

(Documents provided in accordance with Articles 437 and 444 of the Companies Act of Japan)

B U S I N E S S
R E P O R T

(January 1, 2018 to
December 31, 2018)

1. Current Conditions of Canon Marketing Japan and its consolidated subsidiaries (the “Group”)

(1) Business Progress and Achievement

■ General Business Conditions

Looking back at the Japanese economy over this Year, although firms tended to increase their IT investment and other capital investment, consumer sentiment appeared stuck in the doldrums.

Against this economic backdrop, we recorded net sales of ¥621,591 million (down 1.7% from the previous year) due to the unexpectedly weaker demand of digital SLR cameras and inkjet printers, which offset growth in areas such as IT solutions and industrial equipment.

In terms of income meanwhile, we posted operating income of ¥28,941 million (down 4.8%) and ordinary income of ¥30,519 million (down 3.1%) due to lower sales of highly profitable products, however profit attributable to owners of parent came to ¥20,826 million (up 0.7%).

For realization of the basic policies under Long-Term Management Objectives Phase III, we made the transition from an organizational framework based on products to a new organizational framework based on markets and customers from January 1, 2018. As a result of this change, starting from this fiscal year under review, we changed our reportable segments from Business Solutions, IT Solutions, Imaging Systems and Industrial/Medical to Consumers, Enterprise, Area and Professional.

Year-on-year increases or decreases contained in this Business Report are calculated based on a comparison with the previous fiscal year’s data restated to reflect the new reportable segments.

■ Business Conditions by Segment

Consumers

In the fiscal year under review, sales of mirrorless cameras increased mainly due to sales of EOS Kiss M, the first mirrorless camera under the Kiss series acquiring the position of the best-selling mirrorless camera position in Japan, and the launch of EOS R, our first full-frame mirrorless camera with new RF lenses. However, sales of digital interchangeable lens cameras declined overall due to the shift from digital SLR cameras to mirrorless cameras and weak demand under the impact of market contraction. Sales of compact digital cameras also registered decline caused by a shrinking market.

Inkjet printer sales fell due to market decline reflecting the decreased use of the New Year’s card, despite strong sales of business inkjet printers. Sales of ink cartridges also decreased owing to reduction in printing volumes associated with the falling number of Machine in Field.

Sales of IT products increased thanks to strong sales of products as such as gaming computers and mobile batteries.

As a result, net sales in this segment totaled ¥150,244 million (down 9.6% from the previous year), with operating income coming in at ¥7,333 million (down 42.1%).

Enterprise

In the fiscal year under review, business with credit card companies and securities firms was driven by large-scale SI projects, and we also performed solidly in form design-related solutions for life insurance companies and cloud systems designed to increase the efficiency of investigation operations for non-life insurance companies. Meanwhile, in business with banks, sales increased, mainly due to the receipt of new orders for BPO projects to reduce workload in trust operations.

Business for the manufacturing industry was driven by production management system projects for electrical manufacturers and large-scale office construction projects for chemical manufacturers and migration projects due to system upgrades were also strong, contributing to higher sales.

Business with the distribution industry was mainly driven by document management system projects for airlines, and the receipt of orders for large projects involving office MFPs also contributed to higher sales.

In the education fields, where universities are our main customers, sales fell slightly, mainly reflecting the absence of large projects received the previous year despite orders received for multiple projects using in Campus, which provides IT platforms such as on-campus information transmission systems and learning management systems.

Meanwhile, Canon IT Solutions Inc. performed strongly in data center services, which are highly rated due to the high performance of facilities and the high quality of operations, security solutions including ESET and the automotive embedded software business, in addition to the sector-specific solutions outlined above.

As for sales of office MFPs in this segment, sales to customers such as megabanks and large distribution firms increased. Meanwhile, sales of laser printers decreased due to falling selling prices despite an increase in shipments mainly due to large projects for life insurance companies.

As a result, net sales in this segment totaled ¥187,717 million (up 5.7% from the previous year), with operating income coming in at ¥9,609 million (up 24.3%).

Area

In the fiscal year under review, sales of IT products increased, reflecting the replacement of business computers, and various types of IT introduction support and maintenance services also performed strongly. Meanwhile, HOME, an IT support cloud computing service for small-to-medium-sized customers, and ESET antivirus software also continued to sell well and sales from IT solutions business increased. However, shipments of mainstay hardware products such as office MFPs and laser printers were weak, causing sales to fall slightly.

As a result, net sales in this segment totaled ¥255,910 million (down 0.8% from the previous year), with operating income coming in at ¥13,027 million (up 14.0%).

Professional

(Professional Printing)

Sales fell due to weak performances in high-speed cut-sheet printers and high-speed continuous feed printers.

(Industrial)

Sales increased due to solid performances of products such as semiconductor manufacturing equipment, inspection and measurement equipment and industrial components.

(Health Care)

Sales declined, reflecting a weak performance in modality projects for hospitals, amongst others, despite growth in areas such as medical information systems and ophthalmic instruments.

(Visual Solutions)

Business with broadcasters was brisk thanks to a rise in demand associated with the launch of 4K and 8K satellite TV broadcasts. However, sales of network cameras declined, causing sales to remain mostly flat.

As a result, this segment recorded net sales of ¥52,447 million (down 3.1% from the previous year) and an operating loss of ¥937 million (operating loss of ¥1,869 million in the previous year).

(2) Capital Expenditures

The capital expenditures by the Group during this fiscal year totaled ¥8,453 million, which are mainly as rented assets, tools, fixtures and fittings, and ancillary facilities at our Nishi-Tokyo Data Center.

(3) Issues to be Addressed

We expect the Japanese economy to continue its mild recovery. However, we also expect that future prospects will continue to be unclear due to uncertainty about the outcome of trade issues and overseas economies, the impact of fluctuations in financial and capital markets, and other factors.

Against this economic backdrop, our top priority as the Group is to build on our various strengths, including our strong customer base, our range of highly competitive Canon products, and our IT capabilities, to expand our business domain even further. To achieve that, we have made it our Group Mission under our Long-Term Management Objectives Phase III (2016 to 2020) to “help resolve social issues with advanced imaging & IT solutions,” and are committed to expanding our business based on our Group Vision: “the Canon Marketing Japan Group understands its customers and grows with its customers.”

Under our Three-Year Management Plan 2019 to 2021 starting this fiscal year, we will focus on six basic strategies.

- (i) Achieve profitable growth in expanding market areas
- (ii) Raise productivity in Canon’s existing businesses including cameras, MFPs and printers
- (iii) Implement structure reforms to rebuild business portfolio
- (iv) Use alliances and M&A to enter new areas, expand operations, and supplement capabilities
- (v) Implement organizational, personnel and Human Resources strategies for achieving sustainable business expansion
- (vi) Reduce SG&A expenses through radical cost structure reforms

Within the context of (i) above, we plan to focus on the rapidly growing IT solutions market and use IT solutions to propel our future growth. Specific strategies in the IT solutions business are as follows.

1. Raise productivity and expand operations in SI services business

We will make effective use of customer base to expand business-specific solutions. We will seek to shift away from contract-based system development to proposal-based development using packaged software and service provision-based SI.

2. Increase added value in IT infrastructure services

We will seek to increase profitability by creating projects that encompass added value services such as system monitoring and security operations, with Nishi-Tokyo Data Center playing a central role.

3. Expand IT solutions business with small-to-medium-sized customers

We will become an “IT concierge,” fulfilling the role of IT officer for small-to-medium-sized customers, which is the Group’s largest customer base, and we will strengthen marketing of solutions built around security products. We will also share the knowhow developed in this field with business partner channels and make this knowhow a pillar for the growth of the Group’s IT solutions business.

4. Leverage IT to expand BPO services

We consolidated the BPO businesses of Group companies to establish the BPO Management Center. We will establish business-specific BPO models based on an intimate knowledge of every type of business and provide services with high levels of expertise and productivity.

5. Ensure SEs and professional human resources

We will seek to expand SEs and human resources with expertise in each business area to accelerate achievement of a growth scenario in the IT solutions business.

We will endeavor to expand our operations and enhance business performance by promoting these priority strategies.

