

Canon

Canon Marketing Japan Inc.

**TRANSFORMING
TO EXPAND
OUR BUSINESS FIELDS**

Annual Report 2017

for the year ended December 31, 2017

PROFILE

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.

Code of Conduct

Customer-centricity

Date of establishment

February 1, 1968



Role within the Canon Group

Market and propose solutions, primarily in Japan.

Business units

Consumers, Enterprise, Area, and Professional

Number of consolidated subsidiaries

22 (As of April 1, 2018)

Number of employees

17,647 (As of December 31, 2017)

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS OF FY2017

Net sales

¥632.2 billion (0.5% increase)

Operating income

¥30.4 billion (9.9% increase)

Profit attributable to owners of parent

¥20.7 billion (13.9% increase)

Profit attributable to owners of parent per share

¥159.48 (13.9% increase)

ROE

7.2% (0.7pp increase)

Cash dividends per share

¥60 (20.0% increase)

CO₂ emissions

48,945 tons (1.0% increase)

Industrial waste recycling ratio

99.98% (0.2pp increase)

Number of female managers

79 (1.3% decrease)

Rate of paid holidays taken by employees

62.9% (8.7pp decrease)

CONTENTS

1	FINANCIAL AND NON-FINANCIAL HIGHLIGHTS OF FY2017	16	NEW SEGMENT STRATEGIES
2	AN INTERVIEW WITH THE PRESIDENT	26	SUSTAINABLE MANAGEMENT
11	SHIFTING FOCUS TOWARD GROWTH AREAS	29	CORPORATE GOVERNANCE
12	SPECIAL FEATURE: HELPING RESOLVE SOCIAL ISSUES WITH ADVANCED IMAGING AND IT SOLUTIONS	37	FINANCIAL SECTION
68		68	CANON MJ GROUP COMPANIES
14	REVIEW BY SEGMENT	69	CORPORATE DATA

Editorial Policy

Annual Report 2017 mainly aims to inform readers about the Canon MJ Group's outstanding medium- and long-term growth potential. The intro pages feature an interview with Masahiro Sakata, president of Canon MJ, in which he discusses the Company's policies and initiatives to shift to a growth path and enhance profitability, primarily through framework reforms under the medium-term management plan for 2018-2020. The special feature presents the Company's latest efforts in its Advanced Imaging and IT Solutions business, which continues to generate growth. The annual report also presents business strategies in new business segments and provides a fuller picture of Group environmental, social, and governance (ESG) practices and other non-financial information.

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements about the future performance and management plans of the Canon MJ Group. All forward-looking statements are based on management's assumptions in light of information available to the Company at the time of publication. 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.

AN INTERVIEW WITH THE PRESIDENT



M. Sakata

Masahiro Sakata
President

The Canon Marketing Japan (Canon MJ) Group celebrated its 50th anniversary on February 1, 2018. We would like to take this opportunity to thank our stakeholders for their tremendous support and encouragement over the years.

Q How would you assess fiscal 2017?

It was a year of exceptional change.

Net sales for the year rose 0.5%, to ¥632,190 million, with operating income climbing 9.9%, to ¥30,407 million. The operating margin was a record 4.8%, while return on equity (ROE) increased 0.7 percentage point, to 7.2%.

The Japanese economy recovered steadily in the year under review

on an uptick in personal consumption and capital expenditure. I found the economic turnaround quite perceptible, and its workings differed clearly from the recovery a short while back. Instead of experiencing a turnaround from sluggish demand, we have seen certain markets disappear and growth start from new areas.

Q You have shifted focus away from Canon’s profitability growth areas toward Canon’s growth areas and independent growth areas. Your sales gains have been particularly strong in IT solutions, industrial equipment, and network cameras. Is that all according to plan?

IT solutions and industrial equipment sales have exceeded expectations.

Organizations can’t expect fast results when shifting a majority of their management resources into growth areas. And growth engines vary among businesses. It takes a bit more time to go places with professional

products and services because you first have to amass solid skillsets and knowledge. That said, we’ve done better than expected in IT solutions and industrial equipment.

	Actual results for FY2016	Actual results for FY2017	% change
Independent Growth Areas IT solutions, industrial equipment, medical imaging solutions, etc.	31% (¥197.9 billion)	33% (¥206.7 billion)	4% (¥8.8 billion)
Canon’s Growth Areas Production printing, network cameras, etc.	7% (¥46.5 billion)	7% (¥46.9 billion)	1% (¥0.4 billion)
Canon’s Profitability Growth Areas Multifunction printers (MFPs), laser beam printers (LBPs), digital cameras, inkjet printers, etc.	62% (¥384.9 billion)	60% (¥378.6 billion)	-2% (¥-6.3 billion)

Q In fiscal 2017, you generated a 4.8% operating margin—a new high—on the back of radical structural reforms. What initiatives did you undertake?

We overhauled our operations.

We went well beyond cost-cutting to revamp our business approach. We also reevaluated the need and cost benefits of business processes, such as preparing and approving individual documents. And then we decided to do

away with procedures that we deemed ineffective. Just some of our initiatives bore fruit in fiscal 2017. So, there’s still plenty to do on the structural reform front.

Q You have entered the third year of Long-Term Management Objectives Phase III, your plan for fiscal 2016 through fiscal 2020. How are you progressing in that respect?

Our structural reforms are going well, although growth has been a mixed bag.

Our structural reforms have progressed solidly, and our earnings are basically on target. On the sales front, we've invested in various ways and shifted operating resources to the right areas. But in my view, we have yet

to generate the overall growth sought. We've also expanded faster than hoped in some areas, and slower in others. All in all, it's been a mixed bag.

Q You have stated that the Group's three prime competencies are our customer base, IT technical skills, and the Canon brand. Do you look to solidify your position in those regards?

We have improved upon our superior position but need to work harder at it.

I believe we have improved upon our superior position. You can't get a customer base or sales clout overnight. We have taken the time necessary to build ours, and it won't deteriorate any time soon. Still, solutions will become an increasingly important element of our sales clout, and I think we'll need to enhance the relevant skillsets and knowledge.

Canon IT Solutions Inc. is central to our technological capabilities in that area, and I think its efforts are paying off.

I always appreciate that we can benefit from the strength of the Canon brand. Still, I recognize that we have some way to go before people see Canon MJ as an IT solutions provider.

Q Tell us about your near-term and near-future market climate outlook assumptions for the current three-year management plan.

We have identified changes in market needs and are allocating resources to growth fields.

We have put in a solid effort to maintain and build momentum in Canon's profitability growth areas. So, in drawing up our growth scenario in view of current market conditions and prospects we noted that we have increased our market presence while rivals have been scaling back. Still, the truth is that downsizing pressures are mounting in the marketplace, particularly

for existing products, and will probably continue to rise. But on the upside, we have received more business inquiries than envisaged in IT solutions in our independent growth areas, underscoring changing market needs. If we fail to devote more of our resources to areas in which markets are expanding, I'm sure that we'd incur considerable opportunity losses.

Q You have stated before that you seek to leverage IT solutions capabilities to reinforce your stock businesses as new sources of earnings. What do you mean by that?

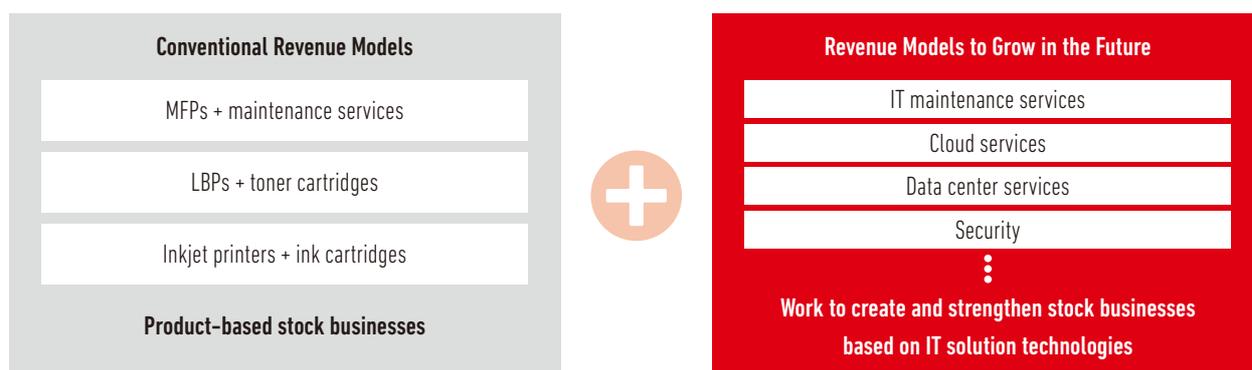
We'll leverage IT solutions stock businesses to stabilize our earnings base.

We have maintained a product-based stock business to date. We'll continue that approach, although we're worried that the market will contract. When you deploy IT, you naturally require maintenance services,

as well as cloud and data center services. You also have new security needs. As IT solutions become more important in operations, such stock businesses should increase.

We need to ensure that we always offer stock businesses when providing IT solutions. Our Group has already pushed forward with such

business models, and we aim to stabilize earnings by increasing the weighting of IT solutions in our stock businesses.



Q You have said that you look to enhance productivity in Canon’s profitability growth areas. Does that mean that there’s still scope for structural reforms to boost profit margins?

We’ll enhance per capita productivity by deploying IT.

As well as pushing ahead with structural reforms, we will roll out IT in various fields. In MFP maintenance, for example, we offer the NETEYE remote monitoring service. This enhances our productivity because we

can then undertake regularly planned inspections. So, by rolling out IT setups like this I believe that we still have lots of room to boost the per capita productivity of our people.

Q In what respects do you think that switching to a new framework can deliver what customers want?

We can now offer optimal customer solutions.

The prime objective of the new framework was to deliver products and services matching customer needs. That’s the biggest customer benefit. So, we have to identify customer issues. When we had a vertical, product-based organizational structure, we tended to think first of how best to supply offerings. Everything started with products. Under our new setup, we begin by thoroughly researching our customers so we can deliver solutions to them. On top of that, we seek enduring relationships with our customers rather than one-off deals. Once we’re in that position, we can build even closer ties with our customers because they feel they can come to us first when they need something. We’ll increase revenues per salesperson to become a company with high per capita productivity and higher earnings margins.

Under our previous organization, we had lots of functional overlap from product-centric departments. The trouble was that when the individual functions of such departments were small we were sometimes unable to fully satisfy our customers. But with a customer-centric organization we can enhance our ability to propose solutions to customers by consolidating functions by customer category, and resolve their needs.

We consolidated IT platform, business process outsourcing (BPO), call center, marketing, and service and support from cross-functional perspectives. They are common to all customer-specific organizations. We will combine consolidated and reinforced functions for customer-specific organizations to provide optimal customer solutions. (Please see pages 6 and 7 regarding the new framework.)

AN INTERVIEW WITH THE PRESIDENT: A CUSTOMER-CENTRIC FRAMEWORK

We are switching from a product-based framework to a customer-centric one. This will further deepen our ties with customers and supply outstanding value to drive growth and enhance profitability.

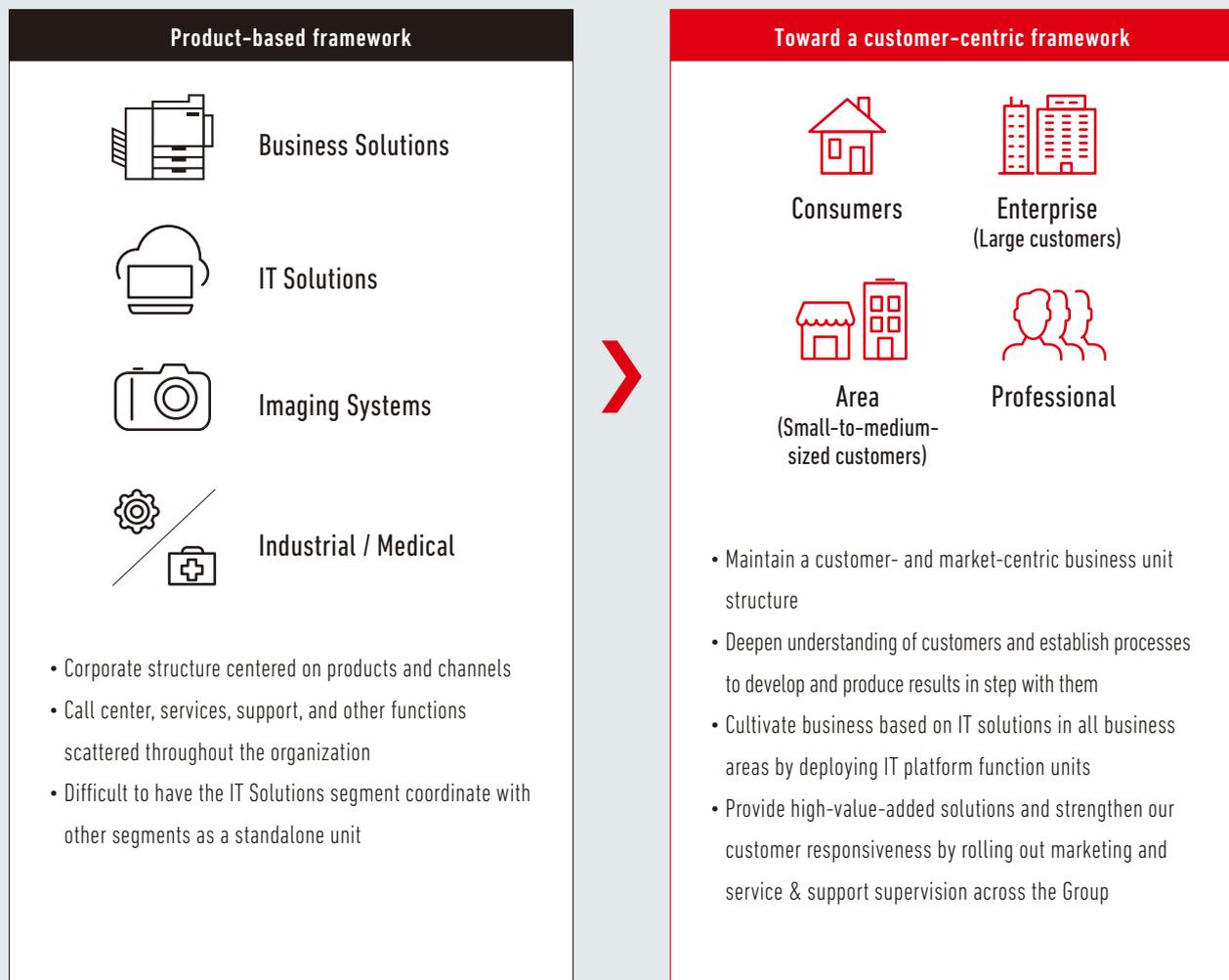
Our new framework comprises segments that deliver solutions attuned to the needs of specific customers and markets. The first is the Consumers segment for retail customers. The other three segments, under the Business / Office banner, are Enterprise, Area, and Professional.

The Enterprise segment incorporates the former Business Solutions and IT Solutions segments to share information and provide optimal solutions to large customers.

