

Summary Report of Consolidated Financial Results

for the second quarter ended June 30, 2019

Registered company name: **Canon Marketing Japan Inc.**
 Stock listing: Tokyo Stock Exchange, First Section
 Code number: 8060
 URL: <https://cweb.canon.jp/eng/ir>
 Representative director: Masahiro Sakata, President
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 Tel. +81-3-6719-9071
 Dividend payable date (as planned): August 26, 2019
 U.S. Accounting Standards Applied: No

1.Consolidated business results for the six months ended June 30, 2019 (From January 1, 2019 to June 30, 2019)

(1) Consolidated Results of Operations

(Amounts less than one million yen are truncated)

(Percentage represents increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2019	302,856	0.8	13,418	38.8	14,348	30.5	9,436	26.9
June 30, 2018	300,523	(1.0)	9,664	(11.8)	10,996	(7.0)	7,436	(11.2)

[Note] Comprehensive Income: Six months ended June 30, 2019 : 12,099 million yen [43.7%]

Six months ended June 30, 2018 : 8,421 million yen [13.8%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2019	72.78	72.77
June 30, 2018	57.35	-

(2) Consolidated Financial Position

(Amounts less than one million yen are truncated)

	Total assets	Net assets	Equity ratio	Net asset per share
	Millions of yen	Millions of yen	%	Yen
Second quarter ended June 30, 2019	479,517	310,117	64.6	2,387.11
Year ended December 31, 2018	498,790	303,570	60.8	2,336.97

[Reference] Shareholders' equity: Second quarter ended June 30, 2019 : 309,529 million yen

Year ended December 31, 2018 : 303,027 million yen

2.Dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	25.00	-	35.00	60.00
Year ending December 31, 2019	-	30.00			
Year ending December 31, 2019 (forecast)		-	-	30.00	60.00

[Note] Revision of cash dividend forecast for this period : Yes

3.Consolidated financial forecast for the fiscal year ending December 31, 2019

(Amounts less than one million yen are truncated)

(Percentage represents increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	622,000	0.1	30,000	3.7	31,200	2.2	21,000	0.8	161.95

[Note] Revision of forecast for this period : Yes

*Others

(1) Material changes in subsidiaries during this period

(Changes in scope of consolidations resulting from change is subsidiaries) : None

(2) Application of a specified accounting procedure :

Yes

(3) Changes in accounting policies and accounting estimates, retrospective restatement

(i) Changes in accounting policies based on revisions of accounting standard : Yes

(ii) Changes in accounting policies other than (i) : None

(iii) Changes in accounting estimates : None

(iv) Retrospective restatement : None

(4) Number of issued and outstanding shares (common stock)

(i) Number of issued and outstanding shares at the end of the period (including treasury stock)

As of June 30, 2019 : 151,079,972

As of December 31, 2018 : 151,079,972

(ii) Number of treasury stock at the end of the period

As of June 30, 2019 : 21,413,140

As of December 31, 2018 : 21,412,840

(iii) Average number of shares

As of June 30, 2019 : 129,666,970

As of June 30, 2018 : 129,668,003

* Audits by CPAs or audit corporations are not required for quarterly financial results.

Disclaimer :

Earnings projections are based on information available at the time these materials were announced, and the Company cannot guarantee that they will be realized. Also, actual results may differ from the estimated figures given due to various factors.

Consolidated Quarterly Balance Sheets

(Amounts less than one million yen are truncated)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	65,071	83,848
Notes and accounts receivable	117,041	101,335
Securities	70,500	15,500
Merchandise and finished goods	31,182	31,884
Work in process	1,191	138
Raw materials and supplies	647	629
Short-term loans receivable	90,014	120,012
Other current assets	7,792	8,158
Allowance for doubtful receivables	(91)	(95)
Total current assets	<u>383,349</u>	<u>361,412</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	28,657	27,683
Machinery, equipment and vehicles, net	112	106
Tools, furniture and fixtures, net	3,059	3,184
Rental assets, net	10,842	10,452
Land	28,918	28,918
Leased assets, net	63	38
Construction in progress	333	4,930
Total property, plant and equipment	<u>71,987</u>	<u>75,313</u>
Intangible assets		
Software	4,940	4,453
Lease assets	5	3
Utilization rights	316	315
Other intangible assets	2	3
Total intangible assets	<u>5,265</u>	<u>4,775</u>
Investments and other assets		
Investment in securities	7,985	8,949
Long-term loans receivable	36	35
Net defined benefit assets	304	300
Deferred tax assets	23,039	21,831
Lease deposits	4,423	4,412
Other investments and other assets	2,832	2,876
Allowance for doubtful receivables	(432)	(390)
Total investments and other assets	<u>38,188</u>	<u>38,015</u>
Total non-current assets	<u>115,441</u>	<u>118,105</u>
Total assets	<u>498,790</u>	<u>479,517</u>