(4) Status of Assets and Earnings

■ Consolidated

	47th Fiscal Year (Jan.1, 2014 ~ Dec.31, 2014)	48th Fiscal Year (Jan.1, 2015 ~ Dec.31, 2015)	49th Fiscal Year (Jan.1, 2016 ~ Dec.31, 2016)	50th Fiscal Year (Jan.1, 2017 ~ Dec.31, 2017)	51st Fiscal Year (Jan.1, 2018 ~ Dec.31, 2018)
Net Sales (Millions of yen)	659,432	646,002	629,313	632,189	621,591
Operating income (Millions of yen)	25,087	26,647	27,676	30,406	28,941
Ordinary income (Millions of yen)	26,553	28,040	28,717	31,491	30,519
Profit attributable to owners of parent (Millions of yen)	16,030	15,670	18,161	20,679	20,826
Profit attributable to owners of parent per share (yen)	123.62	120.84	140.06	159.48	160.61
Total Assets (Millions of yen)	479,747	486,502	497,727	510,832	498,790
Net Assets (Millions of yen)	270,352	277,438	280,919	297,522	303,570

Note: Profit attributable to owners of parent per share is calculated based on the weighted average number of outstanding shares during the year.

(5) Main Business

Segment	Major Products / Services
Consumers	Provision of digital cameras, inkjet printers and other products and services to individual customers
Enterprise	Provision of Canon input-output devices and solutions to large enterprises to help solve sector-specific management issues
Area	Provision of Canon input-output devices and solutions to small-to-medium-sized customers throughout Japan to help solve management issues faced by customers
Professional	<p>Provision of solutions to customers in specialist areas</p> <p>(Professional Printing) Provision of high-speed continuous feed printers and high-speed cut-sheet printers mainly to printing industry</p> <p>(Industrial) Provision of semiconductor manufacturing systems, inspection and measuring devices and other industrial solutions mainly to semiconductor manufacturers and other electronic device manufacturers</p> <p>(Health Care) Provision of various types of modalities and IT systems and solutions combining both to medical institutions and provision of dispensing equipment, IT systems and other solutions to pharmacies</p> <p>(Visual Solutions) Provision of network camera solutions for monitoring and commercial applications and commercial imaging equipment to broadcasters</p>

(6) Main location of operations

■The Company

Headquarters (Tokyo)	Sapporo Branch (Hokkaido)
Konan Office (Tokyo)	Sendai Branch (Miyagi)
Makuhari Office (Chiba)	Nagoya Branch (Aichi)
	Osaka Branch (Osaka)
	Hiroshima Branch (Hiroshima)
	Fukuoka Branch (Fukuoka)

■Principal Subsidiaries

Canon IT Solutions Inc.	(Tokyo)
Canon System & Support Inc.	(Tokyo)
Canon Production Printing Systems Inc.	(Tokyo)
Canon Lifecare Solutions Inc.	(Tokyo)

(7) Employees

■Consolidated

Number of Employees	Change from the end of the previous year
17,282persons	Decrease of 365 persons from the previous year

Segment	Number of Employees	Change from the end of the previous year
Consumers	566 persons	Increase of 103 persons from the previous year
Enterprise	5,161 persons	Decrease of 79 persons from the previous year
Area	6,345 persons	Decrease of 628 persons from the previous year
Professional	1,416 persons	Decrease of 298 persons from the previous year
Other	3,794 persons	Increase of 537 persons from the previous year

Note: The segment figures for the period in end of the previous year represent the results of recalculation in accordance with the definition of new segments that applies to the period under review.

(8) Parent Company and Principal Subsidiaries

■Parent Company

Parent Company Name	Location	Activities	Number of Voting Rights (Ratio of Voting Rights)	Relation with the Company
Canon Inc.	Ohta-ku Tokyo	Development and production in the field of the office, imaging systems and industrial equipment	757,086 (58.5%)	The Company is comprehensively conducting to sales, services and marketing of the products manufactured by the Parent Company in the Japan market.

■Matters about the transactions with Parent Company, etc.

The Company holds the exclusive right to sell within Japan all products, excluding semiconductor exposure devices and liquid crystal substrate exposure devices, manufactured by Parent Company under the Canon brand.

In purchasing such products, the terms are negotiated and determined for each year by presenting the preferred prices from the Company taking into account market prices.

The Company sells consumables for office equipment to the Parent Company based on the same terms as regular transactions.

The Company lends funds to the Parent Company by the interest rates determined reasonably taking into account market rates.

Thus, the board of directors assesses that the Company is conducting business activities and making management decisions based on the Company's own management judgments, certain independence from the Parent Company is secured, and the Company's profit is not harmed in the transactions with the Parent company.

■Principal Subsidiaries

Company Name	Capital Stock (millions of yen)	Ratio of Voting Rights of the Company(%)	Business
Canon IT Solutions Inc.	3,617	100.0	SI and consulting, IT service and development and sale of various softwares
Canon System & Support Inc.	4,561	100.0	Consulting, sales, support and maintenance services for Canon products and the IT solutions of other companies
Canon Production Printing Systems Inc.	2,744	100.0	Sales of high-speed continuous feed printers, high-speed cut sheet printers and consumables, maintenance service, and printing service, etc.
Canon Lifecare Solutions Inc.	2,533	100.0	Sales of medical equipment, healthcare related equipment and consumables and medical image systems

■Consolidated Status

1. The number of consolidated subsidiaries was 20.
2. The Company took over business belonging to the Facility Management Services Department of Canon Business Support Inc. by way of absorption-type merger effective April 1, 2018.

2. Status of Shares of the Company

(1) Total number of shares authorized 299,500,000 shares

(2) Total number of issued shares, Capital stock, Number of shareholders

	As of the end of the Previous Year	Change during This Year	As of the end of This Year
Total number of issued shares (shares)	151,079,972	—	151,079,972
Capital stock (yen)	73,303,082,757	—	73,303,082,757
Number of shareholders (persons)	11,188	Increase of 1,218	12,406

(3) Major shareholders

Name of shareholders	Number of shares held (thousands of shares)	Shareholding ratio (%)
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, TR EATY JASDEC ACCOUNT	1,890	1.5
STATE STREET BANK AND TRUST COMPANY 505001	1,646	1.3
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,157	0.9
Japan Trustee Services Bank, Ltd. (Trust account5)	1,102	0.9
BNYMSANV RE BNYMIL RE LFMORANT WRIGHT NIPPON YIELD FUND	1,050	0.8
Mizuho Bank, Ltd.	1,001	0.8

Note: 1. The Company possesses 21,412,840 shares of its treasury shares (14.2% of the total number of issued shares).

2. The shareholding ratio is calculated by deducting the number of treasury shares from the total number of issued shares.

(4) Shareholding ratio by category

Financial institutions 9.9%	Securities companies 1.1%	Other domestic companies 51.2%	Foreign companies, etc. 11.9%	Individuals and others 11.7%	Treasury shares 14.2%
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3. Status of Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

Position	Name	Business in Charge or Important Concurrent Posts
President & Representative Director Executive President	Masahiro Sakata	
Representative Director Senior Vice President	Yutaka Usui	Director in charge of Group CSR, Group general affairs and personnel affairs, Group legal affairs and intellectual property, Group procurement and Group logistics
Director Senior Vice President	Yoshiyuki Matsusaka	Director in charge of Video Solutions Co-creation Project, Group planning and Group communication Vice Director of Marketing Headquarters Director of Consumer Business Unit
Director Senior Vice President	Masachika Adachi	Director in charge of Group ITS and IT Platform Functional Unit Director of Enterprise Business Unit President & Representative Director of Canon IT Solutions Inc.
Director Vice President	Shiro Hamada	Director in charge of Group accounting and Group audits
Director	Akio Dobashi	Outside Director of Maeda Corporation
Director	Yoshio Osawa	
Audit & Supervisory Board Member	Masahiro Shimizu	
Audit & Supervisory Board Member	Shinichi Inoue	
Audit & Supervisory Board Member	Kunihiko Tedo	
Audit & Supervisory Board Member	Nobuyasu Kusumi	
Audit & Supervisory Board Member	Shigeo Hasegawa	

- (注) 1. Director Mr. Yoshio Osawa and Audit & Supervisory Board Member Mr. Shinichi Inoue were appointed at the 50th Ordinary General Meeting of Shareholders held on March 28, 2018 and each of them assumed office.
2. Directors Mr. Akio Dabashi and Mr. Yoshio Osawa are Outside Directors.
3. Audit & Supervisory Board Members Mr. Kunihiko Tedo, Mr. Nobuyasu Kusumi and Mr. Shigeo Hasegawa are Outside Audit & Supervisory Board Members.
4. The Company has notified Directors Mr. Akio Dobashi and Mr. Yoshio Osawa as independent directors and Audit & Supervisory Board Members Mr. Nobuyasu Kusumi and Mr. Shigeo Hasegawa as independent Audit & Supervisory Board Members to Tokyo Stock Exchange, Inc. on which the Company is listed as provided under the regulations of Tokyo Stock Exchange, Inc.
5. Audit & Supervisory Board Member Mr. Masahiro Shimizu has accounting experience in the Company for many years and has a wealth of expertise in finance and accounting.
6. Audit & Supervisory Board Member Mr. Kunihiko Tedo is has accounting experience in Canon Inc., our parent company, for many years and has a wealth of expertise in finance and accounting.
7. Audit & Supervisory Board Member Mr. Shigeo Hasegawa is qualified as a Certified Public Accountant and has a wealth of expertise in finance and accounting.
8. The Company has entered into contracts, in accordance with the Articles of Incorporation, with the Outside Director and the Audit & Supervisory Board Members to limit their liabilities to compensate damages under Paragraph 1, Article 423 of the Companies Act of Japan, to the limit of amount set forth in the Paragraph 1, Article 425 of the Companies Act of Japan.