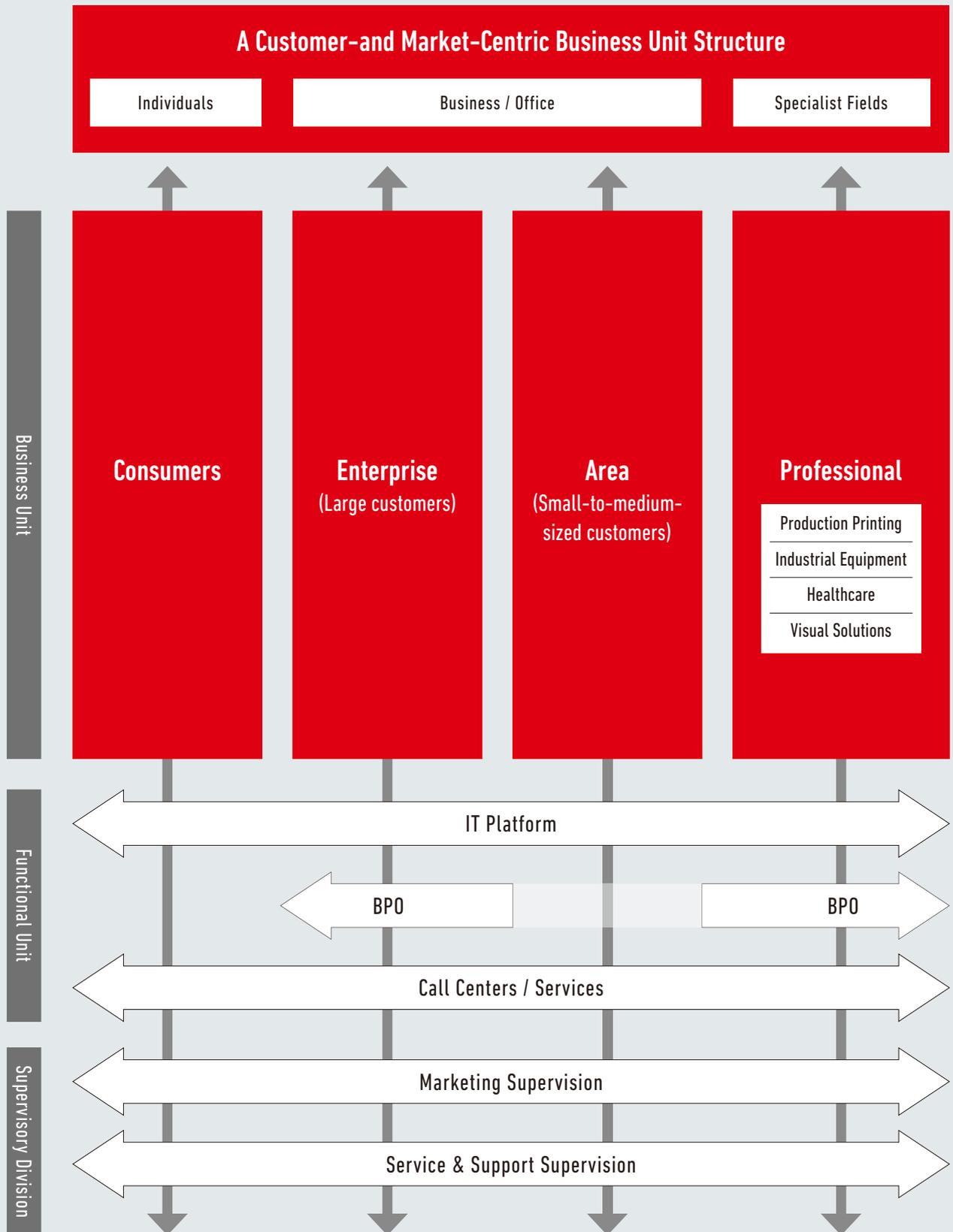
The Area segment delivers one-stop solutions to small-to-medium-sized customers by transforming its sales and service structure that had some regional overlap into an efficient one.

The Professional segment consists of four sub-segments, production printing, industrial equipment, healthcare, and visual solutions. This distinctive setup enables us to deepen customer ties and enhance our expertise, thereby enabling us to better contribute to customer businesses.

Changing to a Framework that Matches Customer and Market Requirements



Conceptual Diagram of New Framework



Q What are the business unit goals under your new framework?

We look to generate value according to specific roles.

In the Consumers business unit, substantial growth cannot be expected going forward in a business that has focused to date on products like cameras and inkjet printers. While selling to large retailers will account for much of its business, the business unit needs to go back to its basics. It needs to focus on end users and work out the value we can deliver. We look to maintain the high profitability of existing businesses while building new engines of growth. The mission of the Consumers business unit is to be customer-centric and create new growth engines.

The business equipment and IT solutions that the Enterprise business unit handles were previously in completely different business units. Of course, organizational setups are irrelevant to customers. They only care about how we can resolve their specific issues. Since becoming president, I have pursued a policy of packaging business equipment and IT solutions for our customers because IT solutions will clearly be vital in all areas down the track. One person oversees both equipment and solutions in the Enterprise business unit, and we can deliver even more solid sales and support to our customers.

The Area business unit does business through partners around Japan and through Group company Canon System & Support Inc., which provides sales and support. Traditionally, we did not have enough functions to oversee specific areas, and we also found it hard to resolve support structure issues in some areas. With the Area business unit in place, we now have a fortified structure to oversee each area and potentially enhance productivity by strategically deploying operations, allocating human resources, and reinforcing services in each region.

The Professional business unit focuses on specialist hardware and solutions. Sellers of such hardware need higher skillsets and knowledge than those handling general-purpose models to satisfy customers. We created this business unit to provide expert advice that customers can rely on. The individual efforts of employees are central to acquiring advanced expertise and skills, and as such we are exploring a human resources evaluation setup that rewards such endeavors.

Q What cross-functional capabilities are important in your new framework?

It's vital to provide enhanced services for our customers and proactive sales support for our salespeople.

As I said earlier, cross-functional support is essential for all customer groups. We will draw on a common support platform to enhance customer service. Cross-functionality also means that we can adopt product marketing techniques from other fields, enabling us to sell products and

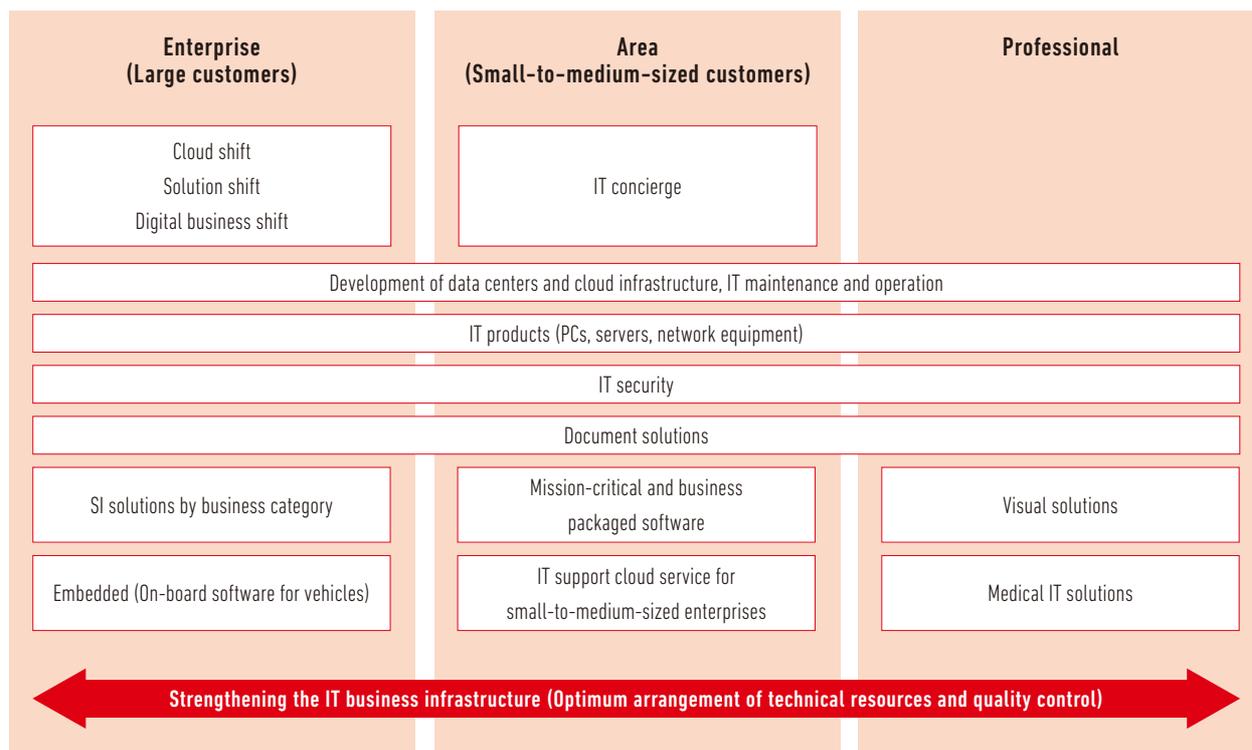
services in markets that we did not previously expect to serve. Cross-functional perspectives are also proactive, extending beyond support to encompass fully harnessing Group resources so we can deliver products and services to more customers.

Q You aim to increase Group IT solutions sales an average of 9% over the next three years. How do you plan to achieve that?

We'll deliver total IT solutions to take advantage of robust demand.

Demand for IT solutions is very solid. As I mentioned when discussing stock businesses, IT is no longer just about developing and operating systems. It now covers everything from data centers to cloud services and

security. We can expand our business by providing total IT solutions. The Group has steadily broadened these solutions that empower it to grow to a certain extent.



Q What approaches will you take with network camera and production printing?

We will provide packages that cater to network camera demand while focusing on continuous feed models in the production printing business.

We expect demand for network cameras to surge in the runup to the Tokyo 2020 Olympic and Paralympic Games. Our focus in accommodating demand will be to put together comprehensive packages rather than pursue standalone sales of models. The packages will comprise applications that analyze captured images and also include things like safe data storage so our customers can use network cameras effectively and reliably. Enhancing our comprehensive strengths can drive further growth.

The production printing field encompasses cut-sheet and continuous feed models. We have quite a good record in cut-sheet printers. And we have no particular concerns about our growth prospects in the continuous feed arena, as it will take a little time to adjust for the Japanese market partly because these models are imports.

Q Please tell us about mergers and acquisitions (M&As) as a way of growing businesses?

We seek to drive further expansion through acquisitions in promising business areas.

We look for growth in such areas as security and other IT services, industrial equipment, and network cameras. We intend to drive further expansion as needed through acquisitions. We will also partner with other companies and invest extensively. In March this year, for example, Canon IT

Solutions acquired a 6.0% stake in Toyo Business Engineering Corporation. The latter company has grown on the strength of its outstanding mission-critical software mcfame business package, and we will pursue business growth through product and sales collaboration.

Q The FTSE4Good, FTSE Blossom Japan, SNAM Sustainability Index, and other benchmarks track your stock. Why do you think they do this? And what is your environmental, social, and governance (ESG) stance?

Ever since our establishment, we have fostered a corporate culture that addresses environmental issues.

I think that our corporate culture is conducive to tackling ESG issues. On the environmental front, for example, we have a strong record in cutting the energy consumption and CO₂ emissions of MFPs and of recycling inkjet

cartridges. We have long embraced such challenges. Undertaking ESG efforts is thus nothing new for us, and I assume external organizations have included us in their indices in recognition of our efforts.

Q What are your shareholder return plans for this fiscal year?

We have raised dividends for four consecutive years.

We base amounts on a dividend payout ratio of 30% and also take into account such elements as medium-term earnings outlooks, investment plans, and cash flow. In fiscal 2017, we lifted cash dividends per share by

¥10, to ¥60. That represented the fourth straight annual dividend increase. We will endeavor to deliver shareholder returns in fiscal 2018 in line with the same approach.

Q What is your economic outlook for fiscal 2018? What key changes in the business climate are you focusing on?

We consider it vital to properly identify overall and individual changes.

While I don't expect significant changes in the economy overall, we will likely see some markets shrink or deteriorate and others expand more than anticipated. We will weaken our business fundamentals and threaten our

survival if we fail to identify and address changes. Accordingly, we need to take a balanced approach to overall and individual changes, and will do our very best to serve the interests of our stakeholders in such endeavors.

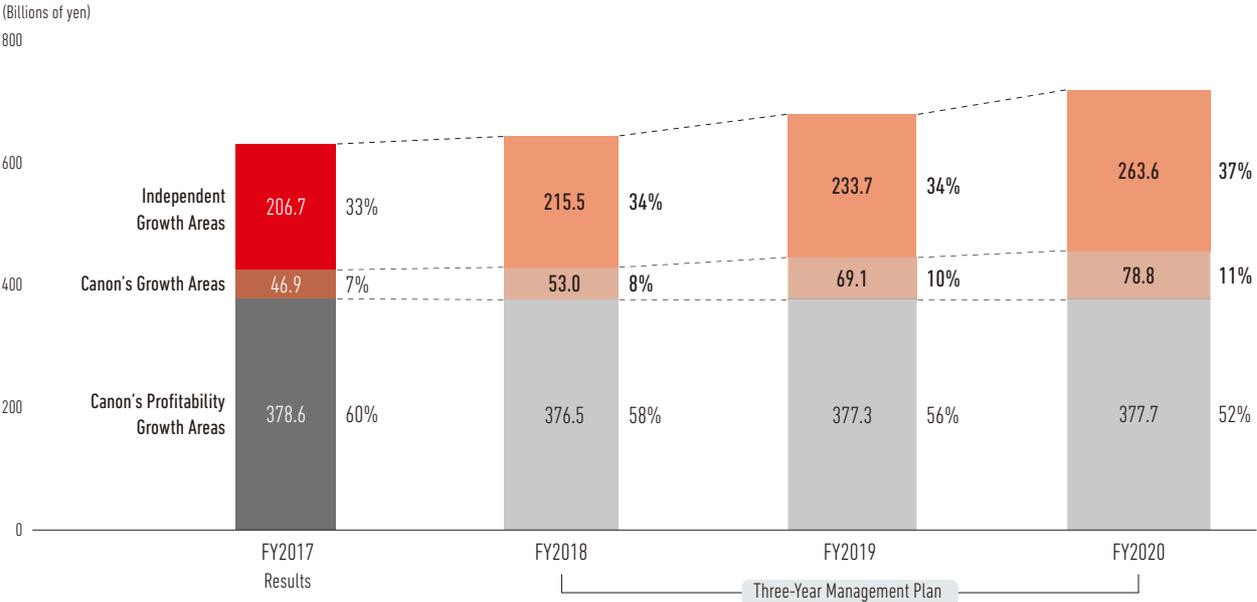
SHIFTING FOCUS TOWARD GROWTH AREAS

The growth scenario categories and strategic overview for reaching the objectives of Long-Term Management Objectives Phase III are as follows. We will shift operational resources to Canon's growth areas and independent growth areas and expand our growth fields.

Growth Scenario Categories and Strategy Overview

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

Sales Targets by Growth Scenario



HELPING RESOLVE SOCIAL ISSUES WITH ADVANCED IMAGING AND IT SOLUTIONS

Integrating the latest technology to fine-tune monitoring in diverse locations

We integrated Canon imaging technologies and the network image processing technologies of Axis Communications AB, a Canon group member, to supply high-resolution interchangeable lens network cameras and related solutions. We collaborate with video management software top-runner Milestone Systems A/S, another Group member, to manage and analyze data. We will market and cultivate new services by applying advanced video analytics to accumulated data.

Providing total support for corporate information security with our earthquake-resistant and seismic control and isolation facilities

Our state-of-the-art Nishi-Tokyo Data Center complies with Tier 4, the top facility standard of the Japan Data Center Council, and has also received the Management and Operations Stamp of Approval, a global standard that the Uptime Institute of the United States developed to validate data center facility management practices. The center's sophisticated security systems and earthquake-resistant and seismic control and isolation facilities safeguard customers' vital information. The Okinawa Data Center is an optimal location for a disaster recovery site. We meet customer needs by providing total support for everything from design through construction and operations for collocation, housing, and cloud services.



Network Cameras



Data Center Services

The Canon MJ Group draws on its imaging and IT capabilities to supply optimal solutions to various customer sites.



Cybersecurity

Supplying comprehensive security solutions that address customer issues

The Group offers the most advanced cybersecurity by packaging its original GUARDIANWALL series with the ESET security software series and other proven products from Japan and overseas for which it is an agent. We draw on the nation's leading information gathering and analytical capabilities in providing our malware analysis service and other comprehensive network through endpoint security solutions.