Consolidated Quarterly Balance Sheets

(Amounts less than one million yen are truncated)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable	75,831	46,240
Lease obligations	100	85
Accrued expenses	16,676	15,601
Accrued income taxes	6,967	5,038
Consumption taxes payable	4,063	4,208
Provision for bonuses	3,437	4,306
Provision for directors' bonuses	79	27
Provision for product warranties	447	692
Provision for loss on order received	147	0
Other current liabilities	22,151	29,431
Total current liabilities	<u>129,903</u>	<u>105,632</u>
Long-term liabilities		
Lease obligations	116	121
Deferred tax liabilities	29	0
Allowance for long-term continuous service rewards	1,019	1,076
Net defined benefit liabilities	59,887	59,070
Other long-term liabilities	4,264	3,499
Total long-term liabilities	<u>65,317</u>	<u>63,767</u>
Total liabilities	<u>195,220</u>	<u>169,400</u>
Net assets		
Stockholders' equity		
Common stock	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	189,957	193,859
Treasury stock	(31,924)	(31,925)
Total stockholders' equity	<u>314,156</u>	<u>318,057</u>
Accumulated other comprehensive income (loss)		
Net unrealized gains on available-for-sale securities	2,518	3,057
Deferred gains or losses on hedges	1	(1)
Foreign currency translation adjustments	75	40
Remeasurements of defined benefit plans	(13,725)	(11,625)
Total accumulated other comprehensive income (loss)	<u>(11,129)</u>	<u>(8,528)</u>
Non-controlling interests	<u>542</u>	<u>588</u>
Total net assets	<u>303,570</u>	<u>310,117</u>
Total liabilities and net assets	<u>498,790</u>	<u>479,517</u>

Consolidated Quarterly Statements of Income

(Amounts less than one million yen are truncated)

	Six months of FY2018 (from January 1, 2018 to June 30, 2018)	Six months of FY2019 (from January 1, 2019 to June 30, 2019)
Net sales	300,523	302,856
Cost of sales	195,532	206,069
Gross profit	104,991	96,786
Selling, general and administrative expenses	95,326	83,368
Operating income	9,664	13,418
Non-operating income		
Interest income	111	93
Dividend income	111	106
Insurance income	536	474
Gain on investments in partnership	465	161
Other non-operating income	253	203
Total non-operating income	1,477	1,038
Non-operating expenses		
Interest expense	6	6
Other non-operating expenses	139	102
Total non-operating expenses	145	108
Ordinary profit	10,996	14,348
Extraordinary income		
Gain on sales of fixed assets	120	5
Gain on sales of investment securities	378	-
Gain on sales of shares of subsidiaries and associates	214	-
Total extraordinary income	714	5
Extraordinary losses		
Loss on sales and disposal of fixed assets	106	147
Loss on impairment of fixed assets	15	-
Loss on valuation of investment securities	90	8
Expenses for restructuring of business bases	47	-
Other extraordinary losses	16	2
Total extraordinary losses	276	157
Profit before income taxes	11,434	14,196
Income taxes	3,965	4,694
Profit	7,468	9,501
Profit attributable to non-controlling interests	32	65
Profit attributable to owners of parent	7,436	9,436

* Starting from the first quarter of the current fiscal year, the Company recorded a portion of personnel expenses and others, which had previously been posted as selling expenses, as the cost of sales. This is because the Company changed the aggregation range of costs as a result of examining the positioning of costs for the performance obligation of services, which has been increasingly important in recent years in the wake of the early adoption of the Accounting Standard for Revenue Recognition in the first quarter of the current fiscal year. Compared with the previous method, this change caused an increase of 9,993 million yen in the cost of sales and a decrease in gross profit by the same amount in the first half of the current fiscal year. There is no impact on operating income, ordinary income and profit before income taxes.

Consolidated Quarterly Statements of Comprehensive Income

(Amounts less than one million yen are truncated)

	Six months of FY2018 (from January 1, 2018 to June 30, 2018)	Six months of FY2019 (from January 1, 2019 to June 30, 2019)
Profit	7,468	9,501
Other comprehensive income (loss)		
Net unrealized gains or losses on available-for-sale securities	480	539
Deferred gains or losses on hedges	(9)	(2)
Foreign currency translation adjustments	(22)	(38)
Remeasurements of defined benefit plans, net of tax	504	2,100
Total other comprehensive income (loss)	952	2,597
Comprehensive income	8,421	12,099
Comprehensive income attributable to		
Owners of parent	8,392	12,037
Non-controlling interests	28	61

Consolidated Quarterly Statements of Cash Flows

(Amounts less than one million yen are truncated)