(2) Remuneration to Directors and Audit & Supervisory Board Members

Directors 11 persons ¥375 million

Audit & Supervisory Board Members 6 persons ¥107 million

Notes:1. The total amount of remuneration paid to 3 Outside Directors and 3 Outside Audit & Supervisory Board Members is ¥80 million.

2. The above number of persons includes four directors and one Audit & Supervisory Board Member who retired from office at the end of the 50th Ordinary General Meeting of Shareholders held on March 28, 2018.

3. Directors' remuneration include provision for directors' bonuses for this fiscal year in the amount of ¥40 million.

(3) Status of Outside Director and Outside Audit & Supervisory Board Members

■Relation Between Important Organization of Concurrent Post and the Company

Name	Concurrent Post	Organization of Concurrent Post	Relation with The Company
Akio Dobashi (Outside Director)	Outside Director	Maeda Corporation	No special relation

■Principal Activities

Name	Principal Activities
Akio Dobashi (Outside Director)	Attended all 15 Board of Directors meetings held during this fiscal year, and provided input based on his experience and knowledge in the field of corporate management.
Yoshio Osawa (Outside Director)	Attended all 10 of the 15 Board of Directors meetings held after he assumed the post and provided input based on his experience and knowledge in the field of corporate management.
Kunihiko Tedo (Outside Audit & Supervisory Board Member)	Attended all of 15 Board of Directors meetings and all of 18 Audit & Supervisory Board meetings held during this fiscal year, and provided input based on his experience and knowledge in the field of accounting.
Nobuyasu Kusumi (Outside Audit & Supervisory Board Member)	Attended all of 15 Board of Directors meetings and all of 18 Audit & Supervisory Board meetings held during this fiscal year, and provided input based on his experience and knowledge in the field of corporate management.
Shigeo Hasegawa (Outside Audit & Supervisory Board Member)	Attended all of 15 Board of Directors meetings and all of 18 Audit & Supervisory Board meetings held during this fiscal year, and provided input based on his insight as a Certified Public Accountant when necessary.

4. Status of Accounting Auditor

(1) Name of Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Remuneration and Other Amounts to Accounting Auditor for This fiscal year

	Amount
(i) Remuneration and other amounts payable by the Company for the services defined in Paragraph 1, Article 2 of the Certified Public Accountants Act	111 million (yen)
(ii) Total amount of cash and other financial benefits payable by the Group to the Accounting Auditor	189 million (yen)

Notes: 1. In the audit agreement between the Company and the Accounting Auditor, remuneration amounts are determined on a lump-sum without breakdown into a separate remuneration amount for auditing in accordance with the Companies Act and in accordance with the Financial Instruments and Exchange Act. Accordingly, the amounts shown in (i) above represent total amounts of remuneration and other amounts for both of these auditing services.

2. The Company pays consideration to accounting auditors for work concerning agreed upon procedures other than the work specified in Article 2, Paragraph 1 of the Certified Public Accountants Act.

3. Reason that the Audit & Supervisory Board reached an agreement regarding the remuneration to Accounting Auditor:
The Audit & Supervisory Board has received necessary documents and reports from the Directors, related internal divisions, and the Accounting Auditor, in addition to confirming the audit plan, status of the performed audit for the previous year, and the estimated remuneration for this fiscal year. As a result, the Audit & Supervisory Board reached an agreement regarding the remuneration to Accounting Auditor, upon judging it to be a rational level for maintaining and improving audit quality.

(3) Policy Regarding Decision on Either Dismissal or Non-Reappointment of the Accounting Auditor

The Audit & Supervisory Board, by unanimous agreement, as needed, will dismiss the Accounting Auditor when confirmed that the Accounting Auditor falls under any Item of Paragraph 1, Article 340 of the Companies Act.

In addition to the above, should anything occur to negatively impact the qualifications or independence of the Accounting Auditor, making it unlikely that the Accounting Auditor will be able to properly perform an audit, the Audit & Supervisory Board will decide the contents of the item to be proposed at a General Meeting of Shareholders regarding the dismissal or non-reappointment of the Accounting Auditor.

5. Systems for Ensuring Appropriateness of Business Operations and Outline of Implementation Activities

The content of the resolution of the Board of Directors regarding the systems necessary to ensure the appropriateness of the Company's operations (basic policy) as well as the outline of implementation activities for the aforementioned systems, are as follows:

<p>Systems for Ensuring Appropriateness of Operations (the "Internal Control System")</p>	<p><u>Content of Basic Policy Resolution</u> To ensure the appropriateness of operations and to work for continuous improvement in corporate value, Canon Marketing Japan Inc. (the "Company") and the enterprises consisting of the Company and its consolidated subsidiaries (the "Group"), shall foster a sound corporate culture based on the Spirit of "Three Self" (Self-motivation, Self-management, and Self-awareness) – guiding principles of Canon Group (Canon Inc., parent company of the Company, and its subsidiaries). The Group shall also work to foster a law-abiding awareness through the "Canon Group Code of Conduct." Furthermore, the Group shall firmly strive to ensure management transparency through clearly defined approval processes of important matters of the Group.</p>
<p>1. System for Compliance (Item 6, Paragraph 4, Article 362 of the Companies Act of Japan (the "Companies Act"), and Item 4, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)</p>	<p><u>Content of Basic Policy Resolution</u> (1) The Board of Directors, in accordance with regulations prescribed by the Board of Directors (the "Regulations of the Board of Directors"), shall make decisions on important the Group managerial matters after careful deliberation. Additionally, the Board of Directors shall have representative directors, executive directors and executive officers (collectively the "Officers") give reports regarding their execution of duties. (2) The Company shall thoroughly instill compliance awareness through training and other programs geared towards new employees, managers, and newly-appointed board members and executive officers, utilizing the "Canon Group Code of Conduct," as a standard to be adhered to in the execution of duties. (3) As a part of the Company's risk management system, the Company shall put in place business procedures/checking systems that prevent violation of laws and regulations and the Company's articles of incorporation in the course of daily business. It shall also maintain a compliance education system. (4) The internal audit office of the Company, which has the authority to audit all executions of duties, shall also conduct audits regarding the status of compliance with laws and regulations and the Company's articles of incorporation. (5) If an act that violates laws and regulations, or the Company's articles of incorporation is discovered in the Group, employees have the ability to report such fact by means of a whistleblowing system. Additionally, the Company shall prohibit any disadvantageous treatment of any whistleblower.</p>

	<p><u>Outline of Implementation Activities</u></p> <p>(1) During this year, 15 Board of Directors meetings were held. At these meetings, in addition to deliberating and deciding on important matters, the Board of Directors received reports from Directors in charge of major divisions concerning the execution of business.</p> <p>(2) In addition to implementing compliance training that follows the “Canon Group Code of Conduct,” the Company held Compliance Meeting, an event held once every six months to discuss on familiar risks of law-and-regulation violations by each respective workplace.</p> <p>(3) The activity is described in 2 Outline of Implementation Activities, (1) below.</p> <p>(4) The internal audit office conducts audits of each division and the Group for various themes. The results of these audits have been then reported to the President, Directors in charge of major divisions and Audit & Supervisory Board Member, and when necessary, proposals for improvement are given.</p> <p>(5) The rules on use of the whistleblowing system, including the explicit prohibition of the disadvantageous treatment of whistleblowers, are disseminated via the intranets of the Company, along with information on the contact counter for reporting internal problems. In this year, there were no whistleblower reports relating to serious violations of laws and regulations, or the like.</p>
<p>2. System for Risk Management (Item 2, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)</p>	<p><u>Content of Basic Policy Resolution</u></p> <p>(1) The Company shall conduct various measures with regard to improving the risk management system in accordance with the regulations regarding risk management. These measures include the system for grasping any significant risks (violation of laws and regulations, misstatement of financial reporting, quality issues, work-related injuries, disasters, etc.) that the Group may face in the course of business. Additionally, the Company shall evaluate the status of design and implementation of the risk management system and report its findings to the Board of Directors.</p> <p>(2) The Company established the Management Committee, and the Committee shall carefully deliberate items in case it is considered important even if items are not submitted to the Board of the Directors.</p> <p><u>Outline of Implementation Activities</u></p> <p>(1) The Group categorized the risks which may cause significant impact on the Group into 3 risks of Financial risk, Compliance risk and Business risk, in accordance with the “Regulations of Risk</p>

