

The Canon logo is positioned in the top right corner of the page. It consists of the word "Canon" in a white, bold, sans-serif font. The background of the entire page is a vibrant red with a complex, abstract pattern of overlapping geometric shapes and lines, creating a sense of depth and movement. A bright light source is visible in the upper left quadrant, casting a glow across the scene.

Canon

Canon Marketing Japan Inc.

Drawing on Our Strengths to Expand Our Business Domains

Annual Report 2016

for the year ended December 31, 2016

Profile

Becoming a Company that Grows Together with its Customers

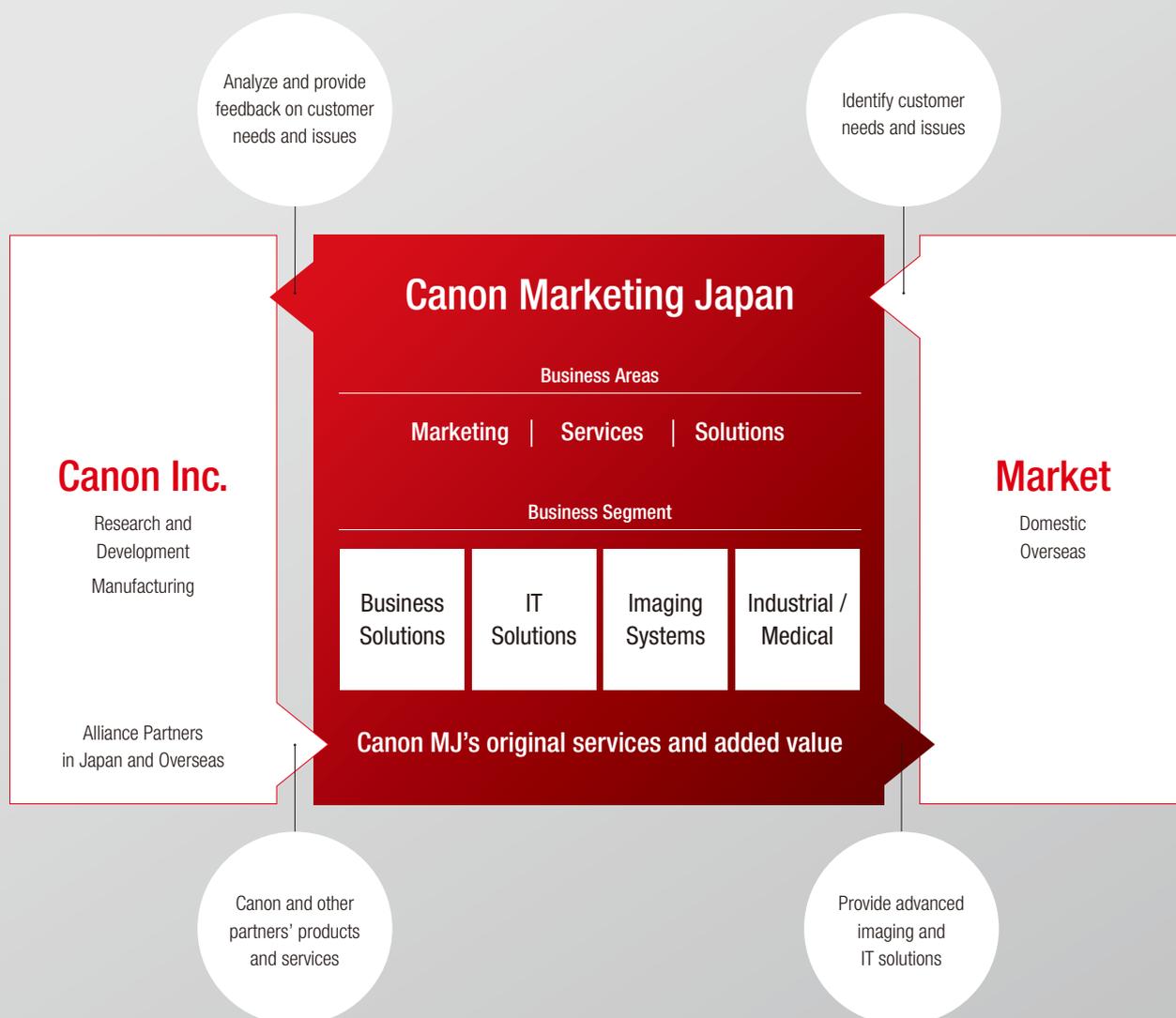
Our business is all about serving our customers as well as possible, and in doing so many of their issues and underlying social concerns become evident to us.

We seek to address such concerns through the solutions that we have long cultivated and to contribute to the progress of our customers as well as society. Based on our years of experience and accumulated know-how, the Canon Marketing Japan (Canon MJ) Group will continue to enhance its ability to create solutions and help customers overcome even greater challenges in the years ahead.



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.



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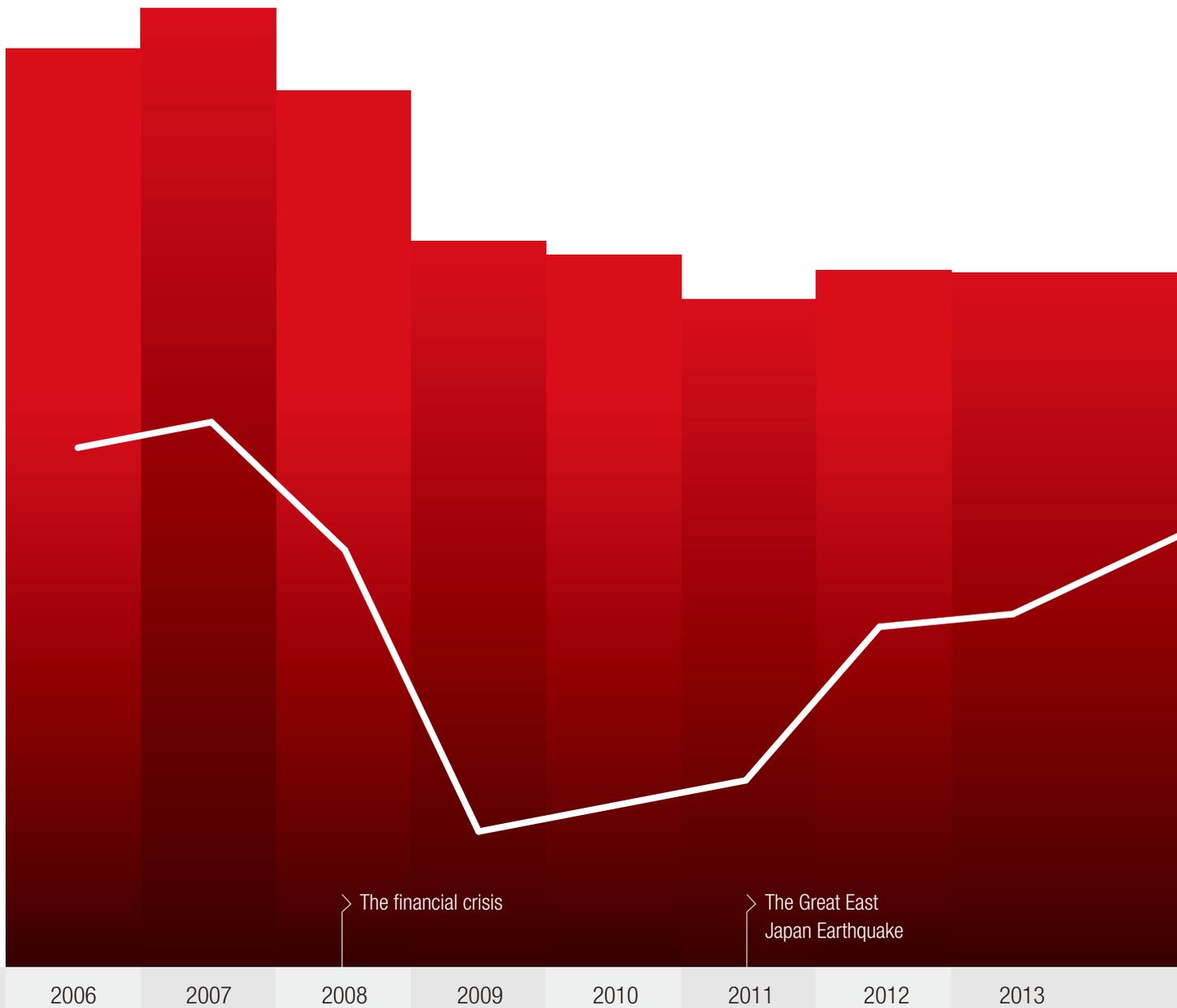
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Editorial Policy

In Annual Report 2016, Special Feature 1 highlights case studies involving our unique IT solutions that have served to enhance productivity, ensure network security, and promote work practice reforms. Special Feature 2 takes a look at the fast-growing network cameras business. The report also includes an interview with the president of Canon MJ, Masahiro Sakata, about his management policy, and explains segment operating results and business strategies, as well as environmental, social contribution, and corporate governance initiatives in light of the Company's emphasis on sustainable management objectives.

Toward Our Mission

Performance Trend



Long-Term Management Objectives

Phase I 2006–2010

Our priority strategies were to become No. 1 in terms of customer satisfaction and market shares in key product categories and to establish next-generation businesses.

Phase II 2011–2015

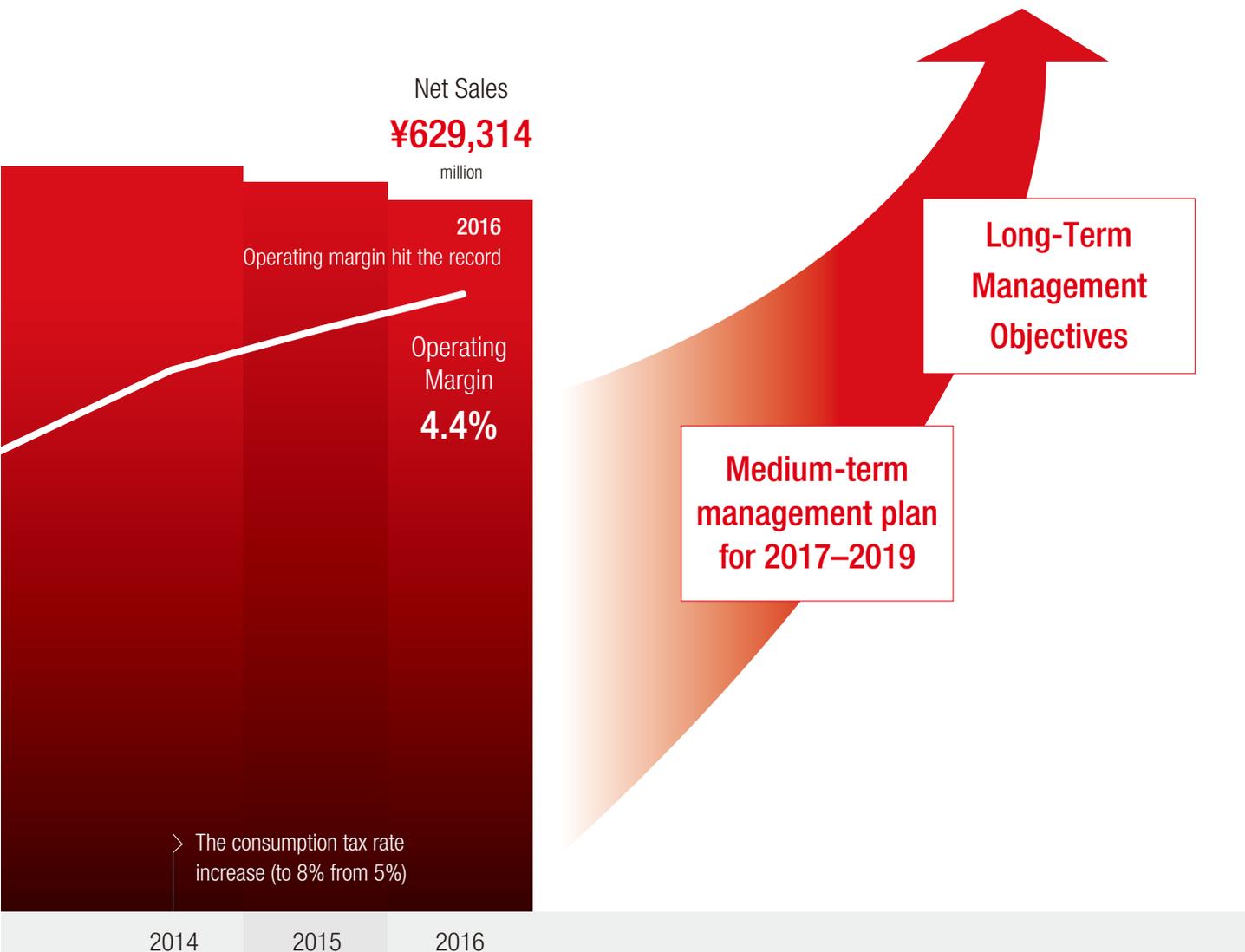
Our priority strategies were to expand the market shares of Canon products, diversify business, evolve into a service company and to further Group management innovation.

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.



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.

SPECIAL FEATURE 1

Showcasing the Canon MJ Group's IT Solutions

Steadily Expanding Group IT Solutions

IT solutions are expanding across all operations as pivotal to the growth of the Canon MJ Group. In fiscal 2016, aggregate revenues of the IT Solutions segment and IT solutions in other segments (after eliminating intersegment sales) accounted for 28% of consolidated net sales.

The year saw expansions in the IT service and packaged software markets. In IT Solutions segment, sales rose

on higher demand for core financial and manufacturing systems development. In the Business Solutions segment, we also generated growth in such areas as IT equipment maintenance services, security-related solutions, and the cloud business, primarily for our numerous multifunction printer (MFP) customers. We also expanded our business with electronic health records and systems development for medical institutions. IT solutions sales in other segments

Large-Company-Oriented Segment-Specific Solutions Strategy



IT solutions sales in other segments



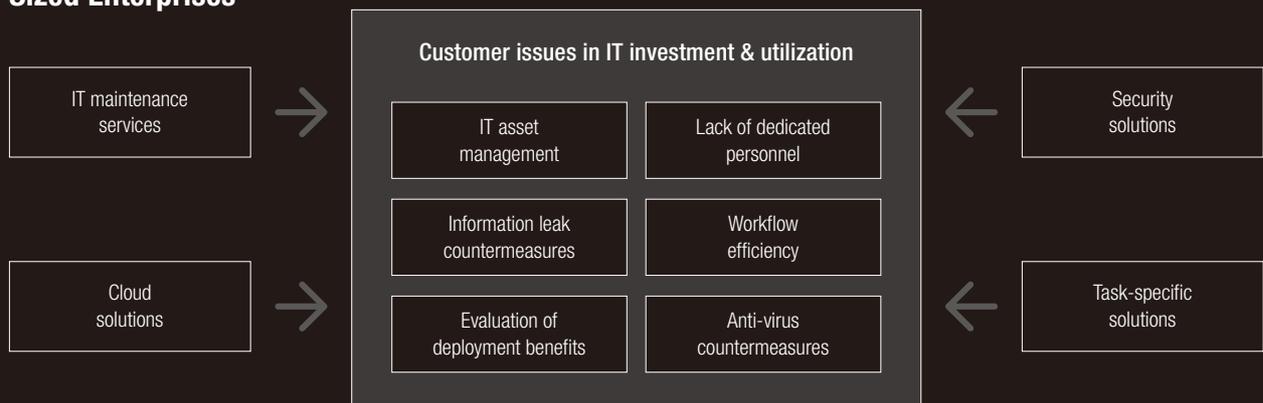
(before eliminating intersegment sales) increased to ¥73.2 billion.