Vehicular Embedded Systems

Assisting automakers by developing vehicular embedded systems

Automobiles are packed with sensors, electronic control units, and other electronics technologies. We draw on the know-how we have accumulated over many years in our embedded business to serve automakers by developing communications, diagnostics, powertrain control, car navigation, and other information-related embedded systems. We aim to supply total solutions for AUTOSAR, a global development partnership of automotive parties, encompassing everything from support for deploying through integrating onboard control system software platforms to developing applications.

REVIEW BY SEGMENT

BUSINESS SOLUTIONS

MFPs

The Japanese MFP market experienced a decline in unit shipments amid lackluster demand. It was against this backdrop that the Group launched the imageRUNNER ADVANCE C3500 series of office MFPs and cultivated its small-to-medium-sized enterprise customer base. At the same time, it secured major orders from large customers, boosting unit shipments and sales. As a result, the Group's unit shipments reached record highs for three consecutive years.

Production Printing

We enjoyed solid sales of the imagePRESS C850/C650 and other cut-sheet models among offices and commercial printers. Production printing sales were down, however, owing to delayed shipments of new continuous feed printers.

Laser Printers

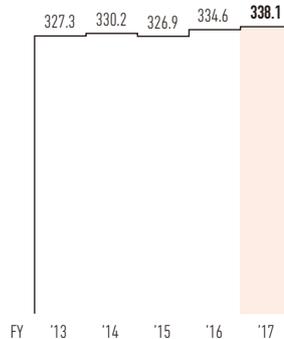
Although unit shipments of laser printers again declined amid an ongoing shift among offices to MFPs, sales of these products rose as a result of several large orders and higher sales to certain priority sectors. We have retained our top market spot in this segment for 26 consecutive years. Toner cartridge sales were up, reflecting greater demand among retailers, medical institutions, and other high-print-volume sectors and increased shipments to financial institutions and government agencies.

Network Cameras

Sales were up on large orders from commercial facilities and new orders in various fields that incorporated offerings from Axis Communications AB and Milestone Systems A/S, Canon group members.

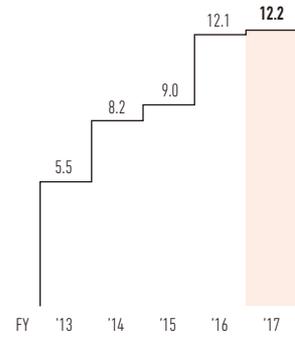
Sales

(Billions of yen)



Operating Income

(Billions of yen)



Maintenance Services

Sales of maintenance services for office MFPs were down slightly from a year earlier because unit maintenance charges continued to fall, overshadowing a rise in print volumes amid gains in the number of machines in field (MIF).

Group Companies

Canon System & Support Inc. boosted sales slightly on the strength of increased demand for such IT Solutions business offerings as security solutions and IT equipment maintenance services.

Sales were down at Canon Production Printing Systems Inc., owing largely to delays in shipments of new continuous feed printers.

As a result of these factors, Business Solutions sales rose 1.1%, to ¥338,146 million. Operating income increased 1.5%, to ¥12,239 million.

IT SOLUTIONS

In the fiscal year under review, IT investments expanded among financial institutions and manufacturers in Japan, with demand generally favorable among small-to-medium-sized enterprises and large customers.

SI Services Businesses

We develop customized systems and systems that employ solution packages. Sales increased on solid demand from the financial services and education sectors.

IT Infrastructure and Services Business

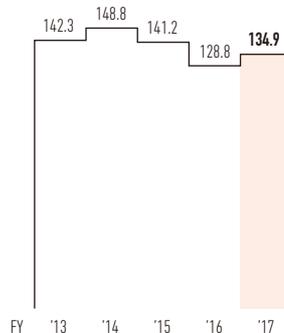
We offer data center, cloud, system infrastructure construction, and system operations services. Sales were up in the fiscal year under review on solid demand for data center services.

Embedded Systems Business

We develop software for embedding in products. Sales were lower owing to a decline in demand among key manufacturing customers, offsetting steady automotive industry demand.

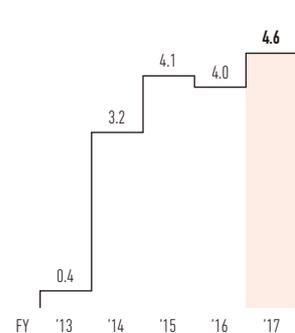
Sales

(Billions of yen)



Operating Income

(Billions of yen)



Products Business

We sell IT hardware, packaged software, and licenses. Sales increased on favorable sales of ESET security software and other security products and

solid demand for IT product offerings.

Segment sales therefore advanced 4.7%, to ¥134,897 million. Operating income rose 14.5%, to ¥4,560 million.

IMAGING SYSTEMS

Digital Cameras

Unit shipments in the domestic digital interchangeable lens camera market declined in the fiscal year under review owing to slow demand for single-lens reflex (SLR) models, which overshadowed favorable demand for mirrorless cameras. During the term, we launched and heavily promoted the EOS M100 entry-level mirrorless camera, greatly increasing sales of mirrorless offerings. While we boosted sales of mid-range offerings, centered on the new EOS 6D Mark II SLR model, overall sales of digital interchangeable lens cameras were down amid an entry-level shift from SLR models to mirrorless ones.

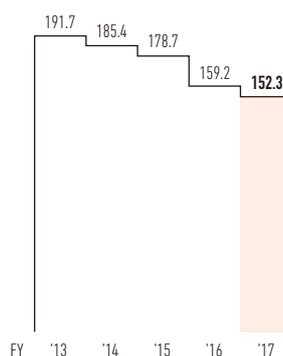
Compact digital camera sales were up in the Japanese market, with supplies rebounding after shortages experienced in the previous fiscal year owing to earthquake damage in Kumamoto Prefecture. Our sales of these cameras increased, reflecting favorable demand for high-end models.

Inkjet Printers

Sales were down, as unit shipments declined amid sluggish market conditions.

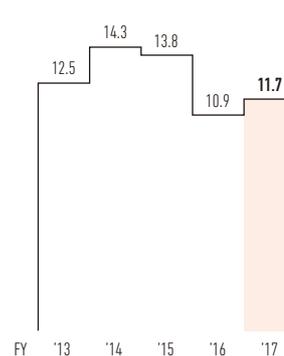
Sales

(Billions of yen)



Operating Income

(Billions of yen)



Commercial Imaging Equipment

Sales declined as broadcast lens shipments dropped amid low demand from broadcast stations.

Segment sales accordingly decreased 4.3%, to ¥152,339 million, with operating income rising 7.4%, to ¥11,689 million.

INDUSTRIAL / MEDICAL

Industrial Equipment

Sales increased amid buoyant conditions in semiconductor-related markets, which boosted sales of semiconductor fabrication equipment, inspection / measuring equipment, and maintenance services. Sales were also up in businesses unrelated to the semiconductor market, reflecting favorable demand.

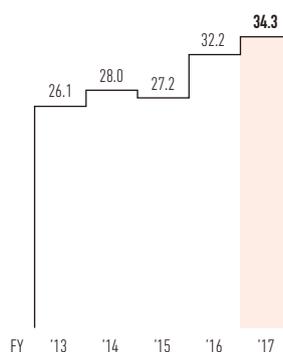
Medical Business

Medical business sales declined, as sluggish sales of X-ray films and dispensary offerings offset progress from reinforcing medical solutions and pushing ahead with business structure reforms.

Segment sales thus rose 6.5%, to ¥34,309 million. Operating income surged 730.1%, to ¥1,544 million.

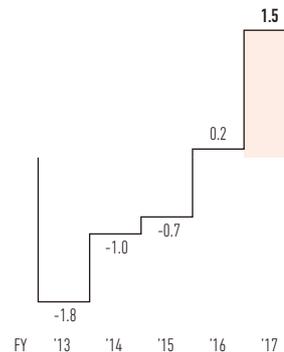
Sales

(Billions of yen)



Operating Income

(Billions of yen)



NEW SEGMENT STRATEGIES

CONSUMERS BUSINESS UNIT

Business Management Policies

There are few prospects for significant market growth in key consumer businesses, digital SLR cameras and inkjet printers being two examples. We will endeavor to make existing businesses more robust while expanding such new growth areas as mirrorless cameras and business printers.

Strengths and Strategies

- Per capita productivity: This is very high in this business unit. We will keep striving to enhance its efficiency while prioritizing growth and new businesses.
- Focus beyond Canon: We will leverage the strengths of our channels and our e-commerce capabilities while bolstering merchandise from other brands and new services to broaden lifestyle offerings.
- Engage with customers online and through high-street stores: We will increase customer satisfaction through shops, showrooms, and other retail facilities and through direct online sales sites and Web services.

Business Overview

The Consumer Business Unit aims to broaden engagement with customers in business-to-consumer (BtoC) markets and maintain ongoing ties with them. The unit supplies cameras, printers, and diverse other products and services that enable customers to enjoy all things photo and video. The Canon MJ Group benefits from the support of numerous customers in Japan, and held the No. 1 share of the domestic market in 2017 with regard to digital SLR and compact digital cameras and also inkjet printers.

That said, the markets for cameras and printers have matured. We seek to increase customer satisfaction by boosting the proportion of high-value-added products in our sales mix and by focusing on such growth areas as mirrorless cameras and business printers.

We look to bolster sales of products carrying the Canon and other brands and cultivate new services to increase everyday enjoyment for our customers. We connect with customers through mass retailers, camera shops, online sales, and wholesale channels. At the same time, we are strengthening our direct online sales capabilities for individuals to enhance our reach.

This business unit is extremely productive, accounting for roughly a quarter of Canon MJ Group sales and about a third of its operating income. The unit looks to streamline existing businesses while investing to drive further growth.

Market Outlook and Strategies for Fiscal 2018

Interchangeable Lens Digital Cameras

Demand for interchangeable lens digital cameras has trended downward since peaking in 2013, declining particularly for digital SLR cameras. Demand for mirrorless cameras, however, is expected to expand for a second straight year in fiscal 2018 and to exceed that of digital SLR cameras for the first time. We aim to secure the top share of the mirrorless camera market by cultivating demand among women and young men, particularly for the EOS Kiss M and EOS M100. We seek growth in the entry-level market through our combined clout in mirrorless and digital SLR models.



Director, Senior Vice President
Director of Consumer Business Unit
Yoshiyuki Matsusaka

Compact Digital Cameras

The compact digital camera market is trending down overall, with demand expected to continue to decline in fiscal 2018. As such, Canon will focus on high-value-added models that are market drivers, including high-magnification zoom lens cameras and high-resolution, high-definition cameras.

Printers

Aggregate printer market demand, including for inkjet and laser models, was down around 5% in 2017. Demand for consumer inkjet models is dropping, while that for business models is rising. For consumer machines, we will focus on expanding sales of high-value-added offerings and boosting unit prices. We will also expand our presence in business models by increasing store exposure and undertaking digital marketing. We will pursue overall growth by compensating for lower consumer machines and lower consumables due to lower print volumes with expansion in business models.

New Businesses

Markets in core businesses are maturing, so we must urgently build new businesses. We will invest in product sales and new services businesses by drawing on various channels and our e-commerce.

Risk Management Approach

Markets for our core businesses could shrink more than expected. We will invest in mirrorless camera, business printer, and other growth businesses, as well as new businesses and e-commerce channels that can become new engines of expansion.



ENTERPRISE BUSINESS UNIT

Business Management Policies

Our mission is to become true partners for customers by creating value with them and delivering it to them.

Our vision is to increase our market and industry presences and contribute to society.

- Become a solutions-centric business and expand our IT solutions operations.
- Solidify our customer base and make it a shared resource within the Group.
- Understand what markets want and build a value-added solutions business to increase profitability.
- Thoroughly deploy solutions across industries to expand our revenue scale while increasing productivity.

Strengths and Strategies

Under the new framework resulting from operational integration, we aim to build a large IT solutions business by accelerating our transformation to a business- and service-centric entity.

We will combine two key qualities to create a high-value-added, productive business model. One is the strong marketing clout and business solutions capabilities stemming from our customer base and industry-specific setup for large organizations. The other is our advanced systems development and technological capabilities, robust project track record, and industry knowledge.

Business Overview

The Enterprise Business Unit offers industry-specific and management solutions to large customers in the finance, manufacturing, logistics, public, and education sectors.

The key focus of this business unit is on synergizing the operations of the former Business Solutions segment with the former IT Solutions segment, including Canon IT Solutions Inc., a subsidiary of Canon MJ. The former Business Solutions segment delivered MFPs, laser printers, and other equipment and solutions to corporate customers. Over the years, the IT Solutions segment refined its development and technological capabilities and enhanced quality to earn solid customer trust.

It is important to incorporate the excellent aspects of how both the former Business Solutions segment and the former IT Solutions segment approached their tasks. We will fully employ the customer base that the former Business Solutions segment amassed and use the former IT Solutions segment's expertise to build industry-specific solutions and complete a business model across sectors, thereby propelling dramatic growth.

Market Outlook and Strategies for Fiscal 2018

We have formulated scenarios for the four key industries that we serve.

The financial services sector is entering the eldercare, healthcare, and other industries while embracing fintech, blockchain, and other technologies, creating more business opportunities for us. Demand among government financial institutions, credit card issuers, insurers, brokerages, and other financial services players to upgrade enterprise systems should underpin growth. We will develop business-specific solutions centered on fiduciary operations and cloud-based damage insurance assessments.

In manufacturing, demand is robust for streamlining design and development. Expenditures on IT services for assembly line production remain high, particularly among automakers. We expect to continue growing more than the market average through such drivers as global enterprise systems integration, cloud computing, and the Internet of Things (IoT). We will cultivate enterprise systems that package such offerings as document and production management, demand forecasts, and accounting and salaries.

On the logistics front, there is strong demand for business process reforms in retailing and transportation amid a shrinkage in the working population, higher labor costs, and other factors. We thus



Director, Senior Vice President
Director of Enterprise Business Unit
Masachika Adachi

have opportunities to offer work process visualization, automation, and other solutions. Drivers should include activities relating to omni-channel experience and other digital transformations, as well as enterprise system upgrades and the adoption of cloud computing among leading trading firms. We will create solutions centered on point-of-sale and other sales promotion tasks and build enterprise systems based on demand forecasting and other capabilities.

In educational markets, institutions are drawing on government support in exploring various ways to deliver better outcomes. The numerous business opportunities that we anticipate include operational support systems, educational content, and school facilities infrastructure. We will deploy a range of high-demand school operations and administration solutions for campuses.

Risk Management Approach

There is an industrywide shortage of systems engineers, and this situation is expected to worsen. The Canon MJ Group will bolster hiring quantitatively and qualitatively, boost human resources training, and pursue selection and concentration with vendors to enhance productivity.



AREA BUSINESS UNIT

Business Management Policies

- Grow with partners by understanding our customers' needs more deeply to help resolve their management and operational issues.
- Deliver outstanding customer satisfaction in service and support areas.
- Employ information and data to establish uniform management processes and management styles to enhance efficiency and productivity for our partners and our organization.
- Better incentivize and reward partners and employees and improve their satisfaction levels.

Strengths and Strategies

- We can leverage partners' nationwide customer bases and partner brands, through which we provide new value to cultivate growth for us and our partners alike.
- We maintain an IT support structure covering approximately 200 sites around Japan that positions us to expand businesses in growth areas and synergize with partners.
- We can offer systems proposals specific for the specific business and operational solutions of systems integrators. We can also enhance sales efficiency by offering systems-linked products.

Business Overview

We operate nationwide, focusing on offering management and business solutions for small-to-medium-sized customers with fewer than 1,000 employees. We classify customers according to the number of employees they have so we can provide solutions that address their specific issues. For example, we draw on expertise from proposals we have made to date and our own to provide optimal solutions for information security measures and productivity improvements, which are areas of particular customer interest.

Our customer channels are Canon System & Support Inc., a subsidiary of Canon MJ, business partners in Japan, and dealers and systems partners, which are primarily systems integrators. We will optimize the combined strengths of these channels and the Canon MJ Group by undertaking area marketing and establishing an optimal customer response structure that is both market- and customer-centric.

