the Group seeks to deliver to Tokyo by 2020. Following are several highlights.



» Network Camera Solutions

Canon proposes a range of compelling solutions centered on network camera technologies. They include surveillance systems that enhance community security by monitoring stadiums, theaters, and other facilities that accommodate large crowds and by swiftly detecting dangers from crime and accidents. Canon's high-sensitivity network cameras ensure outstanding surveillance anywhere, even in the darkest places. Its solutions could swiftly process massive volumes of information to automatically detect problems and issue alerts and speedily identify individuals through facial recognition results and database matching.

The Canon Group collaborates with two Group companies in this field. They are security camera leader Axis Communications AB and Milestone Systems A/S, the world's top provider of video management software. Canon aims to leverage synergies from its imaging technologies and the network image processing and video management technologies of these two Group companies to deliver new information value.



VB-H 652 LVE



Exhibition by Canon, Axis Communications AB, and Milestone Systems A/S garnered customer attention.

» Healthcare

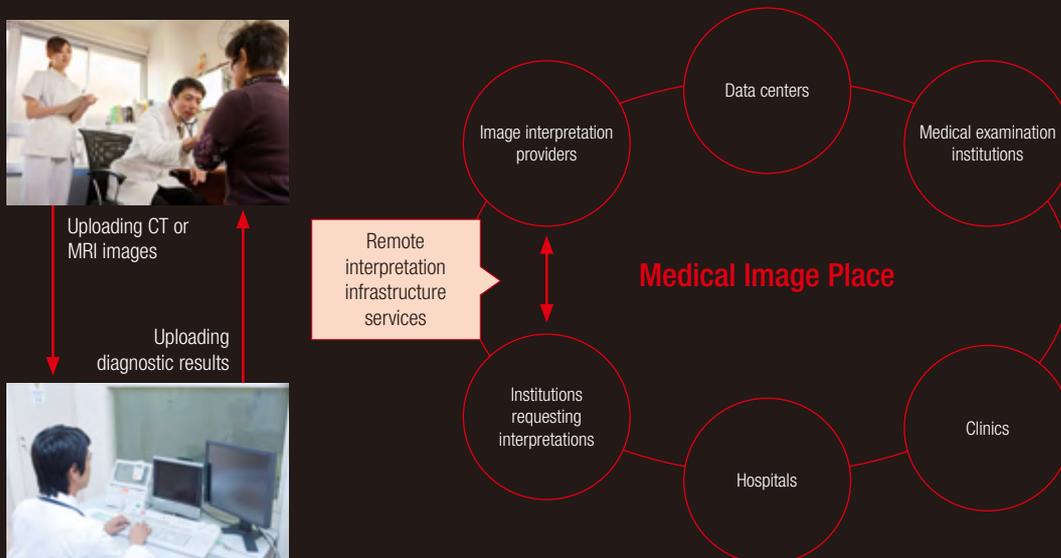
Enhancing the value of medical care is vital to healthy living. Canon draws on its advanced imaging technologies to contribute to healthcare progress by driving the visualization of medical images while promoting information sharing over the cloud to ensure more timely and accurate treatment.

Canon's integrated medical image management system is a cloud-based solution for comprehensively managing and sharing medical images associated with patient information. Healthcare professionals can use this system to administer and browse data from X-rays, computed tomography (CT), and other modalities, images from digital cameras, and patient documentation. In harnessing image processing technologies, Canon contributes to more accurate image diagnostics by, for example, making it possible to compare previous and new CT images to identify metastatic cancer or verify changes in magnitude. Using the cloud-based Medical Image Place service would enable remote checking of CT and other information, making it easier to collaborate with diagnostic imaging experts. Analyzing medical images and matching them against cloud-based case data should accelerate diagnoses.



Integrated medical image management system screenshot

Overview of Medical Image Place



At a Glance

The Canon MJ Group leverages close collaboration between its companies to add new value in all areas of life, work, and society for customers around the globe.

Composition of Net Sales

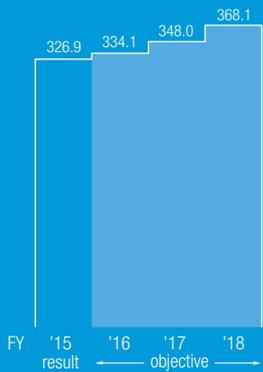


Business Solutions

We help customers improve productivity and resolve business challenges by providing innovative solutions that combine an array of business equipment, particularly Canon offerings, with software and operating services.

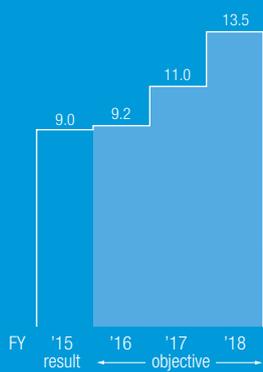
Sales target

(Billions of yen)



Operating income target

(Billions of yen)

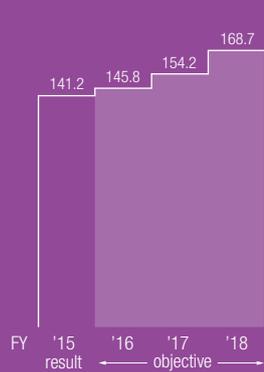


IT Solutions

We leverage our comprehensive capabilities in such areas as system development, data center services, and packaged software to create advanced IT environments to help customers improve their competitiveness as well as corporate value.

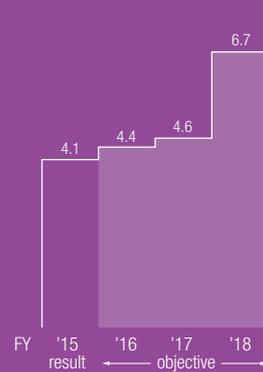
Sales target

(Billions of yen)



Operating income target

(Billions of yen)

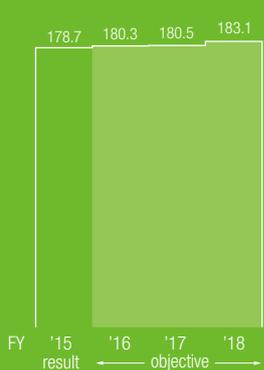


Imaging Systems

We provide a broad range of input through output products and attentive after-services for consumers and professionals that enable everyone to enjoy photography and videography.

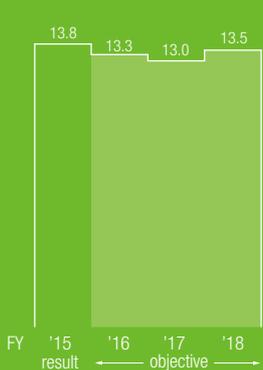
Sales target

(Billions of yen)



Operating income target

(Billions of yen)

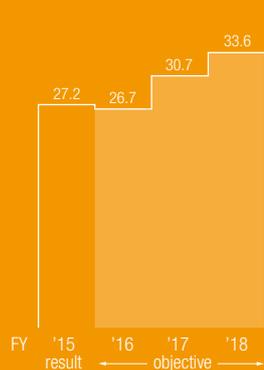


Industrial / Medical

We use the world's most advanced equipment and technology to provide specialty solutions that underpin the businesses of semiconductor manufacturers and healthcare professionals.

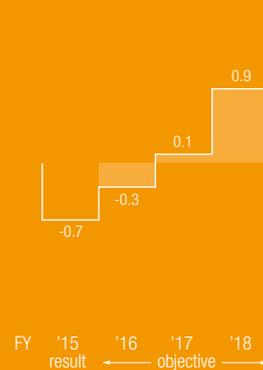
Sales target

(Billions of yen)



Operating income target

(Billions of yen)



Growth Scenario by Category

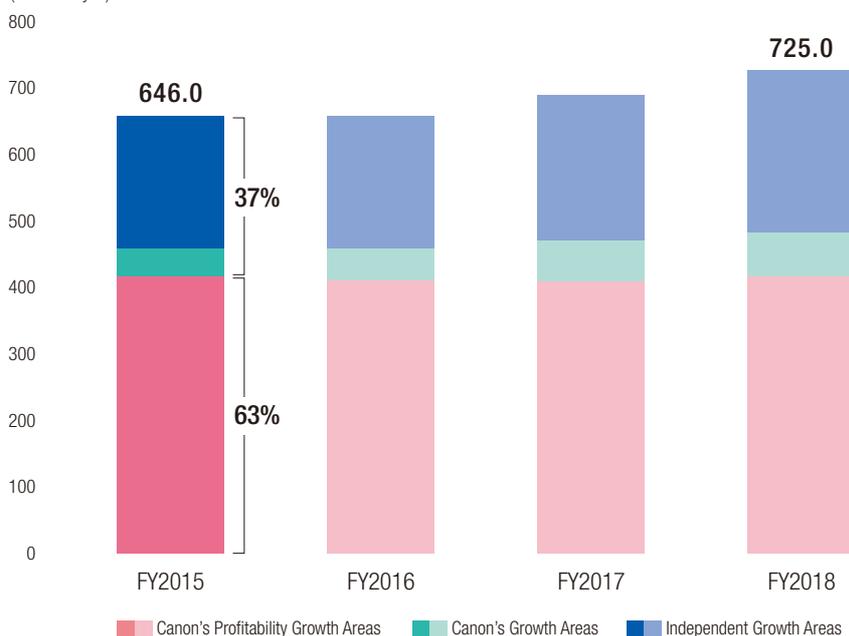
Below, we overview our growth scenario categories and strategies to materialize our Long-Term Management Objectives Phase III. We will push ahead with our shift to Canon's and independent growth areas. These areas should account for a combined 50% of net sales by 2020, from 37% in the year under review.

Growth Scenario Categories and Strategy Overview

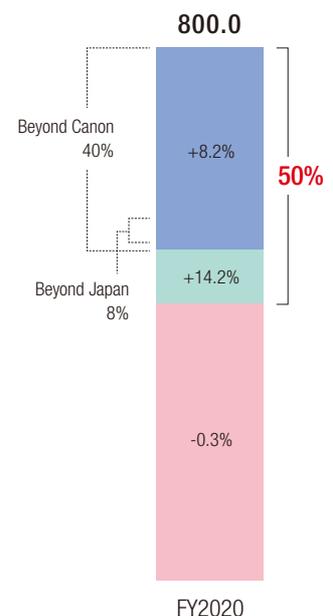
Strategy Overview	Key Products and Services
<p>Canon's Profitability Growth Areas</p> <ul style="list-style-type: none"> • Achieve and maintain No.1 market shares of key products • Increase productivity by reforming sales and services 	<p>MFPs and LBP's Cameras, Inkjet Printers CXDI digital radiography systems</p>
<p>Canon's Growth Areas</p> <ul style="list-style-type: none"> • Expand the network camera business Collaborate with Axis Communications and Milestone Systems Enhance solutions • Expand the production printing business area Upstream and downstream processes of commercial printing Package printing, industrial printing area 	<p>Network Cameras, Projectors, Production Printing, Business Inkjet Printers, Commercial Imaging Equipment, DreamLabo, Machine Vision</p>
<p>Independent Growth Areas</p> <ul style="list-style-type: none"> • Strengthen and expand IT solutions in all businesses • Switch from entrusted development business to solution proposing Sier • Expand cross-industry solutions (security, outsourcing, etc.) • Turn Industrial Business Unit into a commercial firm • Strengthen the medical solutions business 	<p>IT Solutions Industrial Equipment (Semiconductors and Non-Semiconductors), Medical Solutions, Infections Control, Dispensing Equipment</p>

Shifting Weight to Growth Areas

(Billions of yen)



Annual average growth rate:
+4.4%



Segment Review and Strategies

Business Solutions

Senior Vice President's Business Management Policies

The Group provides hardware and solutions that it optimizes for each customer. We will continue to reinforce sales to the promising medium-sized enterprise market while expanding our share in MFPs. We will also accelerate our business expansion in the production printing, network camera, projector, and other markets offering outstanding growth potential.



Masachika Adachi
Senior Vice President

Major Products

Business-use multifunctional products (MFPs)
Commercial printing systems
Laser printers
Large-format inkjet printers
Maintenance services

Major Companies / Organizations

Canon Marketing Japan Inc.
Business Solutions Company
Canon System & Support Inc.
Canon Production Printing Systems Inc.

Performance and Key Trends

Office Multifunctional Products (MFPs)

Domestic unit shipments of MFPs were basically unchanged from a year earlier. The Group focused on cultivating new customers for its imageRUNNER ADVANCE series of color office MFPs by boosting sales of such offerings as the mass-market C5200 series and the C3300 series, launched in May 2015. The latter range delivers improved image quality, operability, and productivity. In production MFPs for commercial printing, we focused on increasing sales of such models as the imagePRESS C800/C700/C60 for the light production market and the imagePRESS C10000VP, launched in October 2015, for the middle production market. While overall MFP unit shipments thereby rose, sales were down slightly from a year earlier. This reflected a higher percentage of MFPs sold at mass-market prices.



Laser Printers

Domestic unit shipments of laser printers were down amid a shift toward relying on MFPs for office output. The Group maintained its No. 1 market share by endeavoring to increase sales of the Satera LBP8730i monochrome printer and the Satera LBP9950Ci color printer, launched in May 2015, for high-volume commercial users. Sales were down, however, as there were fewer large orders. Sales of toner cartridges also declined.

Large-Format Inkjet Printers

We strove to boost sales of such products as the iPF605L plus/iPF680, and thereby maintained our top market share. Sales declined, however, reflecting a downturn in the mainstay computer-aided design (CAD) market.

Network Cameras and Projectors

In network cameras, we augmented surveillance applications by endeavoring to cultivate marketing applications for the retail sector. In projectors, we cultivated new markets, including for digital signage. Network camera and projector sales both rose.

Maintenance Services

Sales of maintenance services for MFPs and other offerings were down slightly. This was despite steady print volume gains in line with growth in the number of machines in field (MIF), and stemmed from lower unit prices for service charges.

Group Companies

Although Group company Canon System & Support Inc. boosted revenues from the third quarter, sales for the term were down in the absence of a Windows XP-related demand spike and a demand hike before the consumption tax rate increase in the first quarter of the previous year. Canon Production Printing Systems Inc. increased its sales on higher unit shipments of continuous feed digital printers.

