Canon Marketing Japan Group

Three-Year Management Plan 2012-2014

January 27, 2012
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President

Canon

Canon Marketing Japan Inc.

2011 Recap

(billion)

	2010		2011	
		Ratio		Ratio
Net Sales (YoY)	674.2		632.4 (-6%)	
Op. profit (YoY)	7.7	1.1%	8.4 (+9%)	1.3%
Ord. profit (YoY)	9.5	1.4%	10.7 (+13%)	1.7%
Net profit (YoY)	3.7	0.6%	6.8 (+82%)	1.1%

Long-Term Management Objectives Phase II 2011-2015

~Beyond CANON, Beyond JAPAN~

Priority Strategies

(1)Strengthen market shares of Canon products

(2) Diversify business

(3) Evolve into a service company

(4) Further group management innovation

2015 Performance Objectives

Net Sales	:	¥850 b or more
Operating profit (margin)	:	¥42.5 b (5%)
Profit per share	:	¥185 or more

Indicators

Area	Target	Remarks
Net Sales increase from diversification	¥100.0 billion plus	Net sales increase versus 2010, from diversification
Service Business Ratio	45%	Non-hardware (excluding consumables) net sales percentage
Beyond CANON Ratio	30%	Percent of net sales contributed by products procured from outside and Canon services
Beyond JAPAN Ratio	10%	Percent of net sales contributed by overseas activities and imported products

Long-Term Management Objectives Phase II Progress (2011)

(1) Diversification

- Entry into retail photo market
  - Launched “DreamLabo 5000” commercial photo printer (February)

- Expansion of medical equipment business
  - Made ELK CORPORATION into a consolidated subsidiary (June)
- Strengthen commercial printing business
  - Made Océ-Japan Corporation into a wholly owned subsidiary (June)
  - Made Showa Information Systems Co., Ltd. into a consolidated subsidiary (December)
- Full-scale entry into the motion picture production industry
  - Launched “CINEMA EOS SYSTEM” (November)

Long-Term Management Objectives Phase II Progress (2011)

(2) Evolve into a Service Company

- Enhance cloud services
  - "SOLTAGE" IT service platform up and running (January)
  - "My-Promotion Web" online publishing service started (August)
  - "Canon Business Imaging Online Business Form Printing Service" started (August)

- Strengthen outsourcing service business
  - Began construction of data center (April)

- Start photo application web service
  - Established WithPhoto Inc. (April)

with Photo

Three-Year Management Plan 2012-2014

Canon

Canon Marketing Japan Inc.

1. Basic Strategies

1	We will strengthen our collaboration with Global Canon Group and further enhance the solutions capabilities of the Canon MJ Group so as to achieve overwhelming leadership for Canon products and establish them as No. 1 in terms of world market shares.
2	We will use the core competencies and know-how of the Canon Group and the Canon MJ Group to create original solutions with high added value.
3	Contribute to the Global Canon Group by moving forward with the complete revamping of the business model based on the “Beyond CANON, Beyond JAPAN ”concepts.

The strength of Canon products and the capacity of the Canon MJ Group to offer solutions will be the core drivers for our evolution into a service creation group capable of continually providing original added value in the global business arena.

2. Performance Targets

2-1. Group-wide

(billion)

	2011	Ratio	2012	Ratio	2013	Ratio	2014	Ratio
Net Sales	632.4		717.0		756.0		803.0	
(YoY)	(-6%)		(+13%)		(+5%)		(+6%)	
Op. profit	8.4	1.3%	12.0	1.7%	21.0	2.8%	30.0	3.7%
(YoY)	(+9%)		(+42%)		(+75%)		(+43%)	
Ord. profit	10.7	1.7%	13.1	1.8%	22.5	3.0%	31.5	3.9%
(YoY)	(+13%)		(+23%)		(+72%)		(+40%)	
Net profit	6.8	1.1%	7.0	1.0%	12.0	1.6%	17.0	2.1%
(YoY)	(+82%)		(+3%)		(+71%)		(+42%)	

Net profit/share	¥49	¥51	¥87	¥124

* Net profit per share in 2012 and later is calculated based on the number of shares as of the end of FY2011.