We attribute our gains to our customer-centric approach and advanced technological capabilities. Customer-centricity is one of the Canon MJ Group's guiding principles. We endeavor to build trust as a true partner for our customers so they will consult with us first whenever issues arise, and are committed to understanding and

resolving those issues.

The Group has endeavored to enhance its technological capabilities by acquiring such companies as Sumitomo Metal System Solutions Co., Ltd. (now Canon IT Solutions Inc.), and Argo 21 Corporation. As well, the Group always maintains optimal customer services by drawing on specialized R&D units and operating as a systems integrator with strengths in manufacturing and financial systems that

Solution Strategy for Resolving Issues Specific to Mid-Sized Companies and Small & Medium-Sized Enterprises



SPECIAL FEATURE 1

> CASE STUDY 1:

Leveraging IT Solutions to Safeguard Society from Cyber Threats

Malware Analysis Service

Although the Internet has made modern living more convenient, it is also rife with malware and other cyber threats that have become major social issues. Losses are fast rising from targeted attacks through virus-infected emails and from ransomware, which locks the users' files unless a ransom is paid.

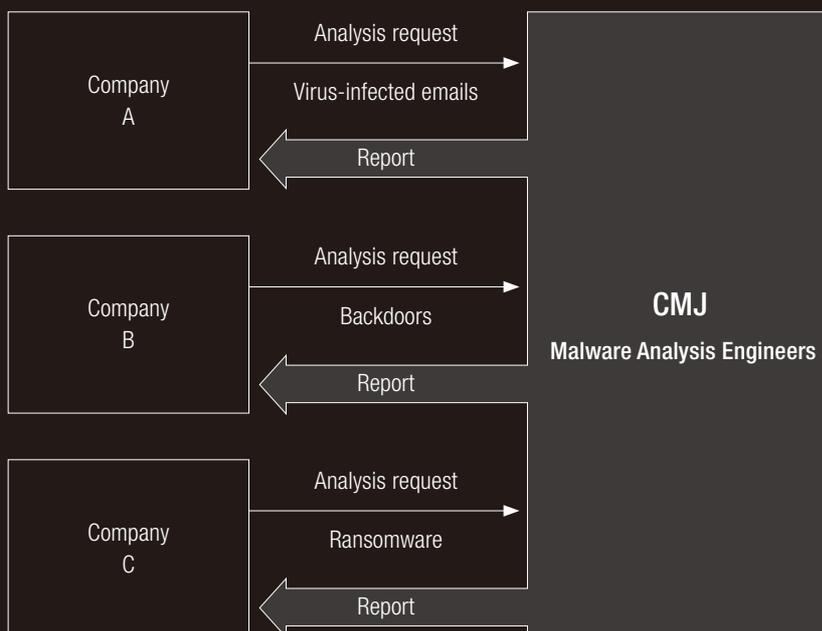
Customer requests to Canon IT Solutions for advice on how to resolve these problems have accordingly surged. Inquiries have commonly sought highly trustworthy information on techniques to check for malware infections, assess damage, and recover data as soon as possible.

Canon IT Solutions responded to such interest in July 2016 by launching its Malware Analysis Service, which draws on years of amassing information and threat analysis capabilities as a security

solutions vendor. With this service, the company's engineers evaluate malware and suspicious files. They then produce reports explaining techniques to check for infections, malware destinations, registry and other infectious manipulations, and recovery methods. The reports help the Information Systems Department in managing crises and also provide information that companies need for internal reporting.

In preparing for the launch of this service, Canon IT Solutions obtained training for its engineers from ESET, spol. s r.o., a global cybersecurity leader. The Canon MJ Group exclusively imports and markets ESET's anti-virus software in Japan. We are proud that our engineers are among a select few in Japan with malware analysis skills and experience.

Flow of Service Provision



> CASE STUDY 2:

Supporting Work Practice Reforms with IT Solutions
“Telework Supporter”

Work practice reforms have become an urgent social issue in Japan against the backdrop of a declining birth rate, eldercare shortages, a greater emphasis on workplace diversity, and a rising awareness of work–life balance. Teleworking from home or satellite offices is thus commanding attention as a tool in tackling these challenges.

Japan already has more than 9.55 million teleworkers. Large companies have led the way in rolling out teleworking programs. More and more companies have found that these setups reduce employee turnover and enhance productivity. A common issue for small & medium-sized enterprises is that they have found it hard to find replacements for specialist personnel when childcare or eldercare prevents them from working full-time.

There are two prime challenges to offering telework. The first is

that it can be difficult to manage job attendance, including when people are working from home. The second is that PCs can be hacked if the right security measures are not in place.

Canon IT Solutions addressed these two issues with proprietary image analysis technology in “Telework Supporter,” which it launched in February 2017. This system uses an app to remotely control teleworker web cameras, capturing and uploading facial images to a cloud server. The app also takes and sends screenshots to the server. If someone has accessed a teleworker’s PC, the system sends notification to the administrator and automatically switches off the PC screen. We began receiving numerous inquiries about this service immediately following its introduction.

Functions of “Telework Supporter”

Telework management



- On-duty information
- Absence information
- Sharing of job attendance information
- Task management

Security measures



- Peep detection
- Impersonation detection
- Screen lock
- Recording incidents

Work planning and recording



- Planning
- Recording
- Tabulate tasks
- Data outputting

SPECIAL FEATURE 2

Generating Fast Growth through Integrated Solutions: Network Cameras

Leveraging Group Strengths

Demand for network cameras to enhance security is rising toward the Tokyo 2020 Olympic and Paralympic Games. Applications for these products are broadening to include marketing and business process improvements, and these markets are continuing to grow. As the network camera business is categorized in Canon's growth areas, the Canon MJ Group aims to fully harness its assets as well as those of the Canon Group to offer integrated solutions that expand this business.

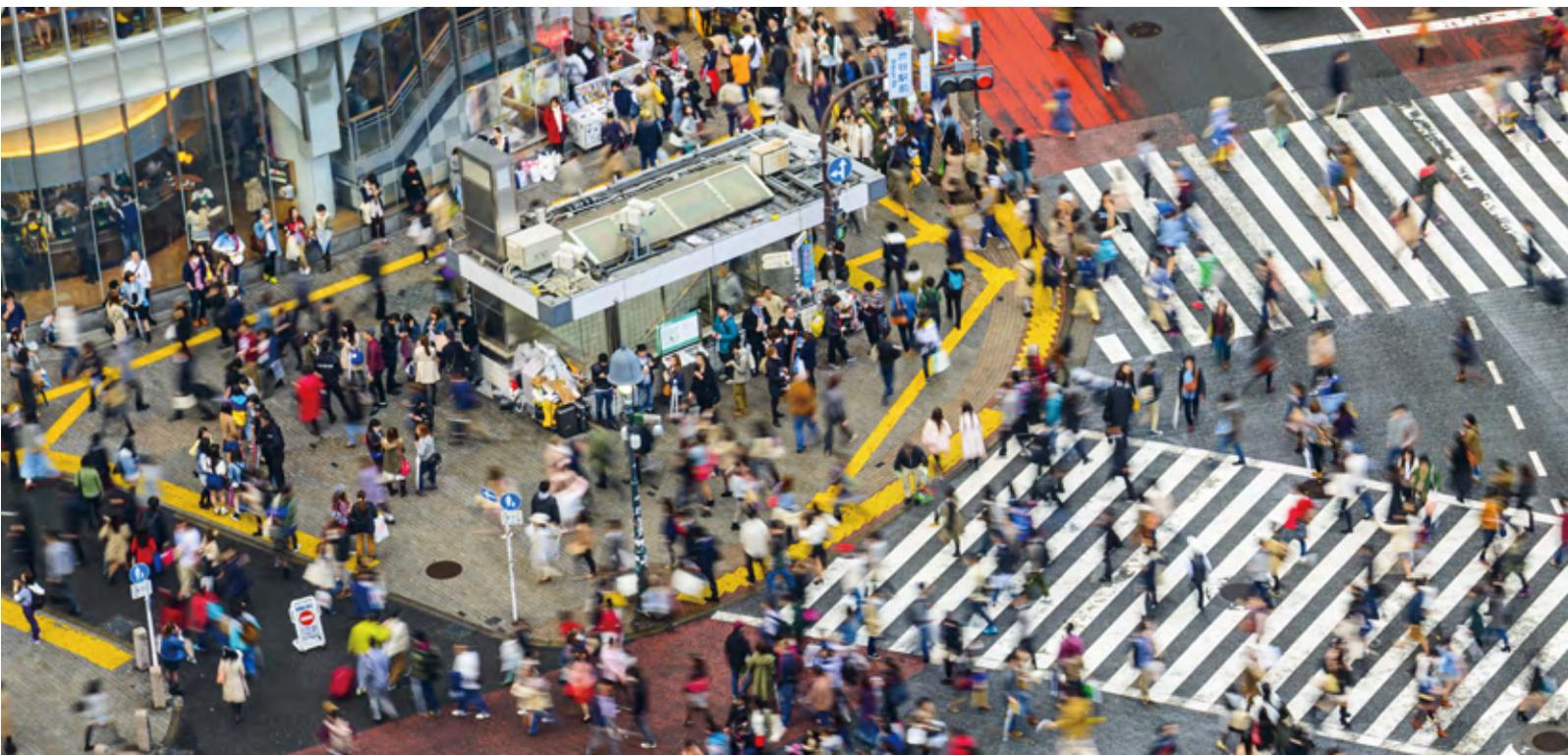
By drawing on Canon's advanced network cameras, the network cameras of Canon Group member Axis Communications AB, and the video management software of Milestone Systems A/S, another member of the Group, the Canon MJ Group can combine those assets with its robust customer base and marketing capabilities and also draw on alliances in video analysis software and other areas to supply network cameras as solutions for an array of industries.

The Canon MJ Group's network cameras have become a



popular choice among Japanese and overseas companies on the strength of its reputation for integrating its technologies with its customer base and solutions proposal capabilities. In fiscal 2016, sales of the network camera business rose 24% year on year, and we look for even higher sales in the year ahead.

Note: Network cameras are video camera systems that distribute captured images through IP networks.



LEGOLAND® Japan Chooses Canon Network Cameras

In January 2017, Canon MJ concluded an agreement with LEGOLAND® Japan Ltd. to become an official marketing partner in the imaging field of LEGOLAND® Japan, which opened in Aichi Prefecture in April 2017.

Numerous network cameras from Canon and Axis Communications are installed around the premises to help safeguard visitors. Milestone Systems' video management software has also been deployed at the site to manage captured images.

The network cameras that help streamline operations at LEGOLAND® Japan also have applications in new fields beyond monitoring. We will continue to analyze images taken at LEGOLAND® Japan to add value by providing new solutions through marketing domain applications.



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Highlights of FY2016

Financial Highlights

Net sales

¥629,314

million

2.6% decrease
2015: ¥646,003 million

Operating income

¥27,676

million

3.9% increase
2015: ¥26,647 million

Profit attributable
to owners of parent

¥18,162

million

15.9% increase
2015: ¥15,670 million

Total
stockholders' equity

¥280,473

million

1.3% increase
2015: ¥277,008 million

Total
stockholders'
equity ratio

56.4%

0.5pp decrease
2015: 56.9%

ROE

6.5%

0.8pp increase
2015: 5.7%

Profit attributable
to owners of parent
per share

¥140.06

15.9% increase
2015: ¥120.84

Cash dividends
per share

¥50.00

11.1% increase
¥45.00

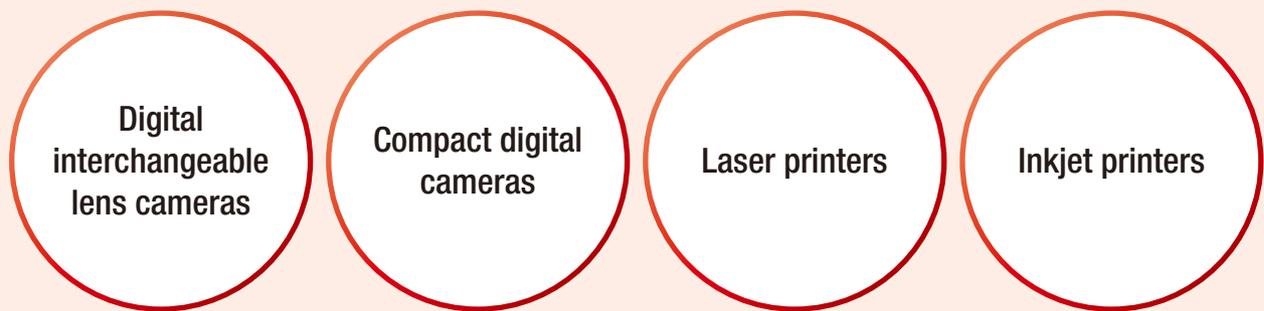
Dividend
payout ratio

35.7%

1.5pp decrease
2015: 37.2%

Business Highlights

No. 1 Market Share



Non-Financial Highlights





Haruo Murase
Chairman

Masahiro Sakata
President

To Our Stockholders and Stakeholders

Endeavoring to Realize Social Sustainability

In fiscal 2016, ended December 31, 2016, the Canon MJ Group launched Long-Term Management Objectives Phase III, covering 2016 through 2020, so as to further expand its business domains. Although sales were down as business-to-consumer (BtoC) demand was lower than initially anticipated, operating income rose for the seventh consecutive year. This reflected such factors as the growth of more profitable businesses and productivity gains.

Management accordingly increased cash dividends for the year by ¥5 per share, to ¥50.

We will pursue several key strategies in fiscal 2017. Among them, we will better focus on areas with high growth potential, including network cameras, digital commercial and other production printing, IT security, and outsourcing. As well, we will endeavor to cultivate demand by making use of resources within the Group. In such areas as cameras, printers, and multifunction printers (MFPs), we will expand our market share and deploy marketing and services employing information technology (IT), thereby striving to increase both sales and profit margins.

The Canon MJ Group is endeavoring to realize social sustainability because it recognizes that helping to resolve environmental problems, to drive progress in an information-intensive society, and to tackle such social challenges as a declining birth rate and an aging population through business are the very reasons why it exists as an enterprise.