Business Solutions segment sales decreased 1.0%, to ¥326.9 billion. Operating income climbed 9.6%, to ¥9.0 billion.

Outlook and Key Measures

Anticipating Higher Sales of Office MFPs to Small and Medium-Sized Enterprises

We expect that unit shipments in the office MFP market will remain basically unchanged in the year ahead. We anticipate higher sales on the strength of solutions for large companies in various industries and efforts to cultivate new customers among small and medium-sized enterprises.

Focusing on Expanding Share in Laser Printers and Cultivating Specialty Applications Demand

Unit shipments will probably slip amid an ongoing shift in the market from laser printers to MFPs. We will deploy new models to capture a greater share of the market for high-end machines while cultivating specialty applications demand, particularly in the retailing and medical equipment fields, to boost sales.

Leveraging Our Customer Base and External Alliances to Dramatically Increase Network Camera Sales

Demand should increase for advanced systems, including for those offering remote monitoring and analysis of high-resolution images. We will draw on our nationwide customer base and sales channels to supply Canon's unique high-resolution cameras and advanced image analysis systems. We will reinforce alliances with Axis Communications AB and Milestone Systems A/S to greatly increase sales.

Maintenance Service Unit Prices to Continue Trending Downward

We expect that print volume will rise, with maintenance service unit prices continuing to slide. Our maintenance services sales should therefore decline.

In light of these factors, we forecast that segment sales for fiscal 2016 will rise 2.2%, to ¥334.1 billion, and operating income will gain 2.2%, to ¥9.2 billion, reflecting gains in MFPs and other key hardware and network cameras.

Segment Review and Strategies

IT Solutions

Senior Vice President's Business Management Policies

We look for domestic IT investment to continue rising in the year ahead. We will expand our systems integration (SI) services by developing systems for financial institutions, an area in which we are exceptionally strong. We will work beyond segment frameworks to build our IT solutions business.



Akihisa Kamimori
Senior Vice President

Major Business

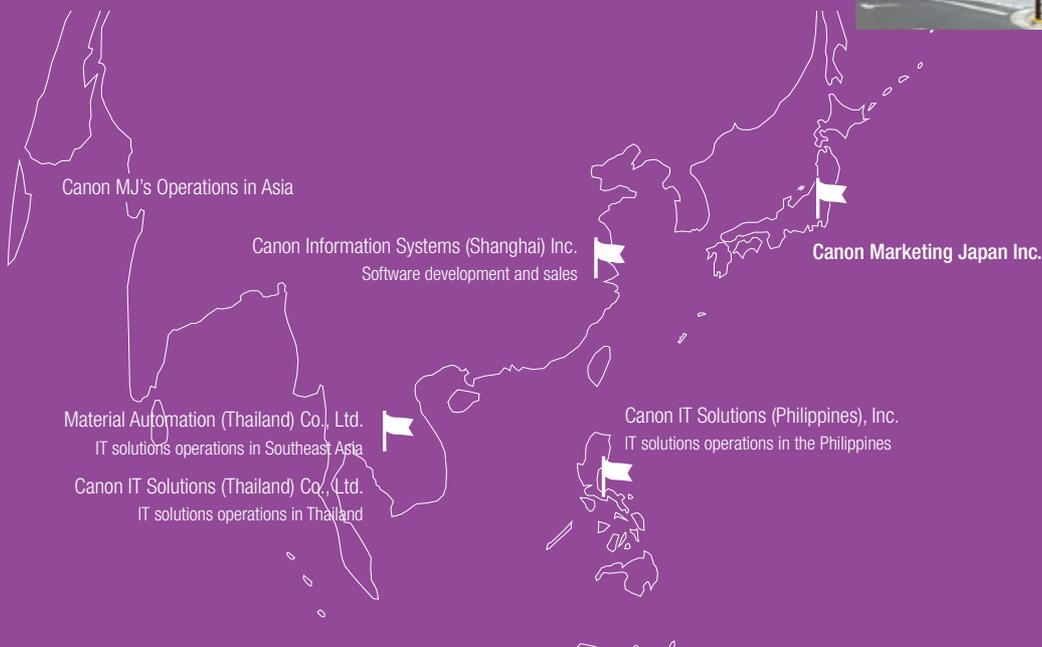
Systems integration (SI) services business
IT infrastructure and services business
Embedded systems business
Products business

Major Companies / Organizations

Canon IT Solutions Inc.
Canon Software Inc.
Edifist Learning Inc.
14 other companies



Nishi-Tokyo Data Center



Performance and Key Trends

SI Services Business

We develop systems from scratch or use solution packages to accommodate specific customers. We performed solidly in our mainstay systems development business, especially among financial institutions, while enjoying growth in solutions projects for medical institutions. Sales were down, however, because system management services sales partly transferred to the IT infrastructure and services business in the year under review.

IT Infrastructure and Services Business

We offer infrastructural products and system platform construction and outsourcing services in such areas as cloud storage, system operations, data centers, and business process outsourcing. Sales were up from a year earlier, owing partly to the solid performance of data center services.

Embedded Systems Business

We develop software for embedding in products. Sales were up from a year earlier, reflecting steady orders from major manufacturing customers.

Products Business

We sell IT hardware, packaged software, and licenses. Despite a healthy performance in such areas as security products, sales declined amid the absence of a demand spike for business PCs and other Windows XP-related offerings in the previous fiscal year.

Segment sales therefore decreased 5.1%, to ¥141.2 billion. In contrast, operating income jumped 30.7%, to ¥4.1 billion.

Outlook and Key Measures

SI Services and Data Center Operations Should Remain Solid

We look for the domestic IT solutions market to continue performing solidly in the year ahead. The SI services business should generate higher sales in the year ahead, reflecting increases in projects for the financial services, manufacturing, and educational sectors. The IT infrastructure and services business should boost its sales on expansion in infrastructure solutions, data center, and other outsourcing services. Sales of the embedded systems business should rise on growth in projects for customers outside the Group. The products business should remain basically unchanged, as gains in PC peripherals and security products should offset the impact of segment changes for some offerings.

In fiscal 2016, expansions in SI services, data center, and other IT infrastructure services is expected to boost segment sales 3.3%, to ¥145.8 billion. We forecast a 7.3% rise in operating income, to ¥4.4 billion.



Segment Review and Strategies

Imaging Systems

Senior Vice President's Business Management Policies

We anticipate a recovery in the market for interchangeable lens digital cameras. We will endeavor to expand sales of this equipment, focusing on mirrorless models, which have strong growth potential. We will draw on our strengths in 4K technology to expand in commercial equipment.



Koichi Yagi
Senior Vice President

Major Products

Interchangeable lens digital cameras
Compact digital cameras
Inkjet printers
Commercial imaging equipment

Major Companies / Organizations

Canon Marketing Japan Inc.
Imaging Systems Company
Canon Customer Support Inc.



Performance and Key Trends

Digital Cameras

Domestic unit shipments of interchangeable lens digital cameras were down. One factor was a prolonged slump in consumer spending owing to a consumption tax rate hike. We nonetheless generated solid results for high-end amateur models and interchangeable lenses. We strengthened our lineup and market share for entry-level offerings with a new mirrorless camera in October 2015. We thereby maintained our top market share and boosted sales for interchangeable lens digital cameras.

Domestic unit shipments of compact digital cameras declined, partly because a proliferation of smartphones dampened demand for low-end models. We nonetheless worked to increase sales of premium and long-zoom models. While we maintained our top market share, sales were down from a year earlier.

Inkjet Printers

Inkjet printer shipments in Japan were down from a year earlier. We rolled out user campaigns and other promotional initiatives and strove to increase sales, especially of new models. These efforts enabled us to maintain our top market share. Sales declined, however, amid dwindling market demand and sales competition, which drove down prices. Sales of inkjet cartridges also decreased.

Commercial Imaging Equipment

Notwithstanding solid reception for a new CINEMA EOS SYSTEM model, sales of this equipment was down owing to sluggish demand amongst broadcasters upgrading to high-definition data camera models.

Segment sales thus dropped 3.6%, to ¥178.7 billion, with operating income slipping 2.9%, to ¥13.8 billion.

Outlook and Key Measures

Boost Unit Shipments by Expanding Sales of Mirrorless Cameras

While the interchangeable lens digital camera market is projected to remain sluggish in the first half of the year, demand should pick up in the second half, thereby exceeding that of the previous fiscal year. We aim to capture the top share of the mirrorless camera market, which offers strong demand potential, and should boost unit shipments on solid sales expansion efforts.

Increase Compact Digital Camera Profitability

We expect unit shipments in the compact digital camera market to decrease as demand for low-priced models shrinks. We will keep pushing ahead with our full lineup strategy while focusing on sales of premium and long-zoom models to enhance profitability and maintain our top market share.

Maintain Inkjet Printer Earnings

Unit shipments in the inkjet printer market will probably continue to fall. We will strive to maintain earnings by targeting marketing initiatives at the home and SOHO markets. We nonetheless expect that unit shipments and cartridge sales will decline.

Endeavoring to Greatly Expand 4K Demand in Commercial Imaging Equipment

We will strive to capture new demand for 4K offerings for broadcasters while driving sales growth for the CINEMA EOS SYSTEM to greatly increase sales in the year ahead.

With the interchangeable lens digital camera market set to recover in fiscal 2016, we look for segment sales to rise 0.9%, to ¥180.3 billion. Operating income should decrease 3.6%, however, to ¥13.3 billion, amid spending on intensive promotions to stimulate camera market demand and because of lower ink cartridge sales.

Segment Review and Strategies

Industrial/Medical

President's Business Management Policies

Industrial Equipment

We seek to expand our lineup beyond semiconductor fabrication equipment and other existing offerings by developing areas offering fast growth rates.

These include machine vision and industrial cameras.

Medical Equipment

We will push forward with selection and concentration in existing businesses while striving to swiftly become profitable. We will leverage our strengths in IT solutions to expand in medical imaging with such applications as 3D and remote diagnostics, thereby cultivating medical equipment as a core business domain.

Major Products

Industrial equipment

Medical equipment

Major Companies / Organizations

Canon Marketing Japan Inc.

Industrial Equipment Sales Headquarters

Canon Marketing Japan Inc.

Medical Equipment Sales Headquarters

Canon Lifecare Solutions Inc.

ELQUEST CORPORATION

Canon Advanced Technologies Taiwan Inc.

Performance and Key Trends

Industrial Equipment

We performed well in lamp annealing, plasma ashing equipment, and other semiconductor manufacturing systems and in testing and measuring systems thanks to rising capital investment and plant operating rates in the semiconductor market. Sales of maintenance services and repair parts also gained, resulting in higher sales.

Medical Equipment

Sales were down in the absence of the demand spike that preceded a consumption tax rate hike in the previous term. Another factor was fewer large orders for medical imaging equipment.

Segment sales therefore decreased 3.1%, to ¥27.2 billion. Operating loss was ¥743 million, which was ¥235 million lower than a year earlier.

Outlook and Key Measures

Industrial Equipment Business Should Continue to Perform Well

We anticipate higher sales and earnings in the year ahead on expanded sales of semiconductor fabrication equipment and testing and measuring systems.

Bolstering Medical Equipment Profitability

In the year ahead, we anticipate steady demand growth for sterilization and other infections control and medical solutions. Sales will probably slide, however, owing to earnings structure revisions that shrink some operations, although operating profit should improve.

In fiscal 2016, we forecast a 1.8% decline in segment sales, to ¥26.7 billion, reflecting revisions in the earnings structure of our medical equipment business. We also expect an operating loss of ¥300 million, which would be ¥400 million lower than in the previous period.



Sustainable Management

The Canon MJ Group undertakes CSR activities to help resolve social issues while harnessing the power of marketing to create economic value. In keeping with Canon's corporate philosophy of *Kyosei* (which means living and working together for the common good), we will continue to pursue synergistic progress for the Group and for society and enhance the corporate value and brand by benefiting society through business. We will also contribute to sustainable social development by making CSR central to corporate management.



CSR Awareness

Our participatory approach to CSR is based on the sharing of the Canon MJ Group's CSR philosophy and values by all employees, and on a commitment to accurate knowledge. Our efforts to foster CSR awareness in our employees are coordinated by the CSR Promotion Division.

The “Three Selves” Spirit

Our “Three Selves” spirit is a central guiding principle that dates back to the founding of Canon and is part of our corporate DNA. The principle states that employees should proactively take the initiative (self-motivation), conduct oneself responsibly and with accountability (self-management), and know one's position, roles, and circumstances (self-awareness). The Three Selves spirit is the foundation of our CSR activities.

United Nations Global Compact

In December 2009, Canon MJ signed the UN Global Compact. Under this initiative, companies commit themselves to universal principles relating to human rights, labor standards, the environment, and the prevention of corruption. The underlying principle is that companies should work to resolve global problems through responsible corporate activities. By reflecting this principle in our business activities, we will contribute to the realization of a better and more sustainable society.

CSR Policies

We produced the Canon MJ Group CSR Activity Policy to enable all Group employees to practice CSR in their work. We will contribute to sustainable social development by sharing and applying the policy throughout the entire Group.

CSR Activity Policy

- We will contribute to the creation of an enriched social environment in which people can live in safety and with peace of mind.
- We will provide dependable quality through all of our business activities.
- We will contribute to the development of human resources capable of contributing to the improvement of society.
- We will conduct our business activities fairly and in good faith, with particular emphasis on dialogues with stakeholders.
- We will strive to develop safe, healthy working environments.
- We will contribute to the conservation of the environment and biodiversity.
- We will respect human rights.



FTSE4Good Index Series

Canon MJ has been included in the FTSE4Good Index Series for nine consecutive years. This index measures the performance of companies demonstrating strong environmental, social, and governance (ESG) practices.

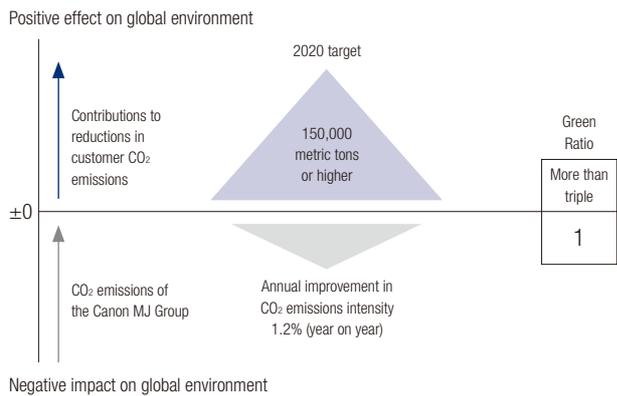
Environmental Management

The Canon MJ Group is contributing to social and environmental progress by reinforcing an environmental management approach that reduces the ecological impact of operations while collaborating with communities and customers in initiatives to balance the wealth of life and safeguarding this planet.