2. Performance Targets

2-2. By segment

(billion)

		2011	Ratio	2012	Ratio	2013	Ratio	2014	Ratio
Business solutions	Sales	325.1		352.0		360.0		380.0	
	Op. profit	3.5	1.1%	3.5	1.0%	4.5	1.3%	8.5	2.2%
IT solutions	Sales	124.5		134.9		149.5		160.5	
	Op. profit	-3.1	-	-1.3	-	4.5	3.0%	7.5	4.7%
Consumer imaging	Sales	182.1		212.5		218.5		225.5	
	Op. profit	8.5	4.6%	9.3	4.4%	10.7	4.9%	11.9	5.3%
Industrial equipment	Sales	27.0		39.1		56.5		67.0	
	Op. profit	-0.3	-	0.1	0.3%	1.3	2.3%	2.2	3.3%
Other	Sales	-26.3		-21.5		-28.5		-30.0	
	Op. profit	-0.1	-	0.4	-	0.0	-	0.0	-
Total	Sales	632.4		717.0		756.0		803.0	
	Op. profit	8.4	1.3%	12.0	1.7%	21.0	2.8%	30.0	3.7%

This table shows the segment results for the year ended December 31,2011 based on the segment structure introduced in the year ended December 31, 2012.

3. Priority Strategies by Segment

3-1. Business solutions

(1) Increase earning performance in the document segment

- ➢ Achieve a turnaround by expanding MIF (Machine in Field) and DV (Document Volume) for office MFPs and LBPs
- ➢ Increase productivity of sales and service activities
  - ◆ Reduce costs by using IT infrastructure and NetEye remote-monitoring system
  - ◆ Improve CS(Customer Satisfaction) and efficiency by consolidating call centers
  - ◆ Trim overall staffing through greater efficiency and staffing structure reforms

    (Reduce 2010 staffing level 10% by 2014)
- ➢ Create new stock-type businesses
  - ◆ Expand cloud-based IT services in the document segment
  - ◆ Expand MDS (Managed Document Service)