	<p>Management.” The Group conducted various measures with regard to the risk management system. Additionally, the Company evaluated the status of design and implementation of the risk management system and reported its findings to the Board of Directors, based on the activity plan of this year approved by the Board of Directors.</p> <p>(2) The Management Committee was held 12 times in this year, and important matters were deliberated. In addition to the Directors in charge of executing business operations, Audit & Supervisory Board Members also attended, as necessary, and provided their opinions.</p>
<p>3. System for Efficient Execution of Duties (Item 3, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)</p>	<p><u>Content of Basic Policy Resolution</u></p> <p>(1) Based on regulations regarding approval processes of important matters and the division of duties adopted by the Board of Directors, the Directors and other officers shall execute shared duties under the supervision and direction of the President.</p> <p>(2) The Company shall formulate Long-Term Management Objectives as 5-year management goals and 3-year priority measures, contained in Mid-Term Management Plan(Three-Year Management Plan) at its Management Committee. Based upon these plans, the Company shall manage operations from a unified group approach.</p> <p><u>Outline of Implementation Activities</u></p> <p>(1) The Officers have executed the duties allocated to them in accordance with the related rules.</p> <p>(2) The Company decides on a mid-term management plan and the necessary measures, which is decided based on discussions such as held at the Management Committee attended by the Officers of the Company and the executive officers of the major subsidiaries, and ensures the cohesion of the Group's corporate management.</p>
<p>4.System for Group Management (Item 5, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)</p>	<p><u>Content of Basic Policy Resolution</u></p> <p>The Company strengthens the internal control system by requiring subsidiaries to follow the respective items:</p> <p>a) to obtain prior approval from the Company or report to the Company important decisions in accordance with the “Regulations of Important Matters Approval of Canon MJ Group Companies,” prescribed by the Board of Directors,</p> <p>b) to grasp significant risks that the subsidiary may face in the course of business and to verify and evaluate the status of design and implementation of the risk management system and report their findings to the Company in accordance with the regulations regarding risk management,</p> <p>c) to design an appropriate organization under the governing law of incorporation and to clearly define</p>

	<p>approval processes and authorities of executive officers,</p> <p>d) in addition to thoroughly instilling compliance awareness through the “Canon Group Code of Conduct,” to put in place business procedures/checking systems that prevent violation of laws and regulations and subsidiaries’ articles of incorporation in the course of daily business and prepare a compliance education system as a part of subsidiaries’ risk management system, and</p> <p>e) to establish a whistleblowing system and prohibit any disadvantageous treatment of any whistleblower.</p> <p><u>Outline of Implementation Activities</u></p> <p>a) The Company received reports from the Group or provided prior approval in accordance with the “Regulations of Important Matters Approval of Canon MJ Group Companies.”</p> <p>b) In order to conduct evaluation of the status of design and implementation of the risk management system described in 2 Content of Basic Policy Resolution, (1) above, the Group being evaluated implemented evaluation of the respective targeted risks.</p> <p>c) The Group performs, as appropriate, a review of the appropriateness of organizational design, and approval criteria and processes in accordance with the applicable laws and regulations and the nature of business and other factors.</p> <p>d) In addition to the activities of 2 Outline of Implementation Activities, (1) above, the Group establishes places for training and discussion as necessary and ensures utmost compliance.</p> <p>e) The Group establishes an in-house hotline system and totally prohibits any disadvantageous treatment of any whistleblower.</p>
<p>5. System for Storing and Managing Information (Item 1, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)</p>	<p><u>Content of Basic Policy Resolution</u></p> <p>Information related to the execution of duties of Officers, including meeting minutes of the Board of Directors and approval documents, shall be maintained and managed by respective divisions in charge of such management in accordance with laws and regulations, the “Regulations of the Board of Directors,” and other related rules. Directors and Audit & Supervisory Board Members have the ability to inspect this information at any time.</p> <p><u>Outline of Implementation Activities</u></p> <p>Whenever deemed necessary, Directors, Audit & Supervisory Board Members and members of the internal audit office inspect or obtain copies of minutes of the Board of Directors meeting, minutes of the Management Committee, and other records such as approvals by the President.</p>
<p>6. System for Auditing by Audit & Supervisory Board Members (Paragraph 3, Article 100 of the</p>	<p><u>Content of Basic Policy Resolution</u></p> <p>(1) Although the Company does not assign a dedicated full-time employee or set an organization to assist the</p>

<p>Enforcement Regulations of the Companies Act)</p>	<p>duties of Audit & Supervisory Board Members, the internal audit office, the legal division and other divisions will consult and assign an employee to assist the works of Audit & Supervisory Board Members (the “Assisting Employee”), on matters requested by Audit & Supervisory Board Members. The Assisting Employee shall give priority to execute the duties requested by Audit & Supervisory Board Members. Any change in the Assisting Employee shall require the prior consultation of the Audit & Supervisory Board.</p> <p>(2) Audit & Supervisory Board Members shall grasp the execution of duties by Director and other officers, by attending not only meetings of the Board of Directors, but also other important meetings such as meetings of the Management Committee.</p> <p>(3) The administrative divisions of the headquarters, such as human resources, finance & accounting, and legal affairs, shall hold meetings with Audit & Supervisory Board Members and report on the execution of duties in a timely manner. Additionally, if any material breach of laws and regulations occurs, the relevant division shall immediately report this to Audit & Supervisory Board Members.</p> <p>(4) Audit & Supervisory Board Members shall be reported from accounting auditors periodically and upon necessity.</p> <p>(5) Audit & Supervisory Board Members shall hold periodic meetings with counterparts of domestic subsidiaries and work to improve the auditing system from a unified group perspective by sharing information. Additionally, Audit & Supervisory Board Members shall grasp the execution of duties by Directors and other officers of subsidiaries, by auditing major subsidiaries in and outside Japan as necessary.</p> <p>(6) The Company prohibits any disadvantageous treatment of any person that reports to Audit & Supervisory Board Members. The Company also seeks its subsidiaries to prohibit any disadvantageous treatment.</p> <p>(7) For expenses that are required in the execution of the Audit & Supervisory Board Members duties, they shall be borne by the Company as requested by the Audit & Supervisory Board Members.</p>
	<p><u>Outline of Implementation Activities</u></p> <p>(1) The Company assigned the Assisting Employee from the legal division, and the Assisting Employee executed the duties as requested by Audit & Supervisory Board Members. Change to the Assisting Employee, were decided upon prior consultation with the Audit & Supervisory Board.</p>

	<p>(2) Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, attended Board of Directors meetings and important meetings such as the Management Committee meetings, and the executive officers meetings.</p> <p>(3) The administrative divisions of the headquarters held periodic meetings with the Audit & Supervisory Board Members, and reported the status of execution of business operations. In addition, the internal audit office reported the results of audits to not only the President but to Directors in charge of major divisions and Audit & Supervisory Board as well.</p> <p>(4) Audit & Supervisory Board Members, in addition to periodically receiving reports from the Accounting Auditor on the results of the audit of this year in accordance with laws and regulations, they also hold hearings with the Accounting Auditor to inquire on the status of audits as necessary.</p> <p>(5) Audit & Supervisory Board Members, as necessary, held meetings with audit & supervisory board members of domestic subsidiaries and exchanged information. In addition, Audit & Supervisory Board Members audited the major subsidiaries.</p> <p>(6) In addition to 1 Outline of Activities, (5) above, the Company did not treat any person that reported to Audit & Supervisory Board Members disadvantageously.</p> <p>(7) In this year, there were no situations of shortfalls in the budget allocated for the implementation of audits in accordance with the audit plan.</p>
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6. Policy Regarding Decision of Dividends from Surplus, etc.

The Company made its basis policy, with respect to profit distribution, in the Three-Year Management Plan 2019 to 2021 to pay the dividends based on a consolidated payout ratio of 30% taking into consideration comprehensively the medium-term profit plan, investment plan, and cash flows to be generated.

As to the dividends for this fiscal year, the Company plans to pay a year-end dividends of 35 yen per share, totaling 60 yen per share (consolidated payout ratio of 37.4%) as a full-year dividends together with the interim dividends (25 yen per share).

Note: The amount and the number of shares described in this report are rounded down to the nearest number of the units indicated. Profit attributable to owners of parent per share are rounded off to two decimal places.