This business unit is the Canon MJ Group's largest in terms of revenues and personnel, and offers significant growth potential in view of small-to-medium-sized enterprises investing solidly in IT. We aim to expand further in markets for these enterprises by supplying Canon products and providing the solutions mentioned earlier to deepen customer trust.

Market Outlook and Strategies for Fiscal 2018

In Japan, companies are reforming work practices to streamline operations, shorten working hours, and enhance productivity. They should accordingly invest extensively in artificial intelligence (AI), cloud, robotic process automation, and other IT fields. We anticipate more opportunities in PCs in the runup to 2020, when Microsoft Corporation ends support for Windows 7. Small-to-medium-sized customers lack specialist units and personnel in such IT areas, giving us more opportunities to offer one-stop products and services. We look to generate growth in IT solutions by accommodating customer demand.

At the same time, we do not anticipate significant growth in demand for MFPs, laser printers, and other document output equipment because of the consolidation of such systems and the increasing digitization of documents.

To expand product sales under such circumstances, we will have to supply offerings that come with IT solutions and products that are essentially capital goods for our customers. We will accordingly need to deploy resources strategically in such fields, and will reinforce our structure and cultivate our human resources.



Vice President
Director of Area Business Unit
Kunihiko Kubo

In view of robust corporate investments in IT solutions, the market environment is positive for systems integrators that are a customer channel for us. We expect to continue expanding by providing products for the specific business and operational solutions of systems integrators.

Risk Management Approach

The counter-based maintenance business constitutes a high proportion of sales, and such sales could decrease. Another risk is that our capabilities in IT proposals and support could experience relative declines. We will accordingly build a very robust business model in which we become a solutions provider for small-to-medium-sized customers.

We also face business continuity risks, notably that our partners will age or leave no successors. We will thus construct a system in which we match partners with each other, provide personnel support to them, and can share and follow up with partner customers.





PROFESSIONAL BUSINESS UNIT: PRODUCTION PRINTING

Business Management Policies

We require all employees in this organization to explore ways to grow with our highly specialized customer base, swiftly delivering top-quality products and services and attentive support.

We are cultivating a cadre of professionals that can help customers tackle changes in the printing market.

Strengths and Strategies

We will leverage color inkjet printers to maintain and expand the customer base that we have amassed over the years, mainly among those engaged in data printing services.

We will take advantage of the technological and development capabilities that we have cultivated as partners of those customers to enter new markets.

Business Overview

We offer business reform support for customers, primarily in the printing industry. We sell high-speed digital printers, wide-format printers, and point-of-purchase systems and consumables. We provide print prepress and post-processing equipment and printing-related software and maintenance services. We also develop and supply workflow systems and print services.

Market Outlook and Strategies for Fiscal 2018

The printing market is gradually trending down. The digital printing market is expanding in Japan, however, albeit more slowly than in Europe or the United States. This is because of a shift away from offset printing toward on-demand printing, which makes possible multi-type, small-quantity production in applications such as direct mails, insurance notices, teaching materials, and other mass documentation.

We will accordingly undertake the following business strategies:

- Provide printing solutions for forms and variable data for data print services machines in field (MIF), replacing them with color inkjet printers to maintain and expand the customer base.
- Secure color MIF by offering color digital printers and solutions lineups in keeping with deliverables, thereby expanding stock businesses.
- Use new industrial printing offerings to enter markets for signs, displays, labels, and other media.
- Secure new MIF by replacing the offerings of other companies with new wide-format printers and drawing management solutions.
- Expand sales by differentiating printers with inspection devices and workflow systems and by supplying total solutions.
- Recruit personnel to reinforce our professional sales standing in the printing market.

Risk Management Approach

It is possible that digitization may not progress as expected because of lower-priced offset printing in the commercial printing sector. We will accordingly go beyond printing to offer an array of IT technology and other Canon MJ Group solutions to address various customer issues in the printing market.



PROFESSIONAL BUSINESS UNIT: INDUSTRIAL EQUIPMENT

Business Management Policies

Our growth strategies underpin everything we do.

We accordingly pursue a mission of cultivating technological progress of industrial infrastructure and providing valuable solutions to realize a safe, secure, and affluent lifestyle, workplace, and society.

Our vision is to become a profitable organization by fostering non-Canon and overseas businesses, what we call Beyond Canon and Beyond Japan, from customer-centric and global perspectives while cultivating our services businesses.

Strengths and Strategies

- Identify world-class equipment and package it with technology.
- Be a field service team that can install and support various equipment.
- Provide total solutions, including for process reforms, for customers in the industrial arena.

Business Overview

This organization sells, installs, and supports semiconductor manufacturing and inspection equipment, IoT-related vision products, and laser processing equipment, and currently handles the offerings of 18 companies from 7 countries. We will accelerate product group expansion and broaden our activities to continue meeting customer needs.

Market Outlook and Strategies for Fiscal 2018

The markets for 3D-NAND flash memory, CMOS image sensors, power supply integrated circuits (ICs), and sensors are vibrant, owing to further expansion in Big Data adoption and advances in self-driving, AI, and IoT technologies. As such, the semiconductor market is projected to remain robust.

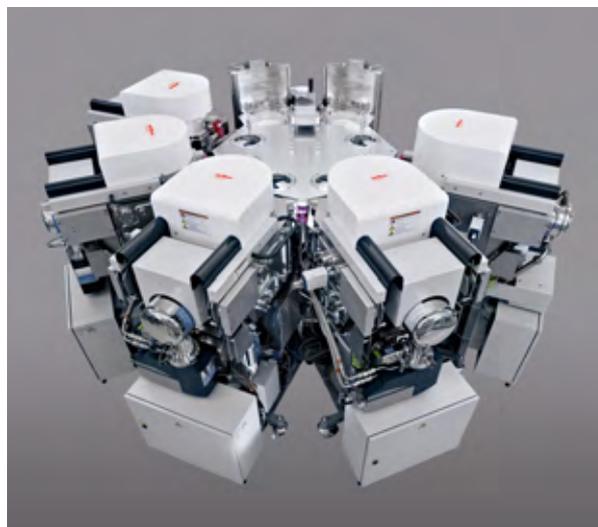
We seek to reinforce sales by adding more products to our lineup for materials manufacturers in view of further expansion in the semiconductor business. We will pursue diversity in customer and product markets while increasing maintenance services sales.

IoT-related demand is surging. We will accordingly expand our product range to encompass everything from Canon CMOS image sensors, cameras, and other products, and machine vision to application software and strengthen our solutions capabilities.

The laser processing market is doing well on progress in laser-related technologies. We will differentiate and expand sales by leveraging Canon's fast, high-precision digital Galvano scanning systems and other key components. We will also strengthen sales to 3D-printer mass production customers and bolster our measuring equipment lineup.

Risk Management Approach

Our risks in the year ahead are that markets will experience dramatic changes and that ties with overseas business partners will dissipate. We will secure new product lines that enable us to tackle and overcome such challenges.





PROFESSIONAL BUSINESS UNIT: HEALTHCARE

Business Management Policies

We will focus on bolstering and expanding sales of our cloud-based Medical Image Place service in providing solutions that leverage our strengths, thereby helping to enhance efficiency at medical sites and enhance patient care. We will also accelerate reforms undertaken in the past few years while strengthening collaboration within the Group to broaden the business base and maximize synergies.

Strengths and Strategies

- Awareness of the Medical Image Place cloud service has increased in line with changes in Japan's healthcare system. The government's revision to fee reimbursements to medical institutions in April 2018 should drive demand higher for this service.
- In its review of fee reimbursements, the government approved of optical coherence tomography angiography, a non-invasive procedure that has greatly improved the safety of examinations. We have excellent prospects in this area with Canon's highly regarded OCT-HS100. We will continue endeavoring to expand sales with orders for such offerings.
- We aim to expand our medical imaging solutions business by setting up a framework for collaborating with Canon Medical Systems Corporation, Japan's top manufacturer of medical equipment.

Business Overview

We combine medical equipment from the Canon and other brands and medical IT systems to supply optimal solutions that contribute to better treatment, health, and prevention.

• Medical Imaging Solutions Business

We sell Canon's digital radiography systems, fundus cameras, and other medical diagnostics equipment from companies in Japan and abroad. We leverage our strengths in imaging and IT solutions technologies to offer such medical imaging solutions as cloud services for remote diagnostics of images.

• Infection Control Business

The equipment recycling and treatment that is part of the medical supply structure is fundamental to infection control. ES Series hydrogen peroxide gas sterilizers from Canon Lifecare Solutions Inc. are pivotal to the product line and expertise we offer to customers for cleaning, packaging, sterilizing, and storing solutions.

• Pharmacy Business

The fully automatic AX930 and AX45f dispensing and packing machines of Canon Lifecare Solutions are central to our range of equipment, fixtures, and consumables for dispensaries. We provide total support for new pharmacy models that combine dispensing systems and healthcare equipment.

• Medical IT Business

We draw on our advanced operational expertise to cater to diverse customer needs with an array of solutions and services. Our capabilities extend from constructing large medical information systems to receipt computers, electronic medical records, and health testing systems.

• Healthcare Business

We provide products that prevent lifestyle diseases and reduce the need for long-term eldercare. These offerings include UDEX-i, a fully automated sphygmomanometer that can take readings of left and right arms.

Market Outlook and Strategies for Fiscal 2018

Partly because of the review of fee reimbursements this year, medical institutions are increasingly constraining investments while they assess the extent to which the review will affect their operations. It will likely take around six months or so to determine the impact, so we expect institutions to resume full-scale investments in the fourth quarter of fiscal 2018.

Construction costs are increasing amid rising demand related to the Tokyo 2020 Olympic and Paralympic Games and recoveries from natural disasters. This factor is making it more costly for hospitals to rebuild and renovate, putting pressure on their budgets for medical equipment purchases.

We anticipate a recovery in demand for medical information systems after plunging last year. We will accordingly step up collaboration with partners and review our area strategies, as well as our organizational structure for securing direct orders. We are also devoting considerable effort to expanding our stock businesses, and aim to boost profitability. We will focus on Medical Image Place, optical coherence tomography angiography, and other offerings that are now eligible for medical fee reimbursement.

Risk Management Approach

The revision of remunerations could hamper the operations of medical institutions, while higher construction and renovation costs could constrain medical equipment purchases. We will tackle these challenges by focusing on areas newly subject to fee reimbursement and on solutions that drive operational efficiencies.

PROFESSIONAL BUSINESS UNIT: VISUAL SOLUTIONS



Business Management Policies

This organization formulated the following policies in the first half of 2018.

- Go beyond precedents in pursuing the essence of problem solving.
- Avoid looking at the business based solely on your own responsibilities.
- Managers should ensure that younger employees are trained properly.
- Reform work practices so that employees can balance their professional and private lives.
- Swiftly establish business foundations.

Strengths and Strategies

- The key technological strengths are those of Group companies Canon, Axis Communications, and Milestone Systems.
- We can create new value by collaborating with alliance partners.
- We can draw on the customer base of the Canon MJ Group and our systems integrator solutions for network cameras.
- We can leverage Canon's advanced optical technologies and specialized sales teams in professional imaging equipment.

Business Overview

We enhance safety and security for society and deliver new value with imaging solutions through network cameras. These solutions center around our image management infrastructure, harnessing vision from the cameras and aggregating sensing information from IoT devices. The solutions assess the accumulated images and information, linking them with AI and Big Data analysis to identify and provide customer solutions. We also provide broadcast lenses, robotic cameras, and other commercial imaging equipment and services for broadcasting stations and other video professionals.

Market Outlook and Strategies for Fiscal 2018

In the market for surveillance camera systems, centered on network cameras, demand for security enhancements has been brisk amid preparations for the Rugby World Cup 2019 and the Tokyo 2020 Olympic and Paralympic Games, with the number of new and renovated structures rising and the number of inbound tourists increasing. At the same time, we are analyzing information from images and IoT devices to streamline marketing and assist with hospitality improvements, and thereby aim to bolster operations by cultivating new businesses. We seek to cultivate businesses that enhance safety and security while resolving various social issues through imaging solutions.

On the professional imaging equipment front, we anticipate steady capital investments among all relevant broadcasters in light of the full-fledged launch of 4K ultrahigh-definition Broadcast Satellite (BS) programming in December 2018 and preparations for the Rugby World Cup 2019 and the Tokyo 2020 Olympic and Paralympic Games. We look to increase professional imaging equipment revenues through expanded sales, particularly of broadcast lenses.

Risk Management Approach

One risk in the network camera business is that Chinese and Korean vendors will penetrate the Japanese market. We will therefore reinforce our imaging infrastructure business so that price is not the sole determinant of our success. Another challenge is that competition will intensify among domestic network camera manufacturers. We will harness our customer base and the comprehensive capabilities of the Canon MJ Group to boost value-added propositions through our solutions suggestions. We also need to address market entries from players in other industries, examples being Google, Microsoft, and telecommunications carriers. We accordingly aim to collaborate with other companies instead of competing, creating businesses with them and cooperating in terms of systems.

A key risk for our professional imaging equipment business is that young people are decreasingly watching regular television, which could result in lower advertising revenues for broadcasters and cause their performances to deteriorate. We could also experience a sales downturn from broadcasters reducing capital investments after the Olympic and Paralympic Games. We will therefore cultivate new opportunities, notably in video production for broadcasters and by employing specialty capabilities from our security and surveillance operations for non-broadcasters.



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.

Sustainable Development Goals (SDGs) Initiatives

The Canon MJ Group endeavors to attain the internationally accepted SDGs of the United Nations through its business activities, resolving social issues and delivering new value to contribute to social sustainability. For example, we are endeavoring to cut CO₂ emissions through the use of carbon offset programs and to prevent ecological damage in order to help realize a low-carbon economy. We offer products that help resolve a range of issues. Our network camera systems, for example, can prevent damage from natural disasters and alleviate some of the challenges that eldercare givers face in looking after their patients. Our cybersecurity measures make it possible to use information and communications technology (ICT) safely. We also offer

high-resolution video technology and drone-based solutions that enhance productivity in agriculture and others.



External Assessments

Selected as a Health and Productivity Stock in 2018

The Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (TSE) chose the Group for the first time in 2018 for the Health and Productivity Stock Selection program that they jointly run. From among companies listed on the exchange, the program chooses one company per industry based on management's employee healthcare strategies.



Indices

Canon MJ has been included in the FTSE4Good Index Series for 11 consecutive years. In fiscal 2017, FTSE Blossom Japan and the SNAM Sustainability Index began tracking the Company's stock.



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.

Environmental Management

The Canon MJ Group seeks to contribute to social progress by enhancing lifestyles and safeguarding the environment by deploying in-house measures to prevent global warming and reduce waste while pursuing distinctive initiatives as a marketing enterprise.

> Deploying Green Ratios (FY2016–2020)

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)

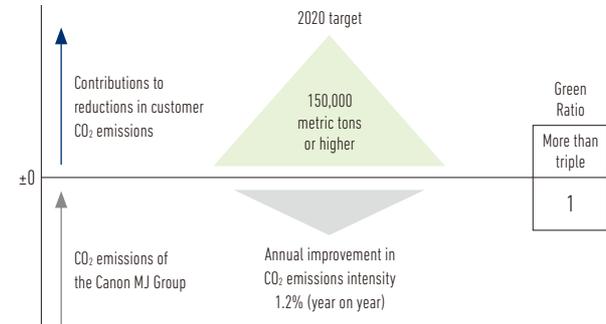
Contributions to reductions in customer CO₂ emissions

More than 150,000 metric tons

Ratio of customer CO₂ emissions reductions divided by the Canon MJ Group's own reductions

More than triple

Positive effect on the global environment



Negative impact on the global environment

> Supplying Eco-Friendly Products

As part of efforts to engage in distinctive environmental activities as a marketing enterprise, we supply customers with MFPs, laser printers, and other Canon offerings that consume less electricity. We also provide information on ways to cut CO₂ emissions in using products and thereby help lower society-wide emissions.



The GREEN NAVI Ver. 2 website helps customers to engage in activities that will help reduce their environmental footprint.

