

FY2017 2Q Results

July 27, 2017
Yoshiyuki Matsusaka
Director, Senior Vice President

Canon

Canon Marketing Japan Inc.

* The figures are rounded off to the nearest 100 million yen in this material.

* Forward-looking statements and results forecasts presented in this material are based on the management's assumptions using currently available information and therefore contain inherent risks and uncertainties.

As a consequence, due to a range of possible factors, actual results may materially differ from the forecasts.

Summary of 2nd Quarter 2017 Results



Net sales **¥150.8 B (Y/Y + 0.6B, + 0%)**

- ✓ Net sales increased, reflecting a rise in sales in Business Solutions, IT Solutions and Industrial/Medical, despite a fall in sales in Imaging Systems.

Operating Income **¥5.3 B (Y/Y + 0.2B, + 4%)**

- ✓ Operating income rose due to an increase in income in Business Solutions and Industrial and the company-wide reduction of expenses.

**Profit attributable to
owners of parent** **¥4.4 B (Y/Y + 0.7B, + 20%)**

Summary of Results

2Q 2017 Actual
(from April 1 to June 30)

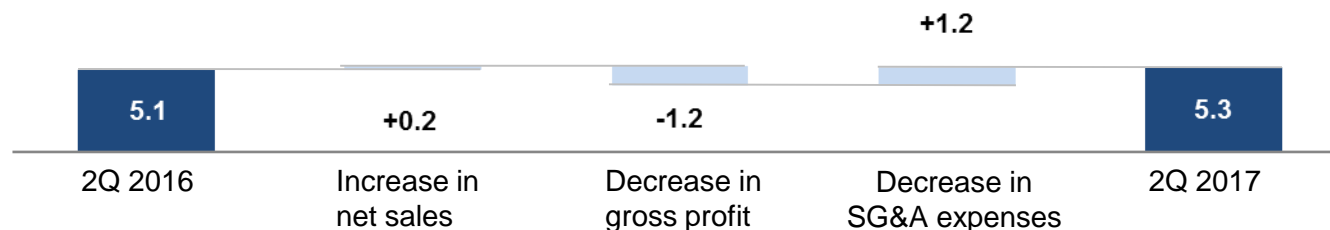


Summary of Results

(Billions of yen)

	2Q 2016	2Q 2017	Changes	
			Amount	%
Net sales	150.2	150.8	+0.6	+0%
Gross profit	(36.7%) 55.1	(35.9%) 54.1	(-0.8%) -1.0	-2%
Operating income	(3.4%) 5.1	(3.5%) 5.3	(+0.1%) +0.2	+4%
Ordinary income	(3.9%) 5.8	(4.0%) 6.1	(+0.1%) +0.2	+4%
Profit attributable to owners of parent	(2.4%) 3.7	(2.9%) 4.4	(+0.5%) +0.7	+20%

Op. Income Variance Analysis



Segment Outline

2Q 2017 Actual
(from April 1 to June 30)



(Billions of yen)

	2Q 2016		2Q 2017		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	80.8	2.0	82.4	2.1	+1.6	+0.1
IT Solutions	32.3	1.0	32.4	1.0	+0.1	-0.0
Imaging System	36.3	2.1	35.0	2.0	-1.3	-0.0
Industrial / Medical	7.2	-0.1	7.5	0.1	+0.3	+0.2
Other	-6.4	0.1	-6.5	0.1	-0.1	-0.0
Total	150.2	5.1	150.8	5.3	+0.6	+0.2

Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016.

Summary of Results

1Q-2Q 2017 Actual
(from January 1 to June 30)

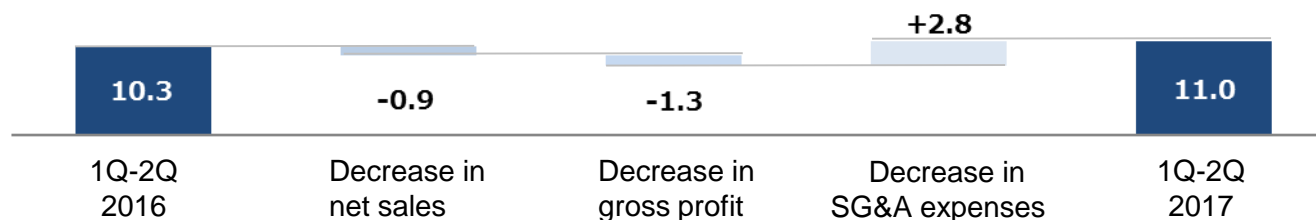


(Billions of yen)

■ Summary of Results

	1Q-2Q 2016	1Q-2Q 2017	Changes	
			Amount	%
Net sales	306.2	303.7	-2.6	-1%
Gross profit	(35.9%) 109.9	(35.5%) 107.8	(-0.4%) -2.2	-2%
Operating income	(3.4%) 10.3	(3.6%) 11.0	(+0.2%) +0.6	+6%
Ordinary income	(3.7%) 11.2	(3.9%) 11.8	(+0.2%) +0.6	+5%
Profit attributable to owners of parent	(2.2%) 6.6	(2.8%) 8.4	(+0.6%) +1.7	+26%

■ Op. Income Variance Analysis



Segment Outline

1Q-2Q 2017 Actual
(from January 1 to June 30)



(Billions of yen)

	1Q-2Q 2016		1Q-2Q 2017		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	167.5	5.4	170.9	5.9	+3.5	+0.5
IT Solutions	66.1	2.1	65.5	2.1	-0.6	-0.0
Imaging System	68.1	1.7	64.5	2.1	-3.6	+0.4
Industrial / Medical	17.6	0.7	16.2	0.7	-1.4	-0.0
Other	-13.0	0.3	-13.5	0.2	-0.5	-0.1
Total	306.2	10.3	303.7	11.0	-2.6	+0.6

Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016.