Deploying Green Ratios

The Canon MJ Group formulated the following three Green Ratios as medium-term environmental benchmarks for monitoring annual progress.

- Annual improvement in CO₂ emissions intensity
1.2% (year on year)
- Contributions to reductions in customer CO₂ emissions
More than 150,000 metric tons
- Ratio of customer CO₂ emissions reductions divided by the Canon MJ Group's own reductions
More than triple



Creating the GREEN NAVI ver. 2 Website

We created the GREEN NAVI ver. 2 website to offer office product and solutions applications that enhance efficiency and reduce costs while lowering environmental impact.

The website presents applications in three main content categories. These are life cycle assessments and carbon offsets, energy and resource conservation simulators, and the product and solutions showcase.

<http://cweb.canon.jp/ecology/green-navi/index.html?id=sol>



Social Contributions

As a good corporate citizen, the Canon MJ Group contributes to society through business and activities that help to create a society in which all people can enjoy fulfilling lives.

Running the Smile for the Future Project

The Canon MJ Group launched the Smile for the Future Project in January 2012 to support efforts to recover from the Great East Japan Earthquake by encouraging people to enjoy nature through photography. The project fosters interpersonal communication and children's emotional well-being through its photography and nature experience programs. In the photography experience program, professional photographers show participants how to take pictures with Canon cameras and print the results. Under the nature experience program, parents and children from disaster-affected regions interact with residents in areas abundant with natural features, participating in photography classes and playing in natural surroundings.



Participants in an event in Ofunato, Iwate Prefecture, on November 28, 2015

Supporting the United Nations World Food Programme

Canon MJ supports this food aid initiative in developing nations with the objective of eradicating hunger and poverty. We became a councilor in the Japan Association for the World Food Programme (WFP) in December 2008 as part of that commitment. Since 2009, we have



been a proud sponsor of WFP's Walk the World; 55 employees and family members took part in this charity initiative in 2015. As well, some of our business sites donate percentages of vending machine sales to the WFP's School Meals program, raising ¥613,393* in donations in 2015.

* This amount included matching donations from FV East Japan and Kirin Beverage.

School Recycling Seminars

Canon MJ personnel visit elementary schools to conduct seminars on the importance of recycling and present efficient sorting techniques, using cartridges and other consumables from laser printers. Participants engage in scientific experiments for sorting in recycling processes.



Respecting Human Rights and Diversity

The Canon MJ Group endeavors to prevent employee discrimination and harassment and fosters a corporate culture that values diversity.

Preventing Discrimination and Promoting Diversity

The Canon Group aims to ensure that all executives and employees alike understand and adhere to the Canon Group Code of Conduct, which encourages respect for individuals and individuality and prohibits discrimination, including in terms of race, religion, nationality, gender, and age.

Within the Canon MJ Group, we utilize email magazines sent to all employees and compliance meetings for all work units to raise awareness among executives and employees about discrimination issues.

Canon MJ and Canon IT Solutions Inc. pledged commitments to the Keidanren (Japan Business Federation)'s action plan on women's active participation in the workforce, submitting plans for appointing females to managerial and Board positions.

Canon System & Support Inc., Canon Production Printing Systems Inc., Canon Software Inc., Canon BizAttenda Inc., and Canon Customer Support Inc. have also deployed action plans based on their specific circumstances for appointing and recruiting female executives.

Combatting Harassment

Canon MJ engages in various awareness-building initiatives to prevent sexual and power harassment.

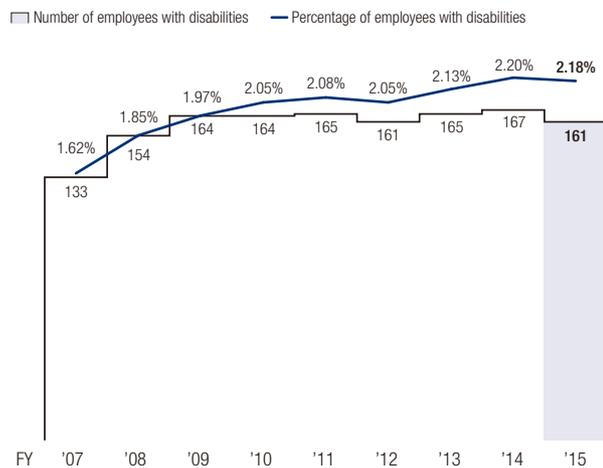
Harassment issues are part of the agenda for training new employees and managers. Compliance meetings also position harassment as an issue for discussion within work units.

We make it easier for employees to seek advice about harassment by offering consultations and by enabling the sharing of concerns by email or telephone.

Initiatives to Employ People with Disabilities

The Canon MJ Group is committed to employing people with disabilities, and accordingly endeavors to create a barrier-free work environment.

Employees with Disabilities (Non-Consolidated Basis)



As of June 2015, 2.18%* of Canon MJ's employees were people with disabilities, exceeding the mandatory rate of 2.0%. The Group will continue pushing ahead with new graduate and midcareer hiring of individuals with disabilities.

* Calculated according to prescribed working hours, disability degrees, and other factors in keeping with the Ministry of Health, Labour and Welfare standards.

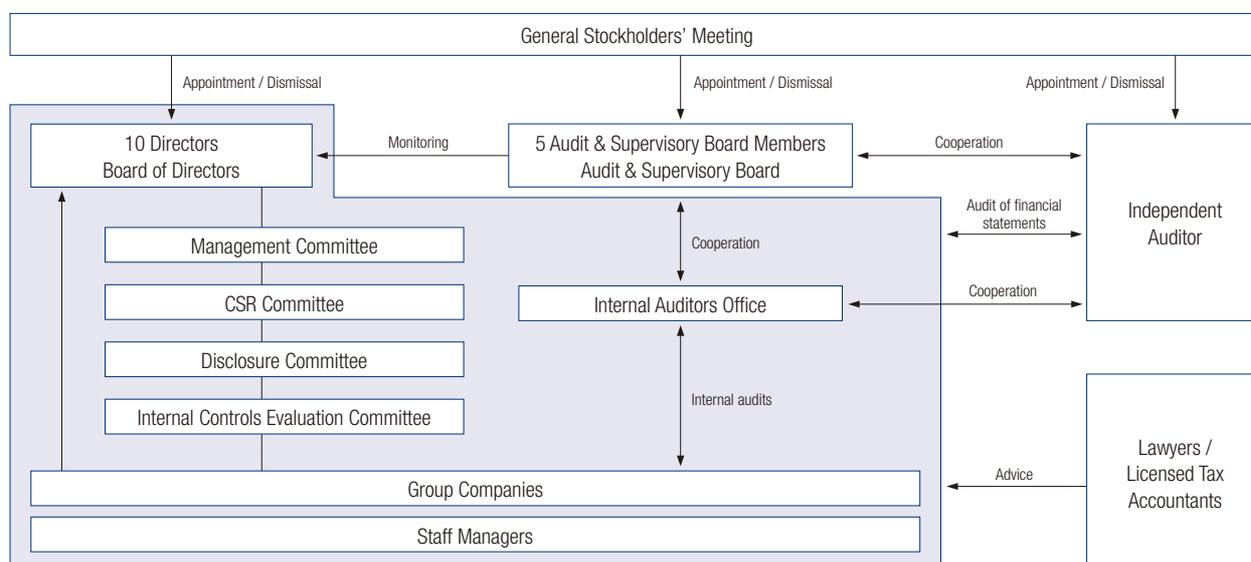
Corporate Governance

Overview of Corporate Governance at the Canon MJ Group

- Organizational format: Company with Audit & Supervisory Board members
- Number of directors: 10
- Number of outside directors: 2
- Number of outside directors designated as independent: 2
- Term of directors: 1 year
- Number of Audit & Supervisory Board members: 5
- Number of outside Audit & Supervisory Board members: 3
- Number of outside Audit & Supervisory Board members designated as independent: 2
- Term of Audit & Supervisory Board members: 4 years
- Independent auditor: Ernst & Young ShinNihon LLC
- Use of executive officer system: Yes

Corporate Governance Organization

(As of March 29, 2016)



Basic Stance on Corporate Governance

We recognize that sustainable growth in corporate value requires ongoing improvement in such areas as management transparency and the monitoring of progress toward management targets. This is reflected in our wide-ranging initiatives to strengthen corporate governance.

Independence from the Parent Company

The Company's parent company is Canon Inc., which held 58.5% of the Company's voting rights as of December 31, 2015. Within Canon Inc.'s corporate group, the Company oversees sales, service, and marketing for Canon products in the Japanese market. The Company also supplies IT solutions and other services, clearly compartmentalizing its operations.

With regard to transactions with the parent company, the Company has the exclusive right to sell all Canon-branded products in Japan, the exceptions being semiconductor manufacturing equipment and liquid crystal (LC) substrate exposure devices. Transaction terms are determined by presenting the Company's asking prices and engaging in conventional negotiations. None of the Company's directors concurrently serves the parent company.

It is because of this situation that the Company faces no restrictions from the parent company in terms of operational activities and maintains a certain level of independence from the parent company by making its

own management decisions on business activities and operations.

The Company ensures the effectiveness of its corporate governance as a listed enterprise by bolstering its internal auditing department while independently building diverse internal controls systems by collaborating with its Audit & Supervisory Board members and independent auditor and setting up committees.

Corporate Governance Structure

In addition to the Board of Directors and the Audit & Supervisory Board, our corporate governance structure also includes an internal auditing system. We have also established a range of committees, including the CSR Committee, the Disclosure Committee, and the Internal Controls Evaluation Committee, to implement policies across the entire organization.

Board of Directors

There are now 10 directors, including two outside directors. By limiting the term of office for directors to one year, we have created a management structure capable of adapting quickly to changes in the business environment. Important decisions are made by the Board of Directors, which normally meets once a month, and at Management Committee meetings attended by the directors of Canon MJ and the presidents of major subsidiaries.

On March 29, 2011, we introduced an executive officer system. The purpose of the system is to speed up management decision-making in the Canon MJ Group by separating management decision-making from executive functions and reducing the number of directors. It also clarifies responsibility for the performance of business operations and strengthens executive systems.

Audit & Supervisory Board

There are five Audit & Supervisory Board members, of whom three are appointed from outside of the Company. The Audit & Supervisory Board's duties include monitoring and reviewing management as well as reporting the results of these activities to the stockholders or Board of Directors of the Company. The Audit & Supervisory Board also works in close alliance with the Internal Auditors Office and the accounting auditors to improve the efficacy of monitoring.

Internal Auditors Office

Internal audits are conducted by the Internal Auditors Office, an independent specialist unit that also assesses and advises Canon MJ and its subsidiaries on legal compliance, the effectiveness of processes, internal control systems, and information security. The Internal Auditors

Office works in coordination with similar units established in major subsidiaries. The Canon MJ Group has 50 audit staff members as of the end of 2015.

Audit of Financial Statements

Canon MJ's financial statements are audited by the Company's independent auditor, Ernst & Young ShinNihon LLC. The independent auditor rotates responsible partners who have been involved in audits of any company for more than seven years.

Outside Directors and Outside Audit & Supervisory Board Members (as defined under the Corporation Law)

Canon MJ has two outside directors and three outside Audit & Supervisory Board members. We have not adopted a policy or criteria concerning the selection of outside directors and outside Audit & Supervisory Board members, who are independent from Canon MJ. However, the people that we appoint to these positions have extensive knowledge and are able to provide effective monitoring and supervision of management.

Reasons for Appointing Outside Directors

Independent director		Reason for appointment
Norihisa Doi	<input checked="" type="checkbox"/>	Mr. Doi has served as a university professor and as a board member of academic societies, and also met requirements for appointment as an independent director.
Akio Dobashi*	<input checked="" type="checkbox"/>	Mr. Dobashi has amassed ample expertise in corporate management as a senior executive of a general trading company, and also met requirements for appointment as an independent director.

* Mr. Dobashi previously worked at Sojitz Corporation. Although the Company has a contract with Sojitz to maintain business and other equipment, management concluded that in view of the scale and nature of transactions there are no prospective conflicts of interest with the Company's stockholders.

Reasons for Appointing Outside Audit & Supervisory Board Members

Independent audit & supervisory board member		Reason for appointment
Shigeo Hasegawa	<input checked="" type="checkbox"/>	Mr. Hasegawa has many years of accounting and auditing experience as a certified public accountant, and also met requirements for appointment as an independent audit & supervisory board member
Kunihiko Tedo	<input type="checkbox"/>	Mr. Tedo worked for many years in accounting in the Canon Group, and served as a Senior Vice President at Canon U.S.A., Inc., with his expertise positioning him well to independently monitor the Company's management.
Nobuyasu Kusumi*	<input checked="" type="checkbox"/>	Mr. Kusumi served as an insurance company executive for many years, and also met requirements for appointment as an independent audit & supervisory board member.

* Mr. Kusumi has served as a senior executive at Sampo Japan Nipponkoa Insurance Inc. and Sampo Japan Nipponkoa Himawari Life Insurance, Inc. The Company has an insurance policy with Sampo Japan Nipponkoa Insurance and a contract with that company to sell and maintain business and other equipment. The Company also has a contract with Sampo Japan Nipponkoa Himawari Life Insurance to sell and maintain business and other equipment. Management concluded. However, that in view of the scale and nature of transactions there are no prospective conflicts of interest with the Company's stockholders.

The Company does not maintain a specialist organization or provide full-time staff to assist outside directors or outside Audit & Supervisory Board members. Directors in charge of operations and other officials provide outside directors with prior explanations of Board of Directors' meeting agendas as needed. Internal auditors, directors in charge of operations, and other officials provide outside Audit & Supervisory

Board members with prior explanations of Board of Directors' meeting agendas as needed. Outside Audit & Supervisory Board members attend Audit & Supervisory Board meetings, which are held at least once monthly, as well as liaison meetings and other gatherings conducted as required to exchange information on important items and make decision as the Board.