Consolidated Balance Sheets

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

	As of Dec. 31, 2018	As of Dec. 31, 2017		As of Dec. 31, 2018	As of Dec. 31, 2017
■ Assets			■ Liabilities		
Current assets	387,244	397,506	Current liabilities	129,903	157,398
Cash and deposits	65,071	66,479	Notes and accounts payable	75,831	100,940
Notes and accounts receivable	117,041	125,626	Short-term loans payable	—	147
Securities	70,500	70,500	Lease obligations	100	125
Merchandise and finished goods	31,182	32,076	Accrued expenses	16,676	18,168
Work in process	1,191	958	Accrued income taxes	6,967	6,289
Raw materials and supplies	647	836	Consumption taxes payable	4,063	4,586
Deferred tax assets	3,895	4,062	Provision for bonuses	3,437	3,443
Short-term loans receivable	90,014	90,014	Provision for directors' bonuses	79	128
Other	7,792	7,050	Provision for product warranties	447	487
Allowance for doubtful receivables	(91)	(98)	Provision for loss on order received	147	132
			Other	22,151	22,949
Non-current assets	111,545	113,325	Non-current liabilities	65,317	55,911
Property, plant and equipment	71,987	75,090	Lease obligations	116	163
Buildings and structures, net	28,657	30,825	Deferred tax liabilities	29	438
Machinery, equipment and vehicles, net	112	251	Allowance for long-term continuous service rewards	1,019	961
Furniture and fixtures, net	3,059	3,732	Net defined benefit liabilities	59,887	49,604
Rental assets, net	10,842	11,058	Other	4,264	4,743
Land	28,918	29,016			
Lease assets, net	63	116			
Construction in progress	333	89			
Intangible assets	5,265	5,485	Total liabilities	195,220	213,310
Software	4,940	5,153	■ Net assets		
Lease assets	5	12	Shareholders' equity	314,156	301,113
Right of using facilities	316	316	Capital stock	73,303	73,303
Other	2	2	Capital surplus	82,820	82,820
Investments and other assets	34,292	32,750	Retained earnings	189,957	176,911
Investments in securities	7,985	9,027	Treasury stock	(31,924)	(31,921)
Long-term loans receivable	36	29	Accumulated other comprehensive Income	(11,129)	(4,081)
Net defined benefit asset	304	404	Valuation difference on available-for-sale securities	2,518	3,159
Deferred tax assets	19,143	16,203	Deferred gains or losses hedges	1	6
Lease deposits	4,423	4,880	Foreign currency translation adjustments	75	98
Other	2,832	2,532	Remeasurements of defined benefit plants	(13,725)	(7,345)
Allowance for doubtful receivables	(432)	(327)	Non-controlling interests	542	490
			Total net assets	303,570	297,522
Total assets	498,790	510,832	Total liabilities and net assets	498,790	510,832

Consolidated Statements of Income

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

	From January 1, 2018 to December 31, 2018	From January 1, 2017 to December 31, 2017
Net sales	621,591	632,189
Cost of sales	403,417	408,417
Gross profit	218,173	223,771
Selling, general and administrative expenses	189,231	193,365
Operating income	28,941	30,406
Non-operating income	1,807	1,328
Interest income	197	165
Dividend income	153	121
Insurance income	547	549
Gain on investments in partnership	494	—
Other	413	493
Non-operating expenses	229	244
Interest expenses	12	12
Foreign exchange losses	—	11
Other	216	220
Ordinary income	30,519	31,491
Extraordinary income	830	1,482
Gain on sales of noncurrent assets	126	879
Gain on sales of investments in securities	489	539
Gain on sales of shares of subsidiaries and associates	214	—
Other	—	63
Extraordinary losses	641	2,054
Loss on sales and disposal of noncurrent assets	311	898
Impairment loss	15	1,033
Loss on disaster	64	—
Loss on valuation of investments in securities	158	5
Special extra retirement payments	—	100
Expenses for restructuring of business bases	57	4
Other	34	13
Profit before income taxes	30,708	30,918
Income taxes-current	9,893	9,950
Income taxes-deferred	(77)	272
Profit	20,893	20,695
Profit attributable to non-controlling interests	66	15
Profit attributable to owners of parent	20,826	20,679

Non-Consolidated Balance Sheets

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

	As of Dec. 31, 2018	As of Dec. 31, 2017		As of Dec. 31, 2018	As of Dec. 31, 2017
■ Assets			■ Liabilities		
Current assets	354,053	358,772	Current liabilities	168,781	186,721
Cash and deposits	55,072	50,644	Electronically recorded obligations	1,800	1,859
Notes receivable	2,409	2,684	Accounts payable	71,529	96,874
Electronically recorded monetary claims	8,811	9,470	Short-term loans payable	56,100	47,000
Accounts receivable	89,772	97,701	Lease obligations	27	51
Securities	70,500	70,500	Accounts payable - other	2,317	2,766
Merchandise and finished goods	25,999	27,057	Accrued expenses	13,897	14,890
Work in process	74	69	Accrued Income taxes	5,617	5,037
Raw materials and supplies	529	655	Consumption taxes payable	1,754	2,530
Advance payment - trade	1,799	1,615	Advances received	10,452	9,977
Prepaid expenses	589	600	Deposits received	3,228	3,518
Deferred tax assets	2,586	2,734	Provision for bonuses	1,571	1,672
Short-term loans receivable	90,400	90,643	Provision for directors' bonuses	40	78
Accounts receivable - other	4,848	3,904	Provision for product warranties	444	465
Forward exchange contracts	2	8			
Other	729	698	Non-current liabilities	34,282	33,182
Allowance for doubtful receivables	(72)	(216)	Lease obligations	5	33
Non-current assets	141,531	145,018	Provision for retirement benefits	29,250	27,957
Property, plant and equipment	54,879	48,554	Allowance for long-term continuous service rewards	638	565
Buildings	13,764	12,593	Other	4,387	4,625
Structures	494	500			
Machinery	112	127	Total liabilities	203,064	219,903
Furniture and fixtures	1,740	2,551	■ Net assets		
Rental assets	10,840	11,038	Shareholders' equity	290,593	281,416
Land	27,901	21,675	Capital stock	73,303	73,303
Lease assets	24	66	Capital surplus	85,204	85,204
Intangible assets	4,204	4,265	Legal capital surplus	85,198	85,198
Software	4,091	4,147	Other capital surplus	5	5
Lease assets	1	7	Retained earnings	164,013	154,834
Right of using facilities	110	110	Legal retained earnings	2,853	2,853
Other	0	-	Other retained earnings	161,160	151,980
Investments and other assets	82,447	92,198	General reserve	81,700	81,700
Investments in securities	5,928	7,414	Retained earnings brought forward	79,460	70,280
Shares of subsidiaries and associates	63,696	71,010	Treasury stock	(31,928)	(31,924)
Claims provable in bankruptcy, claims provable in rehabilitation and other	299	202	Valuation and translation adjustments	1,927	2,470
Long-term prepaid expenses	661	599	Valuation difference on available-for-sale securities	1,926	2,464
Deferred tax assets	8,958	9,718	Deferred gains or losses hedges	1	6
Lease deposits	1,927	2,198			
Other	1,307	1,279	Total net assets	292,521	283,887
Allowance for doubtful receivables	(331)	(224)	Total liabilities and net assets	495,585	503,790
Total assets	495,585	503,790			

Non-Consolidated Statements of Income

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

	From January 1, 2018 to December 31, 2018	From January 1, 2017 to December 31, 2017
Net sales	475,741	489,105
Cost of sales	343,063	349,582
Gross profit	132,677	139,522
Selling, general and administrative expenses	116,528	119,753
Operating income	16,148	19,768
Non-operating income	3,672	5,508
Interest income	166	162
Dividend income	2,078	4,618
Insurance income	541	542
Gain on investments in partnership	494	—
Other	391	183
Non-operating expenses	205	395
Interest expenses	49	39
Share related expenses	55	56
Foreign exchange losses	—	23
Other	101	275
Ordinary income	19,615	24,881
Extraordinary income	3,334	502
Gain on sales of noncurrent assets	4	8
Gain on sales of investments in securities	489	493
Gain on extinguishment of tie-in shares	2,659	—
Gain on sales of shares of subsidiaries and associates	180	—
Extraordinary losses	620	713
Loss on sales and disposal of noncurrent assets	147	701
Impairment losses	14	—
Loss on disaster	51	—
Loss on valuation of investments in securities	158	5
Bad debts written off of subsidiaries and associates	247	—
Other	2	6
Income before income taxes	22,328	24,670
Income taxes-current	5,621	6,094
Income taxes-deferred	(252)	435
Profit	16,959	18,141

AUDIT REPORTS

AUDIT REPORT OF ACCOUNTING AUDITOR ON CONSOLIDATED FINANCIAL STATEMENTS

(TRANSLATION)

Report of Independent Auditors

February 7, 2019

The Board of Directors
Canon Marketing Japan Inc.

