

Canon

Canon Marketing Japan Inc.

Crafting Hands-On Solutions

Annual Report 2018

for the year ended December 31, 2018

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

Establishment

1968

Role within the Canon Group

Market and provide solutions, primarily in Japan.



Analyze and provide feedback on customer needs and issues

Identify customer needs and issues



Canon and other partners' products and services

Provide advanced imaging and IT solutions



FINANCIAL HIGHLIGHTS OF FY2018

Net sales

¥621.6 billion [1.7%↓]

Operating income

¥28.9 billion [4.8%↓]

Profit attributable to owners of parent

¥20.8 billion [0.7%↑]

Profit attributable to owners of parent per share

¥160.61 [0.7%↑]

ROE

6.9% [0.3pp↓]

Cash dividends per share

¥60 [Same as FY2017]

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Editorial Policy

Annual Report 2018 aims to provide information that investors need to understand how the Canon Marketing Japan Group generates corporate value. The interview with the president presents policies and initiatives to drive growth and profitability under Three-Year Management Plan 2019–2021. The special feature showcases the advanced information technology solutions that the Group is deploying. The segment business strategies section describes key strengths, business strategies, and risk measures.

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

Q What was fiscal 2018 like for Canon MJ?

Markets for business-to-consumer (BtoC) products shrank more than envisaged.

Net sales decreased 1.7%, to ¥621,591 million. Operating income was down 4.8%, to ¥28,941 million. Profit attributable to owners of parent was up 0.7%, however, to a record ¥20,826 million. Return on equity

(ROE) decreased 0.3 percentage point, to 6.9%. Markets in which the Group maintains high shares, BtoC products in particular, shrank more than we envisaged.

Q How did you perform in Canon's core product areas of cameras, inkjet printers, office multifunction printers (MFPs), and laser beam printers (LBPs)?

Approaches to date with regard to BtoC products no longer worked. The situation with business-to-business (BtoB) offerings was as expected.

Conditions in BtoC and BtoB areas differed.

In BtoC areas, our sales efforts have long conveyed the joys of photography and inkjet printing. However, with the pace of market shrinkage becoming significant, the current situation will not change much in our favor if we persist with current sales and marketing approaches.

For BtoB products, markets are gradually shrinking in an increasingly paperless atmosphere, but this is to be expected, and I believe we can deal with this to a certain extent.

Q IT solutions sales grew 8.6% in fiscal 2018. This reflected greater demand for systems integration (SI) services for the finance, manufacturing, and public sectors, IT solutions for small-to-medium-sized enterprises, and gains in security and data center services. Does this mean that markets expanded and that the Group's strategies succeeded?

Our strategies factored into this, but the prime driver was market growth.

Since I became president in 2015, I have recognized that it would be difficult to expand as before with Canon products. I therefore declared that IT solutions would be our growth driver, and implemented measures accordingly. Our sector-specific SI initiatives and efforts to bolster data center services have delivered results. Nonetheless, a major factor in fiscal 2018 was that our performance

benefited less from our measures than from expansion of the IT market, which propelled the Group's IT solutions growth. In IT solutions for small-to-medium-sized enterprises, the appetite for investment among customers has been solid, partly because of the end of support for Windows 7 and labor shortages, so our real growth lies ahead of us.

Q Tell us about your hopes for the second stage of the Nishi-Tokyo Data Center once it is constructed.

We anticipate stable sales and earnings growth.

The data center business looks after customer data, so it naturally handles IT infrastructure for customers, including operations and maintenance. Compared with SI, whose sales fluctuate according to whether or not there are large deals, the data center business is extremely stable. Our Nishi-Tokyo Data Center has reached capacity,

and its second stage is expected to enhance sales stability for the Group. As such, we have great hopes in these operations. They have already delivered results, so we will keep investing in the data center to further stabilize sales and profits.

Q By shifting from a product-based organizational framework to a customer-centric framework, you accelerated efforts to mutually employ customer infrastructures and develop IT solutions operations. You have also set up a business process outsourcing (BPO) center and otherwise stepped up cross-functional capabilities. Have things progressed as you expected?

We now have a structure in place, including in terms of improving employee awarenesses. How things function is further down the road.

Transforming our framework clarified how we need to act and the issues we face. Still, it took us a year to change employee awarenesses and adapt to the new framework. I do not think framework changes have generated results yet in terms of mutually using customer infrastructures and developing IT solutions operations for small-to-medium-sized enterprises. It is in this context that I believe it was a good idea to launch the BPO center so as to

concentrate such functions in one place within the Group, as there is a tremendous need—particularly among large customers—to outsource noncore operations. So, while we transformed employee consciousnesses through framework changes and put in place a platform for using resources within the Group, I think it will be some time before the new framework fully functions.

Q How do you evaluate the Canon MJ strengths and core competencies of your customer base and sales capabilities, technological capabilities for IT solutions, and Canon brand strengths?

Recognition of our IT solutions will be key to improving our superior position.

Our solid customer base and sales capabilities over the years have given us a competitive edge. We have amassed a strong record of technological capabilities for IT solutions. I think that the Canon brand is well recognized and the customers have favorable feeling toward the brand. However, it is difficult to see how much positive effect we gain from the Canon brand in developing IT solutions business. Canon is strongly associated with cameras, inkjet printers, copiers and MFPs, and LBPs. Unfortunately, very few equate Canon MJ with customer IT solutions.

In December 2017, we set about bridging that perception gap by broadcasting television commercials to heighten our profile as a provider of IT solutions. By enhancing awareness through such an approach, I think we will further extend our edge in terms of our customer base and sales capabilities and our technological capabilities for IT solutions.

Q What was your stance on prevailing Japanese economic conditions when you formulated three-year management plan for fiscal 2019–21?

It is important to lift productivity to alleviate labor shortages and to reform work practices.

I do not believe that Japanese economic conditions are poor. Regional economies are benefiting from inbound tourism, so they are a little brighter than before. Setting aside labor shortage problems, I do not think that the economy will deteriorate for at least the next two or three years.

Given that situation, labor shortages have worsened in recent

years. There have been calls for work practice reforms during that time, and improving productivity has become an urgent challenge for companies, so demand for IT solutions should inevitably increase. We formulated our management plan for fiscal 2019–21 so we would naturally reach our objectives.

Q What will be the focus for growth under your medium-term management plan for the Consumers, Enterprise, Area, and Professional segments?

We will strengthen IT solutions and be highly specialized.

The Consumers segment accounts for the bulk of Canon brand offerings. The presence of e-commerce is increasing in various fields, and will likely account for a rising proportion of sales in this segment. We will focus on leveraging the e-commerce capabilities of our partners and the Group to build segment sales. Another priority will be to broaden BtoC areas in IT products. This will eventually lift the ratio of non-Canon brands in overall sales of this segment.

In the Enterprise segment, we are doing very well with Canon IT solutions. The key in this segment will be to work out ways to generate synergies between Canon IT solutions and the customer base

of Canon MJ's direct sales unit for large enterprises, from which I hail.

MFPs and LBPs represent high proportions of sales in the Area segment. We consider it important to broaden our products and services, and put in place a structure for that purpose. We will drive growth by increasing the proportion of sales from IT solutions to small-to-medium-sized enterprises.

For the Professional segment, as I mentioned last year, our challenge is to enhance our expertise, which we currently lack in this area. We are hiring extensively, and the key to growth will be our ability to attract and cultivate highly skilled and knowledgeable people.

Q In fiscal 2015–18, the Group's IT solutions sales expanded an average 4.7% annually. This exceeded average IT market growth during that period of around 3%. Will you concentrate resources in high-growth fields to boost IT solutions sales to ¥300 billion?

We must concentrate resources on IT solutions.

Exactly. We need our people to begin thinking of ways to transform us into an IT solutions company and concentrate resources accordingly. The added value from hardware has declined comparatively, and we have to become an entity that can resolve the concerns and issues of

customers. Many Group employees have experienced selling superior hardware, but that alone does not provide solutions. As an added value, IT solutions are indispensable. I think we have to allocate resources in that area.

Q I think you need to secure systems engineers to drive growth in IT solutions. Are you progressing well in securing people?

Graduate hiring is proceeding as planned. However, attracting experienced people is proving a great challenge.

We have been able to secure the targeted number of new graduates. At the same time, our efforts to acquire midcareer professionals have been inadequate. To deal with orders we have received, we need more experienced people. Lots of companies have the technologies and engineers needed to build systems that customers want, and most IT

firms need engineers in the artificial intelligence (AI) and digital transformation (DX) fields. On top of that, many customers are developing overseas operations, and they need English language-based support. It is in view of this situation that we are hiring people of various nationalities.

Q You aim to augment MFP and LBP maintenance and cartridge revenue model with growth in cloud services, IT maintenance and operations services, and data center services. To what extent do you expect demand to increase?

We expect these areas to more than offset downturns in MFP and LBP maintenance and cartridge sales.

One factor of rising demand for IT maintenance and operations services and data center services is the wide spread of e-commerce. Payments are becoming cashless with e-commerce penetration. This means that payments are becoming data, and cashless payments will cause data volumes to surge. Data center usage volumes and frequencies are accordingly increasing.

As sales steadily decline from MFP and laser beam printer maintenance services and cartridges, we anticipate revenue growth from IT maintenance and operations services and data center services. In other words, as product-related services revenues decline we will work to generate growth through new IT solutions services. Services revenues overall would therefore rise.

Q You have undertaken business process reforms and shared your call center systems infrastructure as part of efforts to overhaul your cost structure. What benchmark are you using to measure the resulting productivity improvements?

We are focusing on gross profit per employee.

The Group handles a range of products, for which it maintains multiple sales channels. We therefore emphasize gross profit per employee. Sales of IT products are high, for example, but gross margins are low. If we were to make sales a benchmark, we would encourage

marketing that ignores profitability, and that is why the focus is on earnings. Another priority is selling, general and administrative expenses as a percentage of revenues for each business segment.

Q On the capital expenditure front, you are constructing the second stage of the Nishi-Tokyo Data Center. What are your specific plans for acquisition investments?

We are pushing ahead with practical initiatives centered on the IT solutions area.

We are exploring acquisitions, centered on the IT solutions field, but the costs per transaction are a little on the high side. We previously rolled out a policy to invest ¥40 billion strategically over three years,

and that approach remains unchanged. At this stage, our more specific measures are to push ahead with investment projects and recruit executives.

Q What is your stance on ESG?

We seek to meet customer expectations through business and contribute to social progress.

Japan's society and market has changed throughout the 51 years since the Group's establishment, and our products and services have accordingly evolved in various ways. But the fundamentals of our business have remained constant; we are committed to meeting customer expectations through business and contributing to social progress. We currently aim to help resolve social issues through the IT solutions on which we are focusing. These endeavors relate deeply to

realizing societies that pursue progress in terms of the United Nations' Sustainable Development Goals (SDGs) and the Paris Accord.

We will reinforce our commitment to good corporate citizenship and faithfully cater to social requests and expectations by undertaking environmental measures and initiatives to help resolve social issues. We will also create positive work environments and enhance corporate governance.

Q You established your Nomination and Remuneration Committee in fiscal 2018. With that in mind, how do you assess your efforts to ensure management transparency from governance perspectives and oversight of the Board of Directors?

We have enhanced transparency.

We will endeavor to enhance transparency and disclose our management decision-making approach from corporate governance

perspectives. Based on requests from shareholders and investors, we are endeavoring to further strengthen corporate governance.

Q For fiscal 2018, you kept cash dividends at ¥60 per share based on a policy that comprehensively factors in a medium-term earnings outlook based on a payout ratio of 30%, investment plans, and cash flows. Your payout ratio was therefore 37.4%, exceeding the 35% average for the past few years. Do you consider this level appropriate?

We are maintaining an appropriate payout ratio.

I think that our current payout ratio is about right. We will keep generating returns through dividends in keeping with our shareholder

returns policy. We consider it important to produce returns for shareholders by boosting earnings.

Q What is your outlook for fiscal 2019?

We will endeavor to further improve profitability.

The Group is focusing on global political and economic trends because it purchases from foreign companies in the software and industrial equipment fields. As I mentioned earlier, I do not think that Japanese economic conditions are poor. I expect this situation to continue.

While I explained that the Group's efforts would center on IT solutions, Canon products will still account for a high proportion of sales. I therefore do not expect a major increase in overall revenues.

For the foreseeable future, we will concentrate on further increasing profitability. Once we enter a period in which we bolster sales, we aim to further improve earnings through high profitability. Management will step up efforts to produce further shareholder returns through dividends. I look forward to the ongoing support and encouragement of shareholders regarding our efforts.

Resolving Social Issues through the Canon MJ Group's IT Solutions

The Group is leveraging its comprehensive capabilities to grow the IT solutions business. This effort is one of the basic policies of Long-Term Management Objectives Phase III, covering fiscal 2016 through 2020.

We use proprietary businesses that leverage mathematical, image analysis, and other technologies that we have acquired through mergers and acquisitions (M&As). We have steadily reinforced the IT infrastructure business of our world-class Nishi-Tokyo Data Center. At the same time, we have increased the sizes and the primes and quality of SI services projects in a drive to improve earnings.

For small-to-medium-sized enterprises, we have drawn on the customer base we have built through document solutions in offering cloud services, businesses that streamline operations, and numerous IT products, securing maintenance services for them. For our security businesses, we maintain technologies and products that cater to diverse customer needs, and are proud of our solid market presence.