Segment Information



Business Solutions



Net Sales 82.4B (Y/Y +1.6B, +2%)

➤ Net sales in this segment increased due to the firm performance of overall business including hardware, consumable goods and IT solutions.

Operating Income 2.1B (Y/Y +0.1B, +4%)

➤ Operating income rose mainly due to an increase in high-margin stock business and the reduction of SG&A expenses.

2017 Actual v. 2016 Actual

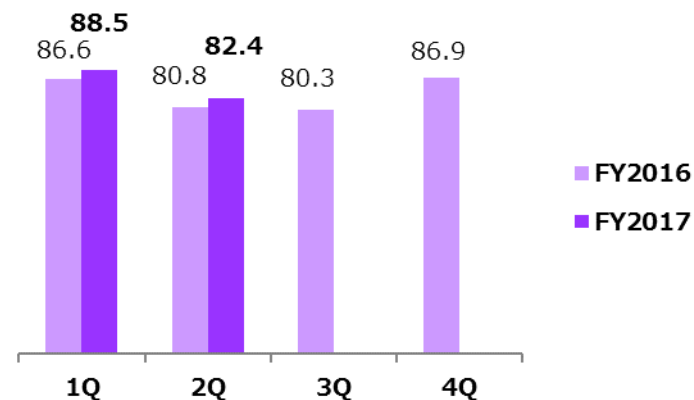
	1Q-2Q 2016	1Q-2Q 2017	Changes
Net sales	167.5	170.9	+3.5
Op. income	5.4	5.9	+0.5

Net sales - Growth rate

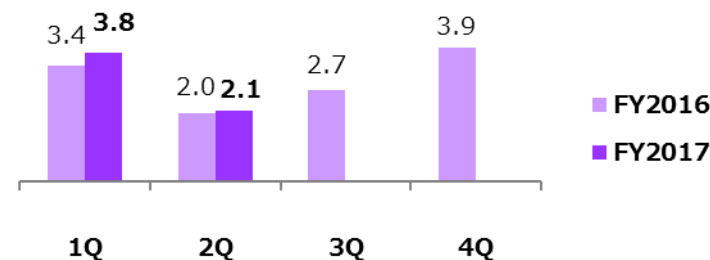
	1Q	2Q	3Q	4Q	FY
FY2016	+1%	-0%	-1%	+4%	+1%
FY2017	+2%	+2%			

Net sales

(Billions of yen)



Op. income



Segment Information



IT Solutions



Net Sales 32.4B (Y/Y + 0.1B, +0%)

➤ Net sales in this segment remained almost flat due to a fall in sales in the SI business and the embedded software business, despite the expansion of the IT infrastructure & service business and the product business.

Operating Income 1.0B (Y/Y - 0B, -0%)

➤ Operating income remained almost flat as well.

■ 2017 Actual v. 2016 Actual

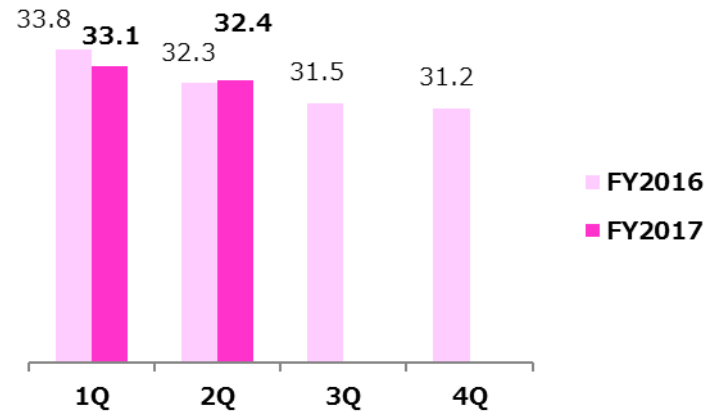
	1Q-2Q 2016	1Q-2Q 2017	Changes
Net sales	66.1	65.5	-0.6
Op. income	2.1	2.1	-0.0

■ Net sales - Growth rate

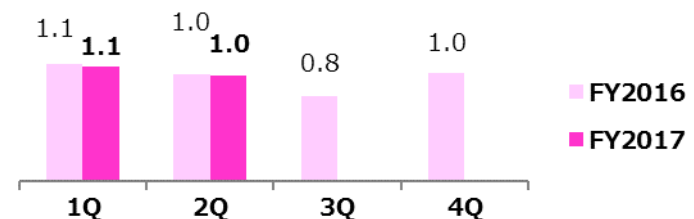
	1Q	2Q	3Q	4Q	FY
FY2016	+3%	+0%	-0%	-4%	-0%
FY2017	-2%	+0%			

■ Net sales

(Billions of yen)