Ernst & Young ShinNihon LLC	
Sayaka Shimura	Certified Public Accountant Designated and Engagement Partner
Keiichi Wakimoto	Certified Public Accountant Designated and Engagement Partner
Mamoru Wakino	Certified Public Accountant Designated and Engagement Partner

Pursuant to Paragraph 4, Article 444 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Canon Marketing Japan Inc. (the “Company”) applicable to the fiscal year from January 1, through December 31, 2018.

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 the 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.

Auditors’ Responsibility

Our responsibility is to express an opinion from an independent perspective 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 auditors’ 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, the method of their application, 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 financial position and results of operations of the Canon Marketing Japan Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended December 31, 2018 in conformity with the accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

AUDIT REPORT OF ACCOUNTING AUDITOR ON NON-CONSOLIDATED FINANCIAL STATEMENTS

(TRANSLATION)

Report of Independent Auditors

February 7, 2019

The Board of Directors
Canon Marketing Japan Inc.

Ernst & Young ShinNihon LLC	
Sayaka Shimura	Certified Public Accountant Designated and Engagement Partner
Keiichi Wakimoto	Certified Public Accountant Designated and Engagement Partner
Mamoru Wakino	Certified Public Accountant Designated and Engagement Partner

Pursuant to Item 1, Paragraph 2, Article 436 of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, the notes to the non-consolidated financial statements, and the related supplementary schedules of Canon Marketing Japan Inc. (the “Company”) applicable to the 51st fiscal year from January 1, 2018 through December 31, 2018.

Management’s Responsibility for the Financial Statements and the Related Supplementary Schedules

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and the related supplementary schedules 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 financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion from an independent perspective on these non-consolidated financial statements and the related supplementary schedules 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 financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the non-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 non-consolidated financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

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 non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Canon Marketing Japan Inc. applicable to the 51st fiscal year ended December 31, 2018 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

AUDIT & SUPERVISORY BOARD'S REPORT

Audit Report

We, Audit & Supervisory Board has discussed and prepared this Audit Report based on the audit reports prepared by each of the Audit & Supervisory Board Members pertaining to the conduct of duties by the Directors of Canon Marketing Japan Inc. during the 51st fiscal year from January 1, 2018 to December 31, 2018, and reports as follows.

1. Methods and Substance of Audit by Audit & Supervisory Board Members and Audit & Supervisory Board

- (1) We decided on the auditing policies and the allocation of work duties, etc., received a report on the auditing work performed and the results from each Audit & Supervisory Board Member, and received a report on the status of the work executed from the Directors and the Independent Auditor and requested their explanations as necessary.
- (2) While confirming to the auditing standards as decided by us, the auditing policies and the allocation of duties, etc., each Audit & Supervisory Board Member endeavored to facilitate mutual understanding with the Directors, the internal audit office and other employees, etc. to collect information and improve the auditing environment. Our audit procedures were as follows.
 - i) We attended the meetings of the Board of Directors and other important meetings, received reports on the status of the work executed from the Directors and the employees and requested their explanations as necessary, inspected material internal decision-making documents, etc., and investigated the status of the operations and assets of the headquarters and major business sites. In addition, with respect to the subsidiaries, we communicated and exchanged information with the Directors and Audit & Supervisory Board Members of the subsidiaries, and received reports on business from the subsidiaries as necessary.
 - ii) The following systems (Internal Control System) were determined by a Board of Directors' resolution and designed based on this resolution. We periodically received reports from the Directors, employees and others, requested explanations as necessary regarding the design and implementation of the Internal Control Systems, and expressed opinions on the substance of the

decisions made by the Board of Directors with regard to the Internal Control Systems.

- (a) A system for ensuring that the performance of duties by the Directors complies with the applicable laws and regulations and Articles of Incorporation.
 - (b) A system for ensuring the Directors' performance of the adequate operations of Canon Marketing Japan Group, which consists of the Company and its subsidiaries as stipulated under Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act.
- iii) We examined the contents of the matters considered and the assessment and reasons detailed in this Business Report for the transactions with the Parent Company under Article 118 of the Ordinance for Enforcement of the Companies Act, taking into account the status of the deliberations of the Board of Directors, etc.
- iv) We monitored and verified whether the independence of the Accounting Auditor was maintained and whether an appropriate audit was being undertaken, received reports from the Accounting Auditor on the status of operations, and requested explanations as necessary. We also received reports from the Accounting Auditor stating that the necessary systems for ensuring the appropriate execution of operations (pursuant to Article 131 of the Rules of Corporate Accounting) were duly developed in line with the Quality Control Standards for Auditing (issued by the Business Accounting Council on October 28, 2005), and other relevant standards, and requested explanations as necessary.

Based on the above procedures, we examined the Business Report and its supplementary schedules, the non-consolidated financial statements for the relevant fiscal year (the balance sheets, the statements of income, the statement of changes in equity and the notes to the non-consolidated financial statements) and their supplementary schedules as well as the consolidated financial statements for the relevant fiscal year (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in equity and the notes to the consolidated financial statements).

2. Results of Audit

(1) Results of examination of the Business Report, etc.

- a) In our opinion, the business report and its supplementary schedules conformity with the applicable laws and regulations of Japan and the Articles of Incorporation of the Company and fairly present the state of the Company's affairs;
- b) We have found no misconduct or material fact constituting a violation of any applicable laws and regulations of Japan or the Articles of Incorporations in connection with the Directors' performance of their duties; and
- c) In our opinion, the substance of the decisions made by the Board of Directors with regard to the Internal Control Systems is appropriate. Furthermore, we found no matters that require noting with regard to the description in the Business Report and the Directors' performance of their duties in connection with the relevant internal control systems; and
- d) With respect to the transactions with the Parent Company, etc. that are described in this Business Report, we have found no matters that require noting with regard to the matters considered by Board of Directors and the Board of Directors' assessment and factors that might be adverse to the Company's interests.

(2) Results of examination of the financial statements and their supplementary schedules

In our opinion, the auditing methods used and the conclusions reached by the Accounting Auditor, Ernst Young ShinNihon LLC, are appropriate.

(3) Results of examination of the consolidated financial statements

In our opinion, the auditing methods used and the conclusions reached by the Independent Auditor, Ernst Young ShinNihon LLC, are appropriate.

February 8, 2019

Audit & Supervisory Board, Canon Marketing Japan Inc.

Audit & Supervisory Board Member (full time) Masahiro Shimizu

Audit & Supervisory Board Member (full time) Shinichi Inoue

Audit & Supervisory Board Member (full time) Kunihiko Tedo
(Outside Audit & Supervisory Board Member)

Audit & Supervisory Board Member (full time) Nobuyasu Kusumi
(Outside Audit & Supervisory Board Member)

Audit & Supervisory Board Member Shigeo Hasegawa
(Outside Audit & Supervisory Board Member)

Consolidated Statement of Changes in Net Assets

(from January 1, 2018 to December 31, 2018)

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

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	73,303	82,820	176,911	(31,921)	301,113
Changes of items during period					
Dividends of surplus	-	-	(7,780)	-	(7,780)
Profit attributable to owners of parent	-	-	20,826	-	20,826
Purchase of treasury stock	-	-	-	(3)	(3)
Disposal of treasury stock	-	0	-	0	0
Profit attributable to non-controlling interests	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	0	13,046	(3)	13,043
Balance at end of current period	73,303	82,820	189,957	(31,924)	314,156

	Accumulated other comprehensive income					Non-controlling interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	3,159	6	98	(7,345)	(4,081)	490	297,522
Changes of items during period							
Dividends of surplus	-	-	-	-	-	-	(7,780)
Profit attributable to owners of parent	-	-	-	-	-	-	20,826
Purchase of treasury stock	-	-	-	-	-	-	(3)
Disposal of treasury stock	-	-	-	-	-	-	0
Profit attributable to non-controlling interests	-	-	-	-	-	66	66
Dividends paid to non-controlling interests	-	-	-	-	-	(11)	(11)
Net changes of items other than shareholders' equity	(640)	(4)	(23)	(6,379)	(7,047)	(3)	(7,050)
Total changes of items during period	(640)	(4)	(23)	(6,379)	(7,047)	51	6,047
Balance at end of current period	2,518	1	75	(13,725)	(11,129)	542	303,570

Notes to Consolidated Financial Statements

(Notes on important items forming the basis of consolidated financial statements)

1. Scope of consolidation

- | | | |
|---|----------|--|
| (1) Consolidated subsidiaries | 20 | |
| Major consolidated subsidiaries | | Canon IT Solutions Inc, Canon System & Support Inc.,
Canon Production Printing Systems Inc.,
Canon Lifecare Solutions Inc. |
|
(2) Non-consolidated subsidiaries |
None | |

2. Application of equity method

- | | |
|---|----------|
| (1) Affiliates subject to equity method | None |
|
(2) Affiliates not subject to equity method |
None |

3. Fiscal years for consolidated subsidiaries

The closing date for consolidated subsidiaries is the same as all other consolidated closing dates.