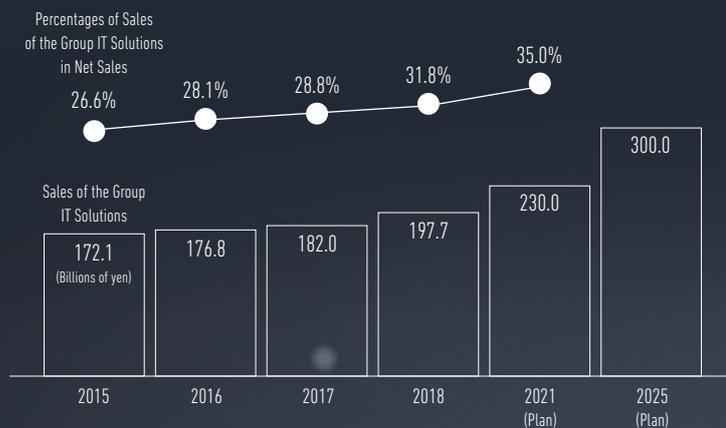
The Group's IT solutions business has thus steadily evolved. We will continue to take advantage of our advanced technological capabilities and strong customer base to expand our unique services.

Group IT solutions revenues totaled ¥197.7 billion in fiscal 2018, accounting for 31% of net sales.

This special feature highlights three aspects of our IT solutions business.

Group IT solutions sales and plans

The compound average growth rate for Group IT solutions sales from fiscal 2015 through 2018 was 4.7%, exceeding the IT market average of around 3%. The Canon MJ Group plans to expand IT solutions sales to ¥300 billion by fiscal 2025.



Began Construction of New Nishi-Tokyo Data Center Building in March 2019 and Will Launch New Services in Summer 2020

The cloud, IoT, AI, and other technological innovations have made cloud computing environments increasingly important as part of social infrastructure. Cloud computing demand is surging. Data centers must therefore meet even higher standards, including from the perspectives of buildings, facilities, security, and operational quality.



Located on solid bedrock, a new building at our Nishi-Tokyo Data Center will cater to such needs. It will house 2,880 racks, with a power capacity of 25 megavolt amperes (MVA), high-performance facilities, and robust security. The existing center building was set up in 2012. In 2017, it received management and operations (M&O) certification from the Uptime Institute of the United States, which maintains the most trusted global standard for data center operational quality. The new building will also secure third-party certification for world-class operational quality.

The Canon MJ Group will further reinforce its IT infrastructure business, centered on its data center operations. We will expand such stock IT services businesses as data center, cloud, and systems operations services.

1 Educational Solutions

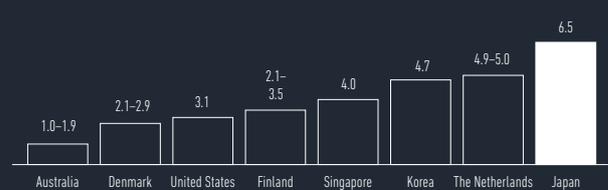
With the advent of an information-intensive society that is increasingly globalized and diverse, universities and other educational institutions have to build more value. The Canon MJ Group supplies diverse solutions to many such institutions and collaborates with customers to create more value.

Qualitative Improvements in Education and IT

In the years ahead, educational institutions will have to offer new approaches to learning and improve educational environments. It will thus be vital for them to alleviate the workloads of teachers and create environments that deliver quality outcomes.

IT is an increasingly promising tool for making educational institutions more attractive and reforming work practices. Good examples are active learning, through which students pursue inquiries independently, and e-learning based on interactive content. IT can also make administrative work much easier for teaching staff, swiftly distribute information to students and parents, and streamline device management and other operations within campuses.

Number of students per PC in advanced nations



Weekly working hours per teacher



Source: Ministry of Internal Affairs and Communications, "Study of Advanced Information and Communication Technology Usage Measures in Education" (March 2015)

Canon MJ Group's Initiatives

Canon MJ and Canon IT Solutions Inc. collaborated to offer the in Campus SERIES, a solution that draws on IT infrastructure systems development technologies and expertise amassed over the years for the educational market. The great versatility of this series enables development in line with customer systems and budget. The series also makes it possible to manage attendance and disseminate and view class materials. It can also employ deep learning based on AI technology to read handwritten scores and automatically tabulate results. The series thus helps improve the quality of education while lightening teaching loads.



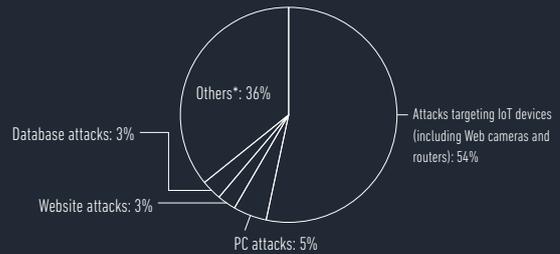
2 Cybersecurity Solutions

The targets of cyberattacks expanded with the penetration of IoT. Progress with AI has made attack approaches more sophisticated. The Canon MJ Group provides one-stop security solutions for corporate customers of all scales and business areas.

Cybersecurity Measures Increasingly Important

As IoT becomes ubiquitous, people will need to become more aware that everything around them, from offices and factory machinery to automobiles could become targets of cyberattacks. They will therefore have to overcome these challenges by centrally managing all Internet-connected devices and deploying the right measures to maintain business continuity, even if subjected to cyberattacks. In the near future, we will likely see attacks that are sophisticated and automated with AI abused and by remotely controlled robots, drones, and other devices. Such attacks can also come from inside organizations, and it is accordingly important to deploy systems that minimize harm by swiftly detecting and tackling attacks. Cybersecurity measures must therefore be comprehensively balanced to enhance overall security levels.

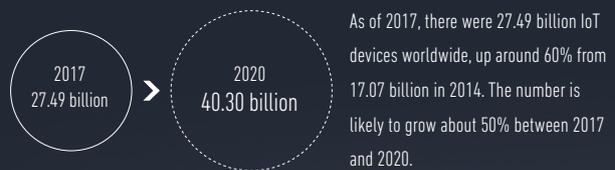
Percentages of cyberattacks targeting IoT devices



* There have been not only attacks targeting ports specific to IoT devices but also more advanced attacks targeting vulnerabilities in specific IoT devices, so Others includes attacks on IoT devices that are difficult to categorize based just on port numbers.

Source: Ministry of Internal Affairs and Communications, "2018 Information Communications White Paper"

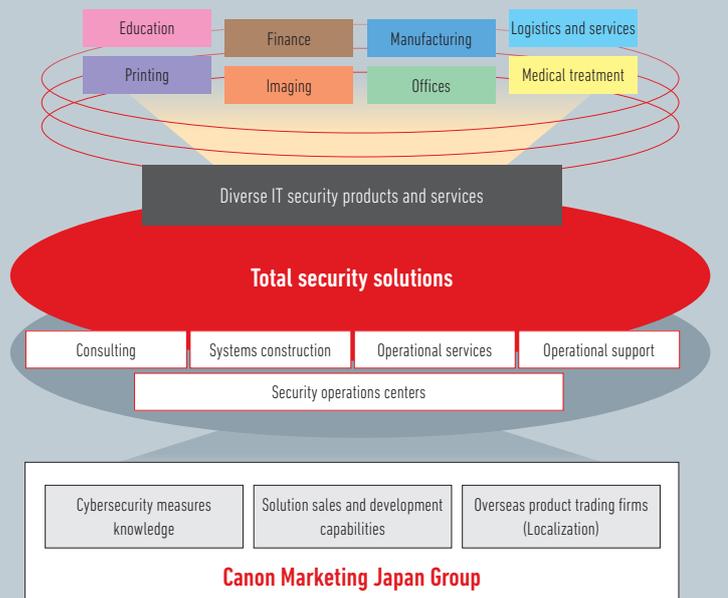
Current and projected number of IoT devices worldwide



Source: Ministry of Internal Affairs and Communications, "2018 Information Communications White Paper"

Canon MJ Group's Initiatives

Canon MJ, Canon IT Solutions, and Canon System & Support Inc. joined hands to provide one-stop security solutions. Services encompass everything from identifying risks to undertaking damage recovery, and a key feature is to undertake from solutions provision to post-deployment support. In addition, in order to respond to ever-evolving cyberattacks, we are focusing on training and self-improvement of engineers, and actively working to improve the level of security technology.



3 Robotic Process Automation (RPA)

RPA software has attracted great attention for its potential to help enhance IT productivity and reform work practices. The Canon MJ Group has embraced RPA, and is using it to help customers in a variety of ways.

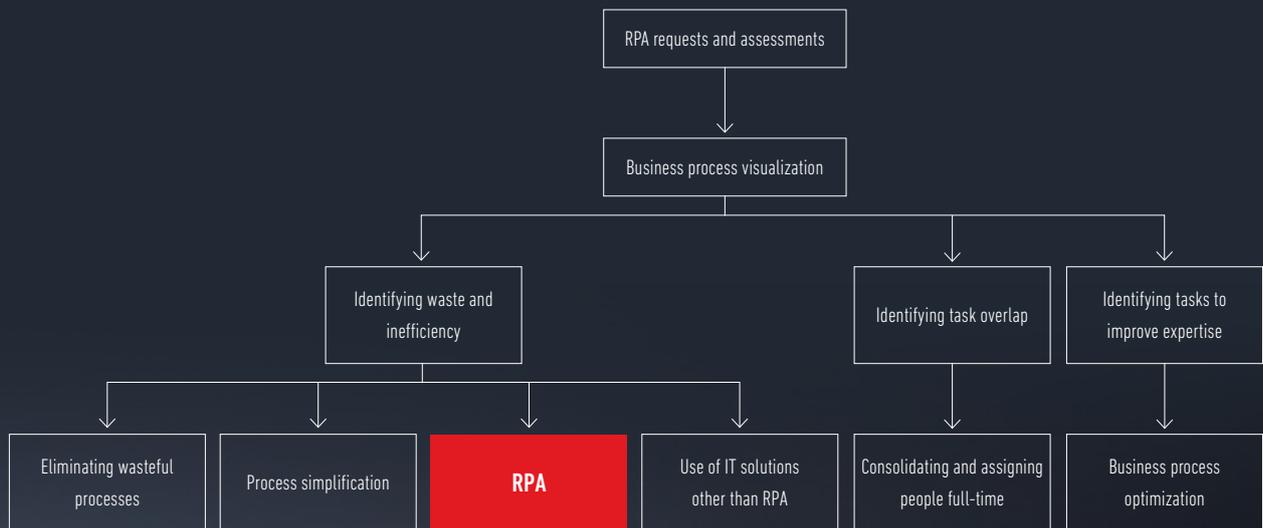
Enhancing Productivity through RPA

Japanese companies have rapidly adopted RPA. The domestic market for RPA is projected to expand 10-fold between 2017 and 2020.

Canon MJ began deploying RPA in 2016. The Company set up the RPA Department in 2018 to oversee and roll out full-fledged activities in that technology field.

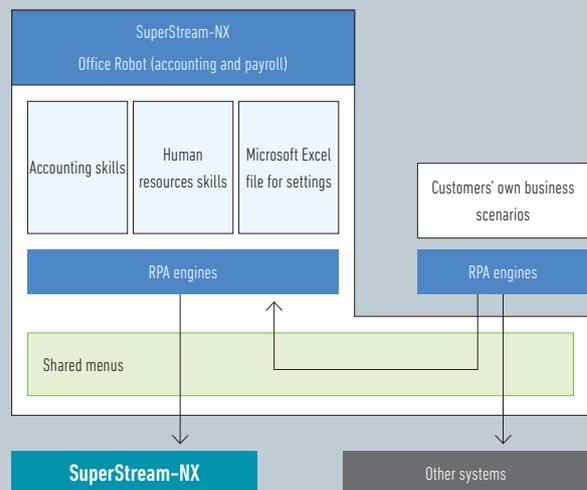
The objective in deploying RPA throughout the Group was to automate routine work and visualize work in the planning process of RPA development to simplify complex business processes.

We are focusing on cultivating people to visualize business processes and develop, run, and support the deployment of RPA.



Canon MJ Group's Initiatives

Group companies Canon BizAttenda Inc. and Edifist Learning Inc. jointly provide wide-ranging RPA support to customers, from educating about RPA tools to selling, deploying, and supporting related products. In July 2018, we released the Office Robot which incorporates RPA functions to SuperStream-NX, an accounting and payroll system that Group company SuperStream Inc. provides. We have received numerous inquiries for this offering, as it provides readily usable RPA templates that are easy for customers to use.



Source: Configuration of SuperStream-NX, Office Robot (accounting and payroll)

THREE-YEAR MANAGEMENT PLAN AND BUSINESS SEGMENTS

The basic strategies and numerical targets of our three-year management plan for fiscal 2019–2021 are as follows. We will shift operational resources to high-growth fields to achieve our goal of becoming a vibrant and highly profitable Group.