■ Op. income



Overall sales of IT Solutions



(Billions of Yen)

	2Q 2016	2Q 2017	Changes	
			Amount	%
Sales of IT solutions segment	32.3	32.4	+0.1	+0%
Sales other than IT Solutions segment	17.6	18.2	+0.6	+3%
Intersegment elimination, etc.	-6.4	-6.5	-0.1	-%
Total	43.5	44.1	+0.6	+1%

	1Q-2Q 2016	1Q-2Q 2017	Changes	
			Amount	%
Sales of IT solutions segment	66.1	65.5	-0.6	-1%
Sales other than IT Solutions segment	37.5	39.0	+1.5	+4%
Intersegment elimination, etc.	-13.0	-13.5	-0.5	-%
Total	90.6	91.0	+0.4	+0%

[Reference] Overall IT Security net sales	YoY 2016 vs 2017	
	2Q	1Q-2Q
Overall IT Security	+9%	+7%

Segment Information



Net Sales 35.0B (Y/Y -1.3B -4%)

➤ Net sales in this segment declined, reflecting a fall in sales of compact digital cameras and inkjet cartridges, despite an increase in sales of inkjet printers.

Operating Income 2.0B (Y/Y -0B, -2%)

➤ Operating income declined slightly, although the reduction of expenses offset a fall in gross profit.

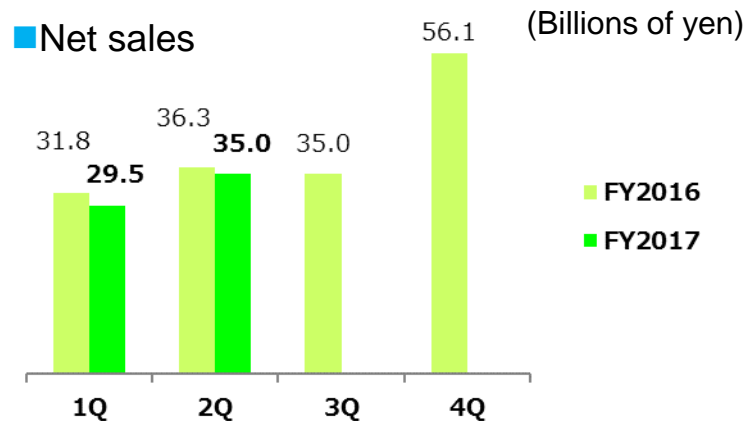
2017 Actual v. 2016 Actual

	1Q-2Q 2016	1Q-2Q 2017	Changes
Net sales	68.1	64.5	-3.6
Op. income	1.7	2.1	+0.4

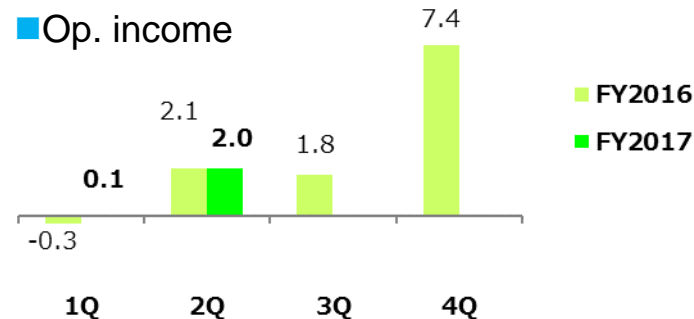
Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	-8%	-18%	-15%	-4%	-11%
FY2017	-7%	-4%			

Net sales (Billions of yen)



Op. income



Segment Information



Industrial / Medical



Net Sales 7.5B (Y/Y +0.3B, +3%)

- Net sales in the Industrial segment increased thanks to mainly the firm performance of semiconductor manufacturing equipment and inspection & measuring equipment. Net sales in the Medical segment declined because of the backlash of large projects a year ago.

Operating Income 0.1B (Y/Y +0.2B, -%)

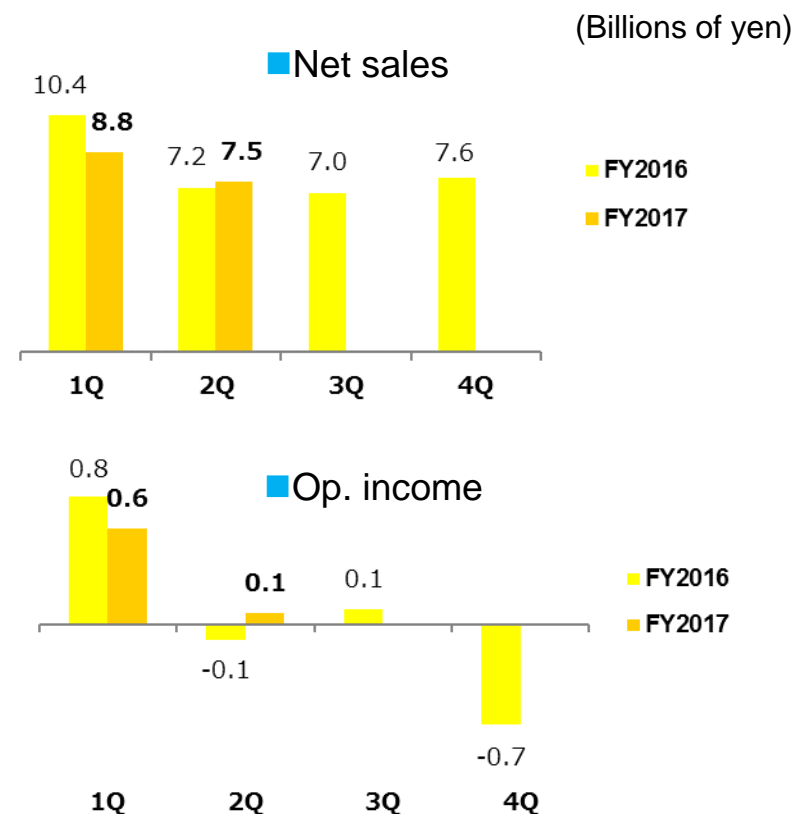
- Operating income increased in the Industrial segment following an improvement in the gross profit margin and the reduction of SG&A expenses. Operating income declined in the Medical segment associated with lower sales.