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



Haruo Murase
Chairman



Masahiro Sakata
President

An Interview with the President

Creating a flexible organization that can change direction quickly, whether that be in BtoB or BtoC areas, so that we always meet customer expectations.



Q ▶ How did the Canon MJ Group perform in fiscal 2016?

A ▶ Surpassed our operating income target

Although net sales declined 2.6%, to ¥629,314 million, operating income advanced 3.9%, to ¥27,676 million. At 4.4%, operating margin was our highest since we began presenting consolidated financial statements in fiscal 2001. Our return on equity (ROE) jumped 0.8 percentage point, to 6.5%.

The Japanese economy remained stagnant in fiscal 2016, reflecting delays in the recovery of personal consumption and capital expenditure. These factors and the impact of a major earthquake in Kumamoto resulted in a challenging year in business-to-consumer (BtoC) products for the Canon MJ Group. Consumption behavior seems to be shifting from products to services.

That said, we surpassed our operating income target, and our operating margin also increased in a year in which

management endeavors to increase profitability began to bear fruit. Our analysis is that the backdrop to this was that as well as driving growth in high-margin businesses we reviewed our spending.

We boosted net sales on the strength of gains in such independent growth areas as systems integration (SI), security, and industrial equipment. Sales in Canon's growth areas were up slightly. This expansion was less than anticipated, and stemmed from a delay until year-end of the launch of a continuous feed printer in the production printing field, overshadowing solid demand for network cameras. In Canon's profitability growth areas, slow BtoC demand offset business-to-business (BtoB) progress, which resulted in a year-on-year decrease in sales.

Progress of Weight Shift Towards Growth Areas

	Actual results for 2015	Actual results for 2016	Target for 2020
Independent Growth Areas	30% (¥193.8 billion)	31% (¥196.6 billion)	40% (¥320.0 billion)
Canon's Growth Areas	7% (¥44.0 billion)	7% (¥44.5 billion)	10% (¥80.0 billion)
Canon's Profitability Growth Areas	63% (¥408.2 billion)	62% (¥388.2 billion)	50% (¥400.0 billion)

Q ▶ What are the three prime strengths and competencies of the Canon MJ Group that are key to materializing Long-Term Management Objectives Phase III?

A ▶ Three main competencies are our customer base, our IT technical skills, and the strengths of a manufacturer's sales companies

The Canon MJ Group aims to resolve customer issues by packaging outstanding Canon brand products and marketing capabilities with IT technical skills. In other words, we seek to empower customers to do what they want. Our three main competencies are our customer base, our IT technical skills, and the strengths of a manufacturer's sales companies.

I oversaw our customer base earlier in my career, and these customers were mainly large companies and small & medium-sized enterprises, forming a solid underpinning for us. We will reinforce our base by cultivating both mid-sized

companies and slightly higher-ranked customers among small & medium-sized enterprises.

We also have advanced IT technical skills, and I feel that we should expand these capabilities beyond the segments within the Group. For example, to a certain extent we can switch from scratch ordering to packaged solutions. Sales of standalone hardware items are plunging, and IT will ultimately become part and parcel of all businesses. As such, we need to further strengthen our IT technical skills as we will be expected to add additional value.

When we say the strengths of a manufacturer's sales companies, we are not talking about the era in which we sold products that Canon developed and manufactured. Instead, we are referring to providing feedback on the offerings we want produced, working as one with Canon to materialize products

from that company. That is our strength. We face a reality in which the merchandizing clout of hardware is declining, so to broaden even small advantages we need to work more closely together with Canon with a sense of unity.

Q ▶ You implemented a range of measures under Long-Term Management Objectives Phase III. Tell us about the positioning and importance of the ITS Company as part of those measures.

A ▶ ITS Company to become more synergistic with business segments

We are set to change our organizational framework, and organizing the ITS Company was a part of that transition. We have a vertically integrated structure, and our four business segments are Business Solutions, IT Solutions, Imaging Systems, and Industrial / Medical. IT solutions will ultimately be related to all our businesses. If we maintain our current

structure it will be difficult for the IT Solutions segment to work with the other segments even if it functions well within itself. Accordingly, we established the ITS Company in order to become more synergistic with our Business Solutions, Imaging Systems, and Industrial / Medical segments.

Q ▶ As well as setting up the ITS Company, you launched a call center project, a digital marketing project, and other projects. You also invested in Prodrone Co., Ltd., and in FinTech funds. This gave the impression in the first year of Long-Term Management Objectives Phase III that the Group is going full steam ahead.

A ▶ Improving efficiency through functional consolidation

That is certainly true. Take our project launches. With our framework changing, we noted that our resources were scattered all over the place because we had a very strong vertically integrated structure. We have several call centers in the Group, for example. If we unify operations like we do for procurement, we might ask how we can generate more efficiencies. We might also ask whether the role of call centers is just to answer customers' questions. That is an inbound business. But what about outbound ones? We actually have some outbound teams. They are at around the same level as our BtoB call centers although they don't have that many staff. Call centers shouldn't just answer customer inquiries and

dispatch services. Rather, they should include a little more broadly an outbound element to them.

I decided to start a cross-organizational project to look into how we could benefit the Canon MJ Group as a whole by consolidating our organizations in such a way and bolstering functions. Once we thought about it, there were a lot of projects that we needed to embark on, and so we planned to begin them in the current fiscal year. The first area in which we got things prepared was in service and support, which we organized on January 1, 2017. I believe that business process outsourcing and other operations will be integrated in time.

Q A major priority in your management plan for 2017 to 2019 is to change the organizational framework. What was the backdrop to this and what steps are you taking?

A Consolidating and integrating Group resources to resolutely resolve customer issues

For a start, we evaluated how the business climate might change over the next three years and the business opportunities that would arise for the Canon MJ Group. Japan is obviously aging, and its market will mature. Once that happens there will be a need to enhance efficiencies in all areas of business and society.

That actuality represents an opportunity for the Canon MJ Group. As companies concentrate on core businesses, there will be more outsourcing needs in the peripheral areas and more use of the cloud. Mid-sized companies and small & medium-sized enterprises will inevitably use more IT, increasing demand for support in that area. And as society ages, it will become a pressing issue to constrain medical expenditures. IT can offer solutions that cut healthcare costs.

While a decreasing birth rate, the aging of the population, and the maturation of the market can present opportunities for the Canon MJ Group, we have to fully harness our resources to capitalize on them. We may not be able to do as well as we could with our vertically integrated four-segment structure. We therefore decided to reorganize so that we can better provide

solutions to our market and customer base. We will thereby consolidate and integrate the scattered resources of the Group and resolutely resolve customer issues.

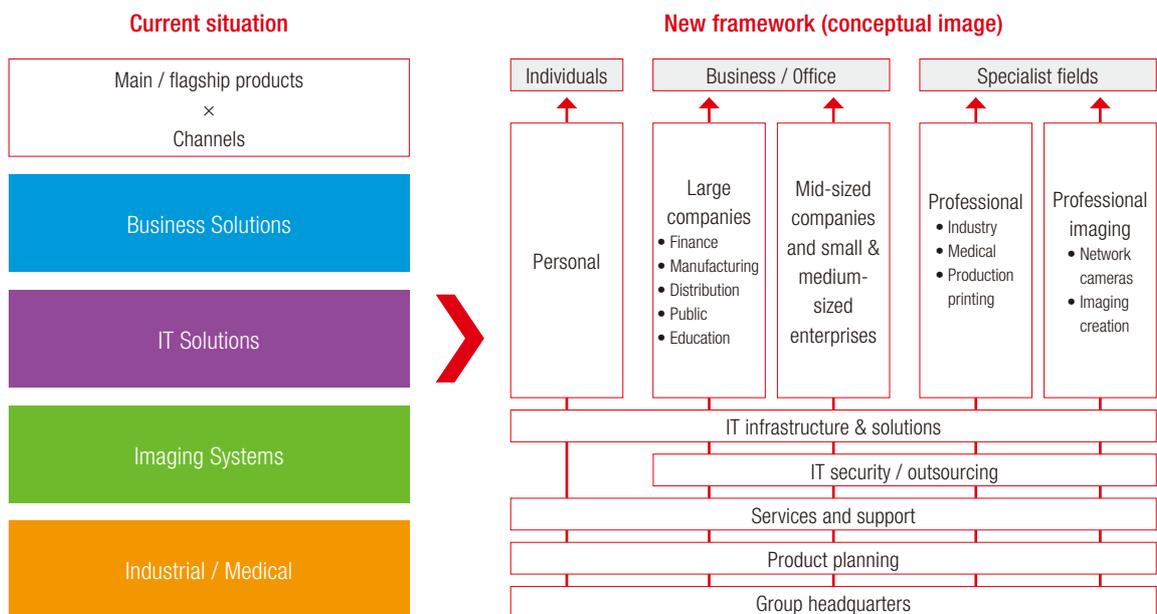
As I explained a little earlier, we positioned such functions as service and support, IT infrastructure, security, and business process outsourcing as cross-sectional functions that are necessary across the Group. In other words, service and support, IT infrastructure, security, and business process outsourcing function more effectively for each channel when they are organized cross-sectionally.

On the other hand, the requirements from large companies and small & medium-sized enterprises are totally different, so we need to create structures suitable for individual customer groups rather than for products.

Those are the two key points of our new framework. And this is possibly the first time that a major reorganization of the Canon MJ Group will occur since its establishment.

I believe that switching to a new framework will enable us to greatly expand our business scope.

Conversion to a New Customer-Centric Framework



Q Under your management plan for 2017 to 2019, you seek to grow sales and improve profit margins. For a start, how will you increase sales?

A Push ahead with IT solutions and add value to businesses

Growing sales is the biggest priority in our three-year management plan, and we also seek to bolster profitability.

We will increase sales by shifting to the new framework that I explained and also by concentrating human and financial resources in Canon's growth areas and independent growth areas.

As I mentioned in last year's annual report, IT solutions are pivotal to driving growth for the Canon MJ Group. Sales of IT solutions in fiscal 2016 were ¥175.0 billion, or around 28% of net sales. Sales of IT solutions in other segments expanded at a faster rate than that of the IT Solutions segment. With the ITS Company at the core, promoting IT solutions businesses for the entire Group and leveraging its expertise therein, we will steadily provide solutions to our customers.

Also, we anticipate particular growth in such areas as production printing, network cameras, security, business process outsourcing, and other products and services. It is

important in this respect to note that it is hard to promote individual products alone in growth areas, and so we need to add value with our solutions and merchandise expertise. For example, our network cameras are great products and highly competitive, but we need to go beyond talking about them as simply cameras. It is important to incorporate them into one system and add value, notably by safely storing images, making it possible to use with images for marketing, and to prevent the danger or the damage.

It is also important to be good at selling. We have mainly sold general-purpose products over the years. Cameras, inkjet printers, MFPs, and business printers are not specialist equipment. But we must also offer production printers, network cameras, and other products and services that we expect to grow to professionals. As such, I believe we need to further enhance our solutions capabilities while also simultaneously increasing the sales skills and know-how of our sales staff.

Q You aim to boost margins in your profitability growth areas. How will you go about doing that?

A Seeking to become a dominant player

We will endeavor to enhance productivity in Canon's profitability growth areas, including BtoC and document businesses and other businesses, which should improve profitability.

We have No. 1 market shares for many products in Canon's profitability growth areas. They include single-lens reflex and whole digital interchangeable lens cameras, as well as inkjet and laser printers. Our profit margins are very good

for these offerings, but since these markets are maturing we need to improve profitability by boosting our shares.

Because the Canon MJ Group is an industry leader, we are strong at selling and doing business. It is vital for us to pursue market share growth and become a dominant player.

At the same time, we need to lower operational costs. We will simplify our business processes, build IT support, and thereby bolster profitability.

Consolidated Performance Targets

(Billions of yen)

	Results		Medium-Term Management Plan Targets	
	FY2016 Results	FY2017 Targets	FY2018 Targets	FY2019 Targets
Net sales	629.3	645.0	670.0	700.0
YoY growth rate	—	2.5%	3.9%	4.5%
Operating income	27.7	28.8	30.6	34.0
Operating margin	4.4%	4.5%	4.6%	4.9%
Profit attributable to owners of parent	18.2	19.8	20.7	23.0
Net income margin	2.9%	3.1%	3.1%	3.3%
EPS (Yen)	140	153	160	177
ROE	6.5%	6.8%	6.9%	7.1%
Free cash flow (Three years cumulative amount)	220 (2014 to 2016)		270 (2017 to 2019)	

Q ▶ The Group's financial targets for 2020 are ¥800 billion in net sales and ¥40 billion in operating income. You will likely need to engage in mergers and acquisitions (M&As) to grow that much. How far have you progressed with the ¥40 billion that you set aside initially for such activity?

A ▶ **Deploying new investments to expand growth areas**

Our strategic investments mainly target two growth areas.

One is to accelerate expansion in the independent growth areas. Among these are systems infrastructure, including IT security, business process outsourcing, business and industry solutions, and core technologies for digital businesses.

The second focus is on helping to expand Canon's growth areas. The areas in which we will pursue growth are those in which we are broadening businesses with Canon and those offering potential for building solutions together. This category would encompass offerings such as network cameras,

production printing, and professional video equipment.

On entering fiscal 2017, for example, in April Canon Production Printing Systems Inc. set up Commercial Printing Lab Inc. with printing company Ishida Taiseisha Inc. We will integrate the digital printing expertise of Canon Production Printing Systems with the commercial printing capabilities of Ishida Taiseisha to expand production printing business, one of our growth areas.

We will continue to explore opportunities to further expand growth areas.

Q ▶ Please tell us about your approach to shareholder returns.

A ▶ **Raised dividends for a third consecutive year**

Our basic policy is to pay dividends after comprehensive consideration of our earnings forecasts, investment plans, and cash flows. We target a consolidated payout ratio of at least 30%. For fiscal 2016, we paid cash dividends of ¥50.00 per

share, up ¥5. This was a third straight increase. The Canon MJ Group will continue with concerted efforts to transform itself in order to reach its Long-Term Management Objectives Phase III targets and generate solid returns for shareholders.

Q ▶ What is your outlook for fiscal 2017?

A ▶ **Operate so we always meet customer expectations**

In July through December 2016, our BtoB orders were a little weak, but orders from the start of fiscal 2017 have been quite good. I sense that the Japanese economy is growing moderately. We should be able to grow as planned if geopolitical factors overseas do not affect the Japanese economy.

Regardless of changes in the operating climate, I am determined to create a flexible organization that can change direction quickly, whether that be in BtoB or BtoC areas, operating so that we always meet customer expectations. I look forward to the ongoing support and encouragement of our stockholders and other stakeholders in these efforts.

April 2017



Masahiro Sakata
President

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.