Basic Strategies of Three-Year Management Plan 2019–2021

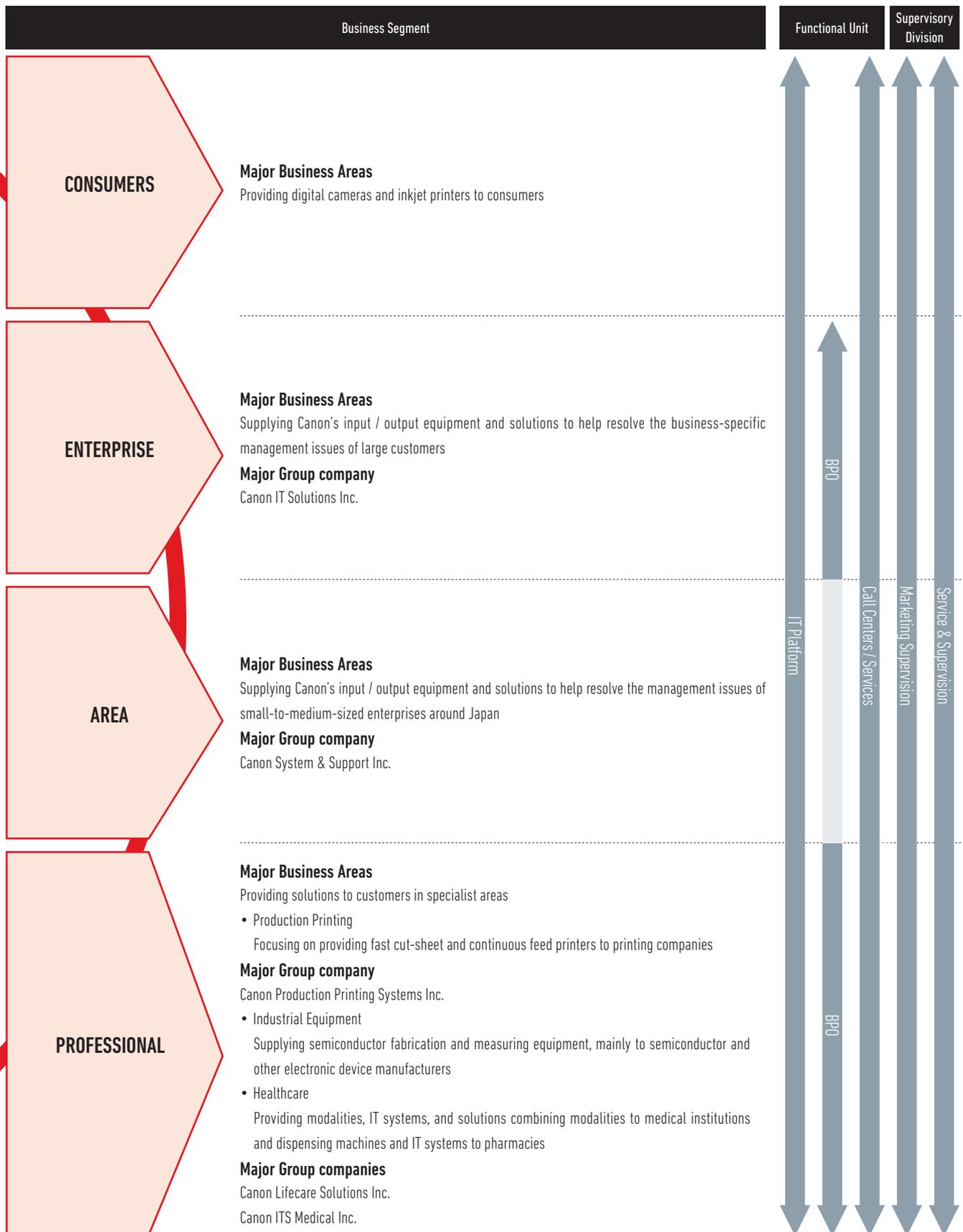
Maintenance of income from major Canon products	<ul style="list-style-type: none"> • Maintain profitability in digital interchangeable lens cameras/inkjet printers/MFPs/LBPs
Realization of increases in both sales and profits in the market expansion areas, centering on IT solutions	<ul style="list-style-type: none"> • Increase IT solutions (IT solutions for large and small-to-medium-sized enterprises) • Increase cross-business IT solutions (IT infrastructure, security, and BPO)
Establishment of revenue bases in Canon's businesses where growth is expected	<ul style="list-style-type: none"> • Establish revenue bases of network cameras, production printing, and healthcare

Medium-Term Management Plan Targets

(Billions of yen)

	Results	Medium-Term Management Plan Targets		
	FY2018	FY2019	FY2020	FY2021
Net sales	621.6	622.0	635.0	655.0
Growth rate	—	0.1%	2.1%	3.1%
Operating income	28.9	29.5	31.0	33.5
Operating margin	4.7%	4.7%	4.9%	5.1%
Ordinary income	30.5	30.7	32.0	34.8
Ordinary income margin	4.9%	4.9%	5.0%	5.3%
Profit attributable to owners of parent	20.8	20.9	21.7	23.0
Return on sales	3.4%	3.4%	3.4%	3.5%
EPS(Yen)	161	161	167	178
ROE	6.9%	6.7%	6.8%	6.9%

* On January 1, 2018, Canon MJ transitioned from a product-based organizational framework to a customer-centric framework. In line with this framework change, it switched from the Business Solutions, IT Solutions, Imaging Systems, and Industrial / Medical reportable segments to the Consumers, Enterprise, Area, and Professional segments from the first quarter of the year ended December 31, 2018.



REVIEW BY SEGMENT

CONSUMERS SEGMENT

Segment sales decreased 9.6%, to ¥150,245 million, with segment income plunging 42.1%, to ¥7,333 million.

Lower sales of digital interchangeable lens cameras

[Upside factors]

Sales of mirrorless cameras increased

- Secured top share of mirrorless cameras with the EOS Kiss M, our first mirrorless offering under the Kiss brand
- Released the EOS R, our first full-sized mirrorless model

[Downside factor]

- Shift from digital SLR to mirrorless cameras and shrinking market

Lower sales of compact digital cameras

[Factor]

- Contracting market

Lower inkjet printer sales

[Factor]

- Market sluggish owing to reduced production of New Year's cards,

offsetting solid sales of business models

Lower sales of ink cartridges

[Factor]

- Print volume reduction from decreases in the number of machines in field (MIF)

Higher sales of IT products

[Factor]

- Steady demand for gaming PCs and mobile batteries

Consumers Segment

(Millions of yen)

	FY2017	FY2018	YoY growth rate
Segment sales	166,289	150,245	(9.6)%
Segment income	12,671	7,333	(42.1)%

ENTERPRISE SEGMENT

Segment sales increased 5.7%, to ¥187,718 million. Segment income climbed 24.3%, to ¥9,610 million.

Higher sales to the financial services industry

[Factors]

- Major credit card and security brokerage SI projects
- Form design-related solutions for life insurers and cloud systems to streamline general insurer investigations
- New orders for business process optimization orders in trust banking

Higher sales for manufacturing customers

[Factors]

- Production management systems for electrical manufacturers and large office construction projects for chemicals manufacturers
- Favorable systems migration project demand

Higher sales to logistics

[Factors]

- Document management system projects for airlines
- Large orders for office MFPs

Lower sales to the university education area

[Factor]

- Several orders received for in Campus, an IT platform system for disseminating information on campuses and providing learning management; however, education sales were down slightly due to absence of the previous year's large orders

Higher sales by Canon IT Solutions Inc.

[Factors]

- Business solutions to the above sectors performed well
- Data center services were popular
- Demand steady for ESET security software and vehicular embedded systems

Sales of office MFPs in this segment increased to megabanks and large logistics companies. Although shipments of LBP to large life insurers and other customers were up, sales were down owing to lower unit prices.

Enterprise Segment

(Millions of yen)

	FY2017	FY2018	YoY growth rate
Segment sales	177,636	187,718	5.7%
Segment income	7,728	9,610	24.3%

AREA SEGMENT

Segment sales were down 0.8%, to ¥255,910 million, while segment income increased 14.0%, to ¥13,028 million.

[Upside factors]

Higher IT solutions business sales

- Demand increased for IT products on business PC replacements
- Favorable demand for IT deployment support and maintenance services

- HOME IT support cloud service for small-to-medium-sized enterprises and ESET antivirus software continued to perform well

[Downside factor]

- Slow shipments for office MFPs, LBPs, and other key hardware

Area Segment

(Millions of yen)

	FY2017	FY2018	YoY growth rate
Segment sales	257,920	255,910	(0.8)%
Segment income	11,433	13,028	14.0%

PROFESSIONAL SEGMENT

Segment sales decreased 3.1%, to ¥52,447 million. There was a segment loss of ¥938 million, compared with a loss of ¥1,869 million posted in the previous year.

Lower production printing sales

[Factor]

- Lackluster demand for fast cut-sheet and continuous feed printers

Higher industrial equipment sales

[Factor]

- Solid demand for semiconductor manufacturing and inspection/measuring equipment and industrial components

Lower healthcare sales

[Factor]

- Lower demand for hospital modalities, which overshadowed growth in medical IT systems and ophthalmic equipment

Sales of visual solutions basically unchanged

[Factor]

- While demand among broadcasters rose owing to the launch of 4K and 8K broadcast satellite services, network camera revenues declined

Professional Segment

(Millions of yen)

	FY2017	FY2018	YoY growth rate
Segment sales	54,140	52,447	(3.1)%
Segment loss	(1,869)	(938)	—

CONSUMERS SEGMENT

Business Management Policies

While conditions are adverse in existing business markets, we will strive to expand in mirrorless camera, business inkjet printer, and other growth markets while adopting a more robust operating structure. We will roll out new products and services as a leader in the photo imaging field.

Strengths and Strategies

- Dominant shares of the camera and printer markets: We will leverage ties with a wide range of customers and develop new products and services to further increase customer satisfaction.
- Diverse channels: We will broaden our engagement with customers through various channels, including through mass retail, camera, and other stores, as well as through e-commerce and our showrooms.
- Per capita productivity: This is very high in this segment. We will continue to enhance its efficiency while prioritizing growth and new businesses.

Yoshiyuki Matsusaka

Director, Senior Managing Director
Director of Consumers Segment



Business Overview

The Consumers segment aims to broaden engagement with customers in 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 2018 with regard to digital SLR, mirrorless, and compact digital cameras and also inkjet and laser beam printers. In mirrorless cameras, we announced and launched the EOS Kiss M, our first offering from the Kiss brand in that category, and the new EOS R SYSTEM. As a leading camera manufacturer, we will endeavor to satisfy an array of customers, from entry to “full size” users, including through mirrorless models.

That said, the markets for cameras and printers have matured. We will work to increase customer satisfaction by focusing on high-value-added products in existing and growth businesses while offering more products and services that provide new value. A good example of the latter is the iNSPiC, a mini photo printer rolled out in 2018 for smartphone users.

We look to bolster sales of products carrying the Canon and other

brands and cultivate new services to increase everyday enjoyment for our customers. With the tastes and purchasing patterns of consumers diversifying, we aim to engage more with them through such existing channels as mass retail and camera stores and wholesalers while stepping up efforts in the e-commerce space.

This segment is one of the most productive in the Canon MJ Group despite having few personnel. The unit looks to streamline existing businesses while investing to drive further growth.

Market Outlook and Strategies for Fiscal 2019

Digital interchangeable Lens Cameras

Demand for digital interchangeable lens cameras has trended downward since peaking in 2013, declining particularly for digital SLR cameras. In contrast, demand for mirrorless models has been favorable, outstripping that for SLRs for the first time in 2018. The gap is projected to grow in 2019. We will endeavor to satisfy a wide range of consumers, not just in SLRs but also in entry-level and mid-range mirrorless offerings, primarily for the EOS Kiss M, EOS R, and the EOS RP launched in March 2019.

Compact Digital Cameras

The compact digital camera market is trending down overall, with demand expected to continue to decline in 2019. 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 beam models, was down around 5% in 2018. 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 undertaking digital marketing. As with

the iNSPiC, we will continue to offer consumers new ways to enjoy prints. We will pursue overall growth by compensating for lower consumer machines and lower consumables due to lower print volumes with expansion in business models and such new offerings as the iNSPiC.

New Businesses

Markets in core businesses are maturing, so we must urgently build new businesses. Through our existing channels, e-commerce, showrooms, and other vehicles, we will invest extensively in externally sourced merchandise while bolstering service operations.

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.



EOS R SYSTEM

ENTERPRISE SEGMENT

Business Management Policies

Human resources: Swiftly identify changes in the business environment and become individuals and teams that can conceive and execute ideas to resolve issues to drive customer growth.

Customer base: We will retain, deepen, broaden, and extend positive relationships with customers to grow and evolve with them.

Value provision: We will identify customers and market trends, understand ourselves, and provide and refine value that customers and markets find attractive.

Strengths and Strategies

- Strong marketing capabilities stemming from the MA Division's customer base and industry-specific approach and business solutions.
- Canon Information Technology Services Inc.'s advanced systems development and technological capabilities, robust project track record, and industry knowledge.

By combining these capabilities, we aim to create a business model that balances high added value and productivity and build a large IT solutions business by accelerating our transformation to a business- and service-centric entity.

Masachika Adachi

Director, Senior Managing Director
Director of Enterprise Segment



Business Overview

The Enterprise segment offers industry-specific and management solutions to large customers in the finance, manufacturing, retailing, public, and education sectors. Our mission is to create value with customers and to become a true partner by delivering that value. We want customers to rely on our organization and people and, where they require, make us their first port of call. Our vision is to increase existing value in markets and sectors and contribute to society. We seek to become recognized in markets and sectors for our ability to resolve issues and for the value of our solutions supply capabilities, which are highly trusted among customers.

This segment focuses on synergizing the MA Division and the Canon IT Solutions Group. The latter has lifted its development, technologies, and quality over the past few years as a systems integrator, securing customer trust. We will work to secure marketplace recognition by safeguarding and expanding Canon IT Solutions' businesses. As well, we will create industry-specific solutions that reflect a familiarity with customer operations and fully leverage the MA Division's customer base, completing a business model that reflects a service provision approach

that we can roll out to many industries and types of operation. We are confident that we can deliver better quality if we can harness lessons from Canon IT Solutions. We thereby seek to generate massive growth from a combination of the MA Division's customer base and the prowess of Canon IT Solutions.

Market Outlook and Strategies for Fiscal 2019

All industries

They will harness the IoT, AI, and other digital technologies to expand strategic IT investments in digital businesses to overhaul business processes and create new businesses. Industries will use RPA and other techniques to enhance work efficiency and shorten working hours, and expect to increase expenditure on teleworking and other diverse work practice reforms.

Financial services

We expect new efforts to support growth, examples being in upgrade demand for enterprise systems in credit card, insurance, and securities and investment services, investments in raising employee productivity, strengthening ties with customers, and the use of fintech. We will develop business-specific solutions centered on fiduciary operations and damage insurance assessment areas.

Manufacturing

Manufacturers will continue to surpass the average overall market growth by investing in IoT, AI, and other deployments. We also expect demand for enterprise system upgrades to continue. This will be not just in assembly manufacturing, principally in the automotive sector, but also in pharmaceuticals, chemicals, foods, consumer products, and other process production, and in production and supply chain management. We will cultivate enterprise systems that package such offerings as document and production management, demand forecasts, and accounting and salaries. At the same time, we will develop business-specific solutions for manufacturing.