Remuneration to Directors and Audit & Supervisory Board Members

Category	Total remuneration (Millions of yen)	Total remuneration by category (Millions of yen)		Number of directors remunerated
		Basic remuneration	Bonuses	
Directors (excluding outside directors)	502	437	64	9
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	42	42	—	2
Outside directors and outside Audit & Supervisory Board members	45	45	—	5

Note: Remuneration and other payments to directors does not include salaries for directors who are concurrently employees.

Remuneration for directors consists of basic remuneration as compensation for executing roles and duties and executive bonuses linked to corporate performance in the fiscal years in question.

The Company does not provide stock options or other incentives to directors. Audit & Supervisory Board members receive basic remuneration that is not linked to corporate performance. This is in keeping with the Company's policy of ensuring objective audits.

Method of Determination

• Basic Remuneration

Resolutions at general meetings of stockholders place ceilings on total remuneration for all directors and Audit & Supervisory Board members. The Board of Directors determines remuneration to each director, while Audit & Supervisory Board members determine remuneration for each other by consulting among themselves.

• Executive Bonuses

General meetings of stockholders resolve on proposals for total bonus payments based on corporate performance in the fiscal years in question. The Board of Directors determines payments to directors

according to their roles and performances, based on the totals approved at general meetings of stockholders.

IR Activities

We formulated the Canon MJ IR Policy in 2008 to clarify our stance on disclosure, which is through the investor relations (IR) website below.

For retail investors, the president or the managing executive officer who oversees IR, conduct company briefings. In 2015, we exhibited at three events for retail investors—in April, June, and August—and held two company briefings at brokerage branches. For analysts and institutional investors, the managing executive officers in charge of IR and accounting overview our results at quarterly briefings for analysts. The president presents medium-term management plans upon results announcements of the previous fiscal year. In addition, we welcome meeting requests from analysts and institutional investors, and hold individual meetings and teleconferences with foreign institutional investors.

Canon MJ IR website

<http://cweb.canon.jp/eng/ir/>

Message from Outside Director



Norihisa Doi
Outside Director

I believe that the basic roles of outside directors are to help propel corporate activities while also checking business execution.

I perform these dual roles by participating in meetings of the Board of Directors, the Management Committee, and other executive bodies, asking questions, making proposals, and providing advice on almost every occasion.

I frequently voice dissent, and gatherings have become freer and more open forums for

the exchanging of opinions as a result. I think this is very good for the Company's management.

Before such meetings, I obtain detailed briefings from corporate planning personnel on management issues, implementation, and other topics. I also engage in discussions about individual projects as needed as part of efforts to thoroughly understand progress in corporate activities.

As well, I am frequently asked my views from others throughout the Company.

I am a computer science and information security expert, with particular strengths in software, so I have experience in practical matters. I strive to draw on this experience to help bring together IT with priority corporate activities under Long-Term Management Objectives Phase III.

Message from Outside Director



Akio Dobashi
Outside Director

In my view, the role of an outside director is to reinforce the supervisory function of the Board of Directors, monitoring governance and compliance to contribute to ongoing growth in corporate value while preventing misconduct. I accordingly scrutinize management very closely from third-party perspectives.

I believe that it is vital to offer new ideas outside those of a specific company's culture and practices.

While I believe that the Company has a proper governance structure in place, I only recently became a director, so I will set about verifying its effectiveness.

The Company has embarked on a drive to diversify and globalize under the banner of Beyond Canon, Beyond Japan. I will draw on my experience as president at a general trading firm to contribute to the progress of Canon Marketing Japan.

Corporate Governance

Board of Directors and Audit & Supervisory Board Members

(As of March 29, 2016)

Board of Directors



Representative Director,
Chairman
Haruo Murase



Representative Director,
President
Masahiro Sakata



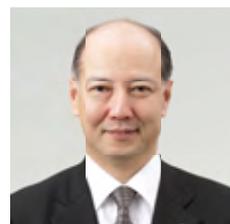
Director
Yutaka Usui



Director
Koichi Yagi



Director
Yoshiyuki Matsusaka



Director
Masachika Adachi



Director
Shiro Hamada



Director
Akihisa Kamimori



Outside
Norihisa Doi



Outside
Akio Dobashi

Audit & Supervisory Board Members



Standing
Masahiro Shimizu



Standing
Fumio Ogaki



Standing, outside
Shigeo Hasegawa



Standing, outside
Kunihiko Tedo



Standing, outside
Nobuyasu Kusumi

Management Systems

Raising the value of the Canon MJ Group's corporate brand is an ongoing priority. We do this by maintaining high standards of corporate ethics Groupwide, and by developing structures capable of responding to a variety of management risks.

Risk Management

The Canon MJ Group has taken steps to ensure the continuity of its business activities in the event of a major earthquake, an influenza outbreak, or other contingencies that could impact on its activities. These initiatives are coordinated by the BCM¹ Committee.

In July 2007, we established the BCP² Expert Committee as a subsidiary organization of the Management Committee tasked with developing, maintaining, and managing BCP systems. Renamed the BCM Committee in 2010, its activities include deliberations on BCM policies for the entire Canon MJ Group.

¹ BCM: Business continuity management

² BCP: Business continuity plan

Internal Controls

Chaired by the president, the Internal Controls Evaluation Committee consists of officials representing corporate departments and subsidiaries. Its task is to develop internal control systems for the entire Canon MJ Group.

Canon Inc., which is listed on the New York Stock Exchange, has adopted systems that comply with the Sarbanes-Oxley Act, a U.S. law designed to improve corporate governance. As a member of the global Canon Group, Canon MJ has also applied global perspectives by establishing systems based on the same standards.

In Japan, in keeping with the application of the internal control reporting regime to listed companies under the Financial Instruments and Exchange Law, since the year ended December 31, 2009, the Company has submitted internal control reports that assess the effectiveness of internal controls relating to financial reporting.

Compliance

For the Canon MJ Group, compliance is not simply a matter of obeying laws and regulations. We define compliance as obedience to regulatory requirements and social rules, a commitment to social justice, and continuing efforts to meet the expectations of society. Our compliance activities are designed to encourage high ethical values and respect for the law in individual employees through awareness activities, employee education, and organizational activities.

In keeping with the rules that it sets, the Board of Directors carefully deliberates and decides on important management matters and receives reports from representative and executive directors and executive officers on business implementation progress.

To raise awareness of the Canon Group Code of Conduct, all employees and officers of Canon MJ carry Compliance Cards. Printed on these cards are the "Three Selves" spirit and compliance tests that can be used by individuals to check their own conduct.

Information Security

The Canon MJ Group regards the reinforcement of information security as part of its responsibilities toward the creation of a more secure society, and as essential to meeting customers' expectations in line with our Customer Focus philosophy.

Our efforts follow two central themes: Reinforcing the Group-level information security infrastructure by improving uniformity and efficiency, and improving the security, reliability, and efficiency of the processes through which we provide value to customers.

Through continuous monitoring and evaluation, we strive to identify factors that hinder or contribute to better information security, a process that we also use to upgrade our services to customers and our IT solutions.

Corporate Governance

Business Risks

Impacts of Market Competition and Fluctuations

In the Business Solutions segment, price competition continues in office MFPs and maintenance services. Although the Group is endeavoring to avoid such competition by differentiating itself through initiatives to add value to its offerings, profitability could deteriorate if price competition intensifies. An increase in unit sales of third-party laser printer toner cartridges could constrain revenues from genuine Canon counterparts.

In IT Solutions, the Company carefully manages work hours in various SI projects to prevent losses. Nonetheless, such factors as additional customer specifications, altered requirements, or mismatches in the Company's and customers' interpretations of specifications or progress could hamper results.

In the Imaging Systems segment, intense price competition in the market for digital cameras could continue due to the rapid speed of innovation in technology and the presence of numerous competitors. While the Company continuously strives to ensure its competitive superiority, through such measures as the swift launch of competitive products and the holding of training workshops for sales staff of mass electronics retailers, profitability could further deteriorate if price competition further intensifies.

The market for compact digital cameras could shrink further amid competition with smartphones, and the inkjet printer market is maturing. While the Company is endeavoring to cultivate new demand, such as through offering new applications or cloud service-linked products that simplify printing from smartphones, sales of hardware and inkjet cartridges could decline if the markets mature further.

In the Industrial/Medical segment, capital spending among semiconductor and device manufacturers greatly affects orders for semiconductor fabrication and optical measuring equipment. Results could stagnate if these manufacturers reduced such expenditure. The Pharmaceutical and Medical Device Act (formerly, the Pharmaceutical Affairs Act) makes it mandatory to appoint sales administrators, set up post-marketing traceability information systems, and reinforce safety management structures. While the Canon MJ Group does its utmost to maintain systems to comply with such requirements, transactions with medical institutions and medical equipment dealers could decline if its safety management structure or information systems do not perform as envisaged.

Each business segment offers goods purchased from parent company Canon Inc. and many other manufacturers, creating the risk of insufficient supplies of goods following natural disasters, major accidents,

or other events. Results could be affected if such situations hamper sales activities.

Credit Risks

The Canon MJ Group could experience unforeseen credit losses, as it engages in many transactions in which it collects payments after providing goods and services. The Company therefore draws on credit information from external credit bureaus and other sources as part of thorough credit management efforts while hedging risks through trade credit risk insurance and other means. The Company provides allowances for doubtful receivables to cover the risks of losses on collection. Large unforeseen uncollectible amounts could detract from the Group's results and financial position.

Relationship with Parent Company

Canon MJ is a subsidiary of Canon Inc., which owned 58.5% of its stock as of December 31, 2015. Canon MJ has the near-exclusive right to sell products (excluding semiconductor manufacturing equipment and LC substrate exposure devices) manufactured by Canon Inc. under the Canon brand in Japan. In fiscal 2015, Canon MJ's purchases from Canon Inc. amounted to ¥226.6 billion, or 65.2% of its total purchases.

Because of this relationship, a major shift in the management policies or business activities of Canon Inc. could have a significant impact on the business activities, performance, and financial position of the Canon MJ Group. If it becomes impossible to maintain the superiority of Canon products in relevant industries for whatever reason, the Group's results could be adversely affected.

Information Management

The Canon MJ Group holds important information about various Group operations as well as a considerable amount of sensitive information about companies and individuals. As such, we formulate information management policies and rules, educate and train employees to increase awareness of the importance of information management, implement and check the status of system security measures, and create and deploy an information security management system. Notwithstanding these measures, information that leaks externally as a result of cyber attacks could greatly inconvenience business partners and other stakeholders or lower the credit standing of the Canon MJ Group, thus possibly hampering its operations, results, and financial position.

Financial Section

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Ten-Year Consolidated Financial Summary

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31

	2015	2014	2013	2012
For the year:				
Net sales (Note 5)	¥ 646,003	¥ 659,432	¥ 657,216	¥ 659,218
Operating income	26,647	25,088	17,013	16,802
Income (loss) before income taxes and minority interests	27,498	25,858	17,055	17,529
Net income (loss)	15,670	16,030	10,168	10,579
At year-end:				
Total assets	486,502	479,747	467,076	462,574
Total stockholders' equity (Note 4)	277,008	270,061	256,795	253,862
Cash flows:				
Cash flows from operating activities	29,730	38,191	28,781	33,767
Cash flows from investing activities	(44,536)	(15,221)	(25,757)	(16,067)
Cash flows from financing activities	(6,225)	(4,545)	(9,105)	(11,813)
Cash and cash equivalents	99,574	120,607	102,183	108,260
Per share of common stock:				
Net income (loss) (Note 2)	¥ 120.84	¥ 123.62	¥ 76.67	¥ 77.45
Cash dividends (Note 3)	45.00	40.00	24.00	24.00
Stockholders' equity (Note 4)	2,136.22	2,082.60	1,980.22	1,907.50

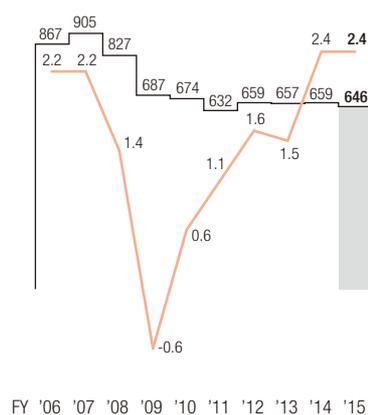
Notes 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥121 to U.S.\$1, the prevailing exchange rate as of December 31, 2015.

2. Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.

3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.

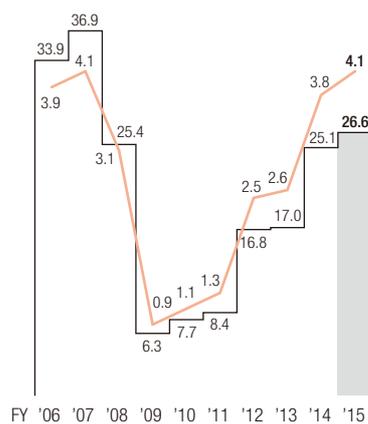
Net Sales and Return on Sales (ROS)

(Billions of yen / %) ■ Net Sales — ROS



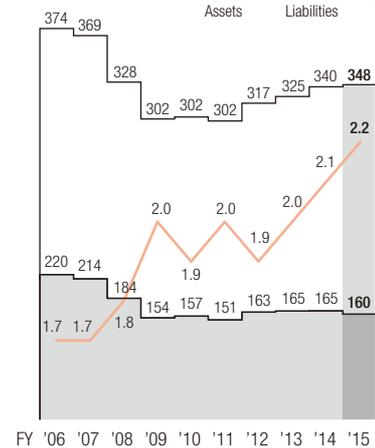
Operating Income and Operating Margin

(Billions of yen / %) ■ Operating Income — Operating Margin



Working Capital

(Billions of yen / Times) ■ Total Current Assets ■ Total Current Liabilities — Current Ratio



Financial Review

Business Performance

Net Sales

For the year ended December 31, 2015, consolidated net sales decreased 2.0%, to ¥646,003 million. The decline reflected a significant sales downturn in the first quarter after a surge in the previous term ahead of a hike in the consumption tax rate in Japan, and it offset gains from new product sales promotions and extensive efforts to market solutions, which resulted in aggregate sales gains from the second quarter.