Business Solutions

50%

Major Products

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



IT Solutions

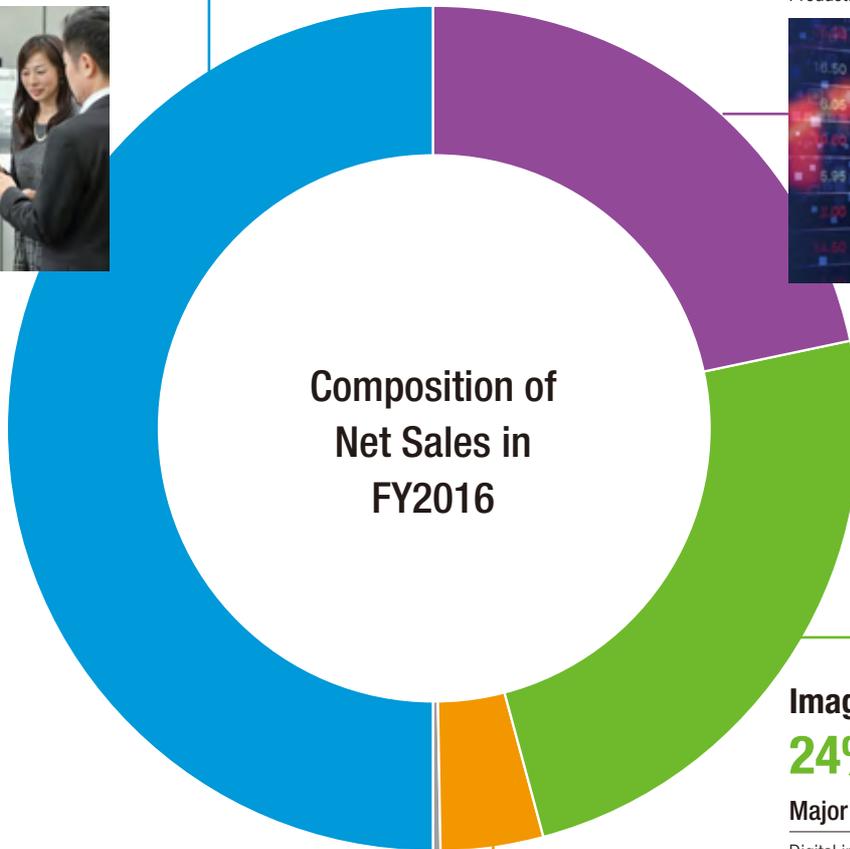
22%

Major Business

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



Composition of Net Sales in FY2016



Imaging Systems

24%

Major Products

- Digital interchangeable lens cameras
- Compact digital cameras
- Inkjet printers
- Commercial imaging equipment



Industrial / Medical

4%

Major Products

- Industrial equipment
- Medical equipment



Business Solutions

In fiscal 2016, sales increased 1.1%, to ¥330,334 million. Operating income advanced 26.4%, to ¥11,362 million.

Sales

(Billions of yen)

¥330.3

Operating income

(Billions of yen)

¥11.4

IT Solutions

Sales declined 0.3% from a year earlier, to ¥140,843 million. Operating income rose 17.4%, to ¥4,854 million.

Sales

(Billions of yen)

¥140.8

Operating income

(Billions of yen)

¥4.9

Imaging Systems

Sales decreased 10.9%, to ¥159,207 million in the year under review. Operating income was down 21.3%, to ¥10,887 million.

Sales

(Billions of yen)

¥159.2

Operating income

(Billions of yen)

¥10.9

Industrial / Medical

Segment sales declined 5.8%, to ¥25,568 million. Operating income was ¥123 million, from an operating loss of ¥743 million in the previous year.

Sales

(Billions of yen)

¥25.6

Operating income

(Billions of yen)

¥0.1

Segment Review and Strategies

Business Solutions

Major Companies / Organizations

Canon Marketing Japan Inc.

Business Solutions Company

Canon System & Support Inc.

Canon Production Printing Systems Inc.

Issues and Opportunities

Beyond core small & medium-sized enterprise customers, there is still scope for cultivating demand for MFPs among mid-sized companies. We will draw on a completed lineup of new offerings to move up from a low share of the market for mid-range models. In laser printers, we will focus away from regular offices toward markets for sector-specific applications, where print volumes are huge. This should help us to expand cartridge sales. In production printing, we will swiftly build our commercial printing expertise, creating a structure that proposes optimal solutions for customers in specialty areas. In network cameras, we will leverage internal and external resources to overcome the challenges of sales channel expansion and generate significant growth.

Performance and Market Conditions

MFPs

Shipments in Japan of MFPs declined, as slow demand among small & medium-sized enterprises offset solid demand among large companies and public institutions. In the imageRUNNER ADVANCE range of MFPs, the Group endeavored to expand sales with the C3300 series of compact A3 models for small & medium-sized enterprises and the new C5500 for mid-sized companies. Sales were down slightly from a year earlier, however, reflecting a higher ratio of rental machines among the number of units shipped.

Production Printing

Sales were strong of the imagePRESS C800/C650 and imagePRESS C10000VP color on-demand models for commercial printers. The Group also launched new continuous feed printers, but printer shipments to design firms were down, so total sales decreased slightly.

Laser Printers

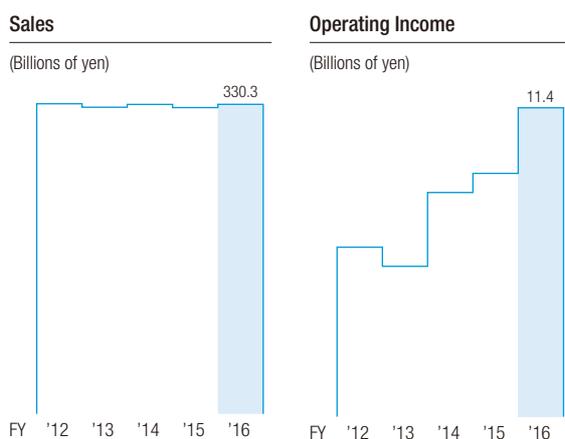
Domestic unit shipments of laser printers dropped, reflecting slow private enterprise demand and an ongoing shift among offices to MFPs. Amid lower sales of laser printers, the Group endeavored to cultivate the high-speed and the high-volume market by expanding sales of the monochrome Satera LBP8730i and other models while launching the Satera LBP352i as the fastest machine in the Satera line. The Group thereby maintained its top market share. Sales of toner cartridges rose amid increased shipments to high print volume sectors, such as logistics and medical care.

Network Cameras

Sales increased owing to favorable demand for surveillance cameras and video management software.

Our Business Management Policies

We will reinforce sales to mid-sized companies and increase our market share in office MFPs. For laser printers, we will strengthen sales for point-of-purchase applications in retailing, pharmacies, and other specific markets to boost unit shipments and cartridge sales. We will pursue the steady expansion of production printing and network camera businesses in Canon's growth areas.



Masachika Adachi
Senior Vice President

Maintenance Services

Sales of maintenance services were up slightly. Despite ongoing declines in unit prices for MFPs, this reflected an increase in the number of machines in field (MIF), which boosted print volumes.

Group Companies

Canon System & Support Inc. performed well in security and equipment maintenance services in its IT solutions business. It also secured several large accounts in office MFPs, thereby progressing well and boosting sales. Canon Production Printing Systems Inc. recorded a slight increase in sales after experiencing lower sales until the third quarter. This was due to revenues picking up from the fourth quarter with continuous feed printer shipments starting after delays.

Business Solutions segment sales therefore increased 1.1%, to ¥330,334 million. Operating income advanced 26.4%, to ¥11,362 million.

Adjusting retroactively for fiscal 2016 for business transfers which was explained on page 25, segment sales were ¥334,603 million, while operating income was ¥12,053 million.

Outlook and Key Measures

We will endeavor to increase unit shipments of MFPs while expanding in such Canon growth areas as production printing and network cameras. In production printing, we will undertake full-fledged efforts to cultivate the commercial printing field. Our goals in the network camera business are to foster collaboration with Canon, Axis Communications AB, and Milestone Systems A/S and draw on the Group's customer base and sales capabilities to expand operations.

We therefore forecast that segment sales for fiscal 2017 will increase 3%, to ¥345.0 billion after business transfers. Operating income is forecast to climb ¥0.2 billion, to ¥12.3 billion, with the increase of maintenance services and laser printer cartridges, both of which are highly profitable.

IT Solutions

Major Companies / Organizations

Canon IT Solutions Inc.

Canon Software Inc.

Edifist Learning Inc.

6 other companies

Issues and Opportunities

Demand for greater business efficiencies is increasing as markets mature and society ages. There are numerous opportunities in terms of business process improvements, catering to the need for concentrating on core businesses through cloud usage, and IT support for mid-sized companies and small & medium-sized enterprises.

Performance and Market Conditions

While demand for hardware has continued to shrink in the domestic IT solutions market, demand for IT services and packaged software has further expanded, particularly for large companies.

SI Services Business

We develop both customized systems and systems that employ solution packages. Sales surged in the period under review due largely to an increase in sales to financial institutions and manufacturers.

IT Infrastructure and Services Business

We offer data center, cloud, system platform construction, system operations, and business process outsourcing services. During the term, we boosted sales after securing a large infrastructural project and benefiting from steadily increased demand for data center services.

Embedded Systems Business

We develop software for embedding in products. Although we stepped up activities for the automotive sector, sales were down owing to sluggish project demand from our primary customer in manufacturing.

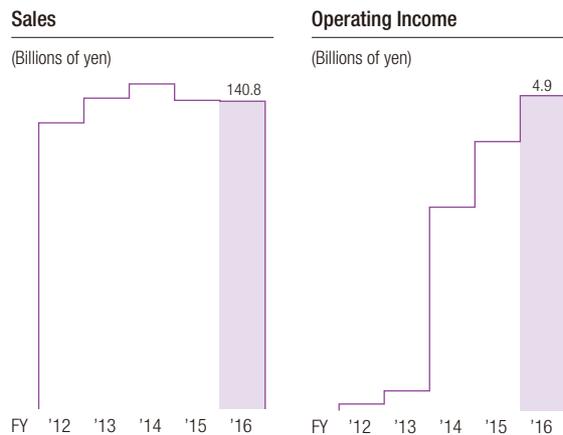
Products Business

We sell IT hardware, packaged software, and licenses. Although demand was solid during the year for such offerings as ESET security software, sales were basically unchanged even though there were distribution channel changes with some products.

Segment sales therefore declined 0.3% from a year earlier, to ¥140,843 million. Operating income rose 17.4%, to ¥4,854 million.

Our Business Management Policies

We aim to shift from being an entrusted developer to become a systems integrator, who can suggest suitable solutions to our clients. We will pursue IT solutions development beyond our segment and will encompass the entire Canon MJ Group.



Akihisa Kamimori
Senior Vice President



In January 2017, we paved the way to expansion in growth areas by moving outsourcing business firm Canon BizAttenda Inc. and 3D computer-aided design (CAD) software company A&A Co., Ltd., from the IT Solutions segment to the Business Solutions segment. We also shifted Canon ITS Medical Inc. from the IT Solutions segment to the Industrial / Medical segment. Adjusting retroactively for fiscal 2016 for business transfers, segment sales were ¥128,799 million, while operating income was ¥3,981 million.

Outlook and Key Measures

In the large company market, we will deploy industry-specific solution strategies and endeavor to develop individual markets. We will provide solutions that address IT personnel shortages and other issues that are specific to mid-sized companies and small & medium-sized enterprises. Notwithstanding a decline in the embedded systems business we will endeavor to expand this segment as the SI services business—being our core business—will lead growth, followed by the IT infrastructure services and the products businesses.

For fiscal 2017, we therefore project a 1% increase in segment sales after business transfers, to ¥130.0 billion. Segment operating income should rise 3%, to ¥4.1 billion, on the strength of gross margin growth.

Imaging Systems

Major Companies / Organizations

Canon Marketing Japan Inc.

Imaging Systems Company

Canon Customer Support Inc.

Issues and Opportunities

We expect the digital interchangeable lens camera market to stop declining. We will expand our lineup of mirrorless cameras and endeavor to maintain our No. 1 position in digital interchangeable lens cameras.

The impact of the Kumamoto earthquake on the supply of compact digital cameras has disappeared, so unit sales of these products is expected to rise.

Performance and Market Conditions

Digital Cameras

Domestic shipments of compact digital cameras plunged in the year under review, reflecting slower production in the aftermath of the Kumamoto earthquake and chronically slow demand. Sales also declined for the same reasons, although we maintained our top share of the market.

Inkjet Printers

In Japan, shipments of inkjet printers declined amid weak market conditions. Although sales dropped significantly through the third quarter of the year, sales were solid for such high-end offerings as the new PIXUS TS9030 and PIXUS TS8030 in the fourth quarter, when demand is generally greatest. Demand was favorable for the MAXIFY series of business inkjet printers, so printer sales were down only slightly, and we maintained our No. 1 market share. Sales of ink cartridges fell owing to a decline in the number of MIF and smaller print volumes.

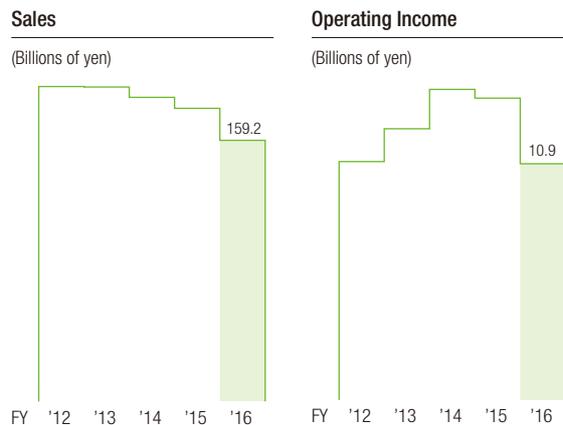
Professional Imaging Equipment

Demand for broadcast lenses was down owing to the decrease in orders from broadcasters, causing sales of professional video equipment to decline.

Segment sales therefore decreased 10.9%, to ¥159,207 million. Operating income was down 21.3%, to ¥10,887 million.

Our Business Management Policies

The BtoC field is unlikely to enjoy the growth of previous years. That said, this situation is an opportunity to reduce expenses, increase prices, and streamline operations. We will expand into such BtoB fields as commercial video and business inkjet printers.



Koichi Yagi
Senior Vice President



Outlook and Key Measures

With an ongoing downturn having ended in fiscal 2016, conditions in the digital interchangeable lens camera market should remain basically the same in fiscal 2017. We will bolster our lineup of mirrorless cameras. We will also endeavor to maintain our top share of the market for digital interchangeable lens cameras, with total unit shipments remaining at fiscal 2016 levels. Unit sales of compact digital cameras is projected to rise in view of a recovery in supply from disruptions that the Kumamoto earthquake caused last year. The market for inkjet printers is expected to continue to shrink, with demand for hardware and cartridges remaining low, but we will endeavor to generate strong earnings by increasing the proportion of high-end models in the sales mix.