Retailing

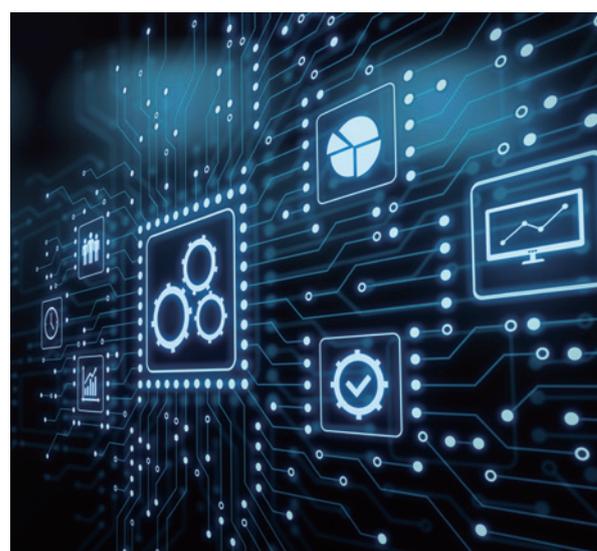
We project SI demand in line with M&As in retailing, productivity enhancements and task automation owing to labor shortages, and enterprise system upgrade demand and cloud computing adoptions among major trading firms. We will create solutions centered on point-of-sale and other sales promotion tasks and build enterprise systems based on demand forecasting and other capabilities.

Educational markets

With educational sites digitizing, 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, centered on the in Campus SERIES.

Risk Management Approach

There is a shortage of systems engineers in the IT solutions area, 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 SEGMENT

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.

Kunihiko Kubo

Senior Executive Officer
Director of Area Segment



Business Overview

We operate nationwide, focusing on offering management and business solutions for small-to-medium-sized customers with fewer than 1,000 employees. 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 segment 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 2019

In Japan, companies are reforming work practices to streamline operations, shorten working hours, and enhance productivity. They should accordingly invest extensively in AI, cloud, RPA, 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. We will materialize that expansion by setting up a specified division and fully deploying small-to-medium-sized enterprise IT solutions offerings across all channels.

At the same time, we do not anticipate significant growth in the markets for MFPs, LBPs, 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.

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. We will accordingly plan to increase print volumes by acquiring new MFP users.

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 SEGMENT: 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.

* Data printing services: The services that are contracted to print, edit, process, and enclose large quantities of bills and direct mails, using personal information.

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 2019

The printing market is gradually trending down, and this situation is expected to remain unchanged in 2019. 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 printers, replacing them with color inkjet printers to maintain and expand the customer base.
- Secure new customers 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 customers by replacing the offerings of other companies with large-format printers and drawing management solutions.
- Expand sales by differentiating printers with inspection devices and workflow systems and by supplying total solutions.
- Endeavor to reinforce customer ties by helping resolve issues, notably by cutting costs and focusing on core businesses by supplying and outsourcing business services at and from outside customer sites, notably for document production and office equipment management.

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.



High-speed continuous feed printer

PROFESSIONAL SEGMENT: 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 business by fostering our businesses from customer-centric and global perspectives while cultivating our services businesses.

Strengths and Strategies

- Identify world-class equipment and package it with technology.
- Provide field services 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 2019

In the semiconductor market, in which demand was previously favorable, memory device demand prospects are unclear. There are major delays in capital investment owing to NAND flash memory production adjustments. This situation will likely affect sales plans.

At the same time, markets for CMOS image sensors, power supply integrated circuits (ICs), and other sensors areas should remain brisk because of advances in autonomous driving, AI, IoT, and other technologies.

We will further reinforce the customer and product diversity efforts that we began undertaking last year in unstable markets. We will also continue focusing on bolstering services sales.

In non-semiconductor markets, we anticipate steady demand in the IoT vision and laser processing areas.

In IoT vision, we will broaden our product range by putting Canon-made CMOS image sensors in camera units and AI cameras. We will also cultivate new markets by reinforcing our solutions offerings.

In laser processing, we will step up sales of large metal 3D printers for the aerospace and energy markets, in which 3D printer parts are increasingly mass produced.

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. Accordingly, we will work to secure new product lines that enable us to tackle and overcome such challenge. We will cultivate new business partners and further strengthen customer and product diversity.



Semiconductor manufacturing equipment

PROFESSIONAL SEGMENT: HEALTHCARE

Business Management Policies

We will focus on bolstering and expanding sales of our cloud-based Medical Image Place service which can store and browse CT, MRI, and X-ray image data, 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

- We expect demand for Medical Image Place to increase on the strength of medical fee reimbursement revisions implemented in 2018.
- The market for optical coherence tomography angiography should benefit from eligibility for medical fee reimbursement. Our OCT-HS100 enjoys a solid market reputation for its outstanding image quality, a Canon strength, and we seek to expand by incorporating AI in our 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 sell various hardware in Japan and abroad centered on Canon's digital radiography systems, fundus cameras, ES Series hydrogen peroxide gas sterilizers from Canon Lifecare Solutions Inc., and the fully automatic AX930 and AX45f dispensing and packing machines of Canon Lifecare Solutions. We are developing medical imaging solutions that draw on our imaging and IT strengths and our cloud-based remote interpretation infrastructure services.

We cater to diverse customer needs, providing an array of solutions and services from constructing large medical information systems to receipt computers, electronic medical records, health testing systems, and dispensing systems.

Market Outlook and Strategies for Fiscal 2019

With the impact of medical fee reimbursement revisions in 2018, we anticipate markets to expand and become brisker in areas of relaxed regulations and conditions. We also expect progress with regional medical collaboration through information and communications technology (ICT), the use of cloud-based medical information systems, and AI development and commercialization in the medical arena.

We will focus on Medical Image Place, optical coherence

tomography angiography, and other offerings that are now eligible for medical fee reimbursement. At the same time, we will focus on image diagnostics support and on reducing the diagnostics and treatment workloads of medical professionals. We will bring together the Canon Group's wide-ranging resources to deploy medical IT services employing AI and other advanced IT.

We are also devoting considerable effort to expanding our stock businesses, and aim to boost profitability.

Risk Management Approach

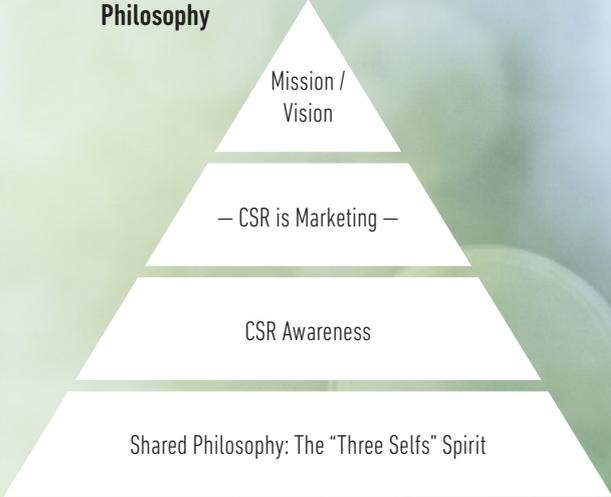
Biennial medical fee reimbursement revisions and national government policies may or may not benefit demand for our products.



Ophthalmic equipment

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 reusing and recycling products to contribute to a circular economy, using carbon offsets to contribute to a low-carbon society, and undertaking cybersecurity measures so that we can use ICT safely.



External Assessments

Selected as a Health and Productivity Stock in 2019

Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange select the stocks of outstanding companies listed on that exchange that engage in a program to strategically maintain and enhance the health and productivity management of employees and thereby improve corporate earnings.

Canon MJ was selected for the second consecutive year in 2019,

reflecting high ratings for its business philosophy and policies, organizational structure, systems and policy implementation, and evaluations and improvements. We will continue to undertake employee health management efforts to remain attractive among investors focusing on companies that enhance corporate value over the long term.



Indices

Canon MJ has been included in the FTSE4Good Index Series for 15 consecutive years. In 2018, we were part of FTSE Blossom Japan and the SNAM Sustainability Index for the second consecutive year, and were also included in the MSCI Japan ESG Select Leaders Index.



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

Targets for 2016 through 2020	1.2% (year on year)
2018 results	6.3%

Contributions to reductions in customer CO₂ emissions

Targets for 2016 through 2020	More than 150,000 metric tons
2018 results	128,071 metric tons

Ratio of customer CO₂ emissions reductions divided by the Canon MJ

Group's own reductions

Targets for 2016 through 2020	More than triple
2018 results	2.2-fold

> Participating in the Plastics Smart Campaign

The Canon MJ Group participates in this initiative of Japan's Ministry of the Environment. Its campaign website showcases initiatives. Ours include recycling and plastics usage reduction efforts and initiatives to educate about the environmental impacts of plastics.

Registration examples

Recycling classes that highlight the environment's importance

MFP remanufacturing

Collecting and recycling ink cartridges

Closed-loop recycling through automated toner cartridge recycling system



> Product Collection and Recycling Activities

We set up a program to efficiently collect used Canon MFPs, LBPs, 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.

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.

1. Furusato Project

The Canon Group embarked on the Furusato (meaning "hometown") project to promote educational efforts to help communities around Japan to foster biodiversity in



keeping with its Biodiversity Policy, thereby bequeathing a better world to future generations.

2. Smile for the Future Project

In January 2012, we launched the Smile for the Future project to contribute to reconstruction in disaster-stricken areas following the Great East Japan Earthquake through the concept of enjoying photography and nature. Our photography and nature programs help people to communicate with each other and contribute to children's upbringings.



3. School Building Memorials Project

We joined hands with writing instrument maker Pentel to support this project, which contributes to enduring memories of aging elementary school buildings that are to be demolished and replaced. Through the project, children write down their memories and thanks on the walls and windows of school buildings slated for demolition. The children then document the drawings with a SLR camera for creating photo albums or posters for decorating new school buildings.

Pentel donates art materials and photo frames for the project

while we lend cameras and produce and donate large posters and photo albums. A total of 21 schools have taken advantage of this project since we launched it in June 2014.

• TOPICS

Our School Building Memorials project received a special Ministry of Culture Agency Prize in Mecenat Awards 2018, sponsored by the Association for Corporate Support of the Arts, a non-profit organization. The prize recognizes efforts to collaborate with external organizations and create opportunities for social participation, including among residents and children, while contributing to cultural and creative progress and helping to promote Japanese culture overseas.



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

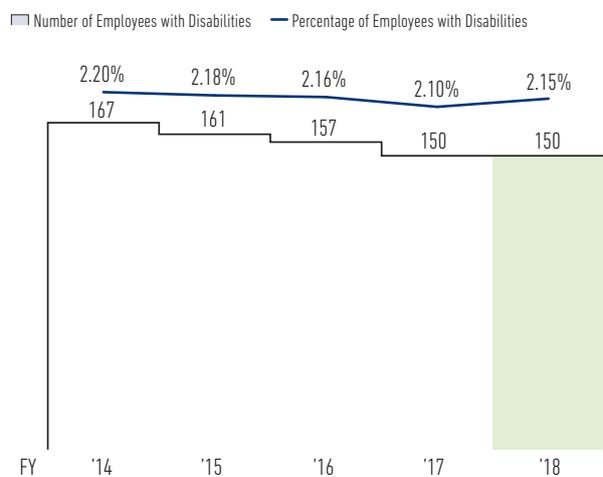
harassment as an issue for discussion within work units.

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 2018, 2.15%* 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.

> **Reforming Work Practices**

The basic policy of the Canon MJ Group's Long-Term Management Objectives Phase III is to become a corporate group in which its people can shine, and we are undertaking work practice reforms as part of that approach. We are helping our people to work more efficiently so they can complete their tasks during regular work hours, notably by instituting days without overtime, using satellite offices and teleworking, encouraging the use of IT tools, and leveraging AI and RPA.

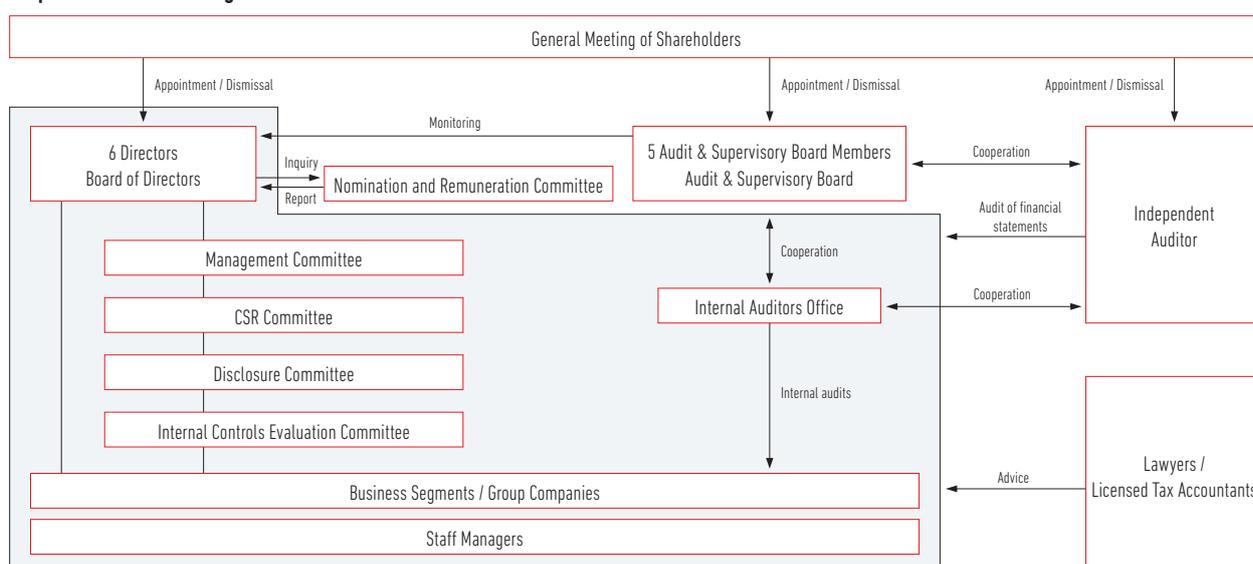
CORPORATE GOVERNANCE

Overview of Corporate Governance at the Canon MJ Group

- Organizational format: Company with Audit & Supervisory Board members
- Number of directors: 6
- Number of outside directors: 2
- Number of outside directors designated as independent: 2
- Term of directors: 1 year
- Number of Audit & Supervisory Board members: 5
- Number of outside Audit & Supervisory Board members: 3
- Number of outside Audit & Supervisory Board members designated as independent: 2
- Term of Audit & Supervisory Board members: 4 years
- Independent auditor: Ernst & Young ShinNihon LLC
- Use of executive officer system: Yes

Corporate Governance Organization

(As of March 29, 2019)



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, 2018. 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 six 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, 2019.