	Six months of FY2018 (from January 1, 2018 to June 30, 2018)	Six months of FY2019 (from January 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Profit before income taxes	11,434	14,196
Depreciation	6,746	6,098
Loss on Impairment of fixed assets	15	-
Increase (decrease) in allowance for doubtful receivables	153	(38)
Increase (decrease) in net defined benefit liabilities	626	2,239
Decrease (increase) in net defined benefit assets	(33)	(7)
Increase (decrease) in provision for bonuses	1,668	868
Interest and dividend income	(222)	(200)
Interest expense	6	6
Loss (gain) on sales and disposal of property, plant and equipment, net	(14)	135
Loss (gain) on sales of investment securities	(377)	-
Loss (gain) on investments in partnership	(465)	(161)
Decrease (increase) in notes and accounts receivable-trade	20,116	16,244
Decrease (increase) in inventories	1,369	(350)
Increase (decrease) in notes and accounts payable-trade	(22,333)	(29,592)
Other, net	(2,131)	(142)
Subtotal	16,558	9,296
Interest and dividends received	222	197
Interest paid	(6)	(6)
Income taxes paid	(5,009)	(6,208)
Net cash provided by (used in) operating activities	11,765	3,280
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(6,358)	(3,954)
Proceeds from sales of property, plant and equipment	250	6
Payments for purchases of intangible assets	(855)	(704)
Payments for purchases of investment in securities	(614)	(215)
Proceeds from sales of investments in securities	291	204
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	526	-
Decrease (increase) in short-term loans receivable, net.	(30,005)	(29,998)
Other, net	77	(204)
Net cash provided by (used in) investing activities	(36,686)	(34,865)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable, net	45	-
Repayments of finance lease obligations	(65)	(63)
Payments for purchases of treasury stock	(1)	(0)
Dividends paid	(4,537)	(4,535)
Dividends paid to non-controlling shareholders	(11)	(15)
Other, net	0	-
Net cash provided by (used in) financing activities	(4,571)	(4,615)
Effect of exchange rate changes on cash and cash equivalents	(39)	(22)
Net increase (decrease) in cash and cash equivalents	(29,531)	(36,222)
Cash and cash equivalents at beginning of period	136,979	135,571
Cash and cash equivalents at end of period	107,447	99,348

Consolidated Quarterly Segment Information

I. Six months of FY2018 (from January 1, 2018 to June 30, 2018)

Information on net sales and income (loss) by reportable segment (Amounts less than one million yen are truncated)

	Reportable segment				Other	Total	Adjustment	Consolidated
	Consumer	Enterprise	Area	Professional				
Net sales								
Sales - external customers	60,975	89,200	123,337	25,371	1,638	300,523	-	300,523
Sales - intersegment	54	4,210	6,852	798	2,282	14,198	(14,198)	-
Total	61,030	93,411	130,190	26,170	3,920	314,722	(14,198)	300,523
Operating income (loss)	(1,103)	4,301	5,509	794	151	9,653	10	9,664

[Note]

1. Other includes call center business and BPO service business, which are not included in reportable segments.
2. Adjustment of Operating income (loss) is the elimination of intersegment transactions.
3. Total amount of Operating income (loss) for Reportable segments, Other and Adjustment is equal to the Operating income of Consolidated Quarterly Statements of Income.

II. Six months of FY2019 (from January 1, 2019 to June 30, 2019)

Information on net sales and income (loss) by reportable segment (Amounts less than one million yen are truncated)

	Reportable segment				Other	Total	Adjustment	Consolidated
	Consumer	Enterprise	Area	Professional				
Net sales								
Sales - external customers	57,661	93,858	126,701	22,340	2,294	302,856	-	302,856
Sales - intersegment	5	4,850	6,127	873	2,699	14,556	(14,556)	-
Total	57,666	98,708	132,829	23,213	4,993	317,412	(14,556)	302,856
Operating income (loss)	(269)	5,501	6,973	1,263	(92)	13,375	42	13,418

[Note]

1. Other includes call center business and BPO service business, which are not included in reportable segments.
2. Adjustment of Operating income (loss) is the elimination of intersegment transactions.
3. Total amount of Operating income (loss) for Reportable segments, Other and Adjustment is equal to the Operating income of Consolidated Quarterly Statements of Income.

NOTE

(Changes in Reporting Segments)

Starting from the first quarter of the current year, the Company transferred "Visual Solutions," which was a subsegment of the "Professional" segment, to the "Enterprise" and "Area" segments. In addition, the amount of intersegment transactions changed because the Company consolidated the planning and development functions of the security business, which were scattered across group companies, into the business units with marketing oversight at Canon Marketing Japan.

Prior-year segment information has been restated accordingly to reflect these changes.

(Changes in Accounting Policy)

Starting from the beginning of the first quarter of the current year, the Company applied the revenue recognition accounting standard and guidance and since the Company changed its accounting methods for revenue recognition, it also changed its measurement methods for the segment income or loss of its business segments accordingly.

Compared to the previous method, in the first half of the current year, this change caused a decrease of 320 million yen in net sales and an increase of 285 million yen in segment income in the "Consumer" segment, a decrease of 206 million yen in net sales and a decrease of 4 million yen in segment income in the "Enterprise" segment, a decrease of 99 million yen in net sales and a decrease of 43 million yen in segment income in the "Area" segment, a decrease of 5 million yen in net sales and a decrease of 2 million yen in segment income in the "Professional" segment, and a decrease of 0 million yen in net sales and a decrease of 0 million yen in segment income in the "Other" segment.