Segment Information

Business Solutions

Sales were down slightly for office and production multifunctional products (MFPs). This was because for a middle range priced models present a greater proportion of those sales. This offset higher overall unit shipments of MFPs as a result of a relentless focus on marketing, particularly of new models, and intensively cultivating new customers.

We maintained our No. 1 share in the laser printer category by expanding sales of A3 monochrome models and high-volume color machines. Category sales were down, however, owing to fewer large orders. Toner cartridge sales decreased.

Sales of maintenance services for office MFPs were down slightly, as a decrease in unit charges overshadowed a steady rise in print volume as the number of machines in field improved.

Although sales increased from the third quarter, sales of Group company Canon System & Support Inc. decreased for the term, reflecting the impact of the consumption tax rate hike in the first quarter of the previous term, when there was a spike in demand for PCs and other products. Canon Production Printing Systems Inc. boosted sales by increasing shipments of continuous form printers.

As a result of these factors, Business Solutions sales were down 1.0%, to ¥326,871 million.

IT Solutions

The systems integration (SI) services business benefited from higher orders for developing key systems, particularly from financial institutions, and more solutions projects for medical institutions. Sales from this business were down, however, as we allocated some systems maintenance service sales to the IT infrastructure and services business from this year under review. Sales of the latter business

were up, in line with the steady orders for data center services. Steady orders from key manufacturing customers helped the embedded systems business to boost its sales. In the products business, sales were down from a year earlier, as the absence of the previous year's spike in demand for office PCs and other equipment outweighed a steady gain in security product revenues.

Segment sales therefore declined 5.1%, to ¥141,201 million.

Imaging Systems

Sales of interchangeable-lens digital cameras were solid, reflecting favorable demand for advanced amateur models and lenses. We also released new entry-level models in April 2015 and launched mirrorless cameras in October 2015. We thereby retained our No. 1 market share in interchangeable-lens digital cameras and increased their sales. We also maintained our top market share in compact digital cameras, expanding sales of premium and high-magnification zoom lens models, although sales were down because the market shrank.

We kept the position of the market share leader in inkjet printers on the strength of solid promotional activities and increased sales of new products. Sales of these products were down overall, however, as the market was lackluster and prices fell amid intensified competition. Ink cartridge sales were also down.

Sales of commercial imaging equipment decreased. This was because solid demand for the EOS C100 Mark II, a new CINEMA EOS SYSTEM, was insufficient to offset slow upgrades to high-definition broadcast monitoring cameras.

Sales of this segment therefore decreased 3.6%, to ¥178,701 million.

Industrial/Medical

Industrial equipment sales were favorable. This reflected higher capital expenditure in semiconductor-related markets and greater plant utilization rates, which drove demand for lamp annealing, plasma ashing, and other semiconductor fabrication equipment and metrology systems. Sales also rose steadily for maintenance services and repair parts. In the medical imaging category, sales were down in the absence of the previous year's demand spike ahead of the consumption tax rate hike, while there were no large modality orders.

Segment sales therefore decreased 3.1%, to ¥27,153 million.

Income Analysis

Consolidated net sales were down 2.0%, to ¥646,003 million.

This reflected declines of net sales in the Business Solutions, IT Solutions, Imaging Systems and Industrial/Medical segments.

Cost of sales decreased ¥12,998 million. Gross profit dropped 0.2%, to ¥233,105 million.

Selling, general and administrative expenses slipped 1.0%, to ¥206,458 million, reflecting falls in retirement benefit costs and depreciation and amortization.

Operating income therefore rose 6.2%, to ¥26,647 million.

Net other income was ¥851 million, from ¥770 million a year earlier.

Net income was therefore down 2.2%, to ¥15,670 million. Net income per share was ¥120.84, down ¥2.78 from a year earlier.

Financial Position

Total current assets increased ¥7,947 million from the end of the previous year, to ¥347,543 million. This reflected a ¥29,999 million increase in short-term loans receivable, which outweighed a ¥21,700 million decrease in securities.

Fixed assets decreased ¥1,192 million, to ¥138,959 million. Key factors in that change were decreases of ¥1,226 million in buildings and structures, net, ¥1,093 million in software, and ¥362 million in land, outweighing a ¥1,496 million increase in investments in securities.

Total current liabilities decreased ¥5,092 million, to ¥159,679 million. This was because of decreases of ¥2,487 million in consumption taxes payable and ¥1,996 million in accrued expenses.

Total long-term liabilities increased ¥4,762 million, to ¥49,385 million. This was because of a ¥4,960 million increase in net defined benefit liabilities, slightly offset by a ¥124 million decline in lease obligations.

Total net assets increased ¥7,085 million, to ¥277,438 million. Key factors in that rise were ¥15,670 million in net income offset by ¥5,835 million in dividend payments and a ¥2,662 million reduction in retained earnings stemming from the application of the Japanese accounting standard for retirement benefits. Total stockholders' equity ratio was 56.9%, up 0.6 percentage points from a year earlier. Stockholders' equity per share increased ¥53.62, to ¥2,136.22.

Cash Flows

Cash and cash equivalents ("net cash") amounted to ¥99,574 million as of December 31, 2015, a decrease of ¥21,033 million from the end of the previous year.

Net cash provided by operating activities amounted to ¥29,730 million, compared with ¥38,191 million in the previous year. This was due mainly to ¥27,498 million in income before income taxes and minority interests, ¥15,524 million in depreciation and amortization, and a decrease of ¥2,599 million in notes and accounts receivable-trade, partially offset by increases of ¥2,162 million in inventories and ¥10,515 million in income taxes paid.

Net cash used in investing activities was ¥44,536 million, compared with ¥15,221 million in the previous year. The main factors were a ¥30,000 million increase in short-term loans receivable, ¥12,384 million in payments for purchases of property, plant and equipment, and ¥3,002 million in payments for purchases of intangible assets.

Net cash used in financing activities amounted to ¥6,225 million, compared with ¥4,545 million in the previous year, owing mainly to dividends paid of ¥5,844 million.

Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2015 and 2014

Millions of yen

ASSETS	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents (Notes 8 and 9)	¥ 99,574	¥ 120,607
Notes and accounts receivable (Note 8)	125,907	128,473
Inventories (Note 5)	30,006	27,815
Deferred tax assets (Note 11)	5,281	4,860
Short-term loans receivable (Note 8)	80,054	50,055
Other current assets	6,923	7,899
Allowance for doubtful receivables	(202)	(113)
Total current assets	347,543	339,596
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 3)	35,940	36,302
Buildings and structures (Note 3)	88,201	87,005
Machinery and vehicles	328	161
Furniture and fixtures	19,474	19,902
Rental assets	34,987	31,731
Lease assets	1,323	1,907
Total	180,253	177,008
Accumulated depreciation	(80,943)	(76,949)
Net property, plant and equipment	99,310	100,059
INTANGIBLE ASSETS:		
Goodwill (Note 2)	820	1,091
Software	8,269	9,362
Lease assets	77	116
Utilization rights	318	318
Other intangible assets	15	20
Total intangible assets	9,499	10,907
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 3, 8 and 9)	7,789	6,293
Long-term loans receivable	11	12
Lease deposits (Note 15)	5,275	5,338
Deferred tax assets (Note 11)	14,768	15,040
Other investments	2,605	2,859
Allowance for doubtful receivables	(298)	(357)
Total investments and other assets	30,150	29,185
Total non-current assets	138,959	140,151
Total assets	¥ 486,502	¥ 479,747

Millions of yen

LIABILITIES AND NET ASSET	2015	2014
CURRENT LIABILITIES:		
Notes and accounts payable (Notes 3 and 8)	¥ 101,834	¥ 101,338
Lease obligations (Note 15)	222	344
Accrued income taxes (Note 11)	6,201	5,919
Consumption taxes payable	5,132	7,619
Accrued expenses	22,119	24,115
Reserves	4,172	4,166
Other current liabilities	19,999	21,270
Total current liabilities	159,679	164,771
LONG-TERM LIABILITIES:		
Lease obligations (Note 15)	321	445
Deferred tax liabilities (Note 11)	582	540
Deferred tax liabilities for land revaluation (Note 11)	26	29
Allowance for long-term continuous service rewards (Note 2)	943	998
Net defined benefit liabilities (Notes 2 and 10)	42,823	37,863
Other long-term liabilities (Note 15)	4,690	4,748
Total long-term liabilities	49,385	44,623
CONTINGENT LIABILITIES (Note 4)		
NET ASSETS (Note 2):		
STOCKHOLDERS' EQUITY (Note 16):		
Common stock:		
Authorized 299,500,000 shares; Issued 151,079,972 shares in 2015 and 2014	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	151,037	143,864
Treasury stock	(31,912)	(31,905)
Total stockholders' equity	275,248	268,082
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Net unrealized gain on available-for-sale securities	2,775	1,705
Deferred gains or losses on hedges	1	—
Foreign currency translation adjustments	225	272
Remeasurements of defined benefit plans	(1,241)	2
Total accumulated other comprehensive income	1,760	1,979
MINORITY INTERESTS	430	292
Total net assets	277,438	270,353
Total liabilities and net assets	¥ 486,502	¥ 479,747

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

Millions of yen

	2015	2014
NET SALES	¥ 646,003	¥ 659,432
COST OF SALES	412,898	425,896
Gross profit	233,105	233,536
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	206,458	208,448
Operating income	26,647	25,088
OTHER INCOME (EXPENSES):		
Interest and dividend income	407	362
Interest expense	(27)	(32)
Equity in loss of affiliates	—	(3)
Insurance income	599	596
Foreign exchange losses	(123)	—
Gain on sales of fixed assets	349	71
Gain on negative goodwill	—	12
Insurance income due to disaster	35	332
Settlement received	—	255
Loss on impairment of fixed assets	(3)	(6)
Gain on sales of investments in securities	82	4
Gain on sales of shares of subsidiaries and affiliates	57	—
Loss on sales and disposal of fixed assets	(369)	(216)
Loss on disaster	(15)	(390)
Loss on litigation	—	(600)
Special extra retirement payments	(524)	(13)
Corporate reorganization-related expense	(103)	—
Other, net	486	398
	851	770
Income before income taxes and minority interests	27,498	25,858
INCOME TAXES (Note 11):		
Current	10,302	8,686
Deferred	1,468	1,109
	11,770	9,795
Income before minority interests	15,728	16,063
MINORITY INTERESTS	58	33
Net income	¥ 15,670	¥ 16,030
		Yen
PER SHARE OF COMMON STOCK (Note 2):		
Net income	¥ 120.84	¥ 123.62
Cash dividends applicable to the year	¥ 45.00	¥ 40.00

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

Millions of yen

	2015	2014
INCOME BEFORE MINORITY INTERESTS	¥ 15,728	¥ 16,063
OTHER COMPREHENSIVE INCOME (LOSS) (Note 6)		
Net unrealized gain on available-for-sale securities	1,071	567
Deferred gains or losses on hedges	1	—
Foreign currency translation adjustments	(20)	165
Remeasurements of defined benefit plans, net of tax	(1,243)	—
Total other comprehensive income (loss)	(191)	732
Comprehensive income	¥ 15,537	¥ 16,795
Comprehensive income attributable to		
Shareholders of Canon Marketing Japan Inc.	¥ 15,451	¥ 16,771
Minority interests	86	24

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

Millions of yen

	Number of shares of common stock	Stockholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE AT JANUARY 1, 2014	151,079,972	¥ 73,303	¥ 82,820	¥ 131,332	¥ (31,897)
Net income				16,030	
Cash dividends				(3,501)	
Purchase of treasury stock					(9)
Disposition of treasury stock					1
Minority interests in income					
Cash dividends paid to minority shareholders					
Other, net				3	
BALANCE AT JANUARY 1, 2015	151,079,972	¥ 73,303	¥ 82,820	¥ 143,864	¥ (31,905)
Cumulative effect of changes in accounting policies (Note 2)				(2,662)	
Restated balance at beginning of year	151,079,972	73,303	82,820	141,202	(31,905)
Net income				15,670	
Cash dividends				(5,835)	
Purchase of treasury stock					(7)
Disposition of treasury stock			0		0
Sales of shares of consolidated subsidiaries					
Minority interests in income					
Cash dividends paid to minority shareholders					
Other, net					
BALANCE AT DECEMBER 31, 2015	151,079,972	¥ 73,303	¥ 82,820	¥ 151,037	¥ (31,912)

Millions of yen

	Accumulated other comprehensive income					Total net assets
	Net unrealized gain on available-for- sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	
BALANCE AT JANUARY 1, 2014	¥ 1,139	—	¥ 98	—	¥ 281	¥ 257,076
Net income						16,030
Cash dividends						(3,501)
Purchase of treasury stock						(9)
Disposition of treasury stock						1
Minority interests in income					33	33
Cash dividends paid to minority shareholders					(12)	(12)
Other, net	566		174	2	(10)	735
BALANCE AT JANUARY 1, 2015	¥ 1,705	—	¥ 272	¥ 2	¥ 292	¥ 270,353
Cumulative effect of changes in accounting policies (Note 2)						(2,662)
Restated balance at beginning of year	1,705	—	272	2	292	267,691
Net income						15,670
Cash dividends						(5,835)
Purchase of treasury stock						(7)
Disposition of treasury stock						0
Sales of shares of consolidated subsidiaries					63	63
Minority interests in income					58	58
Cash dividends paid to minority shareholders					(11)	(11)
Other, net	1,070	1	(47)	(1,243)	28	(191)
BALANCE AT DECEMBER 31, 2015	¥ 2,775	¥ 1	¥ 225	¥ (1,241)	¥ 430	¥ 277,438

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

Millions of yen

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 27,498	¥ 25,858
Adjustments for:		
Depreciation and amortization	15,524	17,090
Loss on impairment of fixed assets	3	6
Amortization of goodwill	242	139
Gain on negative goodwill	—	(12)
Increase (decrease) in allowance for doubtful receivables	30	(115)
Increase (decrease) in net defined benefit liabilities	(918)	(474)
Interest and dividend income	(407)	(362)
Interest expense	27	32
Loss (gain) on sales and retirement of property, plant and equipment, net	(26)	95
Loss (gain) on sales of investments in securities	(70)	(3)
Decrease (increase) in notes and accounts receivable-trade	2,599	4,848
Decrease (increase) in inventories	(2,162)	303
Increase (decrease) in notes and accounts payable-trade	497	(7,244)
Other, net	(2,972)	3,618
Sub-total	39,865	43,779
Interest and dividends received	407	363
Interest paid	(27)	(33)
Income taxes paid	(10,515)	(5,918)
Net cash provided by operating activities	29,730	38,191
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(12,384)	(10,332)
Proceeds from sales of property, plant and equipment	801	440
Payments for purchases of intangible assets	(3,002)	(3,354)
Payments for purchases of investments in securities	(132)	(180)
Proceeds from sales of investments in securities	169	33
Payments for purchases of shares of subsidiaries	—	(939)
Proceeds from sales of shares of affiliates	125	239
Payments for purchases of shares of subsidiaries resulting in change in scope of consolidation	—	(1,279)
Decrease (increase) in short-term loans receivable, net	(30,000)	(40)
Decrease (increase) in time deposits, net	—	109
Other	(113)	82
Net cash used in investing activities	(44,536)	(15,221)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable, net	—	(141)
Repayments of finance lease obligations	(375)	(527)
Payments for purchases of treasury stock	(7)	(9)
Dividends paid	(5,844)	(3,514)
Other	1	(354)
Net cash used in financing activities	(6,225)	(4,545)
Effect of exchange rate changes on cash and cash equivalents	(2)	(1)
Net increase (decrease) in cash and cash equivalents	(21,033)	18,424
Cash and cash equivalents at beginning of year	120,607	102,183
Cash and cash equivalents at end of year	¥ 99,574	¥ 120,607

• See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Marketing Japan Inc. (the "Company") and its consolidated subsidiaries (the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain accounts and items presented in the original consolidated financial statements in Japanese have been reclassified for the convenience of readers outside Japan.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2015 include the accounts of the Company and all of its 26 (27 in 2014) subsidiaries.