2017 Actual v. 2016 Actual

	1Q-2Q 2016	1Q-2Q 2017	Changes
Net sales	17.6	16.2	-1.4
Op. income	0.7	0.7	-0.0

Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	+11%	-14%	-16%	-7%	-6%
FY2017	-16%	+3%			



Summary of Projections

- There is no revision for FY2017 projection.

(Billions of Yen)

	FY2017 Projection	FY2016 Actual	Changes	
			Amount	%
Net Sales	645.0	629.3	+15.7	+2%
	(4.5%)	(4.4%)	(+0.1%)	
Operating Income	28.8	27.7	+1.1	+4%
	(4.6%)	(4.6%)	(+0.0%)	
Ordinary Income	29.6	28.7	+0.9	+3%
	(3.1%)	(2.9%)	(+0.2%)	
Profit attributable to owners of parent	19.8	18.2	+1.6	+9%

Summary of Projections



(Billions of Yen)

	FY2017		FY2017		Changes		
	Previous Projection		Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales		Op. Income
Business Solutions	345.0	12.3	345.0	12.3	-	-	-
IT Solutions	130.0	4.1	130.0	4.1	-	-	-
Imaging System	161.0	11.0	158.0	11.0	-3.0	-2%	-
Industrial / Medical	33.5	1.2	36.5	1.2	+3.0	+9%	-
Other	-24.5	0.2	-24.5	0.2	-	-	-
Total	645.0	28.8	645.0	28.8	-	-	-

Notes

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

Summary of Projections



(Billions of Yen)

	FY2016		FY2017		Changes		
	Actual		Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales		Op. Income
Business Solutions	334.6	12.1	345.0	12.3	+10.4	+3%	+0.2
IT Solutions	128.8	4.0	130.0	4.1	+1.2	+1%	+0.1
Imaging System	159.2	10.9	158.0	11.0	-1.2	-1%	+0.1
Industrial / Medical	32.2	0.2	36.5	1.2	+4.3	+13%	+1.0
Other	-25.5	0.6	-24.5	0.2	+1.0	-%	-0.4
Total	629.3	27.7	645.0	28.8	+15.7	+2%	+1.1

Notes

1. "Other" includes the intersegment sales and the corporate expenses that are not allocated to the shared service businesses or to each segment.
2. The Intersegmental Business Transfer of Canon Biz Attenda Inc., A&A Co.,Ltd. and Canon ITS Medical Inc. is reflected in the figures of FY2016 Actual.

Business Solutions

- ✓ Net sales are expected to rise with the increase in unit sales in the market for medium-sized customers, reflecting the expansion of sales of third-generation MFPs, an increase in sales in new growth segments such as production printing and network camera business, and the growth of IT solutions in our segment.
- ✓ Operating income is also expected to increase, primarily as a result of the growth in sales of high-margin laser printer cartridges.

IT Solutions

- ✓ Net sales are expected to increase, mainly due to the expansion of the mainstay SI service business and the product business where security products, etc. show a firm performance, despite a fall in sales in the IT infrastructure & service business and the embedded software business.
- ✓ Operating income is also expected to increase due to growth in gross profit as a result of increased sales.