<http://cweb.canon.jp/ecology/green-navi/> (in Japanese only)

> Product Collection and Recycling Activities

We set up a program to efficiently collect used Canon MFPs, laser printers and those cartridges from customers and dealers and to recycle valuable resources within the Group, thereby contributing to the creation of a recycling-driven economy.

Group member Canon Ecology Industry Inc. recycles used cartridges, disassembling and cleaning reusable parts and crushing and pelletizing other parts for use in new cartridges.

> Group Company Contributions to CO₂ Emissions Reductions

Canon System & Support develops and sells a telematic device that helps lower CO₂ emissions. This IT solution device emails driver supervisors as soon as it detects the sudden acceleration and deceleration of company-owned vehicles. As of January 2018, 2,000 customer vehicles were fitted with the device, which is designed to



help reduce traffic accidents and infringements and cut gasoline consumption.

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.

> Launching the Books for Kids Drive

In April 2017, we launched the Books for Kids Drive, through which we heighten employee awareness of children's poverty and donate used books. All proceeds from sales of these items go to the Children's Future Support Fund, which accepts donations from individuals and corporations and assists grassroots organizations around Japan that tackle the issue of children's poverty. As of December 31, 2017, Group employees and their families had donated 10,327 books for this cause.



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.

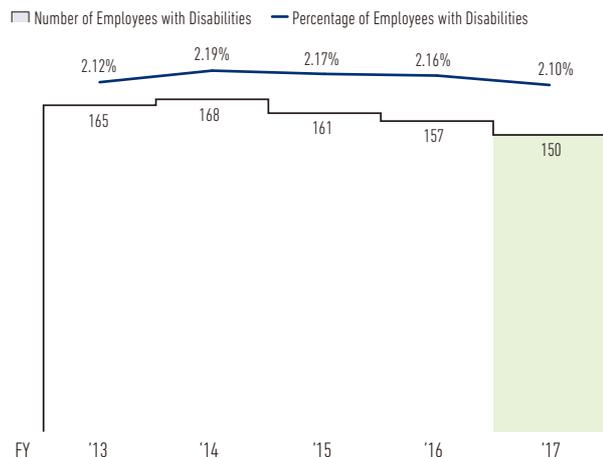
Harassment issues are part of the agenda for training new employees and managers. Compliance meetings also position harassment as an issue for discussion within work units.

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 2017, 2.10%* 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.

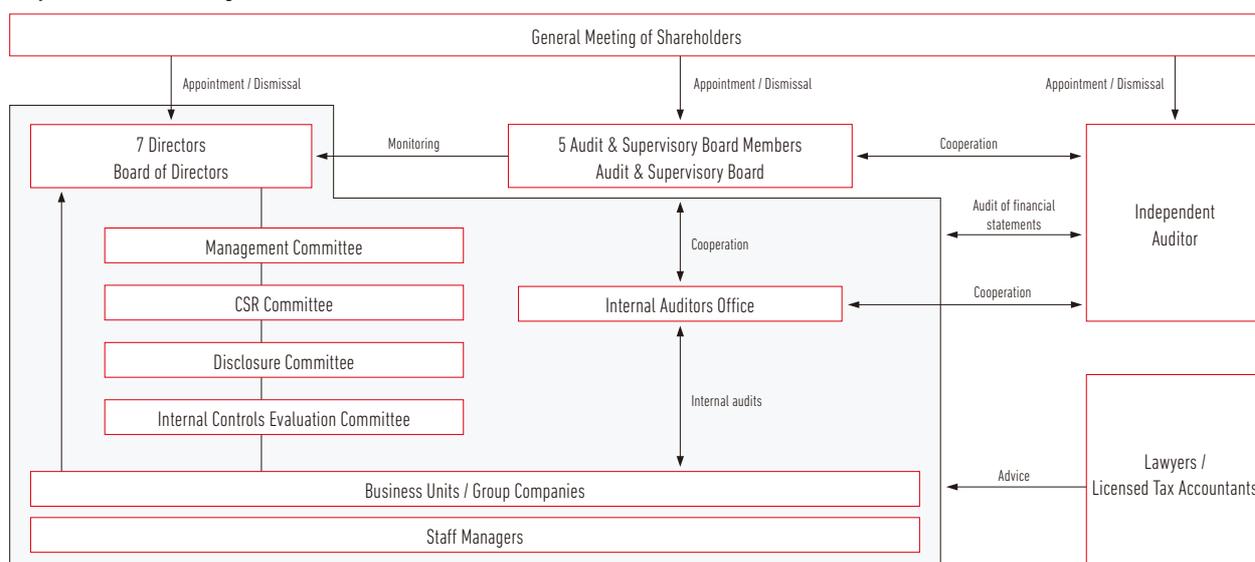
CORPORATE GOVERNANCE

Overview of Corporate Governance at the Canon MJ Group

- Organizational format: Company with Audit & Supervisory Board members
- Number of directors: 7
- 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 30, 2018)



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 Canon Inc. The Company concludes important basic agreements with Canon Inc. based on resolutions of the Board of Directors. Such agreements are appropriately and fairly implemented without compromising the Company's interests. The Company acts appropriately and fairly in all transactions, not just those with its controlling shareholder, to avoid compromising its independence and interests and to safeguard the interests of all shareholders.

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, 2017. 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 general meetings of shareholders, 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 seven 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 were 23 executive officers as of April 1, 2018.

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 52 audit staff members.

Audit of Financial Statements

The Canon MJ Group’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. (They rotate a chief partner every 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 the Board of Directors, we implemented our independence criteria for outside directors and outside Audit & Supervisory Board members to clarify the standards for ensuring outside directors and outside Audit & Supervisory Board members in keeping with the Corporate Governance Code and standards of independence. Our outside directors and Audit & Supervisory

Reasons for Appointing Outside Directors

	Independent director	Reason for appointment
Akio Dobashi*1	<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.
Yoshio Osawa*2	<input checked="" type="checkbox"/>	Mr. Osawa has amassed ample expertise in corporate management as a senior executive of a general trading company and an IT services firm, and also met requirements for appointment as an independent director.

*1 Mr. Dobashi previously worked at Sojitz Corporation. Although the Company has a contract with Sojitz to maintain business and other equipment, transactions with that company account for less than 2% of the Company’s consolidated net sales.

*2 Mr. Osawa previously worked at Sumitomo Corporation and SCSK Corporation, with which the Company does business. Transactions with Sumitomo are based on sales and maintenance contracts for business equipment, but such transactions account for less than 2% of the Company’s consolidated net sales. Transactions with SCSK are based on sales and maintenance contracts for business equipment and on the supply of IT equipment, but such transactions account for less than 2% of the Company’s consolidated net sales.

Reasons for Appointing Outside Audit & Supervisory Board Members

	Independent Audit & Supervisory Board member	Reason for appointment
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* ³	<input checked="" type="checkbox"/> ⁴	Mr. Kusumi served as an insurance company executive for many years, and also met requirements for appointment as an independent audit & supervisory board member.
Shigeo Hasegawa	<input checked="" type="checkbox"/> ⁴	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.

*³ Mr. Kusumi has served as a senior executive at Sampo Japan Nipponkoa Insurance Inc. and Sampo Japan Nipponkoa Himawari Life Insurance, Inc. The Company has an insurance policy with Sampo Japan Nipponkoa Insurance and a contract with that company to sell and maintain business and other equipment. The Company also has a contract with Sampo Japan Nipponkoa Himawari Life Insurance to sell and maintain business and other equipment. Management concluded, however, that in view of the scale and nature of transactions there are no prospective conflicts of interest with the Company's shareholders.

*⁴ Have notified the Tokyo Stock Exchange as an independent director or an audit & supervisory board member as prescribed by the Exchange.

Directors' and Audit & Supervisory Board Members' Attendance at Board Meetings

	Name	Attendance at meetings of the Board of Directors and Audit & Supervisory Board during fiscal 2017
Outside directors	Norihisa Doi	17/17 times (100%) of Board of Directors' meetings
	Akio Dobashi	17/17 times (100%) of Board of Directors' meetings
Outside Audit & Supervisory Board members	Shigeo Hasegawa	17/17 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Kunihiko Tedo	17/17 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Nobuyasu Kusumi	17/17 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings

Board members satisfy the independence criteria and help maintain and improve the transparency and accountability of the Board of Directors.

The Company does not maintain a specialist organization or provide full-time staff to assist outside directors or outside Audit & Supervisory Board members. Directors in charge of operations and other officials provide outside directors with prior explanations of Board of Directors' meeting agendas as needed. Internal auditors, directors in charge of operations, and other officials provide outside Audit & Supervisory Board members with prior explanations of Board of Directors' meeting agendas as needed. Outside Audit & Supervisory Board members attend Audit & Supervisory Board meetings, which are held at least once monthly, as well as liaison meetings and other gatherings conducted as required to exchange information on important items and audit details.

Analysis and Evaluation of Effectiveness of Board of Directors

Directors and Audit & Supervisory Board members evaluated the effectiveness of the Board of Directors, reporting to it on their findings. While broadly confirming that the Board of Directors functions effectively, some members suggested ways to enhance effective oversight of the progress and performance of management strategies and management planning. The Board of Directors will leverage such approaches in its operations.

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 shareholders. 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 shareholders for each fiscal year.

IR Activities

We formulated the Canon MJ IR Policy in 2008 to clarify our stance, which is disclosed on the official investor relations (IR) website below. For retail investors, the president, the managing executive officer overseeing IR, or other executives conduct company briefings. In addition, the Company exhibited at events for retail investors in March, April, August, and September 2017. For analysts and institutional investors, the managing executive officer overseeing IR provides an overview of our results at quarterly briefings. The president

presents medium-term management plan at 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
canon.jp/8060e-ir

Messages from Outside Directors



Akio Dobashi
 Outside Director

My role as an outside director is to confirm management transparency, looking particularly at whether there are conflicts of interest between the Company and its directors. Canon is a major shareholder of the Company, so it is vital to ensure that it does not hamper the interests of minority shareholders. I have identified no conflicts of interest in the two years since I became

an outside director. Also, the Company has outstanding management transparency, and directors engage in free and vigorous debate in Board meetings.

I come from a trading company background, so I am able to draw on my experience in business investments to appropriately advise on investment standards, taking into consideration shareholders' benefits.

The Company is pushing ahead with medium-term management plans to materialize Long-Term Management Objectives Phase III. In my view, social credibility is a key prerequisite for the Company to generate sustainable growth. The Group has a solid brand reputation as a result of the trust it has amassed over the years. A scandal could destroy that trust and brand reputation in an instant. So, another part of my role is to safeguard those assets, remaining sufficiently knowledgeable to ensure that no such incident occurs.



Yoshio Osawa
 Outside Director

The plan and check elements of PDCA cycles are key focuses for outside directors in that we advise management on planning and monitor conflicts of interest and management transparency.

Earlier in my career, I was an executive at a trading firm and at one of its listed subsidiaries. As the president of that subsidiary, I ensured that we engaged fairly and appropriately with diverse shareholders, from the parent company that had a majority stake to individual and foreign institutional investors. I plan to bring my experience from that time to Canon MJ.

The Company is shifting operational resources into growth areas in keeping with the objectives of Long-Term Management Objectives Phase III, which ends in fiscal 2020. I believe I can contribute to the Company's growth by drawing on my experiences both in launching and expanding businesses in the Japanese market and in accelerating growth through acquisitions.

The atmosphere in discussions at meetings of the Board of Directors, the Management Committee, business reporting, and other meetings is always genial and open. The only real issues I can maybe see is that the Company needs to implement management strategies more swiftly and pursue more work practice reforms to bolster productivity. I will accordingly do my best to share my forthright views as an outside director while carefully analyzing the Company's businesses.

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 BCM* Committee, a subsidiary organization of the Management Committee.

*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 controls 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 its 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 office MFPs and maintenance services, price competition continues.

Although print volumes using MFPs are on a rising trend, the unit price for maintenance services continues to fall, and profitability could deteriorate if price competition intensifies. A decline in print volumes driven by the trend toward paperless offices could affect the Canon MJ Group's results. 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 digital interchangeable lens camera market, if a rapid shift were to occur from SLR cameras toward mirrorless cameras, unit shipments of SLR cameras—in which the Company holds a high market share—could be affected. In inkjet printers, accompanying the decline in volumes of New Year's greeting cards produced, sales of inkjet printers and inkjet cartridges could be affected.

In the industrial equipment business, capital spending among semiconductor and device manufacturers greatly affects orders for semiconductor fabrication and measuring equipment. Results could stagnate

CORPORATE GOVERNANCE

if these manufacturers reduced such expenditure.

In the medical equipment business, 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 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.

The Canon MJ Group 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, 2017. The Company 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 2017, Canon MJ's purchases from Canon Inc. amounted to ¥215.6 billion, or 61.5% 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 ISMS. Notwithstanding these measures, information that leaks externally as a result of cyberattacks 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.

IT Governance

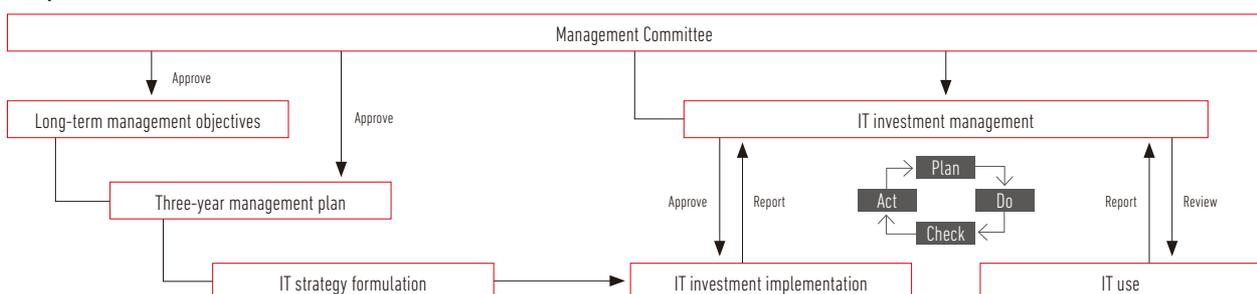
IT Investments to Boost Corporate Value

The Canon MJ Group has strategically shifted its IT investment approach away from a focus on increasing productivity by better visualizing its operations and reinforcing management toward one of pursuing business growth by enhancing customer experience and bolstering competitiveness. We also aim to leverage the experience and performance amassed from IT investments to cultivate IT solutions and improve corporate value.

Reason for Adopting IT Governance

The Canon MJ Group adopted IT governance in view of the importance of IT-based corporate management, complementing existing efforts to bolster corporate governance and sustainably increase corporate value.

Group IT Governance



Group IT Governance

The Canon MJ Group set up a process to formulate IT strategies, implement IT investments, and use IT to enhance corporate value. The Group created an IT investment management system to oversee IT activities, results, and people concerned, and optimize the benefits of IT investments while lowering their risks.

IT Governance Focuses

• IT Strategy Formulation

The Canon MJ Group's business units draw up three-year management plans linked to the long-term management objectives, as part of which the IT Department formulates Group IT strategies. The IT Department serves as a hub for the Management Planning Department and business units, putting together and prioritizing the required IT measures and driving the formulation of Group IT strategies.

• IT Investment Management

The Management Committee oversees two IT investment assessment committees that approve and evaluate investments. These are the Business Investment Assessment Committee, which focuses on operational growth, and the Internal Operations IT Investment Assessment Committee, which seeks to increase productivity. This setup enables us to start small with strategic investments and then grow them.

• IT Investment Implementation

As well as conducting reviews at each stage, such as creating systems concepts and planning and building systems, we have drawn on expertise amassed through the business of Group firm Canon IT Solutions Inc. to set up a system to comply with quality, cost, and delivery requirements.