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

The Internal Auditors Office produces internal audit policies for Canon MJ and its subsidiaries as an independent specialist that reports directly to the president. It also conducts audits, assesses, and advises on all business activities from the perspectives of credibility of financial reports, the validity and efficiency of operations, legal compliance, and the conservation of assets. The auditors of Canon IT Solutions Inc. and Canon System & Support Inc. conduct assessments based on the same policies. The Canon MJ Group had 57 audit staff members (as of the end of January 2019).

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 &

Reasons for Appointing Outside Directors

	Independent director	Reason for appointment
Akio Dobashi*1	<input checked="" type="checkbox"/> *4	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"/> *4	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 1% 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 of business equipment, but such transactions account for less than 1% of the Company’s consolidated net sales. Transactions with SCSK are based on sales of business equipment and on the supply of IT equipment, but such transactions account for less than 1% 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 business and other equipment. However, annual transaction volume is less than 1% of this company's and the Company's respective consolidated net sales. The Company also has a contract with Sampo Japan Nipponkoa Himawari Life Insurance to sell business and other equipment. However, annual transaction volume is less than 1% of this company's and the Company's respective consolidated net sales.

*⁴ Have notified the Tokyo Stock Exchange as an independent director or an independent 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 2018
Outside directors	Akio Dobashi	15/15 times (100%) of Board of Directors' meetings
	Yoshio Osawa	10/10 times (100%) of Board of Directors' meetings (attended all 10 Board of Directors' meetings held subsequent to his appointment)
Outside Audit & Supervisory Board members	Kunihiko Tedo	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Nobuyasu Kusumi	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings
	Shigeo Hasegawa	15/15 times (100%) of Board of Directors' meetings 18/18 times (100%) of Audit & Supervisory Board meetings

Supervisory Board members in keeping with the Corporate Governance Code and standards of independence. Our outside directors and Audit & Supervisory Board members satisfy the independence criteria and help maintain and improve the transparency and accountability of the Board of Directors.

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

The Company interviewed all directors and Audit & Supervisory Board members about the effectiveness of the Board of Directors, and the Board of Directors analyzed and evaluated the findings. Although this process broadly confirmed the effectiveness of the Board of Directors, some members suggested ways to enhance decision-making effectiveness in meetings, including of the Board of Directors. Of special note were agenda items at these meetings, criteria for agendas, and the adequacy of reported matters. The Board of Directors will draw on such feedback 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, a bonus linked to performance during the fiscal year, and stock incentives also linked to performance to promote improvements in medium- to long-term business performances and corporate value. The same applies to remuneration for executive officers, who are senior executive officers or above. Outside directors only receive basic remuneration.

The Company maintains a voluntary four-person Nomination and Remuneration Committee comprising the president, one director, and two independent outside directors. The committee verifies the appropriateness of the remuneration system for directors and executive officers who are senior executive officers or above, including ideas on calculating basic remunerations and bonuses. Remunerations are all in line with the remuneration structure, whose basic calculation approaches were resolved at meetings of the Board of Directors and are verified by the Nomination and Remuneration Committee.

The total of basic remuneration and performance-linked stock incentives for directors must be less than the maximum total remuneration approved at general meetings of shareholders. Bonuses, however, are determined when proposals for them are approved at ordinary general meetings of shareholders.

Appointment and Nomination Procedures

The Company maintains a voluntary four-person Nomination and Remuneration Committee comprising the president, one director, and two independent outside directors.

To nominate director or Audit & Supervisory Board member candidates and appoint senior executive officers (including successors and president and representative director candidates), the president and representative director first nominates candidates from among those fulfilling requirements. The nomination is submitted at a meeting of the Board of Directors after the Nomination and Remuneration Committee confirms that it is fair and appropriate.

Dismissal Procedures for Management Team Executives

Directors and Audit & Supervisory Board members can ask the Nomination and Remuneration Committee for deliberations at any time to decide whether the dismissal of a representative director, executive director, or executive officer who is a senior executive officer or above (collectively, "management team executives") is necessary in the event of illegal, unfair, or treasonous behavior among such individuals, if they have failed to fulfill their roles, or for other reasons that make such people unsuited to retain their posts as management team executives.

All results of Nomination and Remuneration Committee deliberations shall be submitted to the Board of Directors, regardless of the outcome of Board of Directors' deliberations on the necessity of dismissal. The management team executives subject to deliberations cannot join in discussions.

Resignations from Representative Director and Other Posts

Canon MJ maintains engagement with retired directors that have business association activities for the Company, but these retired directors are not in any way involved in management decisions and functions.

Name	Former post	Post	Work arrangement and terms (full-time, part-time, with or without compensation, and others)	Date of retirement from former posts	Engagement term
Haruo Murase	Chairman	Advisor	Work arrangement: Part-time Compensation: Yes	March 28, 2018	Renew after one year
Masami Kawasaki	President	Special advisor	Work arrangement: Part-time Compensation: Yes	March 26, 2015	Renew after one 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 2018, the Company exhibited at events and conducted Company briefings for many retail investors in February, May, August, and December. Also, the Company holds seminars on camera usage for retail investors at branches of securities firms to help these people familiarize themselves with the Company's products. For analysts and institutional investors, the Company augments medium- to long-term management plan briefings by the president at the beginning of year with quarterly results briefings at which the managing executive officer in charge of

IR outlines performances. The Company also embraces individual interview requests, meeting requests from analysts and institutional investors, and teleconferences with foreign institutional investors. In 2018, it participated in a security firm-sponsored conference in New York and met with local institutional investors. The Company also participated in a domestic security firm-sponsored conference and held a meeting between the president and overseas institutional investors.

Canon MJ IR website
canon.jp/8060e-ir

Messages from Outside Directors



Akio Dobashi
Outside Director

It's not a difficult thing to make some money with a little effort. But you need more than a little effort to become extremely profitable. You have to keep up to date on the latest trends, and in doing so you will soon discover that making money comes more naturally. It's crucial to pay attention to and to identify trends.

A key priority of Canon MJ's medium-term management plan is to draw on IT solutions to drive growth. I think this is the right direction as it is in line with trends.

A challenge with this is the Company's ability to secure the right people to help realize this objective. As such, the Company must urgently develop a bold strategy to hire IT experts, such as through scouting.

Canon MJ set up its Nomination and Remuneration Committee this fiscal year, marking a major step forward in corporate governance. As one of its members, I will work diligently to ensure that the committee is effective.

The Board of Directors encourages free-spirited debate, and I feel very at home with this organization because of how it values its people. Employees are highly motivated, and if I were ever offered the opportunity to become a regular worker in this organization I would gladly join.



Yoshio Osawa
Outside Director

Canon MJ's medium-term management plan focuses particularly on the IT solutions market, which has considerable growth potential. The Company seeks to make IT solutions an engine of expansion. As an outside director, I endeavor to ensure transparent corporate governance. I also recognize that another important role is to advise on efforts to drive growth.

I have amassed roughly 15 years of executive experience, including my time at a trading firm and thereafter heading an IT solutions company. People and organizations are adopting IT faster than ever and in more complex ways. I believe that it's essential for the Canon MJ Group to stay one step ahead in this fast-moving environment to generate further growth.

The Canon brand is a unique strength for the Company. It maintains a powerful nationwide sales network serving small-to-medium-sized enterprises. On top of that, the Company maintains a data center and as part of its offering of services it centralizes the management of camera image, copier, and PC data over the cloud. In addition to selling copiers, cameras, PCs, and other products, I believe that the Canon MJ Group has the potential to generate tremendous growth by taking advantage of its unique strengths through a service model in which its IT solutions provide added value. I will do my utmost to advise management regarding its strategies.

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.

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.

The digital interchangeable lens camera market may shrink amid an accelerating market shift from SLR to mirrorless models. Sales declines of inkjet printers and inkjet cartridges may accelerate amid the decrease in the print volume associated with the declining demand for printing New Year's greeting cards.

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

As we purchase products and services from many partners, including parent Canon Inc., we may face the risk of insufficient supplies of goods owing to certain partner circumstances, including natural disasters and major accidents. Results could be affected if such situations hamper sales activities.

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.

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 factoring 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, 2018. The Company has the exclusive right to sell all Canon brand products in Japan, the exceptions being semiconductor and LCD lithography systems. In fiscal 2018, Canon MJ's purchases from Canon Inc. amounted to ¥198.4 billion, or 58.5% 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.

CANON MJ GROUP MEASURES TO PROMOTE THE USE OF IT

The Canon MJ Group has formulated IT governance to further streamline IT investment management as well as maximize Group synergy. At the same time, the Group continues to make efforts to reduce IT-related costs.

IT Governance

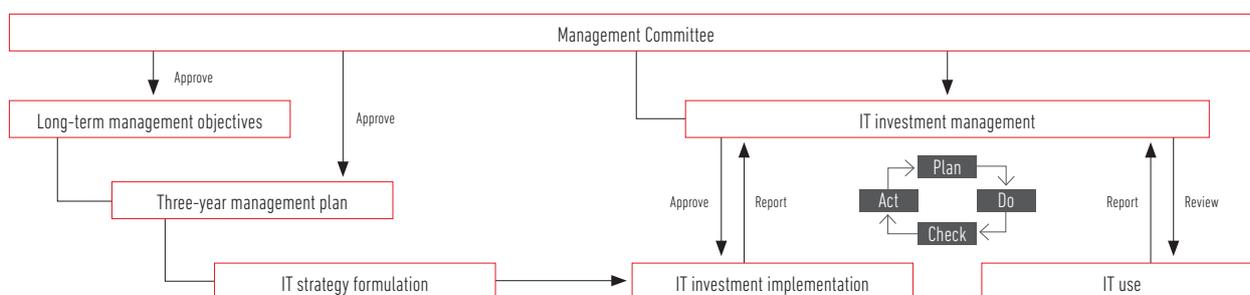
IT Investments to Boost Corporate Value

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 segments 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 segments, 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 suggests improvements for investments that have not delivered intended returns, and implements 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 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 27, 2019



Shigeo Hasegawa

Audit & Supervisory
Board Member
(Outside)

Kunihiko Tedo

Audit & Supervisory
Board Member
(Standing, outside)

Akio Dobashi

Director
(Outside)

Yoshio Osawa

Director
(Outside)

Nobuyasu Kusumi

Audit & Supervisory
Board Member
(Standing, outside)

Masahiro Shimizu

Audit & Supervisory
Board Member
(Standing)

Shiro Hamada

Director, Senior
Executive Officer

Yoshiyuki Matsusaka

Director, Senior Managing
Director

Masahiro Sakata

President &
Representative Director

Masachika Adachi

Director, Senior
Managing Director

Shinichi Inoue

Audit & Supervisory
Board Member
(Standing)

FINANCIAL SECTION

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TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

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

	2018	2017	2016	2015
For the year:				
Net sales (Note 5)	¥ 621,591	¥ 632,190	¥ 629,314	¥ 646,003
Operating income	28,941	30,407	27,676	26,647
Profit (loss) before income taxes	30,708	30,919	28,903	27,498
Profit (loss) attributable to owners of parent	20,826	20,680	18,162	15,670
At year-end:				
Total assets	498,791	510,833	497,728	486,502
Total stockholders' equity (Note 4)	303,028	297,032	280,473	277,008
Cash flows:				
Cash flows from operating activities	16,990	28,885	33,306	29,730
Cash flows from investing activities	(10,526)	7,964	(19,461)	(44,536)
Cash flows from financing activities	(7,839)	(7,145)	(6,086)	(6,225)
Cash and cash equivalents at end of year	135,572	136,980	107,286	99,574
Per share of common stock:				
Profit (loss) attributable to owners of parent (Note 2)	¥ 160.61	¥ 159.48	¥ 140.06	¥ 120.84
Cash dividends (Note 3)	60.00	60.00	50.00	45.00
Stockholders' equity (Note 4)	2,336.97	2,290.70	2,162.96	2,136.22

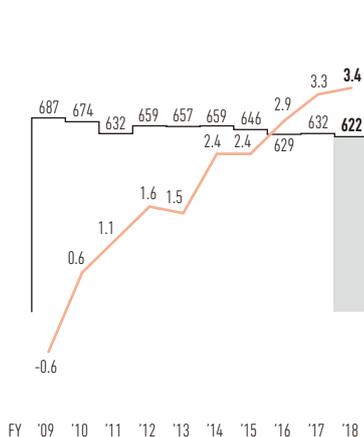
Notes 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥111 to U.S.\$1, the prevailing exchange rate as of December 31, 2018.

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.