We therefore anticipate a 1% increase in segment sales, to ¥161.0 billion, with operating income gaining ¥0.1 billion, to ¥11.0 billion.

Industrial / Medical

Industrial Equipment Business Major Companies / Organizations

Canon Marketing Japan Inc.
Industrial Equipment Sales Headquarters

Medical Equipment Business Major Companies / Organizations

Canon Marketing Japan Inc.
Medical Equipment Sales Headquarters
Canon Lifecare Solutions Inc.
ELQUEST CORPORATION
Canon Advanced Technologies Taiwan Inc.

Profile of Industrial Equipment Business

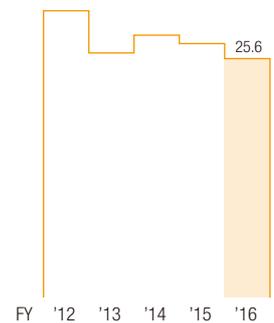
Our industrial equipment business handles semiconductor manufacturing equipment and inspection & measurement equipment from domestic/overseas companies. The business also offers Canon machine vision systems employing proprietary optical and recognition technologies and 3D printers from 3D Systems, Inc., of the United States. We collaborate with partners globally that have leading-edge technologies to propose optimal systems and provide manufacturing support.

Performance of Industrial Equipment Business

Sales rose in fiscal 2016 as that of semiconductor manufacturing equipment, inspection & measurement equipment, and other products increased with the steady growth of maintenance services and repair parts.

Sales

(Billions of yen)



Canon's machine vision provides industrial robots with 3-D recognition capabilities.



3D Systems' 3D printer provides solutions for prototyping to production in plastics and metals.

Segment Performance

Segment sales declined 5.8%, to ¥25,568 million. Operating income was ¥123 million, from an operating loss of ¥743 million in the previous year. After adjusting retroactively for fiscal 2016 for business transfers, segment sales was ¥32,209 million, while operating income was ¥186 million.

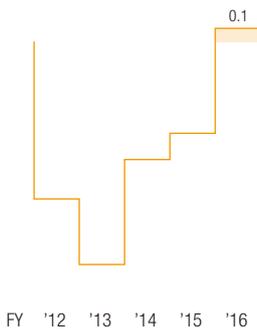
Outlook

In fiscal 2017, we anticipate higher sales on greater demand for semiconductor manufacturing equipment, 3D printers, and machine vision systems in the Industrial segment, as well as for digital radiography systems, hydrogen peroxide gas sterilizers, and IT offerings in the Medical segment.

After business transfers, segment sales should rise 4%, to ¥33.5 billion. We expect an increase of ¥1 billion in operating income, to ¥1.2 billion, reflecting higher gross margins from industrial equipment sales growth, as well as improvements from structural reforms in the medical business and lower selling, general and administrative expenses in both of these businesses.

Operating Income

(Billions of yen)



Profile of Medical Equipment Business

We sell Canon's digital radiography systems, fundus cameras, and other medical diagnostics equipment from Japan and abroad, as well as hydrogen peroxide gas sterilizers and fully automated powdered medicine packaging machines. Leveraging our strengths in imaging and IT solutions technologies, we offer medical imaging solutions such as cloud services for interpreting medical images remotely.

Performance of Medical Equipment Business

Sales declined because transaction reviews for some low-margin products overshadowed steady sales for such offerings as digital radiography and non-mydriatric fundus cameras.



AZE VirtualPlace, medical image analysis software provides 3D medical imaging solutions from CT and MRI modalities.



The LocomoHelper system makes it easy to measure the motor functions of the elderly.

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.

Philosophy

Mission /
Vision

— CSR is Marketing —

CSR Awareness

Shared Philosophy:
The "Three Selves" Spirit

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.

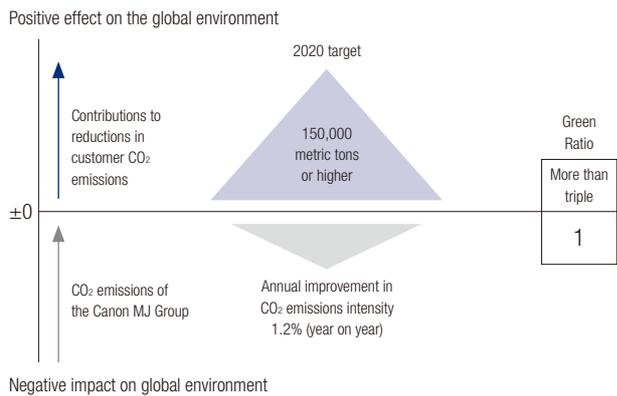
Environmental Management

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



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.

School Building Reminiscences Project

We undertook this social contribution project with Pentel Co., Ltd., to help preserve the memories of school buildings that are to be closed or demolished for more modern premises. Pentel donated painting materials and picture frames, while Canon MJ is lending cameras and producing and donating large posters and photo albums. As of March 2017, 16 schools had taken advantage of this project since it began in 2014.



Receiving the Minister of Education, Culture, Sports, Science and Technology Award (in the Large Company Category)

The school building reminiscences project received the Minister of Education, Culture, Sports, Science and Technology Award. This was the most prestigious prize in the Ministry's Corporate Awards for Promoting Youth Experience Activities in fiscal 2016.

The award was in recognition of the efforts of Canon MJ and Pentel to draw on their core businesses in enabling young people to enhance creativity and self-expression by recording memories through painting and photography and in collaborating with schools in planning and running the project.

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.

Combatting Harassment

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

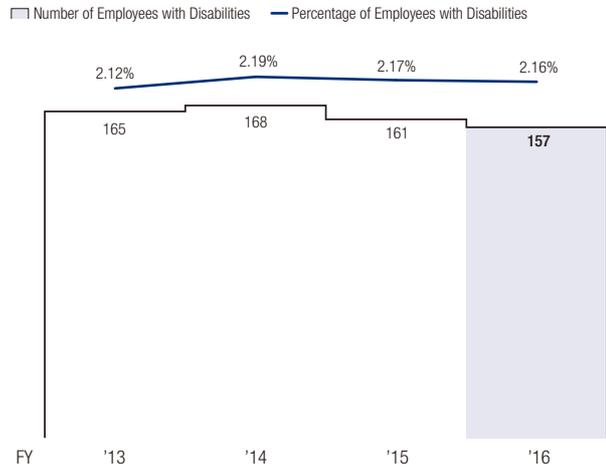
Harassment issues are part of the agenda for training new employees and managers. Compliance meetings also position harassment as an issue for discussion within work units.

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 2016, 2.16%* of Canon MJ's employees were people with disabilities, exceeding the Japanese government's 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.

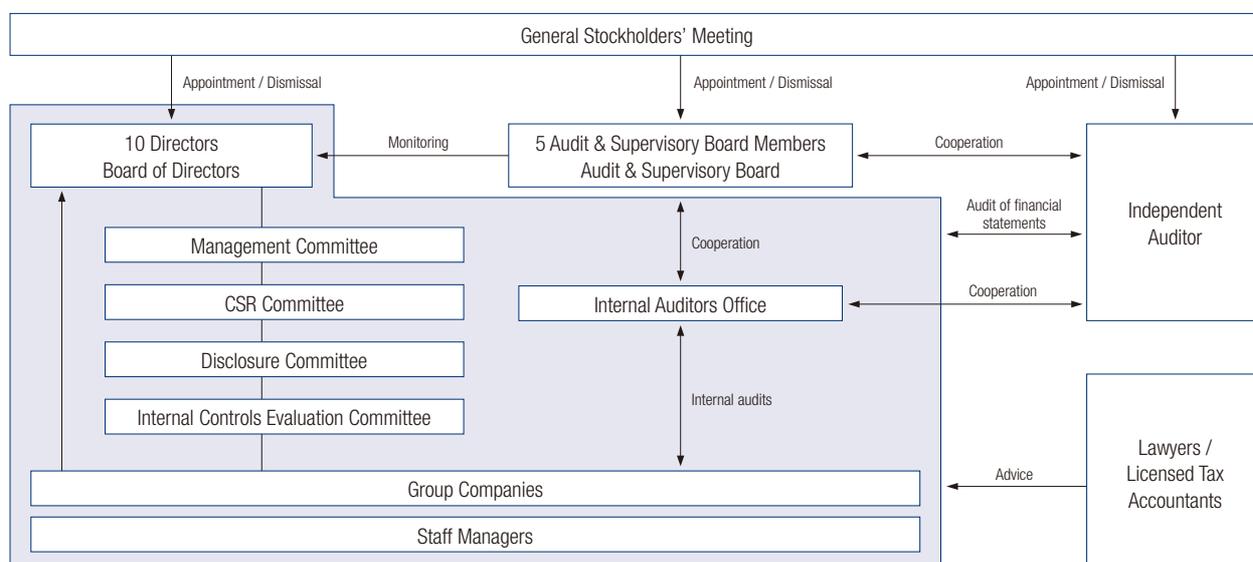
Corporate Governance

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, 2017)



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. We have implemented all principles of Japan's Corporate Governance Code.

Protection of Minority Shareholders in Transactions with the Controlling Shareholder and in General

The Company's controlling shareholder is our parent company, Canon Inc. We operate with the understanding that we enjoy a certain degree of independence from the controlling shareholder, and the terms and conditions of transactions with the controlling shareholder are not determined arbitrarily. We protect the interests of all shareholders by carrying out all transactions, not only those with the controlling shareholder, in ways that are appropriate and fair, and do not result in the loss of independence or profits for the Company.

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, 2016. 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 brand products in Japan, the exceptions being semiconductor and LCD lithography systems. 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 through collaboration with its Audit & Supervisory Board members and the independent auditor and setting up committees.

Policy on Constructive Dialogue with Shareholders

The Company helps to drive sustainable growth and improve corporate value over the medium and long terms by engaging in constructive dialogue with shareholders, including through shareholders' meetings, briefings on management plans for the medium and long terms, results briefings, and meetings with major institutional investors.

Board of Directors, Directors, and Executive Officers

We maintain a structure in which the representative director oversees Companywide business strategies and execution, while supervision of business domains and headquarters functions is primarily through executive directors, and add at least two independent external directors to ensure sound management. In accordance with laws and ordinances, the Board of Directors monitors important decisions and implementation.

Other decisions are handled by the representative director or under the representative director's direction and supervision through executive officers whom the Board of Directors appoints through its resolutions to assume responsibility for making and implementing decisions for business domains and headquarters functions.

The Board of Directors comprises 10 members, 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. There are currently 28 executive officers.

Audit & Supervisory Board and Auditors

The Audit & Supervisory Board functions independently of the Board of Directors, and comprises individuals who are familiar with the Company's business or corporate management and who have accounting or other expertise. At least one outside Audit & Supervisory Board member is an outside auditor who fulfills the independence criteria that the Board of Directors separately determines.

The Audit & Supervisory Board cooperates with the independent auditor and the Internal Auditors Office to assess performance and corporate assets and ensure sound management.

There are five Audit & Supervisory Board members, of whom three are outside auditors. Their duties include attending Board of Directors' meetings, speaking with directors and other parties, and perusing important accounts documents in line with the auditing policies and work allocations that the Audit & Supervisory Board stipulates, and conducting rigorous audits by examining operations and property.

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 49 audit staff members.

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 and lead partners for more than five 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. Pursuant to the consent of all Audit & Supervisory Board members and a resolution of the Board of Directors, we implemented our independence criteria for outside Audit & Supervisory Board members to clarify the standards for ensuring outside directors and auditors in keeping with the Corporate Governance Code and standards of independence. Our outside directors and Audit & Supervisory Board members satisfy the independence criteria and help maintain and improve the transparency and accountability of the Board of Directors.

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 Sompo Japan Nipponkoa Insurance Inc. and Sompo Japan Nipponkoa Himawari Life Insurance, Inc. The Company has an insurance policy with Sompo Japan Nipponkoa Insurance and a contract with that company to sell and maintain business and other equipment. The Company also has a contract with Sompo 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.

** Have notified the Tokyo Stock Exchange as an independent director or an audit & supervisory board member as prescribed by the Exchange.

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

Policies and Procedures for Determining Remuneration for Senior Executives and Directors

Remuneration for the representative director and directors consists of basic remuneration, which is a fixed basic monthly fee for executing their roles and duties, and a bonus linked to performance during the fiscal year. Outside directors only receive basic remuneration.

Individual basic remuneration amounts are in accordance with the basic approach to calculations determined through resolutions of the Board of Directors within the maximum total remuneration for all directors approved at general meetings of stockholders. Individual bonuses are in keeping with the basic approach to calculations determined through resolutions of the Board of Directors based on totals approved at general meetings of stockholders for each fiscal year.

IR Activities

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

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 decisions as the Board.

below. For retail investors, the president, the managing executive officer overseeing IR, or other executives conduct company briefings. In 2016, the president conducted a company briefing in April and the managing executive officer overseeing IR and other members held four company briefings at brokerage branches. In August, we exhibited at an event for retail investors. For analysts and institutional investors, the managing executive officer overviews our results at quarterly briefings. The president presents medium-term management plans upon the fiscal results announcements. 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 two roles by participating in Board of Directors' meetings as well as business report meetings and executive officer meetings to provide advice and proposals as needed. I frequently voice dissent. When taking part in these meetings, I obtain detailed briefings on the contents of management

meetings and implementation progress from corporate planning staff, and also endeavor to understand corporate activity details by engaging in discussions about individual projects, as needed.

Three years have passed since my appointment as an outside director of Canon Marketing Japan. I sense that the Company maintains a robust corporate governance structure through its Board of Directors, business report meetings and management meetings, CSR Committee chaired by the President, Audit & Supervisory Board, and other bodies.

I am a computer science and information security expert, with particular strengths in software, and I have experience in practical matters. I strive to draw on this experience so Canon Marketing Japan can steadily progress with Long-Term Management Objectives Phase III and promptly expand its IT solutions business using the Group's collective capabilities as the foundations of its future activities.

Message from Outside Director



Akio Dobashi
Outside Director

I believe that the Board of Directors conducts meetings that are free, vigorous, and constructive and establishes goals to maximize corporate value in keeping with the Company's management philosophy and strategy. Canon Marketing Japan has engineered systems to foster appropriate risk taking and maintains a full range of committees to enhance management efficiency and transparency. I will continue to

monitor whether these bodies function effectively.

Canon Marketing Japan rolled out a medium-term management plan to materialize Long-Term Management Objectives Phase III, which seeks to help resolve social issues by expanding businesses that integrate imaging and information technologies. Management is accordingly pushing forward with business structure and process reforms. I leverage my objective perspectives to monitor whether the plan is progressing steadily and speedily.

