

Translation

Canon



Interim Report for the 49th Business Term

January 1, 2016 ▶ June 30, 2016

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Canon Marketing Japan Inc.

To Our Shareholders

As we, Canon Marketing Japan Inc. ("Canon MJ"), publish our Interim Report for the 49th business term (from January 1, 2016 to December 31, 2016) 2016, we would like to once again extend our sincerest gratitude to all of our shareholders for the continued support.

We would also like to offer our deepest condolences to all those affected by the 2016 Kumamoto Earthquake.

*For the purposes of this report, the term "interim" refers to the period from January 1, 2016 to June 30, 2016.

■ Increased profit achieved thanks to strong performance of highly profitable services.

Looking back over the first half of this year, the economy has been stagnant due to sluggish growth in personal consumption and weakness in capital investments.

Against this economic environment, Canon MJ Group's sales underwent modest growth in the Business Solutions segment due to strong sales of products including office MFPs (multifunction products) and maintenance services, and revenue rose in the IT Solutions segment thanks to the strong performance of the SI services business and products business. On the other hand, revenues fell in the Imaging Systems segment due to poor sales of digital cameras due to sluggish personal consumption. In addition, performance declined slightly in the Industrial/Medical segment due to weak performance in the medical business. As a result of the above, revenue was down company-wide.

Meanwhile, strong performance of highly profitable services and solutions as well as increased productivity through improvements in administrative efficiency and optimization of selling, general and administrative expenses, led to increased profit. (See the figure on the right for the sales and profit data.)

We have set interim dividends at ¥20 per share (the same amount as the same period last year). Annual dividends are projected at ¥45 per share (the same as last year) as announced at the beginning of the period, since we have not made any changes to the net income figures in our full-year forecast.

■ Project increase in revenue and profit from the introduction of new products

Looking ahead to the second half of this year, the outlook for the Japanese economy is uncertain due to concerns over the impact of a downturn in overseas economies on the Japanese economy and sluggish personal consumption.

Against this economic environment, in terms of the outlook of Canon MJ Group's performance in the second half of this year,

while we expect revenues to continue to decline in the Industrial/Medical segment, we aim to maintain revenue growth in both the Business Solutions segment and IT Solutions segment. Meanwhile, the Imaging Systems segment is expected to turn profitable thanks to factors including the introduction of new products. Based on these projections, we expect increases in both revenue and profit in our full-year forecast, as can be seen in the figure to the right.

Moreover, in order to achieve our Long-Term Management Objectives Phase III, we will work to grow businesses in Canon's Growth Areas and Canon MJ Group's Independent Growth Areas while pursuing business process reform and cultivation of new businesses.

We hope we can rely on even greater support from all of our shareholders in the future.

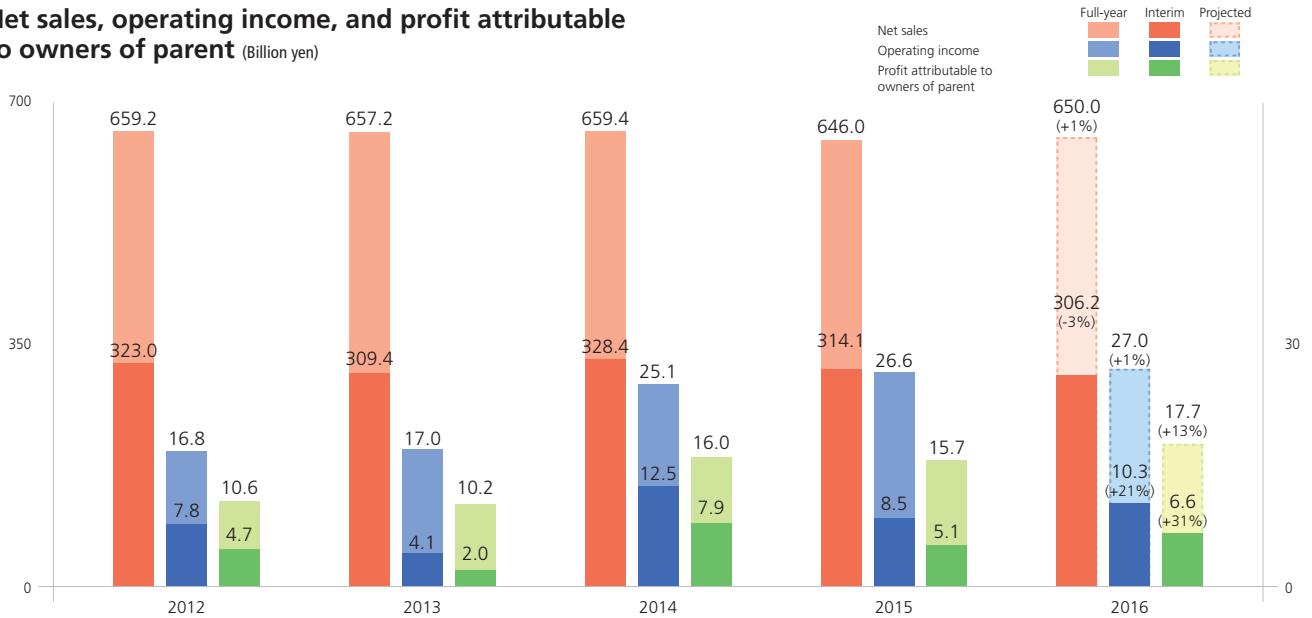
August 2016
Haruo Murase,
Chairman & Representative Director
Masahiro Sakata,
President & Representative Director