All intercompany accounts and transactions are eliminated in consolidation.

Goodwill is amortized generally over five years.

(b) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments, including securities, time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition, to be cash equivalents.

(c) Securities

The held-to-maturity debt securities are stated at amortized cost.

Available-for-sale marketable securities are stated at fair market value, with unrealized gain or loss, net of the applicable taxes, reported as a separate component of net assets. Available-for-sale securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

(d) Inventories

Merchandise and service parts are valued at cost determined by the monthly moving-average method. The carrying amount in the balance sheet represents the amount after write-downs due to decreased profitability.

Work in process is valued at cost determined by the specific identification method.

Supplies are valued at cost determined by the last-purchase price method. The carrying amount in the balance sheet represents the amount after write-downs due to decreased profitability.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method for property and equipment, with the exception of items that are depreciated by the straight-line method at rates based on the estimated useful lives of the respective assets. These items are buildings purchased on or after April 1, 1998 (exclusive of furniture and fixtures), all buildings and structures of the Company's Makuhari office, property and equipment of certain consolidated subsidiaries, and rental assets in the Business Solutions segment. The useful lives are as follows: buildings, mainly fifty years; furniture and fixtures, mainly five years; and rental assets, mainly three years. Normal repairs and

maintenance, including minor renewals and improvements, are charged to income as incurred.

(f) Accounting Method for Retirement Benefits

(1) Method of attributing estimated amounts of retirement benefits to periods

In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current fiscal year is primarily determined using the benefit formula basis.

(2) Amortization of unrecognized actuarial gains and losses and prior service cost

Unrecognized prior service cost is amortized by the straight-line method over the average remaining service period of the eligible employees at the time when it arose. Unrecognized actuarial gains and losses are amortized from the fiscal year following the year in which they arose by the straight-line method over the average remaining service period of the eligible employees.

(3) Application of simplified method at smaller-sized companies, etc.

Certain consolidated subsidiaries apply the simplified method for calculating net defined benefit liabilities and net periodic benefit costs. Under this method, the payments for voluntary early retirement of all eligible employees at the end of the fiscal year are recognized as retirement benefit obligations.

(g) Leases

Leased assets under finance lease contracts are depreciated by the straight-line method over their respective lease contract term with zero residual value.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided in the amount required to cover possible losses on collection. It is determined by adding individually estimated uncollectible amounts for specific items to an amount based on the actual rate of uncollected receivables of the Group in prior years.

(i) Income Taxes

Deferred tax assets and liabilities are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying the statutory income tax rate to the temporary differences.

(j) Translation of Foreign Currency Accounts

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at the balance sheet date. The foreign exchange gains and losses on translation are recognized in the accompanying consolidated statements of income.

(k) Foreign Currency Financial Statements

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates in effect at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates.

Revenue and expense accounts are translated at the average exchange rates prevailing during the year.

(l) Per Share Amounts of Common Stock

Net income per share is calculated using net income available to holders of common stock, and the weighted average number of shares of common stock outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the respective fiscal years.

(m) Bonuses to Directors

The estimated amount payable for the next round of directors' bonuses, which are classed as expenses for the current year, has been included in the accounts for the current fiscal year.

(n) Allowance for Long-Term Continuous Service Rewards

In order to set aside money for payment of rewards to employees who have given long-term continuous service determined in accordance with the Company's internal regulations, an allowance for long-term continuous service rewards is recorded based on the amount the Company and certain consolidated subsidiaries expect to pay in the future.

(o) Recognition of Revenues and Expenses and Recognition of Revenue from Customized Software Development

For software development contracts in progress as of December 31, the percentage-of-completion method is applied in cases where the outcomes of such software development contracts can be estimated reliably. When the percentage-of-completion method is applied, the percentage of completion at the end of the fiscal year is determined based on actual costs incurred and estimated total contract costs. For all other contracts, the completed-contract method is applied.

(p) Application of Consolidated Taxation System

The Company and certain consolidated subsidiaries have adopted the consolidated taxation system.

(q) Changes in Accounting Policies

From the fiscal year ended December 31, 2015, the Company applied the main clause of Article 35 of the "Accounting Standard for Retirement Benefits" and the main clause of Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and (ASBJ Guidance No. 25, March 26, 2015). The Company accordingly reviewed its methods for calculating retirement benefit obligations and service costs and changed its period attribution method for projected retirement benefits from the straight-line method to the benefit formula basis. It also changed the method for determining the discount rate from one that approximates the average remaining service period of employees with respect to the bond durations that are the basis for such determination, to a single weighted average discount rate that reflects the projected timing for paying retirement benefits and the amounts for each such period.

Accounting Standard for Retirement Benefits and its guidance are applied with transitional treatments stipulated in Article 37 of the Accounting Standard for Retirement Benefits. As of January 1, 2015, the impact of the changes in methods for calculating retirement benefit obligations and service costs was reflected in retained earnings. This resulted in a ¥4,062 million increase in net defined benefit liabilities and a ¥2,662 million decrease in retained earnings as of January 1, 2015. The impacts on operating income and income before income taxes and minority interests for the year ended December 31, 2015 were immaterial.

(r) Accounting Standards Not Yet Applied

- Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Revised Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Revised Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No.4, September 13, 2013)

(1) Overview

The principal accounting standard revisions were 1) accounting for changes in a parent's holdings in a subsidiary when control is retained in the acquisition of additional shares in that subsidiary, 2) the corresponding accounting for acquisition costs, 3) net income disclosure and revising terminology from minority interests to non-controlling interests, and 4) provisional accounting.

(2) Application Date

The changes will be applied from the beginning of the fiscal year ending December 31, 2016. Provisional accounting will apply to business combinations occurring on or after the start of the fiscal year ending December 31, 2016.

(3) Effect of Applying Accounting Standards

The effects of the adoption of the revised accounting standards and guidance are currently being evaluated.

- Guidance on Recoverability of Deferred Tax Assets
(ASBJ Guidance No. 26, December 28, 2015)

(1) Overview

Entities are classified into one of five categories under the framework applied in Auditing Guidance No. 66, "Auditing Treatment for Judgment of Recoverability of Deferred Assets", with regard to assessing the recoverability of deferred tax assets. The Company basically follows the framework for estimating total deferred tax assets in keeping with the relevant categories, making the necessary adjustments for the following treatments:

- (i) Treatment for entities that do not satisfy any criteria for categories 1 through 5
- (ii) Criteria for categories 2 and 3
- (iii) Treatment for unscheduled deductible temporary differences at category 2 entities
- (iv) Treatment for determining reasonable estimable periods of future taxable income prior to adjustments for deductible temporary differences at category 3 entities
- (v) Treatment for situations in which entities that satisfy the criteria for category 4 are classified in category 2 or 3

(2) Application Date

The changes will be applied from the beginning of the fiscal year ending December 31, 2017.

(3) Effect of Applying Accounting Guidance

The effects of the adoption of the accounting guidance are currently being evaluated.

(s) Change in Presentation Method

Consolidated Statements of Changes in Net Assets

The Company previously presented changes of items other than stockholders' equity as an aggregate net amount. To enhance the convenience of the users of the consolidated financial statements, from the year ended December 31, 2015, the Company began presenting major individual components of those changes separately and their corresponding amounts.

The Company accordingly restated the Consolidated Statements of Changes in Net Assets for the previous fiscal year.

3 Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2015 and 2014 were as follows:

(1) Pledged assets

	Millions of yen	
	2015	2014
Land	¥ 647	¥ 701
Buildings	437	480
Time deposits	62	—
Total	¥ 1,146	¥ 1,181

(2) Liabilities secured by the above assets

	Millions of yen	
	2015	2014
Accounts payable	¥ 301	¥ 264
Total	¥ 301	¥ 264

4 Contingent Liabilities

Contingent liabilities as of December 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Guarantees for employees' housing loans	¥ 37	¥ 45
Joint and several guarantee on lease payment of two customers	—	8
Total	¥ 37	¥ 53

5 Inventories

Inventories as of December 31, 2015 and 2014 were composed of the following:

	Millions of yen	
	2015	2014
Merchandise	¥ 25,801	¥ 24,043
Service parts	2,526	2,428
Work in progress	792	489
Supplies	735	720
Other	152	135
Total	¥ 30,006	¥ 27,815

Note: For the software development contracts from which contract losses are expected, the inventory relating to such contracts and relevant reserves for contract losses do not offset each other and have been recorded in gross amounts in current assets and current liabilities, respectively.

6 Other Comprehensive Income (Loss)

The following table shows reclassification adjustments for each component of other comprehensive income (loss) for the years ended December 31, 2015 and 2014.

	Millions of yen			
	2015		2014	
Net unrealized gain on available-for-sale securities				
Amount arising during the year	¥ 1,551		¥ 870	
Reclassification adjustments	(82)	1,469	(1)	869
Deferred gains or losses on hedges				
Amount arising during the year	1	1	—	—
Foreign currency translation adjustments				
Amount arising during the year	(20)	(20)	165	165
Remeasurements of defined benefit plans				
Amount arising during the year	(661)		—	
Reclassification adjustments	(1,155)	(1,816)	—	—
Total other comprehensive income (loss) before tax effect		(366)		1,034
Tax effect		175		(302)
Total other comprehensive income (loss)		¥ (191)		¥ 732

The following table shows tax effects for each component of other comprehensive income (loss) for the years ended December 31, 2015 and 2014

	Millions of yen					
	2015			2014		
	Pre-tax amount	Tax effect	Net-of-tax amount	Pre-tax amount	Tax effect	Net-of-tax amount
Net unrealized gain on available-for-sale securities	¥ 1,469	¥ (398)	¥ 1,071	¥ 869	¥ (302)	¥ 567
Deferred gains or losses on hedges	1	(0)	1	—	—	—
Foreign currency translation adjustments	(20)	—	(20)	165	—	165
Remeasurements of defined benefit plans	(1,816)	573	(1,243)	—	—	—
Total other comprehensive income (loss)	¥ (366)	¥ 175	¥ (191)	¥ 1,034	¥ (302)	¥ 732

7 Consolidated Statement of Changes in Net Assets

Current Fiscal Year (from January 1, 2015 to December 31, 2015)

1. Matters pertaining to the types and total number of shares issued and the types and number of shares of treasury stock

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	21,405	3	0	21,408
Total	21,405	3	0	21,408

Notes: 1. The increase of 3 thousand shares of treasury stock was due to the purchase of fractional stock.

2. The decrease of 0 thousand shares of treasury stock was due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2015					
General stockholders' meeting	Common stock	¥3,242	¥25	December 31, 2014	March 27, 2015
July 22, 2015					
Board of Directors' meeting	Common stock	¥2,593	¥20	June 30, 2015	August 26, 2015

(2) Dividends for which the base date falls within the current fiscal year and the date effective is in the following fiscal year

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 29, 2016						
General stockholders' meeting	Common stock	Retained earnings	¥3,242	¥25	December 31, 2015	March 30, 2016

Previous Fiscal Year (from January 1, 2014 to December 31, 2014)

1. Matters pertaining to the types and total number of shares issued and the types and number of shares of treasury stock

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	21,400	5	0	21,405
Total	21,400	5	0	21,405

Notes: 1. The increase of 5 thousand shares of treasury stock was due to the purchase of fractional stock.

2. The decrease of 0 thousand shares of treasury stock was due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 27, 2014					
General stockholders' meeting	Common stock	¥1,556	¥12	December 31, 2013	March 28, 2014
July 23, 2014					
Board of Directors' meeting	Common stock	¥1,945	¥15	June 30, 2014	August 26, 2014

(2) Dividends for which the base date falls within the current fiscal year and the date effective is in the following fiscal year

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2015						
General stockholders' meeting	Common stock	Retained earnings	¥3,242	¥25	December 31, 2014	March 27, 2015

8 Financial Instruments

Current Fiscal Year (from January 1, 2015 to December 31, 2015) and Previous Fiscal Year (from January 1, 2014 to December 31, 2014)

1. Information on financial instruments

(1) Policies for financial instruments

The Group limits its asset management to financial instruments characterized as very safe and believes that financing should mainly be conducted through the use of Group finances whenever necessary. The Company enters into derivative transactions to hedge against foreign exchange fluctuation risks and not for speculative purposes.