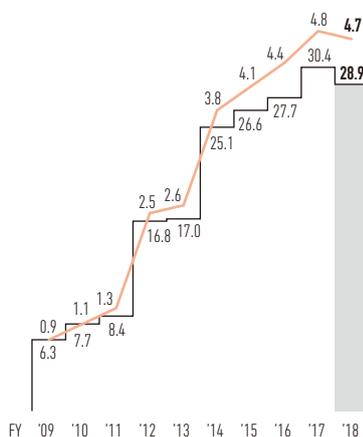
Net Sales and Return on Sales (ROS)

(Billions of yen / %) Net Sales ROS



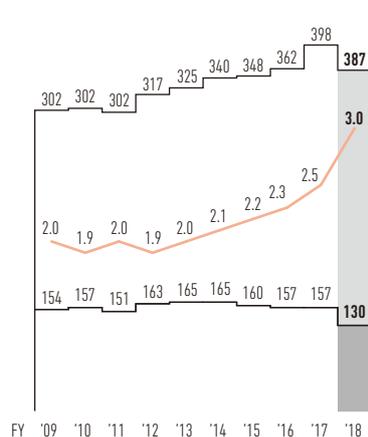
Operating Income and Operating Margin

(Billions of yen / %) Operating Income Operating Margin



Working Capital

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

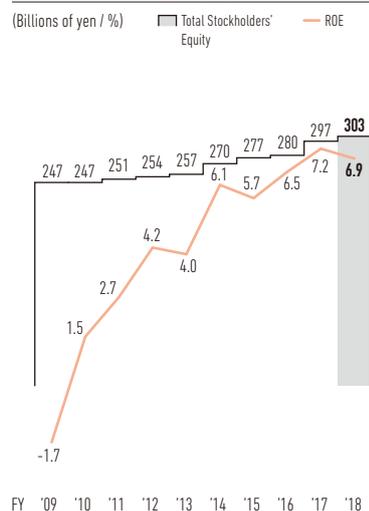


Millions of yen						Thousands of U.S. dollars (Note 1)
2014	2013	2012	2011	2010	2009	2018
¥ 659,432	¥ 657,216	¥ 659,218	¥ 632,419	¥ 674,159	¥ 686,615	\$ 5,599,919
25,088	17,013	16,802	8,442	7,736	6,297	260,730
25,858	17,055	17,529	10,972	8,584	(595)	276,649
16,030	10,168	10,579	6,764	3,724	(4,343)	187,622
479,747	467,076	462,574	447,765	448,592	449,607	4,493,613
270,061	256,795	253,862	250,671	246,680	246,829	2,729,982
38,191	28,781	33,767	8,716	35,186	18,144	153,063
(15,221)	(25,757)	(16,067)	(12,108)	(13,012)	(25,834)	(94,829)
(4,545)	(9,105)	(11,813)	(3,811)	(8,171)	(4,324)	(70,622)
120,607	102,183	108,260	102,373	109,575	95,575	1,221,369
						U.S. dollars (Note 1)
¥ 123.62	¥ 76.67	¥ 77.45	¥ 49.30	¥ 26.70	¥ (31.62)	\$ 1.45
40.00	24.00	24.00	20.00	20.00	20.00	0.54
2,082.60	1,980.22	1,907.50	1,827.25	1,798.16	1,797.31	21.05

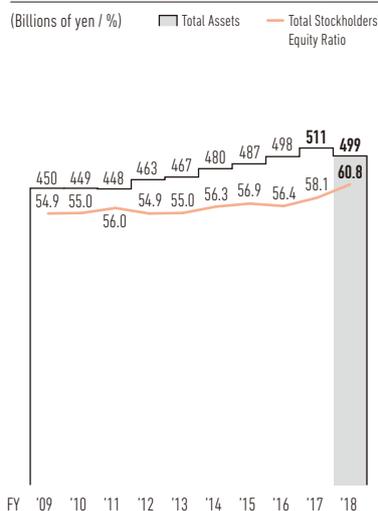
4. Total stockholders' equity in the above table represents the total of stockholders' equity and accumulated other comprehensive income (loss) in the consolidated balance sheets.

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.

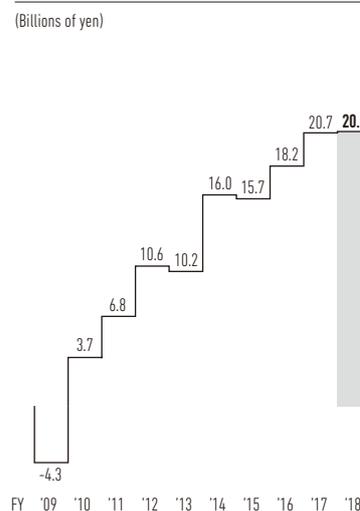
Total Stockholders' Equity and ROE



Total Assets and Total Stockholders' Equity Ratio



Profit (Loss) Attributable to Owners of Parent



FINANCIAL REVIEW

Business Performance

Net Sales

Consolidated net sales for the year ended December 31, 2018, decreased 1.7%, to ¥621,591 million, from the previous year. This was because markets for digital interchangeable lens cameras, inkjet printers, and other offerings were more sluggish than expected, offsetting growth in revenues from the IT solutions and industrial equipment businesses.

Segment Information

• Consumers Segment

During the term, we captured the top share of the mirrorless camera market with the EOS Kiss M, the first mirrorless model under the Kiss brand. We also launched the EOS R, our first full-sized mirrorless camera. Nonetheless, overall sales of digital interchangeable lens cameras declined as markets shrank amid a shift from single-lens reflex (SLR) to mirrorless offerings. Compact digital camera sales decreased due to shrinking of the compact digital camera market.

Sales of inkjet printers were down because stagnant market conditions as a result of fewer people creating their own New Year's cards overshadowed solid demand for business models. Ink cartridge sales dropped as print volumes dwindled with fewer machines in field (MIF).

Sales of IT products were up on favorable gaming PC and mobile battery revenues.

As a result of these factors, segment sales decreased 9.6%, to ¥150,245 million, with segment income plunging 42.1%, to ¥7,333 million.

• Enterprise Segment

In this segment, we performed well in large systems integration (SI) projects for credit cards and security brokerages, form design-related solutions for life insurers, and cloud systems to streamline general insurer investigations. Sales rose for new business process optimization orders in trust banking.

Sales for manufacturing customers were up on production management systems for electrical manufacturers and large office construction projects for chemicals manufacturers, as well as from systems migration projects.

Sales to retailers were up on document management system projects

for airlines and large orders for office multifunction printers (MFPs).

In the key area of university education, we received several orders for in Campus, an IT platform system for disseminating information on campuses and providing learning management. Nonetheless, education sales were down slightly due to absence of the previous year's large orders.

Canon IT Solutions Inc. performed well in the year under review with the above business-specific solutions, as well as with its data center services, which have proven popular for their advanced facilities and high operational quality, ESET security software, and vehicular embedded systems.

Sales of office MFPs in this segment increased to megabanks and large logistics companies. Although shipments of laser printers to large life insurers and other customers were up, sales were down owing to lower unit prices.

As a result of these factors, segment sales increased 5.7%, to ¥187,718 million. Segment income climbed 24.3%, to ¥9,610 million.

• Area Segment

During the period under review, IT product sales rose on business PC replacements. We also performed well in IT deployment support and maintenance services. In addition, we continued to do well with the HOME IT support cloud service for small-to-medium-sized enterprises and with ESET antivirus software, contributing to higher IT solutions business sales. At the same time, shipments were slow for office MFPs, laser printers, and other key hardware, causing sales to dip. Segment income was up on growth in sales of laser printer cartridges and other high-margin items and a decline in selling, general and administrative expenses.

Segment sales accordingly were down 0.8%, to ¥255,910 million, while segment income increased 14.0%, to ¥13,028 million.

• Professional Segment

Production printing sales were down owing to lackluster demand for fast cut-sheet and continuous feed printers.

Industrial equipment sales rose on solid demand for semiconductor manufacturing and inspection/measuring equipment and industrial components.

Healthcare sales were down because of low demand for hospital modalities, which overshadowed growth in medical IT systems and ophthalmic equipment.

Visual solutions sales were basically unchanged while demand rose owing to the launch of 4K and 8K broadcast satellite services. Network

camera revenues declined.

Segment sales thus decreased 3.1%, to ¥52,447 million. We posted a segment loss of ¥938 million, compared with a loss of ¥1,869 million posted in the previous year.

Income Analysis

Consolidated net sales were down 1.7%, to ¥621,591 million.

Cost of sales decreased 1.2%, to ¥403,418 million. Gross profit was down 2.5%, to ¥218,173 million.

Selling, general and administrative expenses were down 2.1%, to ¥189,232 million.

Operating income thus declined 4.8%, to ¥28,941 million. Total other income rocketed 245.0%, to ¥1,767 million.

As a result of these factors, profit attributable to owners of parent increased 0.7%, to ¥20,826 million, and was up ¥1.13 on a per-share basis, to ¥160.61.

Financial Position

Total current assets decreased ¥10,262 million from the end of the previous year, to ¥387,245 million. This stemmed from declines of ¥1,408 million in cash and cash equivalents, ¥8,585 million in notes and accounts receivable, and ¥894 million in merchandise and finished goods.

Total non-current assets were down ¥1,780 million, to ¥111,546 million. Prime factors were drops of ¥2,168 million in buildings and structures and ¥1,042 million in investments in securities.

Total current liabilities decreased ¥27,495 million, to ¥129,903 million. This was despite a ¥677 million rise in accrued income taxes, and reflected decreases of ¥25,109 million in notes and accounts payable and

¥523 million in consumption taxes payable.

Total long-term liabilities increased ¥9,405 million, to ¥65,317 million. This reflected a ¥10,283 million increase in net defined benefit liabilities.

Total net assets rose ¥6,048 million, to ¥303,571 million. Key factors in this change were ¥20,826 million in profit attributable to owners of parent, ¥7,780 million in dividends paid, and a ¥6,380 million decrease in remeasurements of defined benefit plans.

The total stockholders' equity ratio was 60.8%, up 2.7 percentage points from a year earlier. Stockholders' equity per share increased ¥46.27, to ¥2,336.97.

Cash Flows

Net cash provided by operating activities amounted to ¥16,990 million, from ¥28,885 million a year earlier. This change was due to ¥30,708 million in profit before income taxes, offset by decreases in depreciation and amortization to ¥13,282 million and in income taxes paid to ¥8,713 million.

Net cash used in investing activities totaled ¥10,526 million, compared with ¥7,964 million provided by such activities in the previous year. Key factors were ¥9,905 million in payments for purchases of

property, plant and equipment and ¥2,238 million in payments for purchases of intangible assets.

Net cash used in financing activities was ¥7,839 million, from ¥7,145 million a year earlier. This was largely due to ¥7,790 million in dividends paid.

As a result of these factors, cash and cash equivalents at the end of the year stood at ¥135,572 million, down ¥1,408 million from a year earlier.

CONSOLIDATED BALANCE SHEETS

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
DECEMBER 31, 2018 AND 2017

Millions of yen

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3, 11 and 12)	¥ 135,572	¥ 136,980
Notes and accounts receivable (Note 11)	117,042	125,627
Inventories (Note 5)	33,021	33,871
Deferred tax assets (Note 14)	3,896	4,063
Short-term loans receivable (Note 11)	90,014	90,014
Other current assets	7,792	7,050
Allowance for doubtful receivables	(92)	(98)
Total current assets	387,245	397,507
PROPERTY, PLANT AND EQUIPMENT:		
Land	28,918	29,017
Buildings and structures	51,755	51,862
Machinery and vehicles	167	308
Furniture and fixtures	16,861	17,720
Rental assets	39,610	38,843
Lease assets	388	562
Construction in progress	334	90
Total	138,033	138,402
Accumulated depreciation	(66,046)	(63,311)
Net property, plant and equipment	71,987	75,091
INTANGIBLE ASSETS:		
Software	4,941	5,153
Lease assets	6	13
Utilization rights	316	316
Other intangible assets	3	3
Total intangible assets	5,266	5,485
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 11 and 12)	7,986	9,028
Long-term loans receivable	36	30
Net defined benefit assets (Note 13)	304	404
Lease deposits (Notes 17 and 18)	4,424	4,880
Deferred tax assets (Note 14)	19,144	16,203
Other investments	2,831	2,533
Allowance for doubtful receivables	(432)	(328)
Total investments and other assets	34,293	32,750
Total non-current assets	111,546	113,326
Total assets	¥ 498,791	¥ 510,833

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES:		
Notes and accounts payable (Note 11)	¥ 75,831	¥ 100,940
Short-term loans payable (Note 18)	—	147
Lease obligations (Notes 11 and 18)	101	125
Accrued income taxes (Note 14)	6,967	6,290
Consumption taxes payable	4,064	4,586
Accrued expenses	16,676	18,169
Reserves	4,113	4,192
Other current liabilities	22,151	22,949
Total current liabilities	129,903	157,398
LONG-TERM LIABILITIES:		
Lease obligations (Notes 11 and 18)	117	164
Deferred tax liabilities (Note 14)	30	439
Allowance for long-term continuous service rewards (Note 2)	1,019	961
Net defined benefit liabilities (Notes 2 and 13)	59,887	49,604
Other long-term liabilities (Note 18)	4,264	4,744
Total long-term liabilities	65,317	55,912
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 2018 and 2017	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	189,958	176,912
Treasury stock	(31,924)	(31,921)
Total stockholders' equity	314,157	301,114
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized gains on available-for-sale securities	2,519	3,159
Deferred gains or losses on hedges	2	6
Foreign currency translation adjustments	76	99
Remeasurements of defined benefit plans	(13,726)	(7,346)
Total accumulated other comprehensive income (loss)	(11,129)	(4,082)
NON-CONTROLLING INTERESTS	543	491
Total net assets	303,571	297,523
Total liabilities and net assets	¥ 498,791	¥ 510,833

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

Millions of yen

	2018	2017
NET SALES	¥ 621,591	¥ 632,190
COST OF SALES (Note 5):	403,418	408,418
Gross profit	218,173	223,772
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6):	189,232	193,365
Operating income	28,941	30,407
OTHER INCOME (EXPENSES):		
Interest and dividend income	352	286
Interest expense	(13)	(12)
Insurance income	547	549
Foreign exchange losses	—	(12)
Gain on investments in partnership	495	—
Gain on sales of fixed assets (Note 7)	126	879
Loss on impairment of fixed assets (Note 7)	(16)	(1,033)
Gain on sales of investments in securities	490	540
Gain on sales of shares of subsidiaries and associates	214	—
Loss on sales and disposal of fixed assets (Note 7)	(311)	(898)
Special extra retirement payments	—	(100)
Loss on disaster	(65)	—
Other, net	(52)	313
Total other income	1,767	512
Profit before income taxes	30,708	30,919
INCOME TAXES (Note 14):		
Current	9,893	9,951
Deferred	(78)	272
Total income taxes	9,815	10,223
Profit	¥ 20,893	¥ 20,696
PROFIT ATTRIBUTABLE TO:		
Non-controlling interests	¥ 67	¥ 16
Owners of parent	20,826	20,680
Profit	¥ 20,893	¥ 20,696
		Yen
PER SHARE OF COMMON STOCK (Note 2):		
Profit attributable to owners of parent	¥ 160.61	¥ 159.48
Cash dividends applicable to the year	¥ 60.00	¥ 60.00