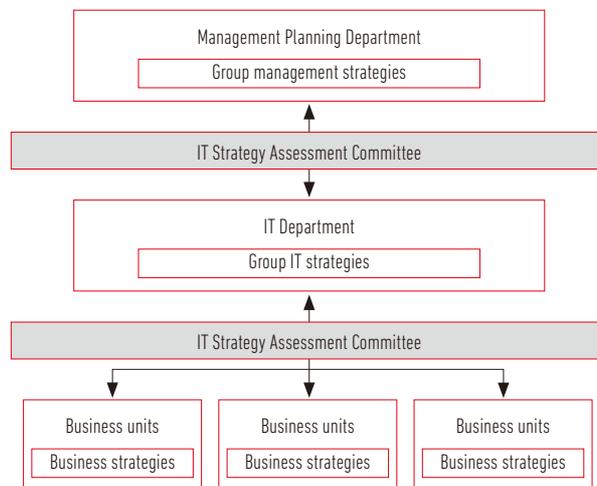
• IT Use

After deploying systems, IT investment assessment committees report the assessment of return on investment and collaborate with business divisions so that customers can benefit. The committee suggest improvements for investments that have not delivered intended returns, and implement plan-do-check-act (PDCA) cycles to generate reliable returns.

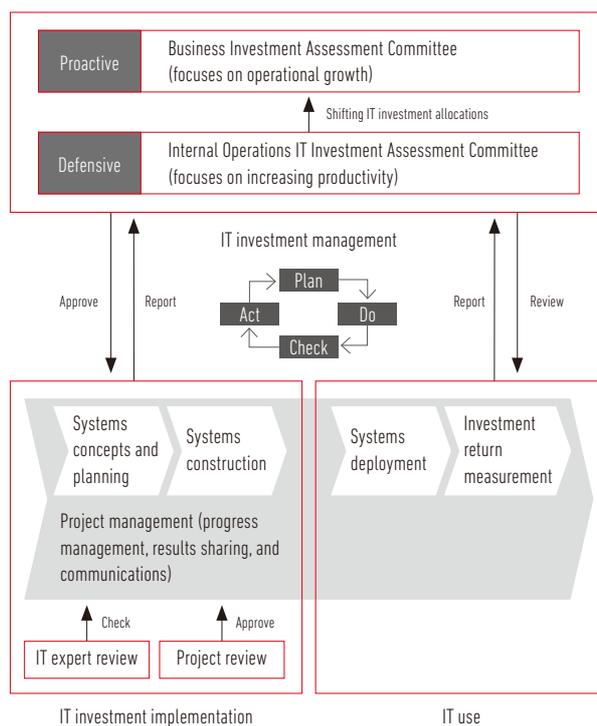
• Future Initiatives

We will enhance the functionality and links between the formulation of IT strategies, IT investment management and implementation, and IT use and accelerate proactive IT investing. We will draw on such efforts to deepen our

IT Strategy Formulation



IT Use



understanding of customers, enhance services that we can develop with them, and help resolve social issues while increasing corporate value.

Board of Directors and Audit & Supervisory Board Members

(As of March 28, 2018)

Board of Directors



President & Representative Director
Masahiro Sakata



Senior Managing Director &
Representative Director
Yutaka Usui



Director
Yoshiyuki Matsusaka



Director
Masachika Adachi



Director
Shiro Hamada



Outside
Akio Dobashi



Outside
Yoshio Osawa

Audit & Supervisory Board Members



Standing
Masahiro Shimizu



Standing
Shinichi Inoue



Standing, outside
Kunihiko Tedo



Standing, outside
Nobuyasu Kusumi



Outside
Shigeo Hasegawa

FINANCIAL SECTION

38	Ten-Year Consolidated Financial Summary
40	Financial Review
42	Consolidated Balance Sheets
44	Consolidated Statements of Income
45	Consolidated Statements of Comprehensive Income
46	Consolidated Statements of Changes in Net Assets
47	Consolidated Statements of Cash Flows
48	Notes to Consolidated Financial Statements
66	Independent Auditor's Report

TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31

	2017	2016	2015	2014
For the year:				
Net sales (Note 5)	¥ 632,190	¥ 629,314	¥ 646,003	¥ 659,432
Operating income	30,407	27,676	26,647	25,088
Profit (loss) before income taxes	30,919	28,903	27,498	25,858
Profit (loss) attributable to owners of parent	20,680	18,162	15,670	16,030
At year-end:				
Total assets	510,833	497,728	486,502	479,747
Total stockholders' equity (Note 4)	297,032	280,473	277,008	270,061
Cash flows:				
Cash flows from operating activities	28,885	33,306	29,730	38,191
Cash flows from investing activities	7,964	(19,461)	(44,536)	(15,221)
Cash flows from financing activities	(7,145)	(6,086)	(6,225)	(4,545)
Cash and cash equivalents at end of year	136,980	107,286	99,574	120,607
Per share of common stock:				
Profit (loss) attributable to owners of parent (Note 2)	¥ 159.48	¥ 140.06	¥ 120.84	¥ 123.62
Cash dividends (Note 3)	60.00	50.00	45.00	40.00
Stockholders' equity (Note 4)	2,290.70	2,162.96	2,136.22	2,082.60

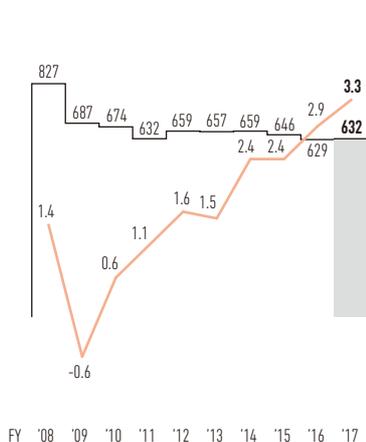
Notes 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥113 to U.S.\$1, the prevailing exchange rate as of December 31, 2017.

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.

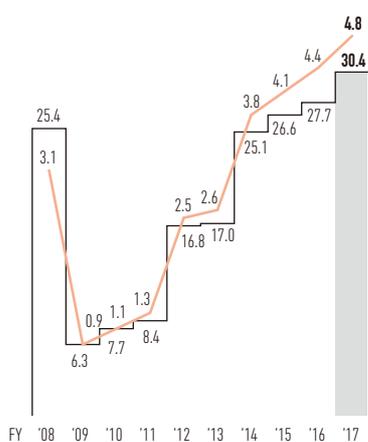
Net Sales and Return on Sales (ROS)

(Billions of yen / %) Net Sales — ROS



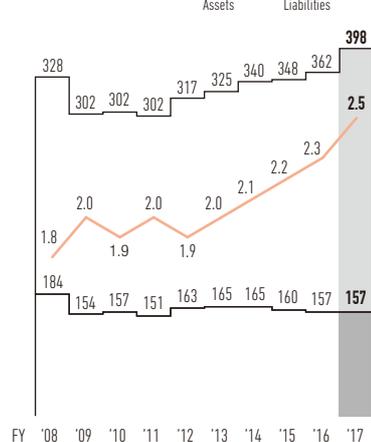
Operating Income and Operating Margin

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



Working Capital

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



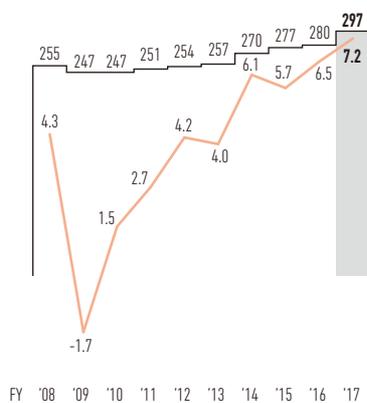
						Millions of yen	Thousands of U.S. dollars (Note 1)	
2013	2012	2011	2010	2009	2008	2017		
¥ 657,216	¥ 659,218	¥ 632,419	¥ 674,159	¥ 686,615	¥ 827,487	\$ 5,594,602		
17,013	16,802	8,442	7,736	6,297	25,416	269,088		
17,055	17,529	10,972	8,584	(595)	22,229	273,619		
10,168	10,579	6,764	3,724	(4,343)	11,186	183,009		
<hr/>								
467,076	462,574	447,765	448,592	449,607	484,937	4,520,646		
256,795	253,862	250,671	246,680	246,829	255,220	2,628,602		
<hr/>								
28,781	33,767	8,716	35,186	18,144	41,122	255,619		
(25,757)	(16,067)	(12,108)	(13,012)	(25,834)	(28,967)	70,478		
(9,105)	(11,813)	(3,811)	(8,171)	(4,324)	(21,738)	(63,230)		
102,183	108,260	102,373	109,575	95,575	107,589	1,212,212		
<hr/>								
						Yen	U.S. dollars (Note 1)	
¥ 76.67	¥ 77.45	¥ 49.30	¥ 26.70	¥ (31.62)	¥ 78.63	\$ 1.41		
24.00	24.00	20.00	20.00	20.00	40.00	0.53		
1,980.22	1,907.50	1,827.25	1,798.16	1,797.31	1,858.39	20.27		

4. Total stockholders' equity in the above table represents the total of stockholders' equity and accumulated other comprehensive income (loss) 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.

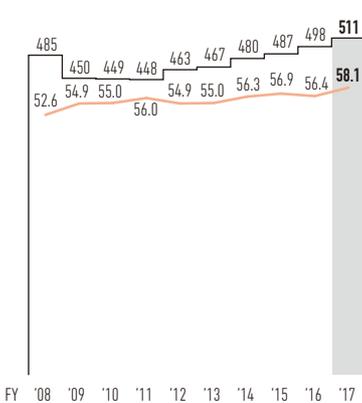
Total Stockholders' Equity and ROE

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



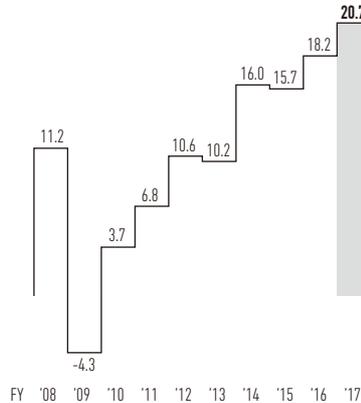
Total Assets and Total Stockholders' Equity Ratio

(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

Consolidated net sales for the year ended December 31, 2017, increased 0.5%, to ¥632,190 million, from the previous year. This was despite lower sales of digital interchangeable lens cameras and inkjet printers amid sluggish markets in those areas, and reflected favorable IT Solutions and Industrial / Medical demand.

Segment Information

• Business Solutions

We launched several color office multifunction printers (MFPs) for small-to-medium-sized customers during the year and endeavored to attract new customers. We also secured major MFPs orders from large companies, boosting sales of offerings in this category.

Production printing sales were down, as delays in shipments of new continuous feed printers overshadowed solid demand for cut-sheet printers among offices and commercial printers.

Although unit shipments of laser printers again declined, sales of these products rose as a result of several large orders and higher sales to certain priority sectors. Toner cartridge sales were up, reflecting greater demand among certain high-print-volume sectors and increased shipments to financial institutions and government agencies.

Network camera sales also increased. This was due to large orders from commercial facilities and new orders in various fields that incorporated offerings from Axis Communications AB and Milestone Systems A/S.

Sales of maintenance services for office MFPs were down from a year earlier because unit maintenance charges continued to fall, overshadowing a rise in print volumes amid gains in the number of machines in field (MIF).

Canon System & Support Inc., consolidated subsidiary boosted sales slightly on the strength of increased demand for such IT Solutions business offerings as security solutions and IT equipment maintenance services.

Sales were down at Canon Production Printing Systems Inc., consolidated subsidiary owing largely to delays in shipments of new continuous feed printers.

As a result of these factors, Business Solutions sales rose 1.1%, to ¥338,146 million.

• IT Solutions

Sales of the Systems Integration (SI) services business increased on solid demand from the financial services and education sectors.

Sales of the IT infrastructure and services business were up, reflecting favorable demand for data center services.

The embedded systems business posted lower sales because of a decline in demand among key manufacturing customers, which offset steady sales to the automotive industry.

Sales in the products business were up amid favorable sales of ESET security software and other security products and solid demand for IT product offerings.

Segment sales therefore advanced 4.7%, to ¥134,897 million.

• Imaging Systems

Sales of digital interchangeable lens cameras were down. This was due mainly to a surge in sales of mirrorless cameras, which further cannibalized demand for entry-level SLR models.

Compact digital camera sales were up, with supplies rebounding after shortages experienced in the previous year owing to earthquake damage in Kumamoto Prefecture. Another factor was favorable demand for high-end models.

Inkjet printer sales were down, as unit shipments declined amid sluggish market conditions. Ink cartridge sales also dwindled, reflecting lower print volumes.

Sales of commercial imaging equipment were down, as broadcast lens shipments dropped amid low demand from broadcast stations.

Sales of this segment accordingly decreased 4.3%, to ¥152,339 million.

• Industrial / Medical

Industrial equipment increased amid buoyant conditions in semiconductor-related markets, which boosted sales of semiconductor fabrication equipment, inspection / measuring equipment, and maintenance services. Sales were also up in businesses unrelated to the semiconductor market, reflecting favorable demand.

Medical business sales declined, as sluggish sales of X-ray films and dispensary offerings offset progress from reinforcing medical solutions and pushing ahead with business structure reforms.

Segment sales thus rose 6.5%, to ¥34,309 million.

Income Analysis

Consolidated net sales increased 0.5%, to ¥632,190 million.

Cost of sales increased 1.3%, to ¥408,418 million. Gross profit was down 1.0%, to ¥223,772 million.

Selling, general and administrative expenses declined 2.5%, to ¥193,365 million. Operating income thus rose 9.9%, to ¥30,407 million. Total other income dropped 58.3%, to ¥512 million.

Profit attributable to owners of parent therefore advanced 13.9%, to ¥20,680 million, increasing ¥19.42 on a per-share basis, to ¥159.48.

Financial Position

Total current assets increased ¥35,365 million from the end of the previous year, to ¥397,507 million. This stemmed from increases of ¥29,694 million in cash and cash equivalents and ¥3,891 million in inventories.

Total non-current assets decreased ¥22,260 million, to ¥113,326 million. The key factors were falls of ¥16,600 million in buildings and structures, (net of accumulated depreciation), and ¥5,347 million in land.

Total current liabilities increased ¥432 million, to ¥157,398 million. Key factors were increases of ¥1,600 million in accrued income taxes and ¥289 million in consumption taxes payable, which outweighed a ¥1,722 million decline in notes and accounts payable.

Total long-term liabilities decreased ¥3,930 million, to ¥55,912 million, reflecting a ¥3,964 million decline in net defined benefit liabilities.

Total net assets increased ¥16,603 million, to ¥297,523 million. This rise reflected ¥20,680 million in profit attributable to owners of parent, ¥7,132 million in dividend payments, and an increase of ¥2,214 million in remeasurements of defined benefit plans.

The total stockholders' equity ratio was 58.1%, up 1.7 percentage points from a year earlier. Stockholders' equity per share increased ¥127.74, to ¥2,290.70.

Cash Flows

Net cash provided by operating activities amounted to ¥28,885 million, from ¥33,306 million a year earlier. This change was due to ¥30,919 million in profit before income taxes, as well as ¥14,269 million in depreciation and amortization, an increase of ¥3,917 million in inventories, and ¥9,163 million in income taxes paid.

Net cash provided by investing activities was ¥7,964 million, compared with ¥19,461 million used in these activities in the previous year. The principal factors were ¥21,355 million in proceeds from sales of property, plant and equipment and ¥12,071 million in payments for purchases of property, plant and equipment.

Net cash used in financing activities amounted to ¥7,145 million, from ¥6,086 million in the previous year, largely because of dividends paid of ¥7,140 million.

As a result of these factors, cash and cash equivalents at the end of the year stood at ¥136,980 million, up ¥29,694 million from a year earlier.