3. Priority Strategies by Segment

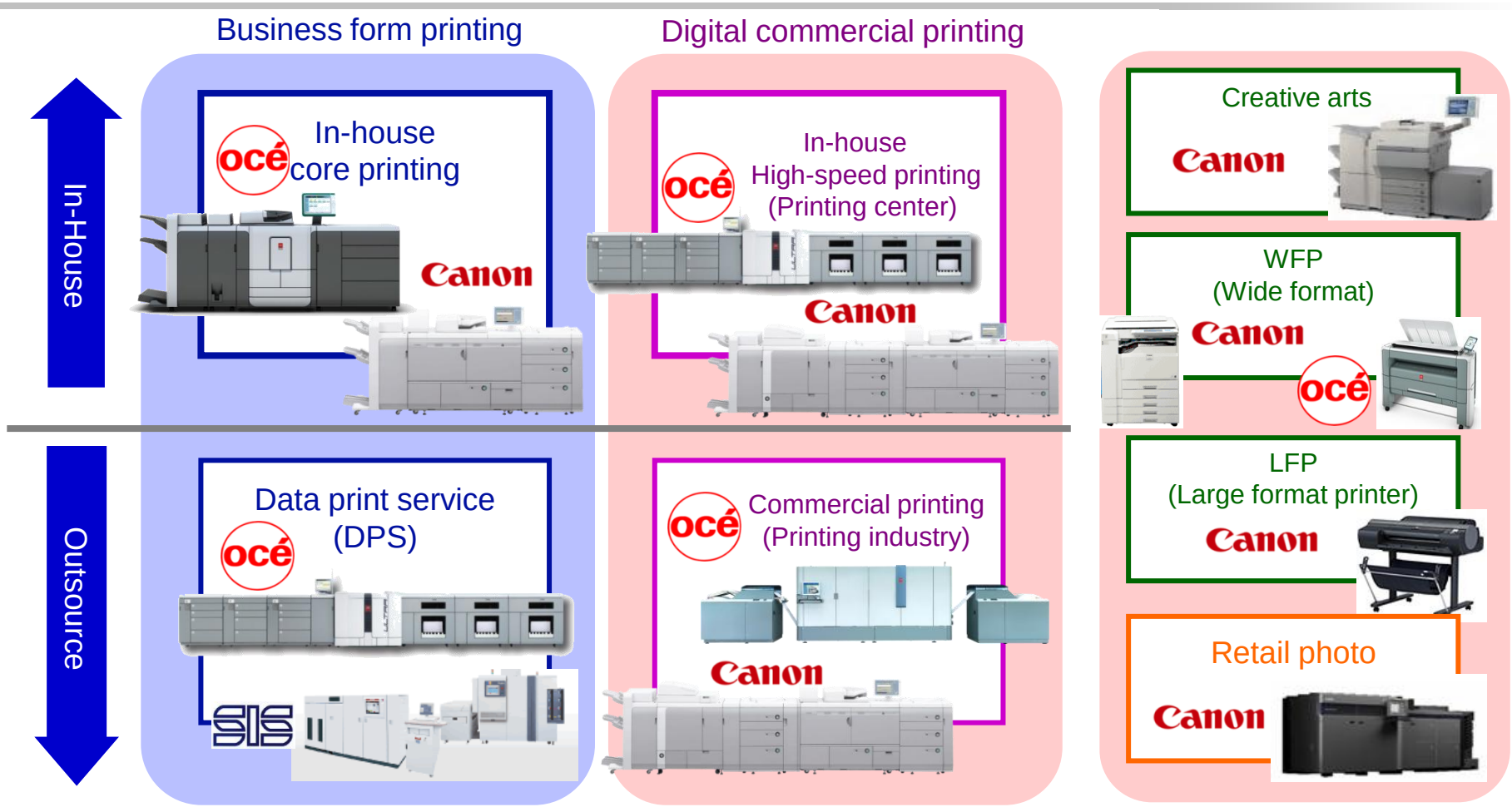
3-1. Business solutions

(2) Expand the production printing business

- Fully leverage synergies with Océ-Japan and Showa Information Systems
  - ◆ Expand sales of equipment by applying formidable sales and service systems and gaining outstanding customers.
- Establish a high-speed continuous form printing business with Océ as the primary driver
- Expand sales of imagePRESS digital commercial printing equipment
  - ◆ Significantly enhanced efforts to develop business in the commercial and in-house printing markets
- Develop business in the retail photo market by installing commercial-use DreamLabo equipment
- Expand sales of large-format printers

Target: Commercial printing sales ¥60.0 bil. (2015)

[Diagram] Commercial Printing Segment Areas Targeted for Development



3. Priority Strategies by Segment

3-2. IT solutions

(1) Implement structural reform to improve profitability

- Reform organizational structure
  - Improve development productivity and sales productivity by consolidating overlapping businesses and restructuring operations
  - Consolidate overlapping headquarters and management functions within the group
- Reform the staffing structure
  - Shift staff to growth areas
  - Optimally deploy development staff and add to their skill sets
  - Achieve about 8% staffing reduction between 2010 and 2014
- Consolidate group locations
  - Improve productivity and communications, and lower costs, by moving forward with additional consolidations of group locations

Target: Operating profit margin of 4.7% (2014)

3. Priority Strategies by Segment

3-2. IT solutions

(2)-1 Strengthening and expansion of outsourcing businesses

- Strengthen outsourcing businesses with the new next-generation data center as the primary driver
  - Scheduled service start, October 2012
  - Will use cutting-edge facilities and the latest security systems to offer optimal operation services for customer needs
  - Will meet everything from housing to system operation needs