4. Accounting policies

(1) Valuation standards and methods for key assets

(i) Securities

- | | |
|---|--|
| Held-to-maturity securities | Amortized cost method (straight-line method) |
| Other securities | |
| Securities with market value | Market value method, based on market price on last day of fiscal year, etc.
(Valuation differences included in total net assets, cost of products sold calculated based on moving-average method) |
| Securities with no market value | At cost based on moving-average method |

(ii) Inventory assets

- | | |
|---------------------------|--|
| Merchandise | At cost based on monthly moving-average method
(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability) |
| Repair parts | At cost based on monthly moving-average method
(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability) |
| Work in process | At cost based on specific identification method |
| Supplies | Last-purchase price method
(Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability) |

(2) Method of depreciation for key depreciable assets

(i) Property, plant and equipment

(Excluding Lease assets, net) • • Based on declining-balance method

Rental assets and assets of selected consolidates subsidiaries, are depreciated by the straight-line method.

Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

Useful lives are as follows:

Buildings	Five years to seventy-five years
Furniture and fixtures	Two years to twenty years
Rental assets	Three years

(ii) Intangible assets

(Excluding Lease assets, net) • • Based on straight-line method

Marketable software 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).

In-house software is depreciated by the straight-line method based on the length of in-house durability (five years).

(iii) Lease assets, net • • • • •

Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.

(3) Standards for recording key allowances

(i) Allowance for doubtful receivable • • • • • To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.

(ii) Provision for bonuses • • • • • The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.

(iii) Provision for directors' bonuses • • • • The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.

(iv) Provision for product warranties • • • • Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs. To cover payment of free program maintenance and repairs for selected consolidated subsidiaries, the estimated amount of future costs is recorded based on actual figures for previous years.

(v) Provision for loss on order received • • • The estimated amount of losses from the next fiscal year onwards is recorded for ongoing development projects based on software service contracts, in cases that are expected to result in a loss in the future (as of the end of the current year) and in which it is possible to reasonably estimate the relevant losses, in order to cover losses on orders received.

- (vi) Allowance for long-term continuous service rewards The estimated amount payable is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.
- (4) Accounting methods for retirement benefits
- (i) Method of aligning estimated retirement benefits Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current consolidated accounting year.
 - (ii) Method of recording actuarial differences and prior service costs . . Prior service costs are generally expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs. Actuarial differences are generally expensed from the following consolidated accounting year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.
 - (iii) Using simplified methods for small companies, etc. For selected consolidated subsidiaries, simplified methods are applied in order to calculate retirement benefit liabilities and costs. This entails listing retirement benefit obligations as the amount payable in retirement benefits at the end of the year, based on the relevant company's circumstances.
- (5) Standards for recording key revenue and expenses
- Standards for recording revenue from customized software development . . The percentage-of-completion method is applied to contracts in progress, and whose outcomes can be reliably estimated, as of the end of the current consolidated accounting year, based on the percentage of completion (the cost-to-cost method is used to estimate rate of progression). The completed contracts method is used for other contracts.
- (6) Key hedge accounting methods
- (i) Hedge accounting method Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.
 - (ii) Hedging instrument and subject
 - Hedging instrument Forward exchange contracts
 - Subject of hedging Foreign currency denominated payables
 - (iii) Hedging policy Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.
 - (iv) Method of evaluating effectiveness of hedging . . For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

(7) Method of amortization of goodwill and amortization period

As a rule, the straight-line method is used for amortization of goodwill over the period in which goodwill is expected to take effect.

(8) Other important items forming the basis of consolidated financial statements

- (i) Accounting methods for consumption tax, etc. . . . The before-tax method is used for consumption tax, etc.
- (ii) Application of the consolidated tax system For itself and selected consolidated subsidiaries, the company applies the consolidated tax system, with itself as the consolidated tax parent company.

(Notes on consolidated balance sheets)

- 1. Accumulated depreciation on property, plant and equipment 66,045 million yen
- 2. Guarantee liabilities
 - Guarantees for employees' housing loans 9 million yen

(Notes to consolidated statements of changes in equity)

- 1. Type and total number of issued shares as of end of current year Common share 151,079,972 shares
- 2. Dividends paid from retained earnings during the current year

Resolution	Type of share	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 28, 2018 General shareholders' meeting	Common share	4,538	35	December 31, 2017	March 29, 2018
July 25, 2018 Board of Directors' meeting	Common share	3,241	25	June 30, 2018	August 27, 2018

3. Dividends for which the base date falls within the current year, and the date effective in the following year

Discussion	Type of share	Funds used to pay dividends	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 27, 2019 General shareholders' meeting	Common share	Retained earnings	4,538	35	December 31, 2018	March 28, 2019

(Notes on financial instruments)

1. Status of financial instruments

(1) Policies for financial instruments

As the Group, we limit asset management to financial instruments characterized as very safe, and believe that financing should mainly be conducted through the use of group funds whenever necessary. We enter into derivative transactions to hedge against foreign exchange fluctuation risks, but have a policy of not engaging in speculative transactions.

(2) Details of financial instruments, risks, and systems to control risks

Operating receivables, consisting of notes and accounts receivable, are exposed to customer credit risks. We aim to mitigate such risks through strict credit control, based on credit data provided by external credit agencies, and through credit insurance and other risk-hedging measures.

Short-term loans receivable are mainly loans to the parent company, provided in accordance with internal regulations on investment and management of funds.

Securities and investments in securities consist primarily of held-to-maturity debt securities and shares in companies with business ties to the Group, and are exposed to market price fluctuation risks. To counter such risks, we regularly monitor fair values and the financial condition of companies issuing shares (business counterparties).

For securities other than held-to-maturity debt securities, we continuously review the status of our holdings, taking into consideration market conditions and relationships with business counterparties.

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 risk of fluctuations in foreign currency denominated trade payables. With regard to hedge accounting, notes on important items forming the basis for compiling the aforementioned consolidated accounting documents are outlined under “4. Accounting policies (6) Key hedge accounting methods.”

(3) Supplementary explanation of fair values of financial instruments

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. Values may vary depending on different assumptions, due to the fact that variables are factored into the calculation of such values.

2. Fair values of financial instruments

Book values on consolidated balance sheets as of December 31, 2018, their corresponding fair values, and the difference between the two are as follows.

	Book value on consolidated balance sheets (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and deposits	65,071	65,071	—
(2) Notes and accounts receivable	117,041	117,041	—
(3) 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	—

(*) 1. Calculation methods for fair values of financial instruments, and other details relating to securities

Assets

(1) Cash and deposits, (2) Notes and accounts receivable, and (4) Short-term loans receivable

Book values are used as the fair values of these assets, because they are to be settled in the short term, meaning that their fair values approximate their book values.

(3) Securities and investments in securities

Fair values of equity securities are based on prices at security exchanges. Fair values of debt securities are based on prices at security exchanges or quotations obtained from counterparty financial institutions.

Liabilities

(5) Notes and accounts payable

Book values are used as the fair values of these liabilities, because they are to be settled in the short term, meaning that their fair values approximate their book values.

2. As it can be extremely difficult to assess the fair value of unlisted share or funds from investment partnerships (book value on consolidated balance sheets: 1,586 million yen), because they do not have a market value, they are not included in “(3) Securities and investments in securities and investments in securities” above.

(Notes on rented and other real estate)

No notes are required due to the low level of importance.