Imaging System

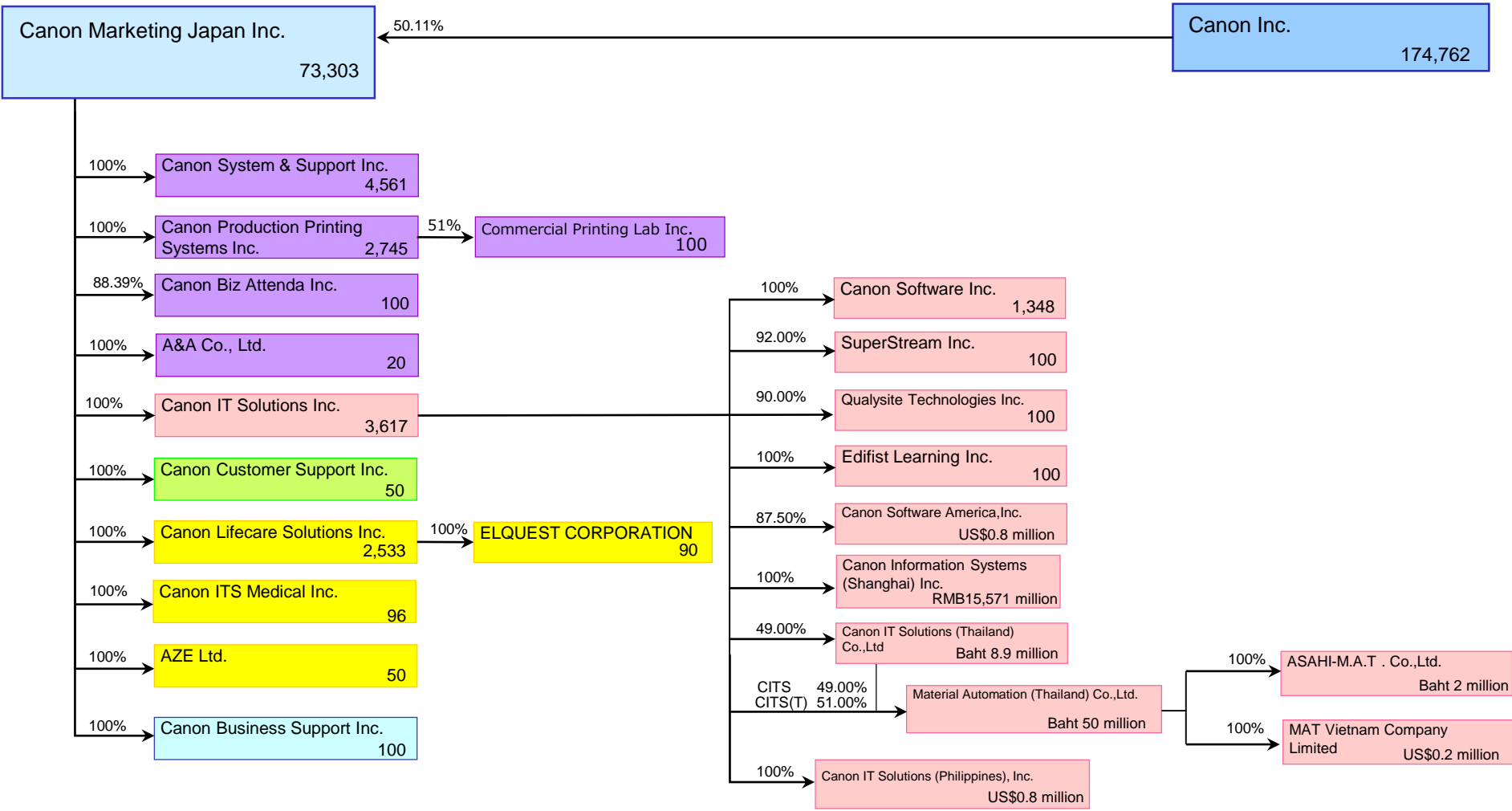
- ✓ For digital interchangeable-lens cameras, the Company expects overall sales to decline due to a fall in the volume of shipments of the Company reflecting the sluggish market for SLR cameras, despite an expected increase in sales of mirrorless cameras due to the enhancement of the lineup.
- ✓ As for inkjet printers, the Company will ensure adequate profitability by increasing the ratio of printers with high unit prices. For cartridges, however, the Company expects profitability to decline due to a fall in print volume.
- ✓ The Company will revise overall sales downward by 3.0 billion yen from the previous plan chiefly due to the downward revision in sales of digital interchangeable-lens cameras.

Industrial/ Medical

- ✓ The Industrial segment should see an increase in sales and profits, reflecting the expected strong performance of products and services of semiconductor manufacturing equipment and inspection & measurement equipment.
- ✓ The Medical segment is also anticipating growing sales and profits given strong inquiries for new digital radiography products and an increase in large projects of information systems, etc. for hospitals.

Supplementary Information

Capital Relationship Diagram



Ratio of Shareholding → Corporate name
Capital (millions of yen)

As of 2017.6.30

Results of main consolidated companies



(Billions of Yen)

		2Q 2016	2Q 2017	Changes	
				Amount	%
Business Solutions					
Canon System & Support Inc.	Net sales	29.4	29.4	+0.0	+0%
	Op. income	0.7 (2.2%)	0.5 (1.6%)	-0.2 (-0.6%)	
Canon Production Printing Systems Inc.	Net sales	3.3	3.5	+0.2	+6%
	Op. income	0.1 (1.8%)	-0.0 (-)	-0.1 (-)	
IT Solutions					
Canon IT Solutions Inc.	Net sales	18.2	18.2	+0.0	+0%
	Op. income	0.8 (4.4%)	1.0 (5.7%)	+0.2 (+1.3%)	
Canon Software Inc.	Net sales	3.0	2.6	-0.4	-12%
	Op. income	0.3 (9.8%)	0.2 (9.4%)	-0.0 (-0.4%)	
Industrial / Medical					
Canon Lifecare Solutions	Net sales	3.0	2.9	-0.0	-2%
	Op. income	-0.0 (-)	-0.1 (-)	-0.1 (-)	

Results of main consolidated companies



(Billions of Yen)