3. Priority Strategies by Segment

3-2. IT solutions

(2)-2 Strengthening and expansion of outsourcing businesses

- Strengthen system-operation services
  - SI, housing, and services in diversified strategic business development
  - Enhancement of dedicated teams

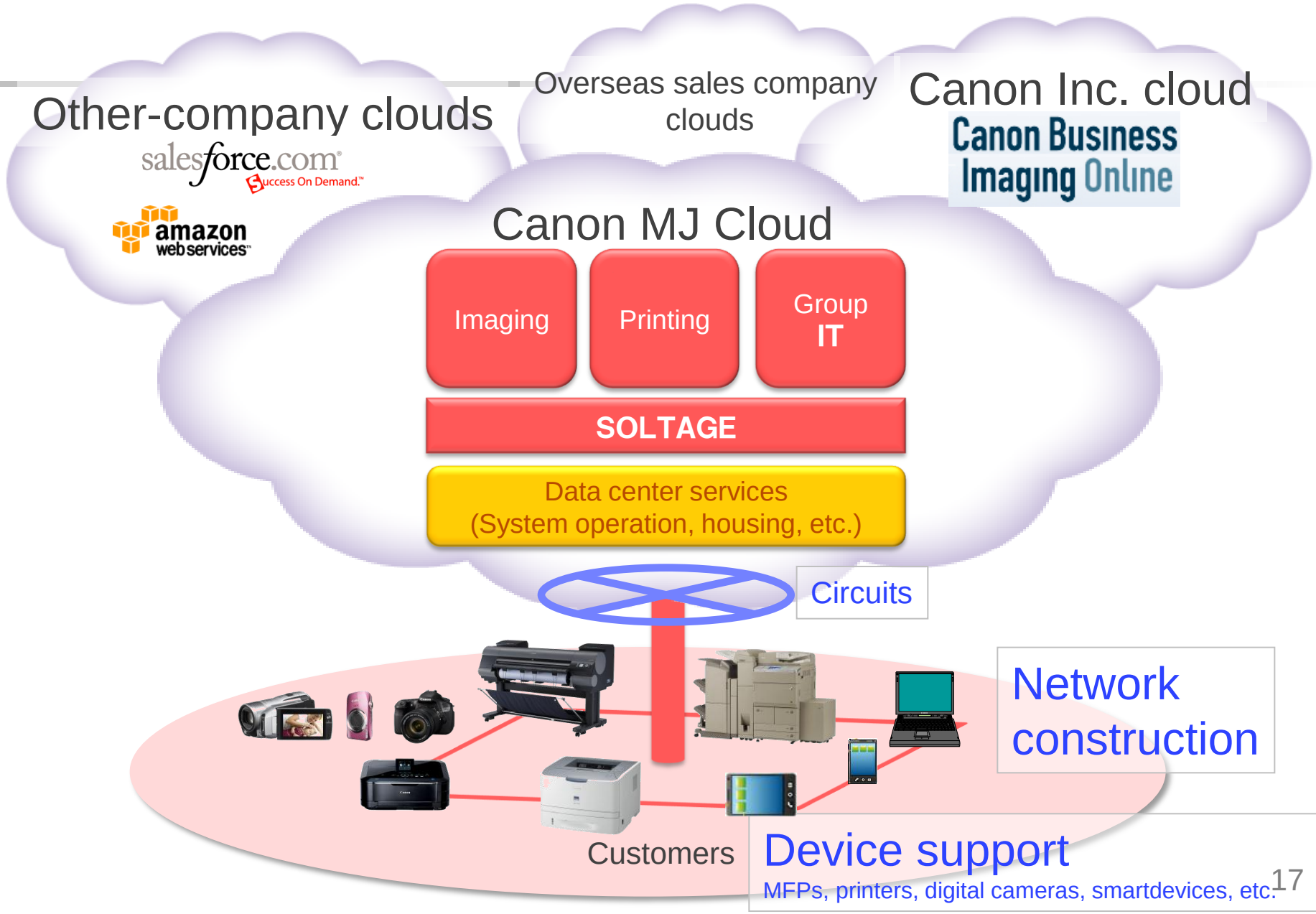
- Active development and functional strengthening of SOLTAGE, which will enable the provision of high-value-added cloud services
  * SOLTAGE is the group's common IT platform for cloud services.