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

Millions of yen

	2018	2017
PROFIT	¥ 20,893	¥ 20,696
OTHER COMPREHENSIVE INCOME (LOSS) (Note 8)		
Net unrealized gains or losses on available-for-sale securities	(641)	831
Deferred gains or losses on hedges	(4)	21
Foreign currency translation adjustments	(26)	(58)
Remeasurements of defined benefit plans, net of tax	(6,380)	2,214
Total other comprehensive income (loss)	(7,051)	3,008
Comprehensive income	¥ 13,842	¥ 23,704
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of parent	¥ 13,779	¥ 23,697
Non-controlling interests	63	7
Comprehensive income	¥ 13,842	¥ 23,704

* 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, 2018 AND 2017

Millions of yen

	Number of shares of common stock	Stockholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock
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 JANUARY 1, 2018	151,079,972	¥ 73,303	¥ 82,820	¥ 176,912	¥ (31,921)
Profit attributable to owners of parent				20,826	
Cash dividends				(7,780)	
Purchase of treasury stock					(3)
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, 2018	151,079,972	¥ 73,303	¥ 82,820	¥ 189,958	¥ (31,924)

Millions of yen

	Accumulated other comprehensive income (loss)					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	Non-controlling interests	
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 JANUARY 1, 2018	¥ 3,159	¥ 6	¥ 99	¥ (7,346)	¥ 491	¥ 297,523
Profit attributable to owners of parent						20,826
Cash dividends						(7,780)
Purchase of treasury stock						(3)
Disposition of treasury stock						0
Profit attributable to non-controlling interests					67	67
Cash dividends paid to non-controlling interests					(11)	(11)
Other, net	(640)	(4)	(23)	(6,380)	(4)	(7,051)
BALANCE AT DECEMBER 31, 2018	¥ 2,519	¥ 2	¥ 76	¥ (13,726)	¥ 543	¥ 303,571

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CANON MARKETING JAPAN INC. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

Millions of yen

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥ 30,708	¥ 30,919
Adjustments for:		
Depreciation and amortization	13,282	14,269
Loss on impairment of fixed assets	16	1,033
Increase (decrease) in allowance for doubtful receivables	100	(41)
Increase (decrease) in net defined benefit liabilities	1,228	(960)
Decrease (increase) in net defined benefit assets	(67)	(206)
Increase (decrease) in allowance for bonuses	3	(31)
Interest and dividend income	(352)	(286)
Interest expense	13	12
Loss (gain) on sales and disposal of property, plant and equipment, net	183	7
Loss (gain) on sales of investments in securities	(488)	(540)
Loss (gain) on investments in partnership	(495)	32
Decrease (increase) in notes and accounts receivable-trade	8,355	(1,099)
Decrease (increase) in inventories	859	(3,917)
Increase (decrease) in notes and accounts payable-trade	(25,106)	(1,813)
Other, net	(2,874)	396
Sub-total	25,365	37,775
Interest and dividends received	351	285
Interest paid	(13)	(12)
Income taxes paid	(8,713)	(9,163)
Net cash provided by operating activities	16,990	28,885
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(9,905)	(12,071)
Proceeds from sales of property, plant and equipment	263	21,355
Payments for purchases of intangible assets	(2,238)	(1,231)
Payments for purchases of investments in securities	(677)	(733)
Proceeds from sales of investments in securities	1,535	881
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	527	—
Decrease (increase) in short-term loans receivable, net	(0)	10
Other	(31)	(247)
Net cash provided by (used in) investing activities	(10,526)	7,964
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable, net	91	147
Repayments of finance lease obligations	(136)	(192)
Proceeds from share issuance to non-controlling shareholders	—	49
Payments for purchases of treasury stock	(4)	(7)
Dividends paid	(7,790)	(7,140)
Other	0	(2)
Net cash used in financing activities	(7,839)	(7,145)
Effect of exchange rate changes on cash and cash equivalents	(33)	(10)
Net increase (decrease) in cash and cash equivalents	(1,408)	29,694
Cash and cash equivalents at beginning of year	136,980	107,286
Cash and cash equivalents at end of year	¥ 135,572	¥ 136,980

• 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, 2018 include the accounts of the Company and all of its 20 (23 in 2017) 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.

Such items are leased assets, certain assets of consolidated subsidiaries, buildings purchased on or after April 1, 1998 (exclusive of furniture and fixtures) and furniture and fixtures and structures purchased on or after April 1, 2016.

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

Software for sale is depreciated by a larger amount of the depreciation based on the estimated sales quantity or the estimated sales revenue or the straight-line depreciation based on the estimated effective duration of sales (up to three years). Internal-use software is depreciated by the straight-line method based on the length of in-house durability (five 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) Accounting Standards Not Yet Applied

Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018)
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, February 16, 2018)

(1) Summary

The ASBJ revised the accounting for temporary differences related to the shares of subsidiaries in separate financial statements and clarified the accounting for the recoverability of deferred tax assets among companies in Classification 1.

(2) Scheduled application date

The Group plans to apply the guidance from the start of the fiscal year ending December 31, 2019.

(3) Impact of applying relevant accounting standards

The Group is assessing the impact on the consolidated financial statements of applying the Implementation Guidance on Tax Effect Accounting.

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Summary

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) of the United States together develop comprehensive revenue recognition standards. In May 2014, they jointly issued a converged standard on the recognition of revenue from contracts with customers, called Revenue from Contracts with Customers (IFRS 15 for the IASB and Topic 606 for the FASB). IFRS 15 was applied from reporting periods starting on or after January 1, 2018, while Topic 606 was applied after December 15, 2017. In view of those applications, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued an application guideline for that standard.

From the perspective of financial statement comparability, which

is one benefit from consistency with IFRS 15, a basic ASBJ policy in developing accounting standards relating to revenue recognition was to start by incorporating the basic principles of IFRS 15 in formulating an accounting standard. Where items needed to reflect practices to date in Japan, alternative approaches were added that would not impair comparability.

(2) Scheduled application date

The Group plans to apply the relevant accounting standards from the start of the fiscal year ending December 31, 2019.

(3) Impact of applying relevant accounting standards

The Group is assessing the impact on the consolidated financial statements of applying the Accounting Standard for Revenue Recognition.

3 Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Time deposits	¥ —	¥ 59
Total	¥ —	¥ 59

4 Contingent Liabilities

Contingent liabilities as of December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Guarantees for employees' housing loans	¥ 9	¥ 15
Total	¥ 9	¥ 15

5 Inventories

Inventories as of December 31, 2018 and 2017 were composed of the following:

	Millions of yen	
	2018	2017
Merchandise	¥ 28,716	¥ 29,795
Service parts	2,466	2,281
Work in process	1,191	958
Supplies	648	782
Other	—	55
Total	¥ 33,021	¥ 33,871

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, 2018 and 2017, net of the amount of the reversal, were included in the following account:

	Millions of yen	
	2018	2017
Cost of sales	¥ 1,449	¥ 2,004

6 Selling, General and Administrative Expenses

The primary components of "Selling, General and Administrative Expenses" for the years ended December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Salaries and allowances	¥ 92,756	¥ 95,053
Provision for bonuses	2,809	2,918
Provision for directors' bonuses	80	128
Provision of allowance for long-term continuous service rewards	406	394
Retirement benefit costs	6,399	4,395
Provision for product warranties	444	465
Provision of allowance for doubtful receivables	123	19

Research and development costs included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended December 31, 2018 and 2017 amounted to ¥522 million and ¥429 million, respectively.

7 Other Income (Expenses)

1. The components of "Gain on sales of fixed assets" for the years ended December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Buildings and structures	¥ 103	¥ 741
Furniture and fixtures	6	13
Rental assets	0	0
Land	17	124
Other	0	1
Total	¥ 126	¥ 879

2. The components of "Loss on sales and disposal of fixed assets" for the years ended December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Buildings and structures	¥ 153	¥ 603
Machinery and vehicles	—	0
Furniture and fixtures	65	44
Rental assets	82	88
Land	8	140
Software	1	14
Other	2	9
Total	¥ 311	¥ 898

3. There was no material loss on impairment of fixed assets required to be presented for the year ended December 31, 2018.

The Group recorded impairment losses for the following asset groups for the year ended December 31, 2017.

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, 2018 and 2017.

	2018	2017
Net unrealized gains or losses on available-for-sale securities		
Amount arising during the year	¥ (335)	¥ 1,749
Reclassification adjustments	(593)	(540)
Pre-tax amount	(928)	1,209
Tax effect	287	(378)
Net-of-tax amount	(641)	831
Deferred gains or losses on hedges		
Amount arising during the year	(6)	30
Pre-tax amount	(6)	30
Tax effect	2	(9)
Net-of-tax amount	(4)	21
Foreign currency translation adjustments		
Amount arising during the year	(26)	(58)
Pre-tax amount	(26)	(58)
Tax effect	—	—
Net-of-tax amount	(26)	(58)
Remeasurements of defined benefit plans		
Amount arising during the year	(10,692)	3,431
Reclassification adjustments	1,471	(229)
Pre-tax amount	(9,221)	3,202
Tax effect	2,841	(988)
Net-of-tax amount	(6,380)	2,214
Total other comprehensive income (loss)	¥ (7,051)	¥ 3,008

9

Common Stock and Dividends

1. The following table shows the movement of number of common stock for the years ended December 31, 2018 and 2017.

	As of January 1, 2017	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2017	Increase or purchase (Thousands of shares)	Decrease or sale (Thousands of shares)	As of December 31, 2018
Issued stock	151,080	—	—	151,080	—	—	151,080
Treasury stock	21,409	3	0	21,412	1	0	21,413

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

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

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 years ended December 31, 2018 and 2017 were as follows:

Dividends	Resolution date	2018		2017		
		Total dividends (Millions of yen)	Dividend per share (Yen)	Resolution date	Total dividends (Millions of yen)	Dividend per share (Yen)
Annual dividend	March 28, 2018	¥ 4,538	¥ 35	March 29, 2017	¥ 3,890	¥ 30
Interim dividend	July 25, 2018	¥ 3,242	¥ 25	July 26, 2017	¥ 3,242	¥ 25

Annual dividend of ¥4,538 million (¥35 dividend per share) was resolved by General stockholders' meeting held on March 27, 2019.

Total dividend per share was ¥60 for fiscal 2018 and fiscal 2017, respectively.

10

Lease Transactions

1. Lessees' accounting

The following table shows future minimum lease payments subsequent to December 31, 2018 and 2017 for noncancelable operating leases.

	Millions of yen	
	2018	2017
Due within one year	¥ 2,596	¥ 2,483
Due after one year	11,307	12,015
Total	¥ 13,903	¥ 14,498

2. Lessors' accounting

Future minimum lease payments subsequent to December 31, 2018 for noncancelable operating leases consist of ¥1,890 million due within one year and ¥2,543 million due after one year.

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, 2018 and 2017, 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

2018			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 65,072	¥ 65,072	—
(2) Notes and accounts receivable	117,042	117,042	—
(3) Short-term investments in securities and investments in securities	76,899	76,899	—
(4) Short-term loans receivable	90,014	90,014	—
Total assets	¥ 349,027	¥ 349,027	—
(5) Notes and accounts payable	¥ 75,831	¥ 75,831	—
Total liabilities	¥ 75,831	¥ 75,831	—

Millions of yen

2017			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 66,480	¥ 66,480	—
(2) Notes and accounts receivable	125,627	125,627	—
(3) Short-term investments in securities and investments in securities	77,997	77,997	—
(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	—

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 12 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, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Equity securities	¥ 713	¥ 893
Investments in investment partnerships	¥ 873	¥ 637

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, 2018 and 2017 were summarized as follows:

	Millions of yen			
	2018		2017	
	Due within 1 year	Due after 1 year	Due within 1 year	Due after 1 year
Cash and deposits	¥ 65,072	—	¥ 66,480	—
Notes and accounts receivable	117,042	—	125,627	—
Short-term investments in securities and investments in securities				
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	—	—
(2) Other	70,500	—	70,500	—
Short-term loans receivable	90,014	—	90,014	—
Total	¥ 342,628	—	¥ 352,621	—

4. The repayment schedule of lease obligations as of December 31, 2018 and 2017 was as follows:

										Millions of yen			
										2018		2017	
Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years				
¥ 101	¥ 58	¥ 35	¥ 19	¥ 4	¥ 125	¥ 92	¥ 44	¥ 21	¥ 6				

12 Securities

Securities as of December 31, 2018 and 2017 were classified and included in the following accounts:

	Millions of yen	
	2018	2017
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 7,986	¥ 9,028
Held-to-maturity:		
Cash and cash equivalents	70,500	70,500
Total	¥ 78,486	¥ 79,528

The carrying amounts and aggregate fair values of investments in securities at December 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,947	¥ 3,449	¥ (8)	¥ 6,388
Other	11	1	—	12
Total	¥ 2,958	¥ 3,450	¥ (8)	¥ 6,400

	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

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Available-for-sale:		
Equity securities	¥ 713	¥ 893
Investments in investment partnerships	873	637
Total	¥ 1,586	¥ 1,530

Impairment loss of ¥158 million was recorded on unlisted equity securities in the year ended December 31, 2018.