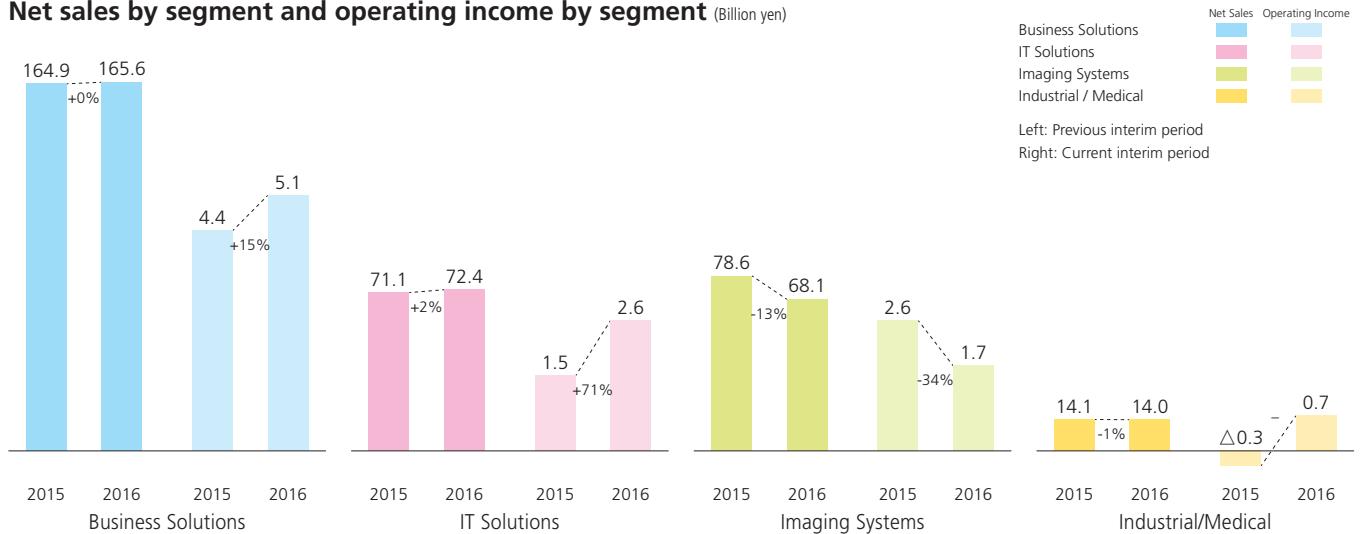
Haruo Murase

Masahiro Sakata

Net sales, operating income, and profit attributable to owners of parent (Billion yen)



Net sales by segment and operating income by segment (Billion yen)



Segment Review

*The statements regarding increases and decreases in the section below are based on comparisons with the previous interim period. See the previous page for information on net sales and operating income by segment.

Business Solutions

In office MFPs, we worked to cultivate new customers through efforts including expanded sales of the "imageRUNNER ADVANCE C3300" series. In addition, we enhanced the product lineup by releasing the "C5500" series, which is the third generation of the "imageRUNNER ADVANCE" series and, as a result, net sales grew.