		1Q-2Q 2016		1Q-2Q 2017		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net sales	61.3		62.2		+0.9	+1%
	Op. income	1.9	(3.1%)	1.8	(2.8%)	-0.2	(-0.3%)
Canon Production Printing Systems Inc.	Net sales	6.1		6.7		+0.6	+9%
	Op. income	-0.1	(-)	-0.2	(-)	-0.1	(-)
IT Solutions							
Canon IT Solutions Inc.	Net sales	36.8		36.1		-0.7	-2%
	Op. income	1.8	(5.0%)	2.2	(6.0%)	+0.3	(+1.0%)
Canon Software Inc.	Net sales	5.9		5.2		-0.7	-12%
	Op. income	0.5	(9.0%)	0.4	(7.8%)	-0.1	(-1.2%)
Industrial / Medical							
Canon Lifecare Solutions	Net sales	7.5		6.8		-0.6	-9%
	Op. income	0.3	(4.5%)	0.0	(0.2%)	-0.3	(-4.3%)

SG&A expenses



(Billions of Yen)

	FY 2016		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Advertising expenses	2.2	4.4	2.3	4.1	+0.0	-0.3
Promotion expenses	1.3	2.5	1.2	2.3	-0.1	-0.2
Warranty expenses	1.4	2.9	1.3	2.7	-0.1	-0.2
Other direct selling expenses	5.3	10.7	5.2	10.2	-0.2	-0.4
Personnel expenses	31.6	62.9	31.0	61.8	-0.7	-1.1
Depreciation and amortization	0.5	1.1	0.5	1.0	-0.0	-0.1
Other selling expenses	7.5	15.2	7.4	14.6	-0.1	-0.6
Total	50.0	99.6	48.8	96.8	-1.2	-2.8

Non-operating income and expenses

(Billions of Yen)

■ Non-operating income

	FY 2016		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest income	0.1	0.1	0.0	0.1	-0.0	-0.0
Dividend income	0.1	0.1	0.1	0.1	-0.0	-0.0
Insurance income	0.6	0.6	0.5	0.5	-0.1	-0.1
Other	0.1	0.3	0.2	0.3	+0.0	-0.0
Total	0.8	1.1	0.8	1.0	-0.0	-0.1

■ Non-operating expenses

	FY 2016		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest expenses	0.0	0.0	0.0	0.0	-0.0	-0.0
Foreign exchange losses	0.0	0.1	-0.0	-	-0.0	-0.1
Other	0.1	0.2	0.1	0.1	-0.0	-0.0
Total	0.1	0.2	0.0	0.1	-0.1	-0.1

Extraordinary income and expenses



(Billions of Yen)

■ Extraordinary income

	FY 2016		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Gain on sales of non-current assets	0.2	0.2	0.8	0.8	+0.7	+0.7
Gain on sales of investment securities	-	-	-	0.5	-	+0.5
Other	0.0	0.0	0.1	0.1	+0.1	+0.1
Total	0.2	0.2	0.9	1.4	+0.7	+1.2

■ Extraordinary expenses

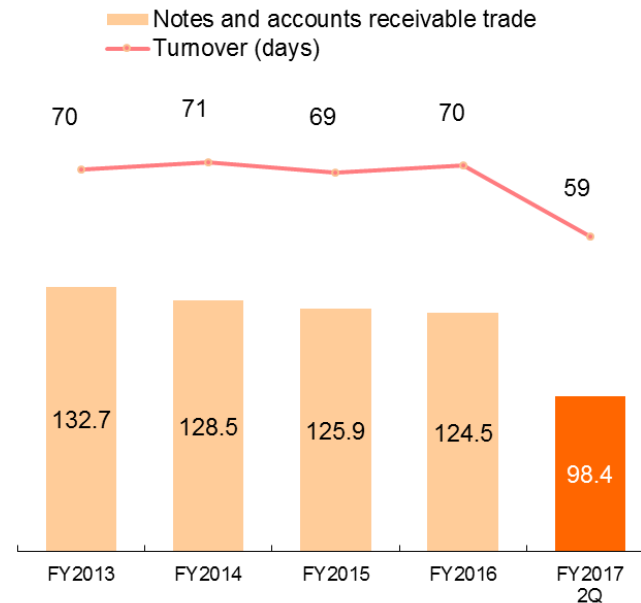
	FY 2016		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Loss on sales and retirement of non-current assets	0.1	0.2	0.2	0.2	+0.0	+0.0
Impairment loss	0.0	0.1	-	-	-0.0	-0.1
Special extra retirement payments	-	-	0.1	0.1	+0.1	+0.1
Loss on disaster	0.0	0.0	-	-	-0.0	-0.0
Other	0.1	0.1	0.0	0.0	-0.1	-0.1
Total	0.3	0.4	0.3	0.3	+0.0	-0.1