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	
	2018	2017
Retirement benefit obligations at beginning of year	¥ 217,952	¥ 216,803
Service costs	6,513	6,615
Interest costs	1,218	1,325
Actuarial gains and losses	115	(1,024)
Benefit paid	(7,161)	(6,481)
Prior service costs	—	1,150
Transfer to a defined contribution plan	—	(412)
Other	(0)	(24)
Retirement benefit obligations at end of year	¥ 218,637	¥ 217,952

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

	Millions of yen	
	2018	2017
Plan assets at beginning of year	¥ 169,452	¥ 163,874
Expected return on plan assets	4,221	4,686
Actuarial gains and losses	(10,577)	3,601
Contributions from the employer	3,051	3,182
Benefit paid	(6,381)	(5,868)
Other	—	(23)
Plan assets at end of year	¥ 159,766	¥ 169,452

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

	Millions of yen	
	2018	2017
Net defined benefit liabilities at beginning of year	¥ 700	¥ 640
Net periodic benefit costs	98	112
Benefit paid	(52)	(18)
Contributions to plans	(34)	(34)
Net defined benefit liabilities at end of year	¥ 712	¥ 700

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

	2018	2017
Funded retirement benefit obligations	¥ 197,969	¥ 197,724
Plan assets	160,052	169,765
	37,917	27,959
Unfunded retirement benefit obligations	21,666	21,241
Net liabilities and assets in consolidated balance sheets	¥ 59,583	¥ 49,200
Net defined benefit liabilities	¥ 59,887	¥ 49,604
Net defined benefit assets	(304)	(404)
Net liabilities and assets in consolidated balance sheets	¥ 59,583	¥ 49,200

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

(5) Retirement benefit costs

Millions of yen

	2018	2017
Service costs	¥ 6,513	¥ 6,615
Interest costs	1,218	1,325
Expected return on plan assets	(4,221)	(4,686)
Amortization of actuarial gains and losses	4,815	3,199
Amortization of prior service costs	(3,345)	(3,446)
Net periodic benefit costs using the simplified method	98	112
Retirement benefit costs of defined benefit plans	¥ 5,078	¥ 3,119
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 ¥395 million and ¥282 million (including ¥100 million of special extra retirement payments) for extra retirement payments for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 were as follows:

Millions of yen

	2018			2017		
	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	¥ (4,751)	¥ 15,431	¥ 10,680	¥ (9,347)	¥ 23,229	¥ 13,882
Net change	3,344	5,877	9,221	4,596	(7,798)	(3,202)
At end of year	¥ (1,407)	¥ 21,308	¥ 19,901	¥ (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.

(7) Plan assets

1. Main components of plan assets

Ratios for main components of plan assets were as follows:

	2018	2017
Bonds	23%	22%
Stocks	2	3
Pooled funds	49	51
Life insurance company general accounts	20	19
Other	6	5
Total	100%	100%

Note: The composition of pooled funds was 50% in bonds and 50% in stocks for the year ended December 31, 2018, and 46% in bonds and 54% in stocks for the year ended December 31, 2017.

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, 2018 and 2017 were as follows:

	2018	2017
Discount rates	0.05 - 0.62%	0.03 - 0.63%
Long-term expected rates of return on plan assets	2.0 - 2.5%	2.0 - 3.0%
Estimated rates of salary increases	1.9 - 2.7%	1.7 - 2.7%

3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥1,987 million and ¥1,990 million for the years ended December 31, 2018 and 2017, respectively.

14 Income Taxes

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2018 and 2017, were as follows:

	2018	2017
Millions of yen		
DEFERRED TAX ASSETS:		
Sales promotion expenses	¥ 893	¥ 928
Accrued bonuses to employees	1,173	1,169
Accrued business tax and business office tax	688	773
Loss on disposal and devaluation of inventories	513	554
Provision for loss on orders received	139	151
Net defined benefit liabilities	18,630	15,401
Loss on devaluation of investments in securities	414	405
Excess amortization of software	585	653
Excess depreciation of fixed assets	838	893
Loss carryforward	472	482
Asset retirement obligations	438	445
Allowance for long-term continuous service rewards	316	298
Loss on valuation of golf club membership	117	118
Lump-sum depreciable assets	87	85
Loss on impairment of fixed assets	93	137
Other	1,146	1,232
Gross deferred tax assets	26,542	23,724
Less: valuation allowance	(1,045)	(1,020)
Total deferred tax assets	¥ 25,497	¥ 22,704
DEFERRED TAX LIABILITIES:		
Net unrealized gains on available-for-sale securities	¥ (1,113)	¥ (1,398)
Deferred capital gain	(1,280)	(1,404)
Uncollected enterprise tax refunds	(9)	(6)
Deferred gains or losses on hedges	(1)	(3)
Other	(84)	(66)
Total deferred tax liabilities	¥ (2,487)	¥ (2,877)
Net deferred tax assets	¥ 23,010	¥ 19,827

Note: Net deferred tax assets as of March 31, 2018 and 2017 are reflected in the following accounts in the consolidated balance sheet:

	2018	2017
Current assets—deferred tax assets	¥ 3,896	¥ 4,063
Investments and other assets—deferred tax assets	19,144	16,203
Long-term liabilities—deferred tax liabilities	(30)	(439)
Net deferred tax assets	¥ 23,010	¥ 19,827

A reconciliation between the statutory income tax rate and the effective income tax rate for the year ended December 31, 2018 was not presented since the difference between the statutory income tax rate and effective income tax rate after applying tax effect accounting was less than 5% of the statutory rate.

A reconciliation between the statutory income tax rate and the effective income tax rate for the year ended December 31, 2017 was as follows:

	2017
Statutory income tax rate	31.0%
Entertainment and other expenses permanently not deductible for tax purposes	0.9
Per-capita levy of inhabitants' taxes	1.1
Valuation allowance	0.5
Dividend income not taxable	(0.0)
Other	(0.4)
Effective income tax rate	33.1%

15 Segment Information

1. Segment Information

(1) Description of Reportable Segments

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

On January 1, 2018, the Group transitioned from a product-based organizational structure to one based on markets and customers to help materialize Long-Term Management Objectives

Phase III. It accordingly switched from the Business Solutions, IT Solutions, Imaging Systems and Industrial/Medical reportable segments to the Consumers, Enterprise, Area, and Professional segments from the first quarter of the year ended December 31, 2018.

The Group established the BPO Management Center in July 2018 to reinforce its business process outsourcing business. The reportable segment for Canon BizAttenda Inc., which focuses on business process outsourcing, therefore changed from Enterprise to Other.

Major Business Areas and Group Companies

Reportable Segment	Major Business Areas and Group Companies
Consumers	Providing digital cameras and inkjet printers to consumers
Enterprise	Supplying Canon's input/output equipment and solutions to help resolve the business-specific management issues of large customers [Major Group company] Canon IT Solutions Inc.
Area	Supplying Canon's input/output equipment and solutions to help resolve the management issues of small-to-medium-sized enterprises around Japan [Major Group company] Canon System & Support Inc.
Professional	Providing solutions to customers in specialist areas <ul style="list-style-type: none"> •Production Printing Focusing on providing fast continuous feed and cut-sheet printers to printing companies [Major Group company] Canon Production Printing Systems Inc. •Industrial Equipment Supplying semiconductor fabrication and measuring equipment, mainly to semiconductor and other electronic device manufacturers •Healthcare Providing modalities, IT systems, and solutions combining modalities to medical institutions and dispensing machines and IT systems to pharmacies [Major Group company] Canon Lifecare Solutions Inc. and Canon ITS Medical Inc. •Visual Solutions Providing network camera solutions for surveillance and business applications and commercial imaging equipment to broadcasters

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, 2018 and 2017 were as follows:

Millions of yen

Year ended or as of December 31,	2018							
	Reportable Segment				Other	Total	Adjustments	Consolidated
	Consumers	Enterprise	Area	Professional				
Net sales:								
External customers	¥ 150,158	¥ 176,183	¥ 242,867	¥ 49,669	¥ 2,714	¥ 621,591	—	¥ 621,591
Intersegment	87	11,535	13,043	2,778	4,264	31,707	¥ (31,707)	—
Total	150,245	187,718	255,910	52,447	6,978	653,298	(31,707)	621,591
Segment income (loss)	7,333	9,610	13,028	(938)	48	29,081	(140)	28,941
Segment assets	53,186	80,313	67,159	24,090	2,144	226,892	271,899	498,791
Other items:								
Depreciation and amortization	779	7,861	3,226	590	56	12,512	770	13,282
Changes in the amount of property, plant and equipment and intangible assets	681	6,733	2,990	313	19	10,736	9	10,745

Notes: 1. "Other" includes call center business and BPO service business, which are not included in reportable segments.

2. Adjustments are as follows:

(1) Adjustment of segment income (loss) eliminates intersegment transactions.

(2) Adjustment of segment assets is for corporate assets that do not belong to reportable segments. These assets mainly comprise surplus funds (cash and marketable securities) and assets relating to head office land, buildings, and head office administrative units.

(3) Adjustment of depreciation and amortization is for head office building expenses that do not belong to reportable segments.

(4) Adjustment of increase of property, plant and equipment and intangible assets consists of capital investments in head office buildings that do not belong to reportable segments.

3. Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statements of income.

Millions of yen

Year ended or as of December 31,	2017							
	Reportable Segment				Other	Total	Adjustments	Consolidated
	Consumers	Enterprise	Area	Professional				
Net sales:								
External customers	¥ 165,996	¥ 167,654	¥ 244,727	¥ 51,347	¥ 2,466	¥ 632,190	—	¥ 632,190
Intersegment	293	9,982	13,193	2,793	4,685	30,946	¥ (30,946)	—
Total	166,289	177,636	257,920	54,140	7,151	663,136	(30,946)	632,190
Segment income (loss)	12,671	7,728	11,433	(1,869)	397	30,360	47	30,407
Segment assets	58,366	83,095	67,896	32,741	1,495	243,593	267,240	510,833
Other items:								
Depreciation and amortization	852	7,936	3,553	1,097	36	13,474	795	14,269
Changes in the amount of property, plant and equipment and intangible assets	610	8,566	3,579	891	11	13,657	10	13,667

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 losses on property, plant and equipment by reportable segment for the years ended 2018 and 2017 were as follows:

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Recorded amount
	Consumers	Enterprise	Area	Professional				
Impairment loss	¥ 15	—	—	¥ 1	—	¥ 16	—	¥ 16

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

Year ended or as of December 31,	Reportable Segment				Other	Total	Adjustments	Recorded amount
	Consumers	Enterprise	Area	Professional				
Impairment loss	—	—	¥ 793	¥ 240	—	¥ 1,033	—	¥ 1,033

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

There were no applicable items for the years ended December 31, 2018 and 2017.

5. Information on gain on negative goodwill

There were no applicable items for the years ended December 31, 2018 and 2017.

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 December 31, 2018 and related balance as of December 31, 2018 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	¥ 198,404	Accounts payable	¥ 42,070
								Purchases of products			
								Sales of office equipment and consumables, etc.	¥ 6,830	Accounts receivable and others	¥ 2,381
							Non-operating transactions	Loans of capital	—	Short-term loans	¥ 90,000

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 December 31, 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
								Purchases of products			
								Sales of office equipment and consumables, etc.	¥ 7,276	Accounts receivable and others	¥ 2,250
							Non-operating transactions	Loans of capital	—	Short-term loans	¥ 90,000

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, 2018 and 2017 were ¥2,795 million and ¥2,920 million, respectively.

18 Lease Obligations, Loans Payable and Deposits

Lease obligations, loans payable and deposits as of December 31, 2018 and 2017 were as follows:

	Average interest rate (2018)	2018	2017
			Millions of yen
Short-term loans payable		¥ —	¥ 147
Lease obligations			
Current portion of lease obligations		101	125
Lease obligations (excluding current portion)		117	164
		218	289
Long-term loans payable (excluding current portion)	—	—	—
Deposits	0.01%	4,034	4,123
Total		¥ 4,252	¥ 4,559

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, 2018, 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, 2018, 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 26, 2019
Tokyo, Japan

A member firm of Ernst & Young Global Limited

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CANON MJ GROUP COMPANIES

AS OF JANUARY 1, 2019

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.	Supervision of businesses of 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	
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	
Professional BU	A&A Co., Ltd.	Exclusive domestic sales of 3D CAD software Vectorworks Japanese version and planning, development, and sales of related software	
	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
	Healthcare	Canon Lifecare Solutions Inc.	Sales of medical and healthcare devices equipment and related consumables and medical imaging systems
Canon ITS Medical Inc.		Providing IT solutions for the medical and healthcare field, systems development, network construction, and hardware sales	
BPO Services	Canon BizAttenda Inc.	Consulting, business support BPO, back office BPO, office support outsourcing, contact center outsourcing, temp staffing, and services	
	Canon Business Support Inc.	Office services for Group companies and BPO-related services	
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	

The Group comprises 20 consolidated subsidiaries (including domain name management companies).

CORPORATE DATA

AS OF DECEMBER 31, 2018

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

12,406

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)

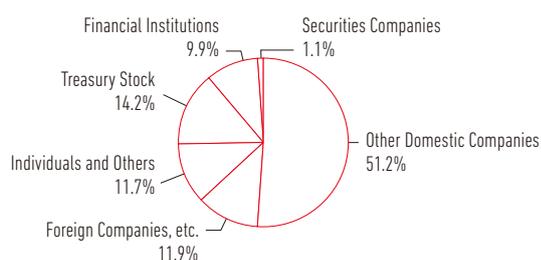
(As of April 1, 2018)

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	5,705	4.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,250	2.5
Japan Trustee Services Bank, Ltd. (Trust Account)	2,243	1.7
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	1,890	1.5
STATE STREET BANK AND TRUST COMPANY 505001	1,644	1.3
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,157	0.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,102	0.9
BNYMSANV RE BNYMIL RE LF MORANT WRIGHT NIPPON YIELD FUND	1,050	0.8
Mizuho Bank, Ltd.	1,001	0.8

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,
Minato-ku, Tokyo 108-8011, Japan

Canon Marketing Japan Website

(Investor Relations)

canon.jp/8060e-ir