In production printing (commercial printing, etc.), we promoted sales expansion through the launch of our new product "imagePRESS C65/C650." However, sales decreased as a result of factors including a delay in shipments of new continuous-feed printers.

In laser printers, efforts were made to develop the high-speed and large output market through the release of products such as "Satera LBP352i," which is the fastest version of the "Satera" series. While we were able to maintain the top share as a result of these efforts, sales decreased due to factors including a decrease in the number of large-scale projects. On the other hand, sales increased for toner cartridges.

Sales of network cameras grew due to the strong performance of crime prevention and monitoring applications.

Sales increased slightly for maintenance services for MFPs and other products as a result of a steady increase in print volume stemming from factors including an increase in the number of units currently operating in the market.



imagePRESS C65



Satera LBP352i

IT Solutions

In the SI services business, sales were up because of an increase in projects for financial institutions, medical institutions, and the manufacturing industry.

In the IT infrastructure and services business, sales increased due to the strong performance of businesses including the system platform construction services and data center services.

In the embedded systems business (development of software that is embedded in products), sales were down due to a decrease in projects for major clients in the manufacturing industry.

In the products business, sales were up due to the strong performance of products including security-related products.



Nishi-Tokyo Data Center

Imaging Systems

We maintained the top share in interchangeable lens digital cameras, by releasing and actively marketing the "EOS 80D" high-end amateur model and the "EOS-1D X Mark II" professional model, and by focusing on expanding sales of entry-level model single-lens reflex camera and mirrorless camera. However, sales were down due to the sluggish market.

For compact digital cameras, while we expanded sales of long zoom models such as the new "PowerShot SX720 HS" and maintained the top share, sales were down due to a slowdown in the market.

With regard to inkjet printers, we worked to improve the average unit price and maintained the top share by expanding sales through efforts including user campaigns focused on high value-added model such as the "PIXUS MG7730." As a result, we were able to achieve increase in net sales. On the other hand, sales decreased for ink cartridges.

For commercial imaging equipment, sales increased slightly due to an increase in broadcast TV lenses as a result of strong performance in projects for broadcasting stations.



EOS 80D



PowerShot SX720 HS

Industrial / Medical

For industrial equipment, shipments of semiconductor manufacturing equipment and tasting and measuring systems increased. Furthermore, sales increased as a result of steady sales growth in maintenance services and repair parts as well.

In the medical business, while sales for digital radiography (X-ray equipment) in the medical imaging sector grew steadily, sales decreased due to sluggish performance among the dispensing sector.



Digital radiography

Consolidated Financial Statements

Consolidated Balance Sheets (Millions of yen, amounts less than one million yen are rounded down)

	As of June 30, 2016	As of December 31, 2015
Assets		
Current assets	326,397	347,542
Noncurrent assets	136,296	138,959
Property, plant and equipment	99,673	99,310
Intangible assets	8,370	9,499
Investments and other assets	28,251	30,150
Total assets	462,693	486,502
Liabilities		
Current liabilities	134,916	159,678
Noncurrent liabilities	46,031	49,385
Total liabilities	180,947	209,064
Net assets		
Shareholders' equity	278,646	275,247
Capital stock	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	154,436	151,036
Treasury shares	△ 31,913	△ 31,911
Accumulated other comprehensive income	2,656	1,760
Valuation difference on available-for-sale securities	2,192	2,775
Deferred gains or losses on hedges	△ 42	0
Foreign currency translation adjustment	40	224
Remeasurements of defined benefit plans	465	△ 1,240
Non-controlling interests	443	430
Total net assets	281,745	277,438
Total liabilities and net assets	462,693	486,502

Consolidated Statements of Income (Millions of yen, amounts less than one million yen are rounded down)

	From January 1, 2016 to June 30, 2016	From January 1, 2015 to June 30, 2015
Net sales	306,236	314,096
Cost of sales	196,292	201,967
Gross profit	109,943	112,128
Selling, general and administrative expenses	99,628	103,606
Operating income	10,315	8,522
Non-operating income	1,138	1,263
Non-operating expenses	231	200
Ordinary income	11,221	9,585
Extraordinary income	159	23
Extraordinary losses	412	279
Income before income taxes and minority interests	10,968	9,330
Income taxes	4,308	4,235
Profit	6,659	5,094
Profit attributable to non-controlling interests	18	18
Profit attributable to owners of parent	6,641	5,075