Balance Sheets

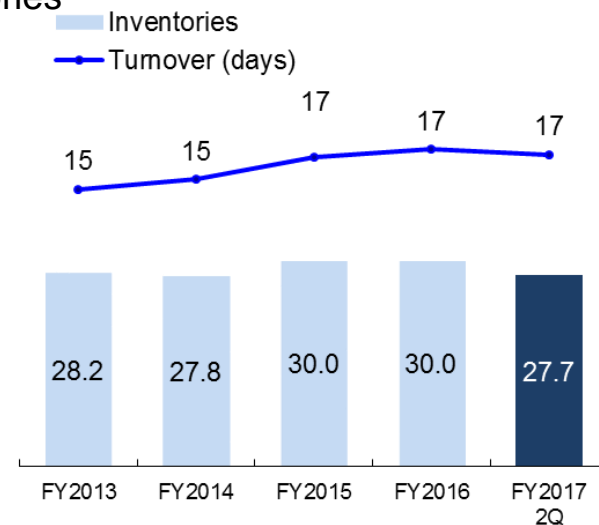
	Dec. 31 2016	Jun. 30 2017	Changes
Assets	497.7	477.5	-20.2
Current assets	362.1	343.2	-18.9
Cash and deposits	107.3	85.2	-22.1
Notes and accounts receivable trade	124.5	98.4	-26.0
Inventories	30.0	27.7	-2.2
Other	100.4	131.9	+31.5
Noncurrent assets	135.6	134.3	-1.3
Property, plant and equipment	96.7	95.1	-1.6
Intangible assets	6.8	6.2	-0.6
Investments and other assets	32.1	33.0	+0.9
Liabilities	216.8	193.1	-23.7
Current liabilities	157.0	132.3	-24.7
Notes and accounts payable-trade	102.7	80.0	-22.6
Other	54.3	52.2	-2.1
Non-current liabilities	59.8	60.8	+0.9
Net assets	280.9	284.5	+3.5
Shareholders' equity	287.6	292.1	+4.5
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income	-7.1	-8.1	-1.0
Non-controlling interests	0.4	0.5	+0.0
Equity ratio	56%	59%	+3%

Notes and accounts receivable trade

(Billions of Yen)