- Strengthen BPO services by enhancing operations of Canon BizAttenda Inc.
  * BPO stands for "business process outsourcing."

Target: At least 29% of total sales from service businesses (2015)

* More specifically, the percentage of total sales contributed by stock-type IT services (cloud, system operation, data center, BPO, and maintenance services).

[Diagram] Overall Cloud Business Strategy



3. Priority Strategies by Segment

3-2. IT solutions

(3) Active global business development

- Internal system support of the global Canon Group
- Global business development in cooperation with Canon Group
- Active development of solutions businesses targeting Japanese and local companies in Asia
- Procurement of advanced overseas software products and business expansion

Target: Beyond JAPAN ratio of 15%+ (2015)

3. Priority Strategies by Segment

3-3. Consumer imaging

(1) Pursue total No.1 strategy

- Establish No.1 positions in terms of market shares, customer satisfaction, and brand status for main products
- Improve customer satisfaction
  - ◆ Apply COPC-2000® Customer Operations Performance Center quality assurance standard in enhancing CS activities (Canon Customer Support)

(2) Strengthen and grow new businesses

- Strengthen the commercial imaging equipment business (CINEMA EOS SYSTEM, etc.)
- Expand the content business (Expansion of the “withPhoto” web-based services)
- Increase sales by developing new products

[Diagram] Commercial Imaging Equipment Performance Targets

Content Creation Market

- CINEMA EOS SYSTEM

- Professional DSLRs (EOS MOVIE)

Broadcast Systems Market

- Broadcast TV Lenses

- Commercial Video Cameras

Imaging Solutions Market

- Security and other types of monitoring cameras

Strengthen B-to-B Business

2015

Net Sales Target

¥10.0 billion

3. Priority Strategies by Segment

3-4. Industrial equipment

(1) Expand industrial equipment business

- Enhance handling of equipment for the semiconductor, LED, and other markets
- Aggressive global business development (In 2012, establish Canon Advanced Technologies Taiwan Inc.)
- Get new environmental businesses up and running

(2) Aggressively expand medical equipment business

- Fully leverage synergies with ELK CORPORATION
  - ◆ Expand sales of Canon medical equipment and Elk products by cross-selling
  - ◆ Swiftly launch new businesses (ultrasound diagnostic equipment, mammography equipment) as cooperative ventures
  - ◆ Develop sales of ELK products globally
- Establish and strengthen medical solutions businesses
  - ◆ Strengthen medical systems at Canon ITS Medical Inc.

Target: Medical sales of ¥60.0 billion (2015)

4. Investing for Growth

Investment Cash Flow Plan

Aggressive investment to achieve Long-Term Management Objectives Phase II

(billion)

	2009-2011cumulative (Actual)	2012-2014 cumulative (Plan)
Operating cash flow	62.1	85.5
Investment cash flow	51.0	100.0
Free cash flow	11.1	-14.5