CONSOLIDATED BALANCE SHEETS

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
DECEMBER 31, 2017 AND 2016

Millions of yen

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3, 11 and 12)	¥ 136,980	¥ 107,286
Notes and accounts receivable (Note 11)	125,627	124,475
Inventories (Note 5)	33,871	29,980
Deferred tax assets (Note 14)	4,063	4,215
Short-term loans receivable (Note 11)	90,014	90,044
Other current assets	7,050	6,263
Allowance for doubtful receivables	(98)	(121)
Total current assets	397,507	362,142
PROPERTY, PLANT AND EQUIPMENT:		
Land	29,017	34,364
Buildings and structures	51,862	89,797
Machinery and vehicles	308	205
Furniture and fixtures	17,720	18,253
Rental assets	38,843	36,836
Lease assets	562	958
Construction in progress	90	—
Total	138,402	180,413
Accumulated depreciation	(63,311)	(83,711)
Net property, plant and equipment	75,091	96,702
INTANGIBLE ASSETS:		
Software	5,153	6,443
Lease assets	13	54
Utilization rights	316	317
Other intangible assets	3	5
Total intangible assets	5,485	6,819
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 11 and 12)	9,028	7,422
Long-term loans receivable	30	10
Net defined benefit assets	404	—
Lease deposits (Notes 17 and 18)	4,880	4,825
Deferred tax assets (Note 14)	16,203	17,669
Other investments	2,533	2,484
Allowance for doubtful receivables	(328)	(345)
Total investments and other assets	32,750	32,065
Total non-current assets	113,326	135,586
Total assets	¥ 510,833	¥ 497,728

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES:		
Notes and accounts payable (Note 11)	¥ 100,940	¥ 102,662
Short-term loans payable (Note 18)	147	—
Lease obligations (Note 18)	125	176
Accrued income taxes (Note 14)	6,290	4,689
Consumption taxes payable	4,586	4,297
Accrued expenses	18,169	18,969
Reserves	4,192	4,088
Other current liabilities (Note 13)	22,949	22,086
Total current liabilities	157,398	156,967
LONG-TERM LIABILITIES:		
Lease obligations (Note 18)	164	206
Deferred tax liabilities (Note 14)	439	422
Deferred tax liabilities for land revaluation (Note 14)	—	7
Allowance for long-term continuous service rewards (Note 2)	961	962
Net defined benefit liabilities (Notes 2 and 13)	49,604	53,569
Other long-term liabilities (Notes 13 and 18)	4,744	4,676
Total long-term liabilities	55,912	59,842
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 4 and 10)		
NET ASSETS (Note 2):		
STOCKHOLDERS' EQUITY (Notes 9 and 19):		
Common stock		
Authorized 299,500,000 shares; Issued 151,079,972 shares in 2017 and 2016	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	176,912	163,364
Treasury stock	(31,921)	(31,915)
Total stockholders' equity	301,114	287,572
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized gains on available-for-sale securities	3,159	2,329
Deferred gains or losses on hedges	6	(15)
Foreign currency translation adjustments	99	147
Remeasurements of defined benefit plans	(7,346)	(9,560)
Total accumulated other comprehensive income (loss)	(4,082)	(7,099)
NON-CONTROLLING INTERESTS	491	446
Total net assets	297,523	280,919
Total liabilities and net assets	¥ 510,833	¥ 497,728

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

Millions of yen

	2017	2016
NET SALES	¥ 632,190	¥ 629,314
COST OF SALES (Note 5):	408,418	403,307
Gross profit	223,772	226,007
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6):	193,365	198,331
Operating income	30,407	27,676
OTHER INCOME (EXPENSES):		
Interest and dividend income	286	353
Interest expense	(12)	(15)
Insurance income	549	609
Foreign exchange losses	(12)	(78)
Gain on sales of fixed assets (Note 7)	879	775
Loss on impairment of fixed assets (Note 7)	(1,033)	(131)
Gain on sales of investments in securities	540	661
Loss on sales and disposal of fixed assets (Note 7)	(898)	(986)
Special extra retirement payments	(100)	(6)
Loss on disaster	—	(28)
Other, net	313	73
Total other income	512	1,227
Profit before income taxes	30,919	28,903
INCOME TAXES (Note 14):		
Current	9,951	8,789
Deferred	272	1,918
Total income taxes	10,223	10,707
Profit	¥ 20,696	¥ 18,196
PROFIT ATTRIBUTABLE TO:		
Non-controlling interests	¥ 16	¥ 34
Owners of parent	20,680	18,162
Profit	¥ 20,696	¥ 18,196
		Yen
PER SHARE OF COMMON STOCK (Note 2):		
Profit attributable to owners of parent	¥ 159.48	¥ 140.06
Cash dividends applicable to the year	¥ 60.00	¥ 50.00

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

Millions of yen

	2017	2016
PROFIT	¥ 20,696	¥ 18,196
OTHER COMPREHENSIVE INCOME (LOSS) (Note 8)		
Net unrealized gains or losses on available-for-sale securities	831	(447)
Deferred gains or losses on hedges	21	(15)
Foreign currency translation adjustments	(58)	(81)
Remeasurements of defined benefit plans, net of tax	2,214	(8,320)
Total other comprehensive income (loss)	3,008	(8,863)
Comprehensive income	¥ 23,704	¥ 9,333
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of parent	¥ 23,697	¥ 9,302
Non-controlling interests	7	31
Comprehensive income	¥ 23,704	¥ 9,333

• 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, 2017 AND 2016

Millions of yen

	Number of shares of common stock	Stockholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock
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)
Profit attributable to non-controlling interests					
Cash dividends paid to non-controlling interests					
Other, net					
BALANCE AT JANUARY 1, 2017	151,079,972	¥ 73,303	¥ 82,820	¥ 163,364	¥ (31,915)
Profit attributable to owners of parent				20,680	
Cash dividends				(7,132)	
Purchase of treasury stock					(6)
Disposition of treasury stock			0		0
Profit attributable to non-controlling interests					
Cash dividends paid to non-controlling interests					
Other, net					
BALANCE AT DECEMBER 31, 2017	151,079,972	¥ 73,303	¥ 82,820	¥ 176,912	¥ (31,921)

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, 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)
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 JANUARY 1, 2017	¥ 2,329	¥ (15)	¥ 147	¥ (9,560)	¥ 446	¥ 280,919
Profit attributable to owners of parent						20,680
Cash dividends						(7,132)
Purchase of treasury stock						(6)
Disposition of treasury stock						0
Profit attributable to non-controlling interests					16	16
Cash dividends paid to non-controlling interests					(12)	(12)
Other, net	830	21	(48)	2,214	41	3,058
BALANCE AT DECEMBER 31, 2017	¥ 3,159	¥ 6	¥ 99	¥ (7,346)	¥ 491	¥ 297,523

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

Millions of yen

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥ 30,919	¥ 28,903
Adjustments for:		
Depreciation and amortization	14,269	14,870
Loss on impairment of fixed assets	1,033	131
Amortization of goodwill	—	799
Increase (decrease) in allowance for doubtful receivables	(41)	(34)
Increase (decrease) in net defined benefit liabilities	(960)	(1,271)
Decrease (increase) in net defined benefit assets	(206)	—
Interest and dividend income	(286)	(353)
Interest expense	12	15
Loss (gain) on sales and disposal of property, plant and equipment, net	7	78
Loss (gain) on sales of investments in securities	(540)	(661)
Decrease (increase) in notes and accounts receivable-trade	(1,099)	1,248
Decrease (increase) in inventories	(3,917)	88
Increase (decrease) in notes and accounts payable-trade	(1,813)	843
Other, net	397	(716)
Sub-total	37,775	43,940
Interest and dividends received	285	367
Interest paid	(12)	(18)
Income taxes paid	(9,163)	(10,983)
Net cash provided by operating activities	28,885	33,306
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(12,071)	(10,991)
Proceeds from sales of property, plant and equipment	21,355	2,308
Payments for purchases of intangible assets	(1,231)	(1,442)
Payments for purchases of investments in securities	(733)	(455)
Proceeds from sales of investments in securities	881	797
Decrease (increase) in short-term loans receivable, net	10	(9,990)
Other	(247)	312
Net cash provided by (used in) investing activities	7,964	(19,461)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable, net	147	—
Repayments of finance lease obligations	(192)	(239)
Proceeds from share issuance to non-controlling shareholders	49	—
Payments for purchases of treasury stock	(7)	(3)
Dividends paid	(7,140)	(5,844)
Other	(2)	—
Net cash used in financing activities	(7,145)	(6,086)
Effect of exchange rate changes on cash and cash equivalents	(10)	(47)
Net increase (decrease) in cash and cash equivalents	29,694	7,712
Cash and cash equivalents at beginning of year	107,286	99,574
Cash and cash equivalents at end of year	¥ 136,980	¥ 107,286

• 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, 2017 include the accounts of the Company and all of its 23 (24 in 2016) subsidiaries.

All intercompany accounts and transactions are eliminated in consolidation.

(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 are 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) Intangible assets

Amortization is computed by the straight-line method for intangible assets. Software for sale is amortized within 3 years and software used in-house use is amortized over 5 years.

(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) Allowance for bonuses

Allowance for bonuses is provided at the estimated amount of bonuses to be paid to employees subsequent to the balance sheet date for services rendered in the current fiscal year.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Application of Consolidated Taxation System

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

(s) Additional Information

From the year ended December 31, 2017, the Company has applied Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3 Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2017 and 2016 were as follows:

	2017	2016
Time deposits	¥ 59	¥ 55
Total	¥ 59	¥ 55

Millions of yen

4 Contingent Liabilities

Contingent liabilities as of December 31, 2017 and 2016 were as follows:

	2017	2016
Guarantees for employees' housing loans	¥ 15	¥ 25
Total	¥ 15	¥ 25

Millions of yen

5 Inventories

Inventories as of December 31, 2017 and 2016 were composed of the following:

	2017	2016
		Millions of yen
Merchandise	¥ 29,795	¥ 25,888
Service parts	2,281	2,383
Work in process	958	834
Supplies	782	742
Other	55	133
Total	¥ 33,871	¥ 29,980

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.

Write-downs of inventories for the years ended December 31, 2017 and 2016, net of the amount of the reversal, were included in the following account:

	2017	2016
		Millions of yen
Cost of sales	¥ 2,004	¥ 1,568

6 Selling, General and Administrative Expenses

The primary components of "Selling, General and Administrative Expenses" for the years ended December, 2017 and 2016 were as follows:

	2017	2016
		Millions of yen
Salaries and allowances	¥ 95,053	¥ 94,089
Provision for bonuses	2,918	2,950
Provision for directors' bonuses	128	129
Provision of allowance for long-term continuous service rewards	394	379
Retirement benefit costs	4,395	4,408
Provision for product warranties	465	453
Provision of allowance for doubtful receivables	19	63

Research and development costs included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended December 31, 2017 and 2016 amounted to ¥429 million and ¥666 million, respectively.

7 Other Income (Expenses)

1. The components of "Gain on sales of fixed assets" for the years ended December, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Buildings and structures	¥ 741	¥ 84
Machinery and vehicles	—	5
Furniture and fixtures	13	4
Rental assets	0	—
Land	124	682
Software	—	0
Other	1	—
Total	¥ 879	¥ 775

2. The components of "Loss on sales and disposal of fixed assets" for the years ended December, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Buildings and structures	¥ 603	¥ 525
Machinery and vehicles	0	0
Furniture and fixtures	44	172
Rental assets	88	53
Land	140	102
Software	14	132
Other	9	2
Total	¥ 898	¥ 986

3. The Group recorded impairment losses for the following asset groups for the current fiscal year.

Location	Usage	Category
Itabashi-ku, Tokyo	Training center	Buildings, Land
Tomisato-shi, Chiba Prefecture	Business asset	Buildings, Land, Other

In principle, business assets are grouped based on the entities in the Group.

In line with a decision to sell the above training center, the Group reduced book value to the recoverable amount and recorded impairment loss of ¥793 million.

As a result of business restructuring, the Group reduced the book value of business assets to the recoverable value and recorded impairment loss of ¥240 million.

Recoverable amount is based on the selling price less cost to disposal for business assets and is based on planned sale amounts for land.

8 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, 2017 and 2016.

	2017	2016
Net unrealized gains or losses on available-for-sale securities		
Amount arising during the year	¥ 1,749	¥ (29)
Reclassification adjustments	(540)	(661)
Pre-tax amount	1,209	(690)
Tax effect	(378)	243
Net-of-tax amount	831	(447)
Deferred gains or losses on hedges		
Amount arising during the year	30	(22)
Pre-tax amount	30	(22)
Tax effect	(9)	7
Net-of-tax amount	21	(15)
Foreign currency translation adjustments		
Amount arising during the year	(58)	(81)
Pre-tax amount	(58)	(81)
Tax effect	—	—
Net-of-tax amount	(58)	(81)
Remeasurements of defined benefit plans		
Amount arising during the year	3,431	(10,506)
Reclassification adjustments	(229)	(1,511)
Pre-tax amount	3,202	(12,017)
Tax effect	(988)	3,697
Net-of-tax amount	2,214	(8,320)
Total other comprehensive income (loss)	¥ 3,008	¥ (8,863)

9

Common Stock and Dividends

1. The following table shows the movement of number of common stock for the year ended 2017 and 2016.

	As of January 1, 2016	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2016	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2017
Issued stock	151,080	—	—	151,080	—	—	151,080
Treasury stock	21,408	1	—	21,409	3	0	21,412

2. Matters regarding dividends

The Company distributes a semiannual interim dividend by resolution of Board of Directors and annual dividend by resolution of General stockholders' meeting.

Semiannual interim dividends is paid to the common stock holders of the Company as of semiannual period end and annual dividend is paid to the common stock holders of the Company as of year end.

Resolution date, total dividends, dividend per share for the year ended 2017 and 2016 were as follows:

Dividends	Resolution date	2017		2016		
		Total dividends (Millions of yen)	Dividend per share (Yen)	Resolution date	Total dividends (Millions of yen)	Dividend per share (Yen)
Annual dividend	March 29, 2017	¥ 3,890	¥ 30	March 29, 2016	¥ 3,242	¥ 25
Interim dividend	July 26, 2017	¥ 3,242	¥ 25	July 25, 2016	¥ 2,593	¥ 20

Annual dividend of ¥4,538 million (¥35 dividend per share) was resolved by General stockholders' meeting held on March 28, 2018.

Total dividend per share was ¥60 for fiscal 2017 and increased ¥10 from ¥50 for fiscal 2016.