(2) Types and risks of financial instruments and systems to control those risks

Operating receivables, consisting of notes and accounts receivable, are exposed to credit risks of customers. The Group strives to mitigate these risks by strict credit control utilizing credit information provided by external credit agencies, as well as by credit insurance and other risk-hedging means.

Short-term loans receivable are mainly the loans to the parent company by the Company, rendered in compliance with the internal regulations for investment and management of funds.

Short-term investments in securities and investments in securities consist primarily of held-to-maturity debt securities and equity securities issued by business counterparties of the Group, and are exposed to market price fluctuation risk. Regarding this risk, the Group periodically monitors the fair values of the securities and the financial condition of their issuers i.e., business counterparties. In addition, for securities other than held-to-maturity debt securities, the Group continuously reviews the status of security holdings, taking market conditions and relationships with business counterparties into consideration.

Trade payables, consisting of notes and accounts payable, are mainly those due within six months.

Derivative transactions consist of forward exchange contracts to hedge against the risks of fluctuations in foreign currency denominated trade payables.

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments include not only values based on market quotations, but also values calculated on a theoretical basis in cases where market quotations are not available. Such values may vary depending on different assumptions, as variables are factored into the calculation of such values.

2. Fair values of financial instruments

The book values of financial instruments in the consolidated balance sheets as of December 31, 2015 and 2014, their fair values, and the differences between the two are as follows. The table below, however, excludes the financial instruments whose fair values are considered extremely difficult to assess (see Note 2).

Millions of yen

2015			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 36,774	¥ 36,774	—
(2) Notes and accounts receivable	125,907	125,907	—
(3) Short-term investments in securities and investments in securities	69,782	69,782	—
(4) Short-term loans receivable	80,054	80,054	—
Total assets	¥ 312,517	¥ 312,517	—
(5) Notes and accounts payable	¥ 101,834	¥ 101,834	—
Total liabilities	¥ 101,834	¥ 101,834	—

Millions of yen

2014			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 36,107	¥ 36,107	—
(2) Notes and accounts receivable	128,473	128,473	—
(3) Short-term investments in securities and investments in securities	90,010	90,010	—
(4) Short-term loans receivable	50,055	50,055	—
Total assets	¥ 304,645	¥ 304,645	—
(5) Notes and accounts payable	¥ 101,338	¥ 101,338	—
Total liabilities	¥ 101,338	¥ 101,338	—

Notes: 1. Calculation methods of fair values of financial instruments and other matters relating to securities are as below:

Assets

(1) Cash and deposits, (2) Notes and accounts receivable, and (4) Short-term loans receivable

The book values of these assets are used as their fair values, since they are to be settled in the short term and accordingly their fair values approximate their book values.

(3) Short-term investments in securities and investments in securities

The fair values of equity securities are based on the prices at the security exchanges, and those of debt securities are based on the prices at the security exchanges or quotations obtained from counterparty financial institutions. Details of securities by holding objectives are described in Note 9 Securities.

Liabilities

(5) Notes and accounts payable

The book values of these liabilities are used as their fair values, since they are to be settled in the short term and accordingly their fair values approximate their book values.

2. The book values of financial instruments whose fair values are considered extremely difficult to assess were as follows:

		Millions of yen	
		2015	2014
		Book value	
Equity securities		¥ 312	¥ 308
Investments in investment partnerships		¥ 495	¥ 475

These financial instruments are not included in (3) Short-term investments in securities and investments in securities in the preceding table of fair values, since they do not have market prices and therefore assessment of their fair values is considered to be extremely difficult.

3. The redemption schedule of monetary claims and securities with maturities as of December 31, 2015 and 2014 was summarized as follows:

					Millions of yen				
					2015				
					Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years	
Cash and deposits					¥ 36,774	—	—	—	
Notes and accounts receivable					125,907	—	—	—	
Short-term investments in securities and investments in securities									
Held-to-maturity debt securities									
(1) Corporate bonds					—	—	—	—	
(2) Other					62,800	—	—	—	
Short-term loans receivable					80,054	—	—	—	
Total					¥ 305,535	—	—	—	

					Millions of yen				
					2014				
					Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years	
Cash and deposits					¥ 36,107	—	—	—	
Notes and accounts receivable					128,473	—	—	—	
Short-term investments in securities and investments in securities									
Held-to-maturity debt securities									
(1) Corporate bonds					—	—	—	—	
(2) Other					84,500	—	—	—	
Short-term loans receivable					50,055	—	—	—	
Total					¥ 299,135	—	—	—	

9 Securities

Securities as of December 31, 2015 and 2014 were classified and included in the following accounts:

	Millions of yen	
	2015	2014
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 7,789	¥ 6,293
Held-to-maturity:		
Cash and cash equivalents	62,800	84,500
Total	¥ 70,589	¥ 90,793

The carrying amounts and aggregate fair values of investments in securities at December 31, 2015 and 2014 were as follows:

	Millions of yen			
	2015			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,061	¥ 3,942	¥ (33)	¥ 6,970
Other	11	1	—	12
Total	¥ 3,072	¥ 3,943	¥ (33)	¥ 6,982

	Millions of yen			
	2014			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,052	¥ 2,471	¥ (25)	¥ 5,498
Other	11	1	—	12
Total	¥ 3,063	¥ 2,472	¥ (25)	¥ 5,510

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2015 and 2014 were as follows:

	Millions of yen	
	2015	2014
Available-for-sale:		
Equity securities	¥ 312	¥ 308
Investments in investment partnerships	495	475
Held-to-maturity:		
Certificates of deposit	62,800	84,500
Total	¥ 63,607	¥ 85,283

10 Employees' Retirement and Severance Benefits

Current Fiscal Year (from January 1, 2015 to December 31, 2015)

1. Overview

The Company has a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan), and a lump-sum severance payment plan, and its domestic consolidated subsidiaries have defined benefit corporate pension plans, and lump-sum severance payment plans. The Company sometimes provides retiring employees with extra retirement payments not included in the retirement benefit obligations actuarially calculated in line with its retirement benefit accounting.

2. Defined benefit plans

(1) Reconciliation of retirement benefit obligations at beginning and end of year

	Millions of yen	
	2015	2014
Retirement benefit obligations at beginning of year	¥ 202,476	¥ 186,469
Cumulative effect of changes in accounting policies	4,062	—
Restated balance at beginning of year	206,538	186,469
Service costs	7,402	6,760
Interest costs	2,110	2,845
Actuarial gains and losses	(1,827)	12,097
Benefit paid	(6,738)	(5,695)
Retirement benefit obligations at end of year	¥ 207,485	¥ 202,476

(2) Reconciliation of plan assets at beginning and end of year

	Millions of yen	
	2015	2014
Plan assets at beginning of year	¥ 165,178	¥ 154,598
Expected return on plan assets	4,562	4,283
Actuarial gains and losses	(2,488)	6,967
Contributions from the employer	4,174	4,599
Benefit paid	(6,172)	(5,269)
Plan assets at end of year	¥ 165,254	¥ 165,178

(3) Reconciliation of retirement benefit obligations at beginning and end of year for which the simplified method was applied

	Millions of yen	
	2015	2014
Net defined benefit liabilities at beginning of year	¥ 565	¥ 444
Net periodic benefit costs	91	91
Benefit paid	(33)	(19)
Contributions to plans	(31)	(29)
Other	—	78
Net defined benefit liabilities at end of year	¥ 592	¥ 565

(4) Reconciliation of retirement benefit obligations and plan assets at year-end and net defined benefit liabilities and assets in consolidated balance sheets

Millions of yen

	2015	2014
Funded retirement benefit obligations	¥ 190,471	¥ 186,455
Plan assets	165,505	165,431
	24,966	21,024
Unfunded retirement benefit obligations	17,857	16,839
Net liabilities and assets in consolidated balance sheets	¥ 42,823	¥ 37,863
Net defined benefit liabilities	¥ 42,823	¥ 37,863
Net liabilities and assets in consolidated balance sheets	¥ 42,823	¥ 37,863

Note: Includes plans for which the simplified method was applied.

(5) Retirement benefit costs

Millions of yen

	2015	2014
Service costs	¥ 7,402	¥ 6,760
Interest costs	2,110	2,845
Expected return on plan assets	(4,562)	(4,283)
Amortization of actuarial gains and losses	1,525	3,641
Amortization of prior service costs	(2,680)	(4,462)
Net periodic benefit costs using the simplified method	91	91
Retirement benefit costs of defined benefit plans	¥ 3,886	¥ 4,592

Note: In addition to the above retirement benefit costs, the Group recorded ¥893 million (including ¥524 million of special extra retirement payments) and ¥352 million (including ¥13 million of special extra retirement payments) for extra retirement payments for the years ended December 31, 2015 and 2014, respectively.

(6) Remeasurements of defined benefit plans before income tax effect adjustment

Change in unrecognized prior service costs and unrecognized actuarial gains and losses for the year ended December 31, 2015 were as follows:

Millions of yen

	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	¥ (12,380)	¥ 12,430	¥ 50
Net change	2,680	(864)	1,816
At end of year	¥ (9,700)	¥ 11,566	¥ 1,866

(7) Plan assets

1. Main components of plan assets

Ratios for main components of plan assets were as follows:

	2015	2014
Bonds	24%	24%
Stocks	3	4
Pooled funds	48	48
Life insurance company general accounts	21	20
Other	4	4
Total	100%	100%

Note: The composition of pooled funds was 49% in bonds and 51% in stocks for the year ended December 31, 2015, and 48% in bonds and 52% in stocks for the year ended December 31, 2014.

2. Methodology for setting long-term expected rates of return

The long-term expected rate of return on plan assets are determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

(8) Actuarial assumptions

The principal actuarial assumptions as of December 31, 2015 and 2014 were as follows:

	2015	2014
Discount rates	0.1 - 1.2%	1.1 - 2.0%
Long-term expected rates of return on plan assets	1.0 - 3.0%	1.0 - 3.0%
Estimated rates of salary increases	1.7 - 3.0%	1.7 - 3.0%

3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥1,939 million and ¥1,589 million for the years ended December 31, 2015 and 2014, respectively.

11 Income Taxes

For the year ended December 31, 2015, the difference between the statutory income tax rate of 35.0% and the effective income tax rate following the adoption of tax-effect accounting of 42.8% was 7.8 percentage points. The effective income tax rate for the year ended December 31, 2015, differed from the statutory income tax rate following the adoption of tax-effect accounting for the reasons outlined in the table below.

The difference between the statutory income tax rate and the effective income tax rate for the year ended December 31, 2014 was not material, therefore the tax reconciliation for 2014 was not disclosed.

	2015
Statutory income tax rate	35.0 %
Entertainment and other expenses permanently not deductible for tax purposes	1.2
Per-capita levy of inhabitants' taxes	1.2
Valuation allowance	(1.2)
Dividend income not taxable	(0.0)
Decrease in deferred tax assets due to tax rate changes	5.9
Other	0.7
Effective income tax rate following the adoption of tax-effect accounting	42.8 %

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2015 and 2014, were as follows:

Millions of yen

	2015	2014
DEFERRED TAX ASSETS:		
Accrued bonuses to employees	¥ 1,333	¥ 1,291
Accrued business tax and business office tax	668	654
Loss on disposal and devaluation of inventories	400	434
Net defined benefit liabilities	13,859	13,255
Excess amortization of software	987	1,695
Loss carried forward	790	1,124
Loss on devaluation of investments in securities	734	812
Excess depreciation of fixed assets	657	520
Loss on impairment of fixed assets	79	100
Allowance for doubtful receivables	166	117
Other	5,119	4,890
Gross deferred tax assets	24,792	24,892
Less: valuation allowance	(2,460)	(3,199)
Total deferred tax assets	¥ 22,332	¥ 21,693
DEFERRED TAX LIABILITIES:		
Net unrealized gain on available-for-sale securities	¥ 1,197	¥ 711
Deferred capital gain	1,450	1,534
Other	244	117
Total deferred tax liabilities	¥ 2,891	¥ 2,362
Deferred tax liabilities for land revaluation	¥ 26	¥ 29
Net deferred tax assets	¥ 19,467	¥ 19,360

(Additional Information)

On March 31, 2015, the "Act to Partially Revise the Income Tax Act and Others" (Act No. 9 of 2015) was promulgated. Under the act, effective from the fiscal year beginning on or after April 1, 2015, a reduction in the corporate tax rate and other measures were implemented. Accompanying these changes, the effective statutory tax rate used to calculate the Company's deferred tax assets and liabilities was reduced from the previously used 35% to 33% for temporary differences expected to be reversed in the fiscal year beginning on January 1, 2016, and to 32% for temporary differences expected to be reversed in the fiscal year beginning on January 1, 2017 and thereafter.

Due to these changes in taxation rates, deferred tax assets (after deduction of deferred tax liabilities) decreased by ¥1,579 million, income taxes-deferred increased by ¥1,633 million, net unrealized gain on available-for-sale securities increased by ¥116 million, and remeasurements of defined benefit plans decreased by ¥62 million as of and for the year ended December 31, 2015.

12 Segment Information

1. Segment Information

(1) Description of Reportable Segments

Reportable segments are constituent units of the Group for which separate financial information is available and they are subject to periodic reviews by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

The Company has four reportable segments, Business Solutions, IT Solutions, Imaging Systems and Industrial/Medical, all of which are determined based on the organizational structure of the Group and include companies of the Group.

Major companies and organizations in each segment

Reportable Segment	Major companies / organizations
Business Solutions	Canon Marketing Japan Inc. Business Solutions Company Canon System & Support Inc. Canon Production Printing Systems Inc.
IT Solutions	Canon Marketing Japan Inc. IT Product Promotion Headquarters Canon MJ IT Group Holdings Inc. Canon IT Solutions Inc. Canon Software Inc. Edifist Learning Inc. 12 other companies
Imaging Systems	Canon Marketing Japan Inc. Imaging System Company Canon Customer Support Inc.
Industrial/Medical	Canon Marketing Japan Inc. Industrial Equipment-Medical Equipment Business Canon Lifecare Solutions Inc. ELQUEST CORPORATION AZE, Ltd. Canon Advanced Technologies Taiwan Inc.