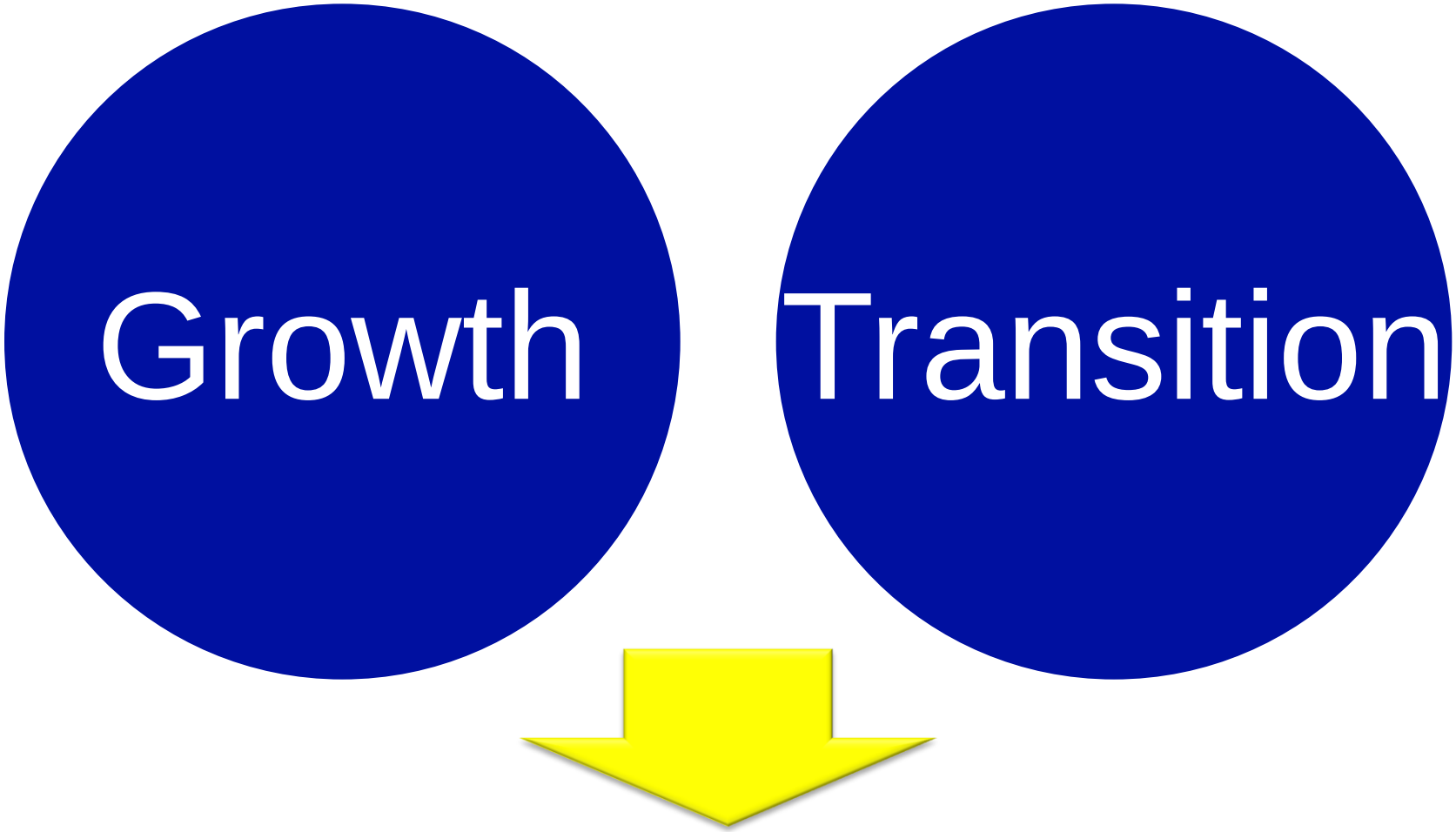
<Strategic Investments>

M&A | Cloud IT infrastructure | New businesses | Data centers

Returning profits to shareholders

Dividends are main way to return profits to shareholders

- Stable dividends
- Rough guide is consolidated payout ratio of 30%



Evolution into a service creation group

Canon Marketing Japan Group

Performance and future projections made in this document are based on information available at present time, and include potential risks and inaccuracies.
Owing to various factors, actual results may differ substantially from these projections.
All estimated/actual performance figures are for consolidated performance.