10

Lease Commitment

Future minimum lease payments subsequent to December 31, 2017 for noncancelable operating leases are summarized as follows:

Millions of yen

	2017
Due within one year	¥ 2,483
Due after one year	12,015
Total	¥ 14,498

11 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, 2017 and 2016, 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

2017			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 66,479	¥ 66,479	—
(2) Notes and accounts receivable	125,627	125,627	—
(3) Short-term investments in securities and investments in securities	77,998	77,998	—
(4) Short-term loans receivable	90,014	90,014	—
Total assets	¥ 360,118	¥ 360,118	—
(5) Notes and accounts payable	¥ 100,940	¥ 100,940	—
(6) Short-term loans payable	147	147	—
Total liabilities	¥ 101,087	¥ 101,087	—

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	—

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, (6) Short-term loans 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, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Equity securities	¥ 893	¥ 439
Investments in investment partnerships	¥ 637	¥ 669

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, 2017 and 2016 were summarized as follows:

	Millions of yen			
	2017		2016	
	Due within 1 year	Due after 1 year	Due within 1 year	Due after 1 year
Cash and deposits	¥ 66,480	—	¥ 76,786	—
Notes and accounts receivable	125,627	—	124,475	—
Short-term investments in securities and investments in securities				
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	—	—
(2) Other	70,500	—	30,500	—
Short-term loans receivable	90,014	—	90,044	—
Total	¥ 352,621	—	¥ 321,805	—

12 Securities

Securities as of December 31, 2017 and 2016 were classified and included in the following accounts:

	Millions of yen	
	2017	2016
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 9,028	¥ 7,422
Held-to-maturity:		
Cash and cash equivalents	70,500	30,500
Total	¥ 79,528	¥ 37,922

The carrying amounts and aggregate fair values of investments in securities at December 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,005	¥ 4,512	¥ (32)	¥ 7,485
Other	11	2	—	13
Total	¥ 3,016	¥ 4,514	¥ (32)	¥ 7,498

	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

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Available-for-sale:		
Equity securities	¥ 893	¥ 439
Investments in investment partnerships	637	669
Total	¥ 1,530	¥ 1,108

13 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	
	2017	2016
Retirement benefit obligations at beginning of year	¥ 216,803	¥ 207,485
Service costs	6,615	7,040
Interest costs	1,325	2,156
Actuarial gains and losses	(1,024)	10,255
Benefit paid	(6,481)	(6,800)
Prior service costs	1,150	(3,333)
Transfer to a defined contribution plan	(412)	—
Other	(24)	—
Retirement benefit obligations at end of year	¥ 217,952	¥ 216,803

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

	Millions of yen	
	2017	2016
Plan assets at beginning of year	¥ 163,874	¥ 165,254
Expected return on plan assets	4,686	4,543
Actuarial gains and losses	3,601	(3,333)
Contributions from the employer	3,182	3,508
Benefit paid	(5,868)	(6,098)
Other	(23)	—
Plan assets at end of year	¥ 169,452	¥ 163,874

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

	Millions of yen	
	2017	2016
Net defined benefit liabilities at beginning of year	¥ 640	¥ 592
Net periodic benefit costs	112	112
Benefit paid	(18)	(32)
Contributions to plans	(34)	(32)
Net defined benefit liabilities at end of year	¥ 700	¥ 640

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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	
	2017	2016
Funded retirement benefit obligations	¥ 197,724	¥ 197,295
Plan assets	169,765	164,163
	27,959	33,132
Unfunded retirement benefit obligations	21,241	20,437
Net liabilities and assets in consolidated balance sheets	¥ 49,200	¥ 53,569
Net defined benefit assets	(404)	—
Net liabilities and assets in consolidated balance sheets	¥ 49,200	¥ 53,569

Note: Plan assets include plan assets for which the simplified method was applied.

(5) Retirement benefit costs

	Millions of yen	
	2017	2016
Service costs	¥ 6,615	¥ 7,040
Interest costs	1,325	2,156
Expected return on plan assets	(4,686)	(4,543)
Amortization of actuarial gains and losses	3,199	1,925
Amortization of prior service costs	(3,446)	(3,687)
Net periodic benefit costs using the simplified method	112	112
Retirement benefit costs of defined benefit plans	3,119	¥ 3,003
The gain on transfer to a defined contribution plan recorded as "Other income"	¥ (63)	—

Note: In addition to the above retirement benefit costs, the Group recorded ¥282 million (including ¥100 million of special extra retirement payments) and ¥433 million (including ¥6 million of special extra retirement payments) for extra retirement payments for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 were as follows:

	Millions of yen		
	2017		
	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	¥ (9,347)	¥ 23,229	¥ 13,882
Net change	4,596	(7,798)	(3,202)
At end of year	¥ (4,751)	¥ 15,431	¥ 10,680

Note: Net change for the year ended December 31, 2017 includes the amount of ¥26 million in line with a transition from a lump sum severance payment plan to a defined contribution pension plan.

	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

(7) Plan assets

1. Main components of plan assets

Ratios for main components of plan assets were as follows:

	2017	2016
Bonds	22%	16%
Stocks	3	3
Pooled funds	51	48
Life insurance company general accounts	19	20
Other	5	13
Total	100%	100%

Note: The composition of pooled funds was 46% in bonds and 54% in stocks for the year ended December 31, 2017, and 50% in bonds and 50% in stocks for the year ended December 31, 2016.

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, 2017 and 2016 were as follows:

	2017	2016
Discount rates	0.03 - 0.63%	0.03 - 0.69%
Long-term expected rates of return on plan assets	2.0 - 3.0%	1.0 - 3.0%
Estimated rates of salary increases	1.7 - 2.7%	1.7 - 2.6%

3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥1,990 million and ¥2,045 million for the years ended December 31, 2017 and 2016, respectively.

4. Other retirement benefits matters

Assets to be transferred to a defined contribution pension plan in line with a transition from a lump sum severance payment plan totaled ¥375 million. The transfers are planned for four years. The ¥274 million not transferred as of the year ended December 31, 2017, is included in "other current liabilities" and "other long-term liabilities".

14 Income Taxes

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2017 and 2016, were as follows:

Millions of yen

	2017	2016
DEFERRED TAX ASSETS:		
Sales promotion expenses	¥ 928	¥ 1,249
Accrued bonuses to employees	1,169	1,188
Accrued business tax and business office tax	773	654
Loss on disposal and devaluation of inventories	554	469
Provision for loss on orders received	151	143
Net defined benefit liabilities	15,401	16,670
Loss on devaluation of investments in securities	405	780
Excess amortization of software	653	735
Excess depreciation of fixed assets	893	727
Loss carryforward	482	429
Asset retirement obligations	445	419
Allowance for long-term continuous service rewards	298	298
Loss on valuation of golf club membership	118	118
Lump-sum depreciable assets	85	101
Loss on impairment of fixed assets	137	68
Other	1,232	1,209
Gross deferred tax assets	23,724	25,257
Less: valuation allowance	(1,020)	(1,350)
Total deferred tax assets	¥ 22,704	¥ 23,907
DEFERRED TAX LIABILITIES:		
Net unrealized gains on available-for-sale securities	¥ (1,398)	¥ (995)
Deferred capital gain	(1,404)	(1,407)
Uncollected enterprise tax refunds	(6)	—
Deferred gains or losses on hedges	(3)	—
Other	(66)	50
Total deferred tax liabilities	¥ (2,877)	¥ (2,452)
Deferred tax liabilities for land revaluation	—	¥ 7
Net deferred tax assets	¥ 19,827	¥ 21,462

Note: Net deferred tax assets as of March 31, 2017 and 2016 are reflected in the following accounts in the consolidated balance sheet:

	2017	2016
Current assets—deferred tax assets	¥ 4,063	¥ 4,215
Investments and other assets—deferred tax assets	16,203	17,669
Long-term liabilities—deferred tax liabilities	(439)	(422)
Net deferred tax assets	¥ 19,827	¥ 21,462

A reconciliation between the statutory income tax rate and the effective income tax rate for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Statutory income tax rate	31.0 %	33.0 %
Entertainment and other expenses permanently not deductible for tax purposes	0.9	1.0
Per-capita levy of inhabitants' taxes	1.1	1.2
Valuation allowance	0.5	(1.0)
Dividend income not taxable	0.0	(0.0)
Decrease in deferred tax assets due to tax rate changes	0.0	1.9
Other	(0.4)	0.9
Effective income tax rate	33.1 %	37.0 %

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. 3 other companies
IT Solutions	Canon Marketing Japan Inc. ITS Company
	Canon IT Solutions Inc. 10 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

From the year ended December 31, 2017, the Group changed its reportable segments in keeping with a Group reorganization based on Long-Term Management Objectives Phase III. Canon BizAttenda Inc., and A&A Co., Ltd., which were included in IT Solutions segment, are now part of Business Solutions. Similarly, Canon ITS Medical Inc., previously part of IT Solutions, is now in Industrial/Medical segment.

Segment information for the previous fiscal year has been restated to reflect the recategorizations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2017 and 2016 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					
2017									
Net sales:									
External customers	¥ 338,146	¥ 107,368	¥ 152,339	¥ 34,309	¥ 28	¥ 632,190	—	¥ 632,190	
Intersegment	—	27,529	—	—	—	27,529	¥ (27,529)	—	
Total	¥ 338,146	¥ 134,897	¥ 152,339	¥ 34,309	¥ 28	¥ 659,719	¥ (27,529)	¥ 632,190	
Segment income (loss)	¥ 12,239	¥ 4,560	¥ 11,689	¥ 1,544	¥ 375	¥ 30,407	—	¥ 30,407	
Segment assets	¥ 130,214	¥ 62,606	¥ 63,671	¥ 22,505	¥ 8,238	¥ 287,234	¥ 223,599	¥ 510,833	
Other items:									
Depreciation and amortization	¥ 10,277	¥ 2,326	¥ 1,083	¥ 441	¥ 142	¥ 14,269	—	¥ 14,269	
Amortization of goodwill	—	—	—	—	—	—	—	—	
Changes in the amount of property, plant and equipment and intangible assets	¥ 10,223	¥ 2,510	¥ 706	¥ 224	¥ 3	¥ 13,666	—	¥ 13,666	

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					
2016									
Net sales:									
External customers	¥ 334,603	¥ 103,270	¥ 159,207	¥ 32,209	¥ 25	¥ 629,314	—	¥ 629,314	
Intersegment	—	25,529	—	—	—	25,529	¥ (25,529)	—	
Total	¥ 334,603	¥ 128,799	¥ 159,207	¥ 32,209	¥ 25	¥ 654,843	¥ (25,529)	¥ 629,314	
Segment income (loss)	¥ 12,053	¥ 3,981	¥ 10,887	¥ 186	¥ 569	¥ 27,676	—	¥ 27,676	
Segment assets	¥ 145,218	¥ 59,999	¥ 71,021	¥ 20,627	¥ 9,195	¥ 306,060	¥ 191,668	¥ 497,728	
Other items:									
Depreciation and amortization	¥ 10,620	¥ 2,071	¥ 1,562	¥ 496	¥ 121	¥ 14,870	—	¥ 14,870	
Amortization of goodwill	—	254	—	545	—	799	—	799	
Changes in the amount of property, plant and equipment and intangible assets	¥ 8,168	¥ 4,114	¥ 530	¥ 357	—	¥ 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.

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

Impairment loss on property, plant and equipment by reportable segment for the year ended 2017 and 2016 were as follows:

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Recorded amount
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
	¥ 793	—	—	¥ 240	—	¥ 1,033	—	¥ 1,033

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	Recorded amount
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
	¥ 80	—	—	¥ 51	—	¥ 131	—	¥ 131

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

The amortization of goodwill by reportable segment for the year ended December 31, 2016 were as follows.

No goodwill was recorded as of December 31, 2017 and 2016.

Millions of yen

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Recorded amount
	Business Solutions	IT Solutions	Imaging Systems	Industrial/Medical				
	—	¥ 254	—	¥ 545	—	¥ 799	—	¥ 799
	—	—	—	—	—	—	—	—

16 Related Party Transactions

Transaction conditions and policies for deciding transaction conditions, etc. with related party

(1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.

(2) Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.

(3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Transaction with parent company and major corporate stockholders, etc. for the year ended 2017 and related balance as of December 31, 2017 were as follows:

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	¥ 215,630	Accounts payable	¥ 67,880
								Sales of office equipment and consumables, etc.			
								Non-operating transactions	Loans of capital	—	Short-term loans

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

Transaction with parent company and major corporate stockholders, etc. for the year ended 2016 and related balance as of December 31, 2016 were as follows:

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.

17 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, 2017 and 2016 were ¥2,920 million and ¥1,860 million, respectively.

18 Lease Obligations, Loans Payable and Deposits

Lease obligations, loans payable and deposits as of December 31, 2017 and 2016 were as follows:

	Average interest rate (2017)	2017	2016
Millions of yen			
Short-term loans payable		¥ 147	—
Lease obligations			
Current portion of lease obligations		125	¥ 176
Lease obligations (excluding current portion)		164	206
		289	382
Long-term loans payable (excluding current portion)	—	—	—
Deposits	0.01%	4,123	4,065
Total		¥ 4,559	¥ 4,447

19 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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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, 2017, 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, 2017, 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 27, 2018
Tokyo, Japan

A member firm of Ernst & Young Global Limited

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CANON MJ GROUP COMPANIES

AS OF APRIL 1, 2018

Segment	Company name	Lines of business	
Enterprise BU	Canon IT Solutions Inc.	Systems integration (SI) and consulting, IT services, and software development and sales	
	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	
	Canon Software America, Inc.	Development of business applications software 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, CAM, and CAE in Thailand	
	MAT Vietnam Company Limited	Proposals, sales, and service related to IT hardware through software in Vietnam	
	Canon BizAttenda Inc.	Consulting, support for business process optimization, back office business process optimization, office support, contact center, temp staffing, and services	
Area BU	Edifist Learning Inc.	Human resources development consulting, training, and auxiliary services	
	Canon System & Support Inc.	IT solutions consulting, sales, support, and maintenance services for Canon's and third parties' products	
	A&A Co., Ltd.	Exclusive domestic sales of 3D CAD software Vectorworks Japanese version and planning, development, and sales of related software	
Professional BU	Production Printing	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 (by use of inkjet continuous feed printers, production printers, and offset printing machinery)
	Healthcare	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	
Service & Support	Canon Customer Support Inc.	Contact center operations focusing on Canon's products, technical support, reception counter for repair and maintenance of consumer products, and photo business support	
Group Shared Services	Canon Business Support Inc.	Facilities management for Group companies and BPO-related services	

The Group comprises 22 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. (Ticker Symbol: 8060)

Number of Shareholders

11,188

Number of Employees

Consolidated: 17,647

Non-consolidated: 5,284

(As of December 31, 2017)

Main Locations of Operations

Headquarters, Makuhari office and branches

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

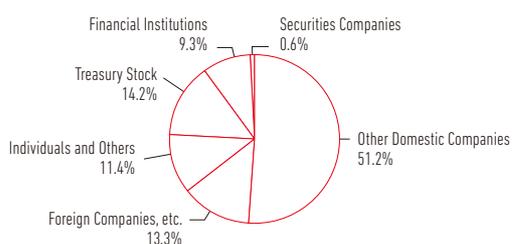
(As of April 1, 2018)

Major Shareholders

Name of shareholder	Number of shares held (Thousands)	Percentage of ownership (%)
Canon Inc.	75,708	58.4%
Canon Marketing Japan Group Employee Stock Ownership Association	5,764	4.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,823	2.2
Japan Trustee Services Bank, Ltd. (Trust Account)	1,999	1.5
STATE STREET BANK AND TRUST COMPANY 505001	1,456	1.1
GOVERNMENT OF NORWAY	1,417	1.1
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,176	0.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,073	0.8
Mizuho Bank, Ltd.	1,001	0.8
The Dai-ichi Life Insurance Company, Limited	879	0.7

Note: The percentage of ownership is calculated excluding the number of treasury stock (21,411,513 shares).

Shareholder Composition



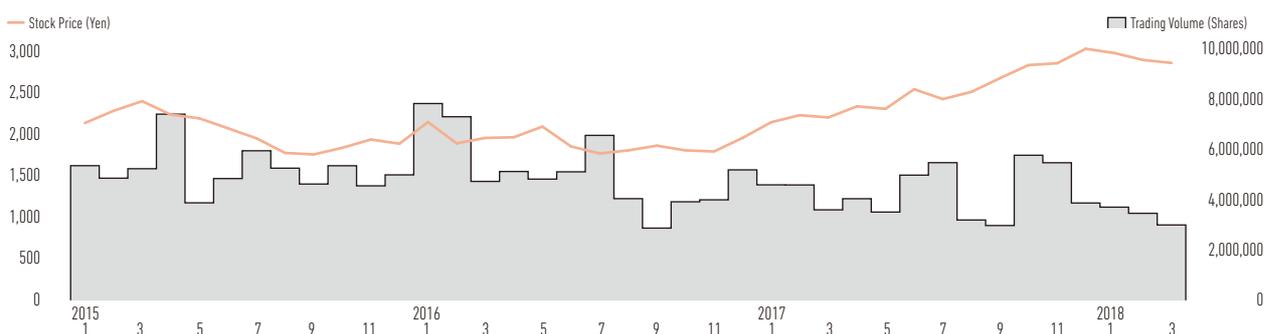
Canon MJ Investor Relations Website

Canon MJ maintains a comprehensive investor relations (IR) website to further facilitate communication with shareholders. 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

canon.jp/8060e-ir

Stock Price Range and Trading Volume





Canon Marketing Japan Inc.

Headquarters

Canon S Tower, 16-6, Konan 2-chome,
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Canon Marketing Japan Website

(Investor Relations)
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