(Notes on information per share)

- | | |
|--|--------------|
| 1. Net assets per share | 2,336.97 yen |
| 2. Profit attributable to owners of parent per share | 160.61 yen |

Non-Consolidated Statement of Changes in Net Assets

(from January 1, 2018 to December 31, 2018)

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

	Shareholders' equity				
	Capital stock	Capital surplus			Retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings
Balance at beginning of current period	73,303	85,198	5	85,204	2,853
Changes of items during period					
Dividends of surplus	-	-	-	-	-
Profit	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-
Disposal of treasury stock	-	-	0	0	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	-	0	0	-
Balance at end of current period	73,303	85,198	5	85,204	2,853

	Shareholders' equity				
	Retained earnings			Treasury stock	Total Shareholders' equity
	Other retained earnings		Total retained earnings		
	General reserve	Retained earnings brought forward			
Balance at beginning of current period	81,700	70,280	154,834	(31,924)	281,416
Changes of items during period					
Dividends of surplus	-	(7,780)	(7,780)	-	(7,780)
Profit	-	16,959	16,959	-	16,959
Purchase of treasury stock	-	-	-	(3)	(3)
Disposal of treasury stock	-	-	-	0	0
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	9,179	9,179	(3)	9,176
Balance at end of current period	81,700	79,460	164,013	31,928	290,593

	Valuation and translation adjustments			Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	2,464	6	2,470	283,887
Changes of items during period				
Dividends of surplus	-	-	-	(7,780)
Profit	-	-	-	16,959
Purchase of treasury stock	-	-	-	(3)
Disposal of treasury stock	-	-	-	0
Net changes of items other than shareholders' equity	(538)	(4)	(542)	(542)
Total changes of items during period	(538)	(4)	(542)	8,633
Balance at end of current period	1,926	1	1,927	292,521

Notes to Non-Consolidated Financial Statements

(Notes regarding key accounting policies)

1. Asset valuation standards and methods

(1) Valuation standards and methods for securities

Held-to-maturity securities	Amortized cost method (straight-line method)
Shares in subsidiaries and affiliates . .	At cost based on moving average method
Other securities	
Securities with market value	Market value method, based on market price on last day of fiscal year, etc. (valuation differences included in total net assets, cost of products sold calculated based on moving-average method)
Securities with no market value	At cost based on moving average method

(2) Valuation standards and methods for inventory assets

Merchandise	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Repair parts	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Work in process	At cost based on specific identification method
Supplies	Last-purchase price method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

2. Method of depreciation for long-term assets

(1) Property, plant and equipment

(Excluding Lease assets)	Based on declining-balance method Rental assets are depreciated by the straight-line method. Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.
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Useful lives are as follows:

Buildings	Five years to seventy-five year
Furniture and fixtures	Two years to twenty years
Rental assets	Three years

(2) Intangible fixed assets

(Excluding Lease assets)	Based on straight-line method Marketable software 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). In-house software is depreciated by the straight-line method based on the length of in-house durability (five years).
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(3) Lease assets	Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.
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3. Standards for recording allowances

- (1) Allowance for doubtful receivables To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.
- (2) Provision for bonuses The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.
- (3) Provision for directors' bonuses The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.
- (4) Provision for product warranties Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs.
- (5) Provision for losses on orders received The estimated amount of losses from the next fiscal year onwards is recorded for ongoing development projects based on software service contracts, in cases that are expected to result in a loss in the future (as of the current fiscal year) and in which it is possible to reasonably estimate the relevant losses, in order to cover losses on orders received.
- (6) Provision for retirement benefits The estimated amount of benefit obligations and pension assets as of the end of the current fiscal year is recorded in order to cover retirement benefits payable to employees.
Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current fiscal year. Prior service costs are expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.
Actuarial differences are expensed from the following fiscal year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.
- (7) Allowance for long-term continuous service rewards The estimated amount payable is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.

4. Standards for recording revenue and expenses

Standards for recording revenue from customized software development

The percentage-of-completion method is applied to contracts in progress, and whose outcomes can be reliably estimated, as of the end of the current fiscal year, based on the percentage of completion (the cost-to-cost method is used to estimate rate of progression). The completed contracts method is used for other contracts.

5. Key hedge accounting methods

- (1) Hedge accounting method Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.
- (2) Hedging instrument and subject
 - Hedging instrument Forward exchange contracts
 - Subject of hedging Foreign currency denominated payables

- (3) Hedging policy Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.
- (4) Method of evaluating effectiveness of hedging . . . For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

6. Other important items forming the basis of financial statements

- (1) Accounting methods for consumption tax, etc. . . . The before-tax method is used for consumption tax, etc.
- (2) Application of the consolidated tax system The company applies the consolidated tax system.
- (3) Retirement benefit accounting Different methods of accounting are used for unrecognized actuarial differences and unrecognized prior service costs in relation to retirement benefits, as opposed to accounting methods used for consolidated financial statements.

(Notes on balance sheets)

1. Accumulated depreciation on property, plant and equipment	54,097 million yen
2. Guarantee liabilities	
Guarantees for employees' housing loans	9 million yen
3. Receivables from and payable from affiliates	
Short-term monetary receivables	109,812 million yen
Short-term monetary payables	110,377 million yen
Long-term monetary receivables	38 million yen
Long-term monetary payables	416 million yen

(Notes on statements of income)

Transactions with affiliates	
Net sales	56,654 million yen
Purchasing	249,742 million yen
Other business transactions	3,953 million yen
Non-business transactions	2,450 million yen

(Notes on statement of changes in equity)

Type and total of treasury stock owned as of end of current fiscal year	Common share	21,412,840 shares
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(Notes on tax allocation)

1. Breakdown of main causes of deferred tax assets and liabilities

(1) Current assets/liabilities

Deferred tax assets	
Sales promotion costs	892 million yen
Provision for bonuses	539 million yen
Loss on disposal or sale of inventory assets	388 million yen
Accrued enterprise tax and business office tax	366 million yen
Provision for product warranties	137 million yen
Other	262 million yen
<hr/>	
Total deferred tax assets	2,587 million yen
Deferred tax liabilities	
Deferred gains or losses on hedges	0 million yen
<hr/>	
Total deferred tax liabilities	0 million yen
<hr/>	
<u>Net deferred tax assets</u>	<u>2,586 million yen</u>

(2) Non-current assets/liabilities

Deferred tax assets	
Allowance for retirement benefits	9,116 million yen
Additions to deemed dividends	1,212 million yen
Over-depreciation of property, plant and equipment	831 million yen
Loss on valuation of investment securities	625 million yen
Over-depreciation of software	474 million yen
Allowance for long-term continuous service rewards	198 million yen
Allowance for asset retirement obligations	139 million yen
Allowance for doubtful receivables	112 million yen
Other	344 million yen
<hr/>	
Subtotal deferred tax assets	13,055 million yen
Valuation allowance	(1,951) million yen
<hr/>	
Total deferred tax assets	11,103 million yen
Deferred tax liabilities	
Reserve for advanced depreciation of non-current assets	1,279 million yen
Net unrealized gain on securities	865 million yen
<hr/>	
Total deferred tax liabilities	2,145 million yen
<hr/>	
<u>Net deferred tax assets</u>	<u>8,958 million yen</u>

(Notes on transactions with related parties)

1. Parent company and major corporate shareholders, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	Year-end balance (million yen)
Parent company	Canon Inc.	Ohta-ku, Tokyo	174,761	Development and production for the office, imaging systems and industrial equipment sectors, etc.	(Ownership in the company) Direct: 58.5 Indirect: 0.0	Production of the company's merchandise	Business	Purchase of merchandise (*1)	198,404	Accounts payable	42,069
								Sale of consumables for office equipment, etc. (*2)	6,830	Accounts receivable, other	2,381
							Non-business	Provision of funds (*3)	-	Short-term loans receivable	90,000

Of the above figures, "value of transaction" does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

- (*1) When purchasing merchandise, the company sets out its preferred price, taking into account market prices, and then enters into price negotiations to determine a final price for the relevant period.
- (*2) Sales of consumables for office equipment are based on the same terms as regular transactions.
- (*3) When lending funds, a reasonable loan rate is determined by taking into account market rates. There is no provision for security.

2. Subsidiaries, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	Year-end balance (million yen)
Subsidiary	Canon IT Solutions Inc.	Shinagawa-ku, Tokyo	3,617	SI and consulting, IT service and development and sale of various software	(Ownership in the company) Direct: 100.0	Production of the company's merchandise Concurrent Officers: 3	Non-business	Provision of funds (*3)	6,900	Short-term loans payable	17,900
Subsidiary	Canon System & Support Inc.	Minato-ku, Tokyo	4,561	Consultation of a solution, sale, support and maintenance service, mainly for Canon products	(Ownership in the company) Direct: 100.0	Sale of the company's merchandise Concurrent Officers: 2	Business	Payment of service charges for office equipment, etc. (*1)	32,342	Accounts payable	5,750
								Sale of consumables for office equipment, etc. (*2)	45,205	Accounts receivable, other	12,921
							Non-business	Provision of funds (*3)	3,600	Short-term loans payable	32,200

Of the above figures, “value of transaction” does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

- (*1) When making payment of service charges for office equipment, prices are determined through negotiation, based on the price calculated by the company.
- (*2) When selling consumables for office equipment, prices are determined through negotiation, based on the price calculated by the company.
- (*3) When lending funds, a reasonable loan rate is determined by taking into account market rates. There is no provision for security.

(Notes on information per share)

- | | |
|-------------------------|--------------|
| 1. Net assets per share | 2,255.94 yen |
| 2. Net income per share | 130.79 yen |