Board of Directors and Audit & Supervisory Board Members

(As of March 29, 2017)

Board of Directors



Representative Director,
Chairman
Haruo Murase



Representative Director,
President
Masahiro Sakata



Director
Yutaka Usui



Director
Koichi Yagi



Director
Akihisa Kamimori



Director
Yoshiyuki Matsusaka



Director
Masachika Adachi



Director
Shiro Hamada



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 its activities.

These initiatives for the Group overall are coordinated by the BCM¹ Committee, a subsidiary organization of the Management Committee.

¹ BCM: Business continuity management

Internal Controls

Based on the Companies Act, the Board of Directors resolved the basic policy for an internal controls system to ensure appropriate business practices, and is deploying that system in line with that policy.

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.

Corporate Ethics and 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.

We distribute the Canon Group Code of Conduct and other handbooks and Compliance Cards to all Group employees and enhance awareness through education and training. We convene the semiannual Compliance Meeting to confirm compliance risks and countermeasures at each work site. We also maintain an ongoing internal reporting system.

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.

We have taken various steps to bolster information security governance, moving forward with objective assessments and ongoing improvements. We formulated the Basic Policy on Information Security for the Canon MJ Group and rolled out the Information Security Management System (ISMS) and Personal Information Protection Management System (PMS) for the Group to standardize and streamline management. We are optimizing our information security countermeasures, training information security personnel, and have secured and maintained certification under the ISMS Conformity Assessment Scheme and Privacy Mark. We deployed the Canon MJ Computer Security Incident Response Team to reinforce cybersecurity. We also issue the Information Security Report.

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, unit shipments could decline if the market for digital interchangeable lens cameras matures further, prolonging repurchase cycles.

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. Print volumes in Japan tend to increase when people are preparing traditional New Year's greeting cards. The production of fewer cards could affect inkjet cartridge sales.

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, 2016. Canon MJ has the exclusive right to sell products (excluding semiconductor and LCD lithography systems) manufactured by Canon Inc. under the Canon brand in Japan. In fiscal 2016, Canon MJ's purchases from Canon Inc. amounted to ¥212.6 billion, or 63.4% 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

	2016	2015	2014	2013
For the year:				
Net sales (Note 5)	¥ 629,314	¥ 646,003	¥ 659,432	¥ 657,216
Operating income	27,676	26,647	25,088	17,013
Profit (loss) before income taxes	28,903	27,498	25,858	17,055
Profit (loss) attributable to owners of parent	18,162	15,670	16,030	10,168
At year-end:				
Total assets	497,728	486,502	479,747	467,076
Total stockholders' equity (Note 4)	280,473	277,008	270,061	256,795
Cash flows:				
Cash flows from operating activities	33,306	29,730	38,191	28,781
Cash flows from investing activities	(19,461)	(44,536)	(15,221)	(25,757)
Cash flows from financing activities	(6,086)	(6,225)	(4,545)	(9,105)
Cash and cash equivalents	107,286	99,574	120,607	102,183
Per share of common stock:				
Profit (loss) attributable to owners of parent (Note 2)	¥ 140.06	¥ 120.84	¥ 123.62	¥ 76.67
Cash dividends (Note 3)	50.00	45.00	40.00	24.00
Stockholders' equity (Note 4)	2,162.96	2,136.22	2,082.60	1,980.22

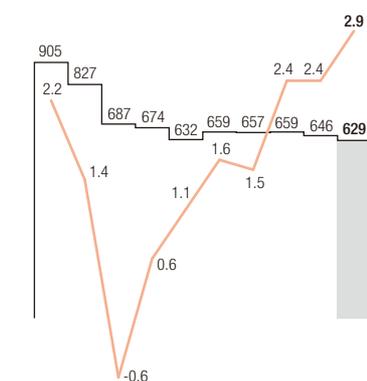
Notes 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥117 to U.S.\$1, the prevailing exchange rate as of December 31, 2016.

2. Profit (loss) attributable to owners of parent 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)

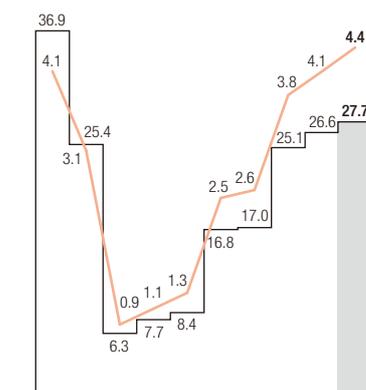
(Billions of yen / %) ■ Net Sales — ROS



FY '07 '08 '09 '10 '11 '12 '13 '14 '15 '16

Operating Income and Operating Margin

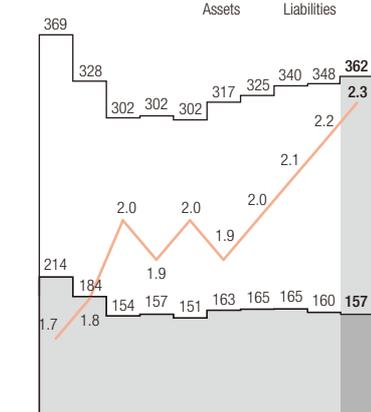
(Billions of yen / %) ■ Operating Income — Operating Margin



FY '07 '08 '09 '10 '11 '12 '13 '14 '15 '16

Working Capital

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



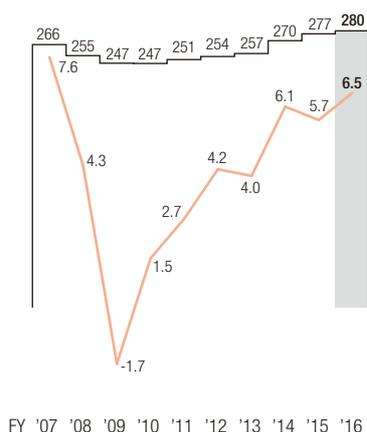
FY '07 '08 '09 '10 '11 '12 '13 '14 '15 '16

Millions of yen						Thousands of U.S. dollars (Note 1)
2012	2011	2010	2009	2008	2007	2016
¥ 659,218	¥ 632,419	¥ 674,159	¥ 686,615	¥ 827,487	¥ 905,137	\$ 5,378,752
16,802	8,442	7,736	6,297	25,416	36,886	236,547
17,529	10,972	8,584	(595)	22,229	35,452	247,034
10,579	6,764	3,724	(4,343)	11,186	20,033	155,231
462,574	447,765	448,592	449,607	484,937	526,125	4,254,085
253,862	250,671	246,680	246,829	255,220	266,086	2,397,205
33,767	8,716	35,186	18,144	41,122	47,214	284,667
(16,067)	(12,108)	(13,012)	(25,834)	(28,967)	(21,912)	(166,333)
(11,813)	(3,811)	(8,171)	(4,324)	(21,738)	(16,345)	(52,017)
108,260	102,373	109,575	95,575	107,589	117,206	916,974
						U.S. dollars
¥ 77.45	¥ 49.30	¥ 26.70	¥ (31.62)	¥ 78.63	¥ 134.84	\$ 1.20
24.00	20.00	20.00	20.00	40.00	40.00	0.43
1,907.50	1,827.25	1,798.16	1,797.31	1,858.39	1,817.59	18.49

- 4. Total stockholders' equity in the above table represents the total of stockholders' equity and accumulated other comprehensive income in the consolidated balance sheets.
- 5. Effective fiscal 2013, we have changed to an accounting method that deducts a portion of sales incentives (which had previously been accounted for under selling, general and administrative expenses) from net sales; therefore, the amount of net sales for fiscal 2012 and relevant key management indicators have been adjusted retroactively.

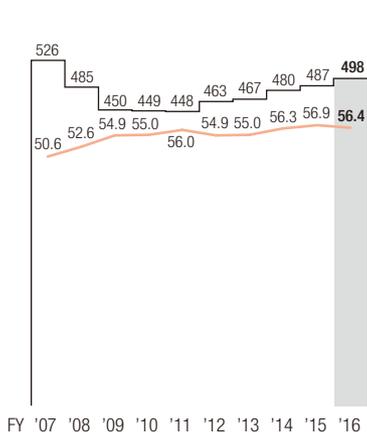
Total Stockholders' Equity and ROE

(Billions of yen / %) ■ Total Stockholders' Equity — ROE



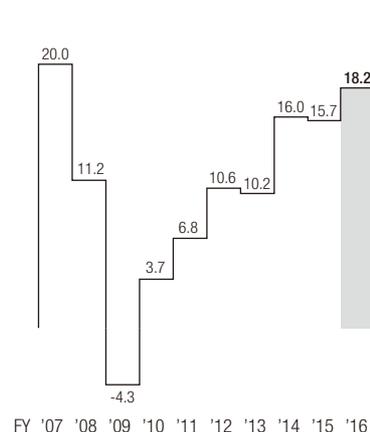
Total Assets and Total Stockholders' Equity Ratio

(Billions of yen / %) ■ Total Assets — Total Stockholders' Equity Ratio



Profit (Loss) Attributable to Owners of Parent

(Billions of yen)



Financial Review

Business Performance

Net Sales

For the year ended December 31, 2016, consolidated net sales declined 2.6%, to ¥629,314 million. This reflected a delayed recovery in personal consumption that overshadowed extensive efforts to expand sales of new products and propose solutions.

Segment Information

Business Solutions

Sales decreased slightly for office multifunction printers (MFPs). This was because of an increase in the rental business, offsetting efforts to boost compact A3 C3300 to the new customers.

Production printing sales were not significantly changed. Sales were favorable for color on-demand models for print shops, but notwithstanding the launch of our continuous feed printers, unit shipments were down to design houses.

While sales of laser printers were down, we maintained our No. 1 market share in this category by cultivating markets for fast, high-volume machines. Toner cartridge sales were up, reflecting expanding shipments to certain sectors promising high print volumes.

Sales of network cameras increased on higher demand for camera bodies and steady sales of image management software.

Sales of maintenance services for office MFPs increased slightly, as print volume rose steadily owing to a greater number of machines in the field, offsetting an ongoing drop in copy charges.

Our subsidiary, Canon System & Support Inc., boosted its sales on favorable demand for its security business, IT equipment maintenance services, and business equipment.

At Canon Production Printing Systems Inc., a subsidiary of the Company, sales were up slightly owing to the delayed inspection of the continuous feed printers, which began shipping during the term.

As a result of these factors, Business Solutions sales rose 1.1%, to ¥330,334 million.

IT Solutions

The Systems Integration (SI) services business increased sales from expanding orders for financial institutions and manufacturers.

Sales of the IT infrastructure and services business were up, reflecting new large infrastructure project orders and steady demand for data center services.

The embedded systems business experienced a downturn in sales, as sluggish demand from key manufacturing customers overshadowed stronger marketing to the automotive industry.

In the products business, sales were flat owing to changes in the distribution flow of some merchandise, which overshadowed favorable sales of ESET security software and other products.

Segment sales thus decreased 0.3%, to ¥140,843 million.

Imaging Systems

Although we retained our No. 1 market share in digital interchangeable lens cameras on the strength of new product launches and extensive sales efforts, sales were down due to a market slowdown.

Although, we similarly maintained our No.1 market share in compact digital cameras, unit shipments and sales were off owing to parts production fall stemming from earthquake damage in Kumamoto Prefecture and a prolonged drop in demand.

We were again the market leader in inkjet printers, although sales were down slightly. Ink cartridge sales decreased, reflecting lower machine sales and smaller print volumes.

Sales of commercial imaging equipment were down amid sluggish demand for broadcast lenses that led to lower broadcast station orders.

Sales of this segment thus declined 10.9%, to ¥159,207 million.

Industrial / Medical

Industrial equipment sales rose on the strength of higher sales of semiconductor fabrication equipment and inspection / measuring equipment and commensurately steady demand for maintenance services and repair parts.

Medical business sales were down, after the transaction reviews to eliminate low-margin products overshadowed steady sales for digital radiography and non-mydratic fundus cameras.

Segment sales therefore dropped 5.8%, to ¥25,568 million.

Income Analysis

Consolidated net sales were down 2.6%, to ¥629,314 million.

Cost of sales decreased 2.3%, to ¥403,307 million. Gross profit dropped 3.0%, to ¥226,007 million.

Selling, general and administrative expenses were down 3.9%, to ¥198,331 million.

Operating income therefore climbed 3.9%, to ¥27,676 million.

Total other income jumped 44.2%, to ¥1,227 million.

Profit attributable to owners of parent thus increased 15.9%, to ¥18,162 million. Profit attributable to owners of parent per share was ¥140.06, up ¥19.22 from a year earlier.

Financial Position

Total current assets increased ¥14,599 million from the end of the previous year, to ¥362,142 million. This reflected increases of ¥7,712 million in cash and cash equivalents and ¥9,990 million in short-term loans receivable.

Non-current assets decreased ¥3,373 million, to ¥135,586 million. The key factors were declines of ¥1,826 million in software and ¥1,576 million in land, which outweighed an increase of ¥499 million in buildings and structures, net.

Total current liabilities decreased ¥2,712 million, to ¥156,967 million. This was because of a ¥3,150 million decrease in accrued expenses, which offset an ¥828 million rise in notes and accounts payable.

Total long-term liabilities increased ¥10,457 million, to ¥59,842 million. This stemmed from a ¥10,746 million increase in net defined benefit liabilities.

Total net assets increased ¥3,481 million, to ¥280,919 million. Factors in that rise included ¥18,162 million in profit attributable to owners of parent, ¥5,835 million in dividend payments, and a decrease of ¥8,319 million in remeasurements of defined benefit plans.

Total stockholders' equity ratio was 56.4%, down 0.5 percentage points from a year earlier. Stockholders' equity per share increased ¥26.74 to ¥2,162.96.

Cash Flows

Net cash provided by operating activities amounted to ¥33,306 million, from ¥29,730 million a year earlier. This change was due to ¥28,903 million in profit before income taxes, as well as ¥14,870 million in depreciation and amortization, a decrease of ¥1,248 million in notes and accounts receivable-trade, partially offset by ¥10,983 million in income taxes paid.

Net cash used in investing activities was ¥19,461 million, compared with ¥44,536 million in the previous year. The main factors were ¥10,991 million in payments for purchases of property, plant and equipment and a ¥9,990 million increase in short-term loans receivable.

Net cash used in financing activities amounted to ¥6,086 million, compared with ¥6,225 million in the previous year, mainly because of dividends paid of ¥5,844 million.

As a result of these factors, cash and cash equivalents at the end of the year stood at ¥107,286 million, up ¥7,712 million from a year earlier.

Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2016 and 2015

Millions of yen

ASSETS	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents (Notes 8 and 9)	¥ 107,286	¥ 99,574
Notes and accounts receivable (Note 8)	124,475	125,907
Inventories (Note 5)	29,980	30,006
Deferred tax assets (Note 11)	4,215	5,281
Short-term loans receivable (Note 8)	90,044	80,054
Other current assets	6,263	6,923
Allowance for doubtful receivables	(121)	(202)
Total current assets	362,142	347,543
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 3)	34,364	35,940
Buildings and structures (Note 3)	89,797	88,201
Machinery and vehicles	205	328
Furniture and fixtures	18,253	19,474
Rental assets	36,836	34,987
Lease assets	958	1,323
Total	180,413	180,253
Accumulated depreciation	(83,711)	(80,943)
Net property, plant and equipment	96,702	99,310
INTANGIBLE ASSETS:		
Goodwill (Note 2)	—	820
Software	6,443	8,269
Lease assets	54	77
Utilization rights	317	318
Other intangible assets	5	15
Total intangible assets	6,819	9,499
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 3, 8 and 9)	7,422	7,789
Long-term loans receivable	10	11
Lease deposits (Notes 14 and 15)	4,825	5,275
Deferred tax assets (Note 11)	17,669	14,768
Other investments	2,484	2,605
Allowance for doubtful receivables	(345)	(298)
Total investments and other assets	32,065	30,150
Total non-current assets	135,586	138,959
Total assets	¥ 497,728	¥ 486,502

Millions of yen

LIABILITIES AND NET ASSETS	2016	2015
CURRENT LIABILITIES:		
Notes and accounts payable (Notes 3 and 8)	¥ 102,662	¥ 101,834
Lease obligations (Note 15)	176	222
Accrued income taxes (Note 11)	4,689	6,201
Consumption taxes payable	4,297	5,132
Accrued expenses	18,969	22,119
Reserves	4,088	4,172
Other current liabilities	22,086	19,999
Total current liabilities	156,967	159,679
LONG-TERM LIABILITIES:		
Lease obligations (Note 15)	206	321
Deferred tax liabilities (Note 11)	422	582
Deferred tax liabilities for land revaluation (Note 11)	7	26
Allowance for long-term continuous service rewards (Note 2)	962	943
Net defined benefit liabilities (Notes 2 and 10)	53,569	42,823
Other long-term liabilities (Note 15)	4,676	4,690
Total long-term liabilities	59,842	49,385
CONTINGENT LIABILITIES (Note 4)		
NET ASSETS (Note 2):		
STOCKHOLDERS' EQUITY (Note 16):		
Common stock (Note 7):		
Authorized 299,500,000 shares; Issued 151,079,972 shares in 2016 and 2015	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	163,364	151,037
Treasury stock (Note 7)	(31,915)	(31,912)
Total stockholders' equity	287,572	275,248
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized gains on available-for-sale securities	2,329	2,775
Deferred gains or losses on hedges	(15)	1
Foreign currency translation adjustments	147	225
Remeasurements of defined benefit plans	(9,560)	(1,241)
Total accumulated other comprehensive income (loss)	(7,099)	1,760
NON-CONTROLLING INTERESTS	446	430
Total net assets	280,919	277,438
Total liabilities and net assets	¥ 497,728	¥ 486,502

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

Millions of yen

	2016	2015
NET SALES	¥ 629,314	¥ 646,003
COST OF SALES	403,307	412,898
Gross profit	226,007	233,105
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	198,331	206,458
Operating income	27,676	26,647
OTHER INCOME (EXPENSES):		
Interest and dividend income	353	407
Interest expense	(15)	(27)
Insurance income	609	599
Foreign exchange losses	(78)	(123)
Gain on sales of fixed assets	775	349
Insurance income due to disaster	—	35
Loss on impairment of fixed assets	(131)	(3)
Gain on sales of investments in securities	661	82
Gain on sales of shares of subsidiaries and affiliates	—	57
Loss on sales and disposal of fixed assets	(986)	(369)
Loss on disaster	(28)	(15)
Special extra retirement payments	(6)	(524)
Corporate reorganization-related expense	—	(103)
Other, net	73	486
Total other income (expenses)	1,227	851
Profit before income taxes	28,903	27,498
INCOME TAXES (Note 11):		
Current	8,789	10,302
Deferred	1,918	1,468
Total income taxes	10,707	11,770
Profit	18,196	15,728
PROFIT ATTRIBUTABLE TO:		
Non-controlling interests	34	58
Owners of parent	¥ 18,162	¥ 15,670
		Yen
PER SHARE OF COMMON STOCK (Note 2):		
Profit attributable to owners of parent	¥ 140.06	¥ 120.84
Cash dividends applicable to the year	¥ 50.00	¥ 45.00

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

Millions of yen

	2016	2015
PROFIT	¥ 18,196	¥ 15,728
OTHER COMPREHENSIVE INCOME (LOSS) (Note 6)		
Net unrealized gains or losses on available-for-sale securities	(447)	1,071
Deferred gains or losses on hedges	(15)	1
Foreign currency translation adjustments	(81)	(20)
Remeasurements of defined benefit plans, net of tax	(8,320)	(1,243)
Total other comprehensive income (loss)	(8,863)	(191)
Comprehensive income	¥ 9,333	¥ 15,537
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of parent	¥ 9,302	¥ 15,451
Non-controlling interests	31	86

• 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, 2016 and 2015

Millions of yen

	Number of shares of common stock	Stockholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE AT JANUARY 1, 2015	151,079,972	¥ 73,303	¥ 82,820	¥ 143,864	¥ (31,905)
Cumulative effect of changes in accounting policies				(2,662)	
Restated balance at beginning of year	151,079,972	73,303	82,820	141,202	(31,905)
Profit attributable to owners of parent				15,670	
Cash dividends				(5,835)	
Purchase of treasury stock					(7)
Disposition of treasury stock			0		0
Sales of shares of consolidated subsidiaries					
Profit attributable to non-controlling interests					
Cash dividends paid to non-controlling interests					
Other, net					
BALANCE AT JANUARY 1, 2016	151,079,972	¥ 73,303	¥ 82,820	¥ 151,037	¥ (31,912)
Profit attributable to owners of parent				18,162	
Cash dividends				(5,835)	
Purchase of treasury stock					(3)
Disposition of treasury stock					
Sales of shares of consolidated subsidiaries					
Profit attributable to non-controlling interests					
Cash dividends paid to non-controlling interests					
Other, net					
BALANCE AT DECEMBER 31, 2016	151,079,972	¥ 73,303	¥ 82,820	¥ 163,364	¥ (31,915)

Millions of yen

	Accumulated other comprehensive income (loss)					Non-controlling interests	Total net assets
	Net unrealized gains on available- for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans			
BALANCE AT JANUARY 1, 2015	¥ 1,705	—	¥ 272	¥ 2	¥ 292	¥ 270,353	
Cumulative effect of changes in accounting policies						(2,662)	
Restated balance at beginning of year	1,705	1	225	(1,241)	430	267,691	
Profit attributable to owners of parent						15,670	
Cash dividends						(5,835)	
Purchase of treasury stock						(7)	
Disposition of treasury stock						0	
Sales of shares of consolidated subsidiaries					63	63	
Profit attributable to non-controlling interests					58	58	
Cash dividends paid to non-controlling interests					(11)	(11)	
Other, net	1,070	1	(47)	(1,243)	28	(191)	
BALANCE AT JANUARY 1, 2016	¥ 2,775	1	¥ 225	¥ (1,241)	¥ 430	¥ 277,438	
Profit attributable to owners of parent						18,162	
Cash dividends						(5,835)	
Purchase of treasury stock						(3)	
Disposition of treasury stock						—	
Sales of shares of consolidated subsidiaries						—	
Profit attributable to non-controlling interests					34	34	
Cash dividends paid to non-controlling interests					(10)	(10)	
Other, net	(446)	(16)	(78)	(8,319)	(8)	(8,867)	
BALANCE AT DECEMBER 31, 2016	¥ 2,329	¥(15)	¥ 147	¥ (9,560)	¥ 446	¥ 280,919	

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

Millions of yen

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥ 28,903	¥ 27,498
Adjustments for:		
Depreciation and amortization	14,870	15,524
Loss on impairment of fixed assets	131	3
Amortization of goodwill	799	242
Increase (decrease) in allowance for doubtful receivables	(34)	30
Increase (decrease) in net defined benefit liabilities	(1,271)	(918)
Interest and dividend income	(353)	(407)
Interest expense	15	27
Loss (gain) on sales and retirement of property, plant and equipment, net	78	(26)
Loss (gain) on sales of investments in securities	(661)	(70)
Decrease (increase) in notes and accounts receivable-trade	1,248	2,599
Decrease (increase) in inventories	88	(2,162)
Increase (decrease) in notes and accounts payable-trade	843	497
Other, net	(716)	(2,972)
Sub-total	43,940	39,865
Interest and dividends received	367	407
Interest paid	(18)	(27)
Income taxes paid	(10,983)	(10,515)
Net cash provided by operating activities	33,306	29,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(10,991)	(12,384)
Proceeds from sales of property, plant and equipment	2,308	801
Payments for purchases of intangible assets	(1,442)	(3,002)
Payments for purchases of investments in securities	(455)	(132)
Proceeds from sales of investments in securities	797	169
Proceeds from sales of shares of affiliates	—	125
Decrease (increase) in short-term loans receivable, net	(9,990)	(30,000)
Other	312	(113)
Net cash used in investing activities	(19,461)	(44,536)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of finance lease obligations	(239)	(375)
Payments for purchases of treasury stock	(3)	(7)
Dividends paid	(5,844)	(5,844)
Other	—	1
Net cash used in financing activities	(6,086)	(6,225)
Effect of exchange rate changes on cash and cash equivalents	(47)	(2)
Net increase (decrease) in cash and cash equivalents	7,712	(21,033)
Cash and cash equivalents at beginning of year	99,574	120,607
Cash and cash equivalents at end of year	¥ 107,286	¥ 99,574

• 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, 2016 include the accounts of the Company and all of its 24 (26 in 2015) 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) and structures purchased on or after April 1, 2016, 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, from 5 to 75 years; furniture and fixtures, from 2 to 20 years; and rental assets, 3 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 non-controlling 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

Profit attributable to owners of parent per share is calculated using profit 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

(Application of Accounting Standard for Business Combinations)

From the year ended December 31, 2016, the Company applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), the Accounting

Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013), and other standards. As a result, any difference arising from a change in the Company's ownership interest in a subsidiary when the Company retains control over the subsidiary is accounted for in capital surplus, and acquisition-related costs are expensed in the year in which such costs are incurred. For a business combination on or after the beginning of the year, the Company changed to a method to reflect revisions due to the finalization of the purchase price allocation based on the provisional amount recognized in the consolidated financial statements for the fiscal year in which the business combination occurs. In addition, the presentation of net income was amended and minority interests was changed to non-controlling interests. The consolidated financial statements for the previous fiscal year were restated to reflect the change in presentation.

The aforementioned accounting standards were adopted from the beginning of the fiscal year ended December 31, 2016, according to the transitional treatment provided for in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

In the consolidated statement of cash flows for the fiscal year ended December 31, 2016, cash flows from changes in ownership interests in subsidiaries that did not result in a change in the scope of consolidation are recognized under "cash flows from financing activities." Cash flows for costs related to the purchase of ownership interests in subsidiaries that result in a change in the scope of consolidation or which do not result in such change are recognized under "cash flows from operating activities."

There was no financial impact on the consolidated financial statements or per-share information as a result of the changes in accounting policies for the year ended December 31, 2016.

(Application of Practical Solution on Change in Depreciation Owing to Tax System Reform in 2016)

In line with tax system reform, from the year ended December 31, 2016, the Company applied the Practical Solution on Change in Depreciation Owing to Tax System Reform in 2016 (Practical Issues Task Force No. 32, June 17, 2016). The Company changed from declining-balance to straight-line depreciation for furniture, fixtures and structures acquired on or after April 1, 2016.

The impacts of these changes on operating income, ordinary income, and profit before income taxes for the year ended December 31, 2016, were minimal.

(r) Accounting Standards Not Yet Applied

- Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(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 Standards
The effects of the adoption of the accounting standards are currently being evaluated.

3 Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2016 and 2015 were as follows:

(1) Pledged assets

	Millions of yen	
	2016	2015
Time deposits	¥ 55	¥ 62
Land	—	647
Buildings	—	437
Total	¥ 55	¥ 1,146

(2) Liabilities secured by the above assets

	Millions of yen	
	2016	2015
Accounts payable	—	¥ 301
Total	—	¥ 301

4 Contingent Liabilities

Contingent liabilities as of December 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Guarantees for employees' housing loans	¥ 25	¥ 37
Total	¥ 25	¥ 37

5 Inventories

Inventories as of December 31, 2016 and 2015 were composed of the following:

	2016	2015
		Millions of yen
Merchandise	¥ 25,888	¥ 25,801
Service parts	2,383	2,526
Work in progress	834	792
Supplies	742	735
Other	133	152
Total	¥ 29,980	¥ 30,006

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 amount arising during the year, reclassification adjustments, pre-tax amount, tax effect and net-of-tax amount for each component of other comprehensive income (loss) for the years ended December 31, 2016 and 2015.

	2016	2015
Net unrealized gains or losses on available-for-sale securities		
Amount arising during the year	¥ (29)	¥ 1,551
Reclassification adjustments	(661)	(82)
Pre-tax amount	(690)	1,469
Tax effect	243	(398)
Net-of-tax amount	(447)	1,071
Deferred gains or losses on hedges		
Amount arising during the year	(22)	1
Pre-tax amount	(22)	1
Tax effect	7	—
Net-of-tax amount	(15)	1
Foreign currency translation adjustments		
Amount arising during the year	(81)	(20)
Pre-tax amount	(81)	(20)
Tax effect	—	—
Net-of-tax amount	(81)	(20)
Remeasurements of defined benefit plans		
Amount arising during the year	(10,506)	(661)
Reclassification adjustments	(1,511)	(1,155)
Pre-tax amount	(12,017)	(1,816)
Tax effect	3,697	573
Net-of-tax amount	(8,320)	(1,243)
Total other comprehensive income (loss)	¥ (8,863)	¥ (191)

7 Consolidated Statement of Changes in Net Assets

Current Fiscal Year (from January 1, 2016 to December 31, 2016)

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	21,408	1	—	21,409
Total	21,408	1	—	21,409

Note: The increase of 1 thousand shares of treasury stock was due to the purchase 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 29, 2016					
General stockholders' meeting	Common stock	¥ 3,242	¥ 25	December 31, 2015	March 30, 2016
July 25, 2016					
Board of Directors' meeting	Common stock	¥ 2,593	¥ 20	June 30, 2016	August 26, 2016

(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, 2017						
General stockholders' meeting	Common stock	Retained earnings	¥ 3,890	¥ 30	December 31, 2016	March 30, 2017

Previous 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

8 Financial Instruments

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, 2016 and 2015, their fair values, and the differences between the two are as follows. The table below, however, excludes the financial instruments whose fair values are not readily determinable (see Note 2).