Consolidated Statements of Cash Flows (Millions of yen, amounts less than one million yen are rounded down)

	From January 1, 2016 to June 30, 2016	From January 1, 2015 to June 30, 2015
Cash flows from operating activities	15,788	12,952
Cash flows from investing activities	△ 15,051	△ 38,372
Cash flows from financing activities	△ 3,377	△ 3,482
Effect of exchange rate change on cash and cash equivalents	△ 161	0
Net increase (decrease) in cash and cash equivalents	△ 2,801	△ 28,903
Cash and cash equivalents at beginning of period	99,573	120,607
Cash and cash equivalents at end of period	96,771	91,704



Released the flagship "EOS-1D X Mark II" for professionals

In April, we released the flagship "EOS-1D X Mark II" digital single-lens reflex camera targeted at both professional photographers and high-end amateurs that seek high performance. This model caters to the needs of the professionals with the combined features of high image quality and high-speed continuous shooting of up to approximately 14 frames per second, as well as strengthened communication functions. Since its launch, it has been used in various fields including the news media and for sporting occasions.



Introduction of the third generation of the "imageRUNNER ADVANCE" series

The MFP imageRUNNER ADVANCE series has been well-received since its release in 2009. In June, we newly introduced two models for each of the four products under the "C5500" series, which is the third generation of the "imageRUNNER ADVANCE" series. Equipped with personalized functions that enable optimized setting appropriate for each user, as well as the industry top first copy time, high-quality print with the introduction of the newly developed toner, this model boasts the functions fit for a machine of the new generation.



Enhanced lineup of IT security products and services

The IT security market is expected to grow significantly in the future, and at the same time, it is one of our areas of focus in our Long-Term Management Objectives. In this context, Canon IT Solutions Inc., one of our group companies responsible for this field, has begun to sell "Clavister Wolf" series that is effective in protecting against ransomware (unauthorized programs that demand ransom payments) and offer a "Malware Analysis Service" that analyzes and reports on malware (generic term for malicious software). We have also enhanced the lineup of our security products and services through the full-scale deployment of an encryption solutions business for enterprises leveraging on products from US-based Vormetric, Inc.

Information on Communication Activities

Company briefings and IR events

In April, we participated in a company briefing session for individual investors sponsored by Daiwa Investor Relations Co., Ltd. President Sakata provided an explanation on the Canon MJ Group's history, description of its business, business performance, the medium- and long-term management plans, and other related topics to some 380 participants. In addition, we also held company briefings at branches of Nomura Securities Co., Ltd. and SMBC Nikko Securities Inc. Going forward we plan to create these kind of opportunities as much as we can. Our future plans will be posted on our website as they arise.



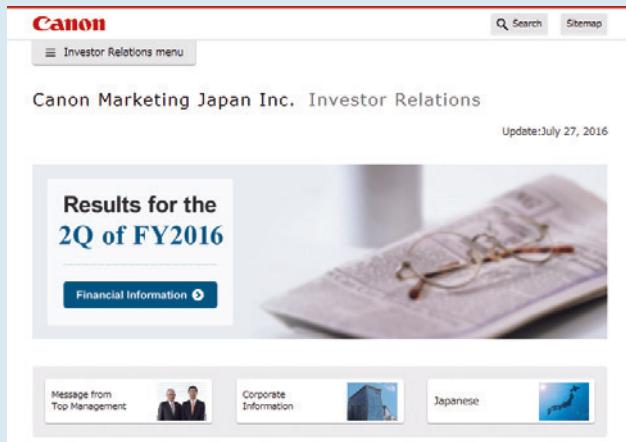
Company briefing session for individual investors sponsored by Daiwa Investor Relations Co., Ltd.

Distribution of e-mail newsletters

Every week we distribute e-mail newsletters that include information on investor relations (IR), our participation in various events, and free seminars. Please register from the mark below under "Investor Information."



Our IR website



Please see our website (<http://cweb.canon.jp/eng/ir/>) for the following information.

- IR News
- IR Library
- Management Policy
- Stock Information
- Financial Information

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Cover photo:
Naoki Ishikawa
Form the Canon Calendar 2016
"Encounter Nature: *Nihon no Fudo*"