Major products and services in each segment

Reportable Segment	Major products / services
Business Solutions	Business-use multifunctional products, print-on-demand (POD) digital presses, personal-use plain-paper copiers, laser printers, large format ink-jet printers, office-use facsimiles, liquid crystal projectors, document scanners, color cardprinters, color label printers, teleconference system, network cameras, document solutions, service and support
IT Solutions	System integration, embedded software, infrastructure & operation, solution & software products, computer devices, network devices, smart devices
Imaging Systems	Digital cameras, interchangeable lenses, digital video cameras, ink-jet printers, compact photo printers, personal-use scanners, electronic dictionaries, calculators, commercial imaging equipment
Industrial/Medical	Semiconductor manufacturing equipment, optical measurement equipment, 3D printers, medical equipment (digital X-ray cameras, ophthalmic equipment), medical system, sterilization and cleaning systems, fully automated pharmaceutical dispensing systems

(2) Methods of measurement for sales, segment income (loss), assets, and other items for reportable segments

Accounting methods for reportable segments are the same as the accounting methods described in Note 2 Summary of significant accounting policies. Segment income (loss) is measured based on the amount of operating income. Intersegment sales and transfers are based on market prices.

(3) Information by reportable segment for the years ended December 31, 2015 and 2014 was as follows:

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2015								
Net sales:								
External customers	¥ 326,871	¥ 112,622	¥ 178,701	¥ 27,153	¥ 656	¥ 646,003	—	¥ 646,003
Intersegment	—	28,579	—	—	—	28,579	¥ (28,579)	—
Total	¥ 326,871	¥ 141,201	¥ 178,701	¥ 27,153	¥ 656	¥ 674,582	¥ (28,579)	¥ 646,003
Segment income (loss)	¥ 8,991	¥ 4,136	¥ 13,842	¥ (743)	¥ 421	¥ 26,647	—	¥ 26,647
Segment assets	¥ 140,511	¥ 65,305	¥ 74,981	¥ 19,212	¥ 9,395	¥ 309,404	¥ 177,098	¥ 486,502
Other items:								
Depreciation and amortization	¥ 10,680	¥ 2,151	¥ 1,996	¥ 527	¥ 170	¥ 15,524	—	¥ 15,524
Amortization of goodwill	—	97	—	145	—	242	—	242
Changes in the amount of property, plant and equipment and intangible assets	¥ 10,621	¥ 2,399	¥ 1,080	¥ 446	¥ 7	¥ 14,553	—	¥ 14,553

Notes: 1. "Other" represents operating segments which are not included in the reportable segments, and includes operations such as the shared-services business.

2. Major items of adjustments of segment assets are surplus operating funds (cash, cash equivalents and short-term investments in securities) of the Company and assets of administrative departments, totaling ¥177,098 million.

3. Segment income (loss) corresponds to operating income stated on the consolidated statement of income.

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2014								
Net sales:								
External customers	¥ 330,233	¥ 115,717	¥ 185,407	¥ 28,024	¥ 51	¥ 659,432	—	¥ 659,432
Intersegment	—	33,033	—	—	—	33,033	¥ (33,033)	—
Total	¥ 330,233	¥ 148,750	¥ 185,407	¥ 28,024	¥ 51	¥ 692,465	¥ (33,033)	¥ 659,432
Segment income (loss)	¥ 8,206	¥ 3,164	¥ 14,258	¥ (978)	¥ 438	¥ 25,088	—	¥ 25,088
Segment assets	¥ 138,579	¥ 65,040	¥ 77,940	¥ 19,725	¥ 9,395	¥ 310,679	¥ 169,068	¥ 479,747
Other items:								
Depreciation and amortization	¥ 10,877	¥ 3,065	¥ 2,489	¥ 484	¥ 175	¥ 17,090	—	¥ 17,090
Amortization of goodwill	—	¥ 103	—	¥ 36	—	¥ 139	—	¥ 139
Changes in the amount of property, plant and equipment and intangible assets	¥ 10,089	¥ 2,321	¥ 1,322	¥ 755	¥ 41	¥ 14,528	—	¥ 14,528

Notes: 1. "Other" represents operating segments which are not included in the reportable segments, and includes operations such as the shared-services business.

2. Major items of adjustments of segment assets are surplus operating funds (cash, cash equivalents and short-term investments in securities) of the Company and assets of administrative departments, totaling ¥169,068 million.

3. Segment income (loss) corresponds to operating income stated on the consolidated statement of income.

2. Related Information

(1) Information by product and service

Disclosure of information by product and service is omitted since the segment information contains the same information.

(2) Information by geographical area

1. Sales

Disclosure of information on sales by geographical area is omitted since sales to domestic external customers accounts for more than 90% of consolidated net sales.

2. Property, plant and equipment

Disclosure of information on property, plant and equipment by geographical area is omitted since the amount of domestic property, plant and equipment accounts for more than 90% of total property, plant and equipment recorded on the consolidated balance sheet.

(3) Information by major customers

Disclosure of information by major customers is omitted since no customer accounts for 10% or more of consolidated net sales.

3. Information on impairment loss on property, plant and equipment by reportable segment

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2015	¥ 3	—	—	—	—	¥ 3	—	¥ 3

Note: "Other" represents operating segments which are not included in the reportable segments and includes operations such as the shared-services business.

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2014	—	—	—	¥ 6	—	¥ 6	—	¥ 6

4. Information on amortization and balance of goodwill by reportable segment

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2015	—	¥ 97	—	¥ 145	—	¥ 242	—	¥ 242
Goodwill at December 31, 2015	—	¥ 275	—	¥ 545	—	¥ 820	—	¥ 820

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
2014	—	¥ 103	—	¥ 36	—	¥ 139	—	¥ 139
Goodwill at December 31, 2014	—	¥ 401	—	¥ 690	—	¥ 1,091	—	¥ 1,091

5. Information on gain on negative goodwill

There were no applicable items in the year ended December 31, 2015.

For the year ended December 31, 2014, the Company acquired shares in A&A Co., Ltd., making it a consolidated subsidiary. This resulted in a ¥12 million gain on negative goodwill, which the Company included in other income but has not allocated to individual reporting segments.

13 Related Party Transactions

Current Fiscal Year (from January 1, 2015 to December 31, 2015)

Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of fiscal year (Millions of yen)
						Board members holding concurrent positions	Business relationships				
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥174,762	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5 Indirect 0.0	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	¥ 226,661	Accounts payable	¥ 69,764
								Sales of office equipment and consumables, etc.			
								Non-operating transactions	¥ 7,051	Accounts receivable and others	¥ 2,766
								Loans of capital	¥ 30,000	Short-term loans	¥ 80,000

Note: Transaction amounts do not include consumption tax, etc., however, the account balances include consumption tax, etc.

Transaction conditions and policies for deciding transaction conditions, etc.

- (1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.
- (2) Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.
- (3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Previous Fiscal Year (from January 1, 2014 to December 31, 2014)

Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of fiscal year (Millions of yen)
						Board members holding concurrent positions	Business relationships				
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥174,762	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5 Indirect 0.0	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	¥ 232,974	Accounts payable	¥ 71,051
								Sales of office equipment and consumables, etc.			
								Non-operating transactions	¥ 5,560	Accounts receivable and others	¥ 2,809
								Loans of capital	¥ 50,000	Short-term loans	¥ 50,000

Note: Transaction amounts do not include consumption tax, etc., however, the account balances include consumption tax, etc.

Transaction conditions and policies for deciding transaction conditions, etc.

- (1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.
- (2) Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.
- (3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

14 Asset Retirement Obligations

The Group recognizes restoration obligations under real estate rental agreements of buildings and other real estates as asset retirement obligations.

Instead of recognizing liabilities, the Group reasonably estimates the uncollectible amount of lease deposits relating to the real estate rental agreements, and accounts for the portion of such estimated amount attributable to the current fiscal year as an expense.

The outstanding balances of lease deposits considered uncollectible as of December 31, 2015 and 2014 were ¥1,832 million and ¥1,951 million, respectively.

15 Lease Obligations, Long-Term Loans Payable and Deposits

Lease obligations, long-term loans payable and deposits as of December 31, 2015 were 2014 consisted of the following:

	Average interest rate (2015)	2015	2014
Millions of yen			
Lease obligations			
Current portion of lease obligations		¥ 222	¥ 344
Lease obligations (excluding current portion)		321	445
		543	789
Long-term loans payable (excluding current portion)	—	—	—
Deposits	0.0%	4,044	3,710
Total		¥ 4,587	¥ 4,499

16 Stockholders' Equity

The Corporate Law of Japan went into effect on May 1, 2006, replacing the Commercial Code. It is applicable to events or transactions of companies in Japan occurring on or after May 1, 2006 and for fiscal years ending on or after May 1, 2006.

The Corporate Law stipulates that the amounts actually paid in or provided in consideration for newly issued stock shall be recorded as common stock. However, it also allows 50% or less of such amounts to be recorded as additional paid-in capital.

Under the Corporate Law, a company that meets certain criteria can establish its Articles of Incorporation so that dividends can be paid to its existing stockholders by resolution of the Board of Directors, without requiring the approval of a resolution at a general stockholders' meeting. The Company has met said criteria and amended its Articles of Incorporation at the annual general stockholders' meeting for fiscal 2006. The Corporate Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. However, such appropriation cannot be made if the aggregate amount of the legal reserve exceeds 25% of common stock (i.e. the aggregate amount of the Company's legal reserve has already reached 25% of its common stock).

Independent Auditor's Report



Ernst & Young ShinNihon LLC
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2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

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Fax: +81 3 3503 1197
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Independent Auditor's Report

The Board of Directors
Canon Marketing Japan Inc.

We have audited the accompanying consolidated financial statements of Canon Marketing Japan Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Marketing Japan Inc. and its consolidated subsidiaries as at December 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

March 28, 2016
Tokyo, Japan

Canon MJ Group Companies

As of April 1, 2016

Segment	Company name	Lines of business
Business Solutions	Canon System & Support Inc.	Solutions consulting, sales, support, and maintenance services, mainly for Canon's products
	Canon Production Printing Systems Inc.	Sales and maintenance services for production printers and consumables, development and delivery of workflow systems, and provision of printing services
IT Solutions	Canon IT Solutions Inc.	Systems integration and consulting, IT services, and software development and sales
	Canon Software Inc.	Development of IT solutions and software embedded in products
	Canon ITS Medical inc.	Medical systems sales and development
	Canon BizAttenda Inc.	Business process outsourcing and temp staffing
	SuperStream Inc.	Integrated business package planning and sales
	Qualysite Technologies Inc.	Software development and data center operations
	A&A Co., Ltd.	Domestic sales of Vectorworks 3D CAD software
	Edifist Learning Inc.	Corporate IT and management training for corporations
	Canon Software America, Inc.	Business applications software development
	Canon Information Systems (Shanghai) Inc.	Software development and sales
	Canon IT Solutions (Thailand) Co., Ltd.	IT solutions operations in Thailand
	Material Automation (Thailand) Co., Ltd.	IT solutions operations in Southeast Asia
	Canon IT Solutions (Philippines), Inc.	IT solutions operations in the Philippines
Imaging Systems	Canon Customer Support Inc.	Call center and consumer product services
Industrial/Medical	Canon Lifecare Solutions Inc.	Medical equipment and systems and healthcare-related equipment sales and service
	ELQUEST CORPORATION	Medical equipment production
	AZE, Ltd.	3D medical image analysis and other systems development, production, and sales
	Canon Advanced Technologies Taiwan Inc.	Sales and service for semiconductor manufacturing and other equipment
Shared services	Canon Business Support Inc.	Management of Group real estate and other assets

The Group comprises 25 consolidated subsidiaries (including domain name management companies).

Corporate Data

Headquarters

Canon S Tower, 16-6, Konan 2-chome, Minato-ku,
Tokyo 108-8011, Japan

Date of Establishment

February 1, 1968

Common Stock

¥73,303,082,757

Number of Shares Issued

151,079,972 shares

Stock Listing

Canon Marketing Japan Inc.'s common stock is traded on the
First Section of the Tokyo Stock Exchange.

Number of Stockholders

11,060

Number of Employees

Consolidated: 18,101

Non-consolidated: 5,243

(As of December 31, 2015)

Main Locations of Operations

Headquarters, Makuhari office and branches

(Sapporo, Sendai, Nagoya, Osaka, Hiroshima, and Fukuoka)

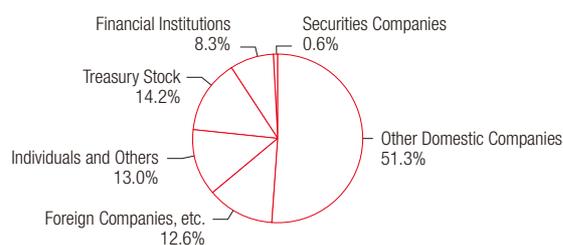
(As of April 1, 2016)

Major Stockholders

Name of stockholder	Number of shares held (thousands)	Percentage of ownership (%)
Canon Inc.	75,708	50.11%
Canon Marketing Japan Group Employee Stock Ownership Association	6,084	4.03
Japan Trustee Services Bank, Ltd. (Trust Account)	1,876	1.24
The Master Trust Bank of Japan, Ltd.	1,778	1.18
STATE STREET BANK AND TRUST COMPANY	1,673	1.11
CBNY—GOVERNMENT OF NORWAY	1,430	0.95
THE BANK OF NEW YORK MELLON SA/NV 10	1,383	0.91
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,161	0.77
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,158	0.77
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	1,134	0.75

Note: The percentage of ownership is calculated excluding the number of treasury stock (21,407,603 shares)

Shareholder Composition



Canon MJ Investor Relations Website

Canon MJ maintains a comprehensive investor relations (IR) website to further facilitate communication with stockholders. The website contains:

- News for investors
- IR calendar
- Financial results and other financial information
- Information on Long-Term Management Objectives Phase III (FY2016–2020) and Three-Year Management Plan (FY2016–2018)
- Stock information
- Annual reports

<http://cweb.canon.jp/eng/ir/>

Stock Price Range and Trading Volume





Canon Marketing Japan Inc.

Headquarters

Canon S Tower, 16-6, Konan 2-chome,
Minato-ku, Tokyo 108-8011, Japan

Canon Marketing Japan Website

(Investor Relations)

<http://cweb.canon.jp/eng/ir/>