Millions of yen

	2016		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 76,786	¥ 76,786	—
(2) Notes and accounts receivable	124,475	124,475	—
(3) Short-term investments in securities and investments in securities	36,814	36,814	—
(4) Short-term loans receivable	90,044	90,044	—
Total assets	¥ 328,119	¥ 328,119	—
(5) Notes and accounts payable	¥ 102,662	¥ 102,662	—
Total liabilities	¥ 102,662	¥ 102,662	—

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	—

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 not readily determinable as of December 31, 2016 and 2015 were as follows:

		Millions of yen	
		2016	2015
		Book value	
Equity securities		¥ 439	¥ 312
Investments in investment partnerships		¥ 669	¥ 495

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 their fair values are not readily determinable.

3. The redemption schedule of monetary claims and securities with maturities as of December 31, 2016 and 2015 was summarized as follows:

					Millions of yen			
					2016			
	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	¥ 76,786	—	—	—				
Notes and accounts receivable	124,475	—	—	—				
Short-term investments in securities and investments in securities								
Held-to-maturity debt securities								
(1) Corporate bonds	—	—	—	—				
(2) Other	30,500	—	—	—				
Short-term loans receivable	90,044	—	—	—				
Total	¥ 321,805	—	—	—				

					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	—	—	—				

9 Securities

Securities as of December 31, 2016 and 2015 were classified and included in the following accounts:

	Millions of yen	
	2016	2015
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 7,422	¥ 7,789
Held-to-maturity:		
Cash and cash equivalents	30,500	62,800
Total	¥ 37,922	¥ 70,589

The carrying amounts and aggregate fair values of investments in securities at December 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,030	¥ 3,296	¥ (24)	¥ 6,302
Other	10	2	—	12
Total	¥ 3,040	¥ 3,298	¥ (24)	¥ 6,314

	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

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Available-for-sale:		
Equity securities	¥ 439	¥ 312
Investments in investment partnerships	669	495
Total	¥ 1,108	¥ 807

10 Employees' Retirement and Severance Benefits

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	
	2016	2015
Retirement benefit obligations at beginning of year	¥ 207,485	¥ 202,476
Cumulative effect of changes in accounting policies	—	4,062
Restated balance at beginning of year	207,485	206,538
Service costs	7,040	7,402
Interest costs	2,156	2,110
Actuarial gains and losses	10,255	(1,827)
Benefit paid	(6,800)	(6,738)
Prior service costs	(3,333)	—
Retirement benefit obligations at end of year	¥ 216,803	¥ 207,485

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

	Millions of yen	
	2016	2015
Plan assets at beginning of year	¥ 165,254	¥ 165,178
Expected return on plan assets	4,543	4,562
Actuarial gains and losses	(3,333)	(2,488)
Contributions from the employer	3,508	4,174
Benefit paid	(6,098)	(6,172)
Plan assets at end of year	¥ 163,874	¥ 165,254

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

	Millions of yen	
	2016	2015
Net defined benefit liabilities at beginning of year	¥ 592	¥ 565
Net periodic benefit costs	112	91
Benefit paid	(32)	(33)
Contributions to plans	(32)	(31)
Net defined benefit liabilities at end of year	¥ 640	¥ 592

(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	
	2016	2015
Funded retirement benefit obligations	¥ 197,295	¥ 190,471
Plan assets	164,163	165,505
	33,132	24,966
Unfunded retirement benefit obligations	20,437	17,857
Net liabilities and assets in consolidated balance sheets	¥ 53,569	¥ 42,823
Net defined benefit liabilities	¥ 53,569	¥ 42,823
Net liabilities and assets in consolidated balance sheets	¥ 53,569	¥ 42,823

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

(5) Retirement benefit costs

Millions of yen

	2016	2015
Service costs	¥ 7,040	¥ 7,402
Interest costs	2,156	2,110
Expected return on plan assets	(4,543)	(4,562)
Amortization of actuarial gains and losses	1,925	1,525
Amortization of prior service costs	(3,687)	(2,680)
Net periodic benefit costs using the simplified method	112	91
Retirement benefit costs of defined benefit plans	¥ 3,003	¥ 3,886

Note: In addition to the above retirement benefit costs, the Group recorded ¥433 million (including ¥6 million of special extra retirement payments) and ¥893 million (including ¥524 million of special extra retirement payments) for extra retirement payments for the years ended December 31, 2016 and 2015, respectively.

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

Changes in unrecognized prior service costs and unrecognized actuarial gains and losses for the years ended December 31, 2016 and 2015 were as follows:

Millions of yen

	2016		
	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	¥ (9,700)	¥ 11,566	¥ 1,866
Net change	353	11,663	12,016
At end of year	¥ (9,347)	¥ 23,229	¥ 13,882

Millions of yen

	2015		
	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:

	2016	2015
Bonds	16%	24%
Stocks	3	3
Pooled funds	48	48
Life insurance company general accounts	20	21
Other	13	4
Total	100%	100%

Note: The composition of pooled funds was 50% in bonds and 50% in stocks for the year ended December 31, 2016, and 49% in bonds and 51% in stocks for the year ended December 31, 2015.

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, 2016 and 2015 were as follows:

	2016	2015
Discount rates	0.03 - 0.69%	0.1 - 1.2%
Long-term expected rates of return on plan assets	1.0 - 3.0%	1.0 - 3.0%
Estimated rates of salary increases	1.7 - 2.6%	1.7 - 3.0%

3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥2,045 million and ¥1,939 million for the years ended December 31, 2016 and 2015, respectively.

11 Income Taxes

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2016 and 2015, were as follows:

Millions of yen

	2016	2015
DEFERRED TAX ASSETS:		
Sales promotion expenses	¥ 1,249	¥ 1,898
Accrued bonuses to employees	1,188	1,333
Accrued business tax and business office tax	654	668
Loss on disposal and devaluation of inventories	469	400
Provision for loss on orders received	143	175
Net defined benefit liabilities	16,670	13,859
Loss on devaluation of investments in securities	780	734
Excess amortization of software	735	987
Excess depreciation of fixed assets	727	657
Loss carried forward	429	790
Asset retirement obligations	419	393
Allowance for long-term continuous service rewards	298	303
Loss on valuation of golf club membership	118	123
Lump-sum depreciable assets	101	94
Loss on impairment of fixed assets	68	79
Other	1,209	2,299
Gross deferred tax assets	25,257	24,792
Less: valuation allowance	(1,350)	(2,460)
Total deferred tax assets	¥ 23,907	¥ 22,332
DEFERRED TAX LIABILITIES:		
Net unrealized gains on available-for-sale securities	¥ 995	¥ 1,197
Deferred capital gain	1,407	1,450
Other	50	244
Total deferred tax liabilities	¥ 2,452	¥ 2,891
Deferred tax liabilities for land revaluation	¥ 7	¥ 26
Net deferred tax assets	¥ 21,462	¥ 19,467

A reconciliation between the statutory income tax rate and the effective income tax rate for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Statutory income tax rate	33.0 %	35.0 %
Entertainment and other expenses permanently not deductible for tax purposes	1.0	1.2
Per-capita levy of inhabitants' taxes	1.2	1.2
Valuation allowance	(1.0)	(1.2)
Dividend income not taxable	(0.0)	(0.0)
Decrease in deferred tax assets due to tax rate changes	1.9	5.9
Other	0.9	0.7
Effective income tax rate	37.0 %	42.8 %

(Additional Information)

In line with the Japanese Diet's enactment on March 29, 2016, of the "Act to Partially Revise the Income Tax Act, etc.", and the "Act to Partially Revise the Local Tax Act, etc.", and the enactment on November 18, 2016, of the "Act for Partial Amendment of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" and of the "Act for Partial Amendment of the Local Tax Act and Local Tax Allocation Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security", the effective

statutory income tax rate used to calculate deferred tax assets and liabilities declined from 32% to 31%.

As a result of this change, deferred tax assets, net of deferred tax liabilities, decreased ¥663 million. Income taxes-deferred increased ¥558 million, while net unrealized gains on available-for-sale securities increased ¥32 million. Deferred gains or losses on hedges decreased ¥0 million, while remeasurements of defined benefit plans decreased ¥137 million.

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. ITS Company Canon IT Solutions Inc. Canon Software Inc. Canon ITS Medical 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. 3 other companies

Major products and services in each segment

Reportable Segment	Major products / services
Business Solutions	Multifunction Printers (MFPs), print-on-demand (POD) digital presses, Continuous Feed Press, laser printers, large format ink-jet printers, office-use facsimiles, liquid crystal projectors, document scanners, industrial printers, teleconference system, network cameras, document solutions, service and support
IT Solutions	Systems Integration services business, IT infrastructure and services business, embedded systems business, products business
Imaging Systems	Digital cameras, interchangeable lenses, digital video cameras, ink-jet printers, compact photo printers, personal-use scanners, 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, 2016 and 2015 were 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				
2016								
Net sales:								
External customers	¥ 330,334	¥ 114,180	¥ 159,207	¥ 25,568	¥ 25	¥ 629,314	—	¥ 629,314
Intersegment	—	26,663	—	—	—	26,663	¥ (26,663)	—
Total	¥ 330,334	¥ 140,843	¥ 159,207	¥ 25,568	¥ 25	¥ 655,977	¥ (26,663)	¥ 629,314
Segment income (loss)	¥ 11,362	¥ 4,854	¥ 10,887	¥ 123	¥ 450	¥ 27,676	—	¥ 27,676
Segment assets	¥ 141,484	¥ 66,926	¥ 71,021	¥ 17,434	¥ 9,195	¥ 306,060	¥ 191,668	¥ 497,728
Other items:								
Depreciation and amortization	¥ 10,589	¥ 2,146	¥ 1,562	¥ 452	¥ 121	¥ 14,870	—	¥ 14,870
Amortization of goodwill	—	254	—	545	—	799	—	799
Changes in the amount of property, plant and equipment and intangible assets	8,157	4,259	529	224	—	13,169	—	13,169

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.

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				
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.

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				
2016	¥ 80	—	—	¥ 51	—	¥ 131	—	¥ 131

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				
2015	¥ 3	—	—	—	—	¥ 3	—	¥ 3

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				
2016	—	¥ 254	—	¥ 545	—	¥ 799	—	¥ 799
Goodwill at December 31, 2016	—	—	—	—	—	—	—	—

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

5. Information on gain on negative goodwill

There were no applicable items for the years ended December 31, 2016 and 2015.

13 Related Party Transactions

Current Fiscal Year (from January 1, 2016 to December 31, 2016)

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	0 hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	¥ 212,620	Accounts payable	¥ 70,744
								Sales of office equipment and consumables, etc.			
								Non-operating transactions	Loans of capital	¥ 10,000	Short-term loans

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.

- 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.
- Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.
- 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, 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	Loans of capital	¥ 30,000	Short-term loans

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.

- 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.
- Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.
- 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, 2016 and 2015 were ¥1,860 million and ¥1,832 million, respectively.

15 Lease Obligations, Long-Term Loans Payable and Deposits

Lease obligations, long-term loans payable and deposits as of December 31, 2016 and 2015 were as follows:

	Average interest rate (2016)	2016	2015
Millions of yen			
Lease obligations			
Current portion of lease obligations		¥ 176	¥ 222
Lease obligations (excluding current portion)		206	321
		382	543
Long-term loans payable (excluding current portion)	—	—	—
Deposits	0.01%	4,065	4,044
Total		¥ 4,447	¥ 4,587

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



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Tokyo, Japan 100-0011

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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, 2016, 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, 2016, 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, 2017
Tokyo, Japan

Canon MJ Group Companies

As of April 1, 2017

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
	Commercial Printing Lab Inc.	Creation of digital printing business, content production, and printing business (inkjet continuous feed printers, production printers, and offset printing machinery)
	Canon BizAttenda Inc.	Consulting, support for business process optimization, back office business process optimization, office support, contact center, temp staffing, and services
	A&A Co., Ltd.	Exclusive domestic sales, including for Japanese localization of Vectorworks 3D computer-aided design (CAD) software, and planning, development, and sales of related software
IT Solutions	Canon IT Solutions Inc.	Systems integration (SI) and consulting, IT services, and software development and sales
	Canon Software Inc.	Development of embedded software development and quality verification services
	SuperStream Inc.	Planning, development, and sales of SuperStream NX management infrastructure solution for accounting and salaries
	Qualysite Technologies Inc.	Java systems development, and data center operations, maintenance, and auxiliary services
	Edifist Learning Inc.	Human resources development consulting, training, and auxiliary services
	Canon Software America, Inc.	Development of business applications software and document solutions for Group companies
	Canon Information Systems (Shanghai) Inc.	SI and consulting for Japanese and Group companies and development and sales of software relating to Canon products
	Canon IT Solutions (Thailand) Co., Ltd.	Business liaison for Group companies in Thailand and Vietnam
	Material Automation (Thailand) Co., Ltd.	Proposals, sales, and service related to IT hardware through software
	ASAHI-M.A.T. Co., Ltd.	Sales and support for CAD, manufacturing, and engineering in Thailand
Imaging Systems	MAT Vietnam Company Limited	Proposals, sales, and service related to IT hardware through software in Vietnam
	Canon Customer Support Inc.	Contact center operations focusing on Canon's consumer products, consumer product services, and photo business support
Industrial / Medical	Canon Lifecare Solutions Inc.	Sales of medical and healthcare devices equipment and related consumables and medical imaging systems
	ELQUEST CORPORATION	Design, production, and sales of dispensing, infection prevention, medical, and healthcare equipment
	Canon ITS Medical Inc.	Providing IT solutions for the medical and healthcare field, systems development, network construction, and hardware sales
	AZE, Ltd.	3D medical image analysis and other systems development, production, and sales
Shared services	Canon Business Support Inc.	Facilities management and real estate and office services for Group companies

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

13,170

Number of Employees

Consolidated: 18,011

Non-consolidated: 5,332

(As of December 31, 2016)

Main Locations of Operations

Headquarters, Makuhari office and branches

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

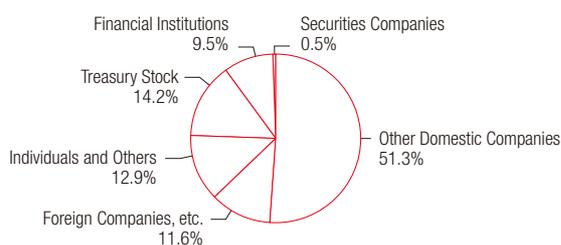
(As of April 1, 2017)

Major Stockholders

Name of stockholder	Number of shares held (thousands)	Percentage of ownership (%)
Canon Inc.	75,708	58.4%
Canon Marketing Japan Group Employee Stock Ownership Association	6,298	4.9%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,644	2.0%
Japan Trustee Services Bank, Ltd. (Trust Account)	2,125	1.6%
STATE STREET BANK AND TRUST COMPANY 505001	1,507	1.2%
CBNY-GOVERNMENT OF NORWAY	1,402	1.1%
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,213	0.9%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,163	0.9%
Mizuho Bank, Ltd.	1,001	0.8%
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	969	0.7%

Note: The percentage of ownership is calculated excluding the number of treasury stock (21,409,021 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
- 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/>