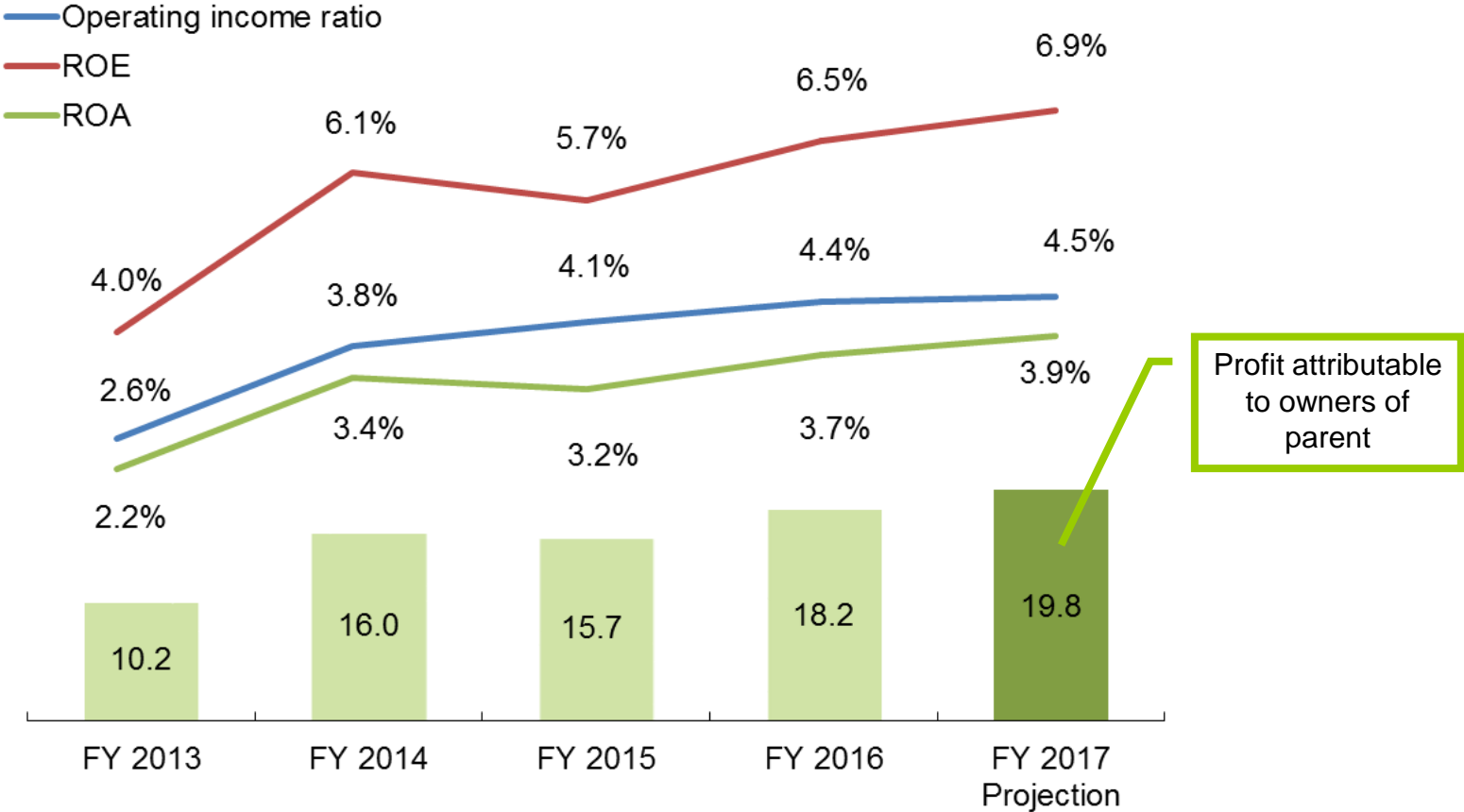


Inventories

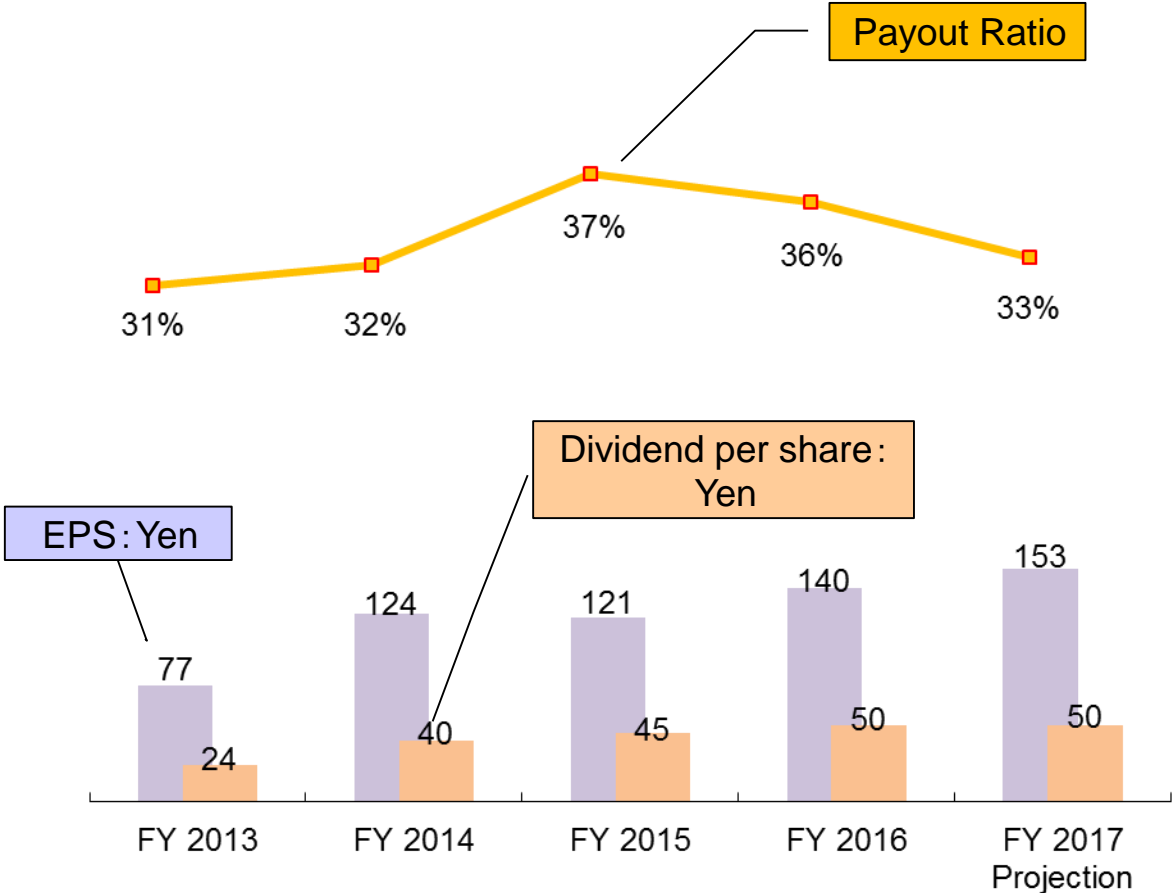


(Billions of Yen)

Operating income ratio / ROE / ROA



■ Payout Ratio / EPS / Dividend per share



Financial Indicator

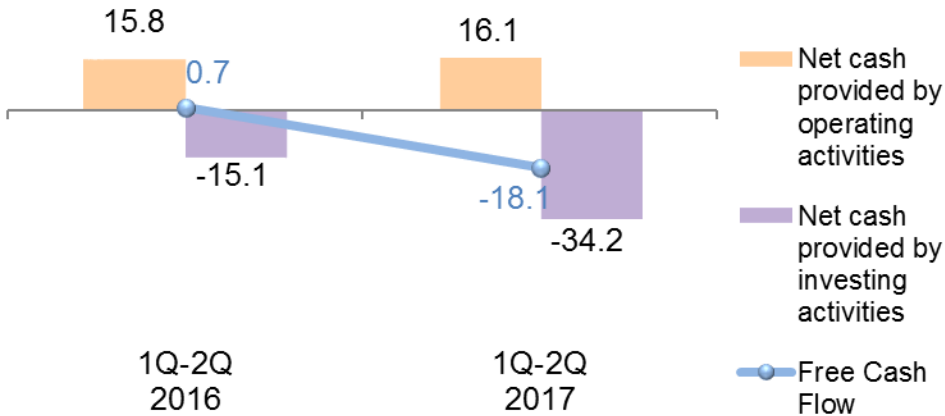
Investment

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2016	7.8	5.4	13.2
FY 2017	6.1	9.1	15.2

Depreciation and amortization

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2016	7.5	7.4	14.9
FY 2017	7.1	7.4	14.5

Cash Flow



Canon

Canon Marketing Japan Inc.