Canon Marketing Japan Group
Three-Year Management Plan
2015 - 2017

January 28, 2015
Masami Kawasaki
President

Contents

2014 Recap

(billion)

	2013		2014	
		Ratio		Ratio
Net sales (YoY)	657.2 (99.7%)		659.4 (100.3%)	
Op. profit (YoY)	17.0 (101.3%)	2.6%	25.1 (147.5%)	3.8%
Ord. profit (YoY)	18.2 (100.6%)	2.8%	26.6 (145.8%)	4.0%
Net profit (YoY)	10.2 (96.1%)	1.5%	16.0 (157.7%)	2.4%

Key indicators	2014 results
Ratio of Beyond CANON sales	33%
Ratio of Beyond JAPAN sales	4%
Ratio of sales from service businesses	40%

*Beyond CANON: Sales of products purchased from external sources and our own services, excluding hardware, consumables, and maintenance services related to Canon products
Beyond JAPAN: Overseas sales and domestic sales of imported products for which we have exclusive distribution rights
Sales from service businesses: Sales of software, maintenance services, system development and operation, userware, and others

Major achievements in 2014

- **Canon's existing domains**
  - Achieved the largest market share for cameras and printers
    - Interchangeable-lens digital cameras, compact cameras, inkjet printers, and LMP (23rd consecutive year)
- **Canon's new domains**
  - Expansion of the NVS business (Up 62.6% year on year)
  - Growth of the production printing business enabled by the sales expansion of light production products (Up 2.9% year on year)
- **Canon MJ's independent domains**
  - Expansion of businesses in the IT Solutions segment (Up 4.5% year on year)
  - Growth of IT Solutions businesses in the Business Solutions domain, with the central role played by Canon System & Support (Up 6.3% year on year)
  - Expansion of 3D-related businesses
    - Implementation of M&A (A&A, a 3D CAD company, and AZE, a company specializing in 3D medical imaging)
    - Sales expansion of 3D printers and MR systems
  - Launch of medical imaging IT solutions services (MedicalImagePlace)

The ideal situation in 2017

Corporate group which continues to provide original new added value

- We have evolved into a value creation-oriented trading company, providing solutions based on an understanding of social issues.
- Progress has been made with the strengthening and development of human resources to support growth strategies.
- Profitability has been strengthened further through continued profit structure reform.

Six general strategies for realizing the ideal situation

Establish Canon as undisputed market leader in Japan in each of its businesses

Enhance productivity and added value in existing business domains

Maximize group synergies

Strengthen and expand Canon’s new priority businesses

Concentrate all Group efforts on expanding independent domains
Create businesses and procure new products with a sense of speed

Promote the “Beyond Japan” concept in all business domains

Consolidated Performance Objectives

(billion)

	2014 result	2015 objective	2016 objective	2017 objective
Net sales	659.4	681.0	709.0	741.0
Sales growth rate	+0.3%	+3.3%	+4.1%	+4.5%
	Average growth rate between 2014 and 2017: +4.0%			
Op. profit	25.1	26.0	33.0	37.0
Op. margin	3.8%	3.8%	4.7%	5.0%
Ord. profit	26.6	27.2	34.2	38.2
Net profit	16.0	16.9	21.6	24.2
ROE	6.1%	6.2%	7.5%	8.0%
Net profit per share	12.4	13.0	16.7	18.6

* Values for net profit per share for 2015 and thereafter were calculated based on the number of shares at the end of 2014.

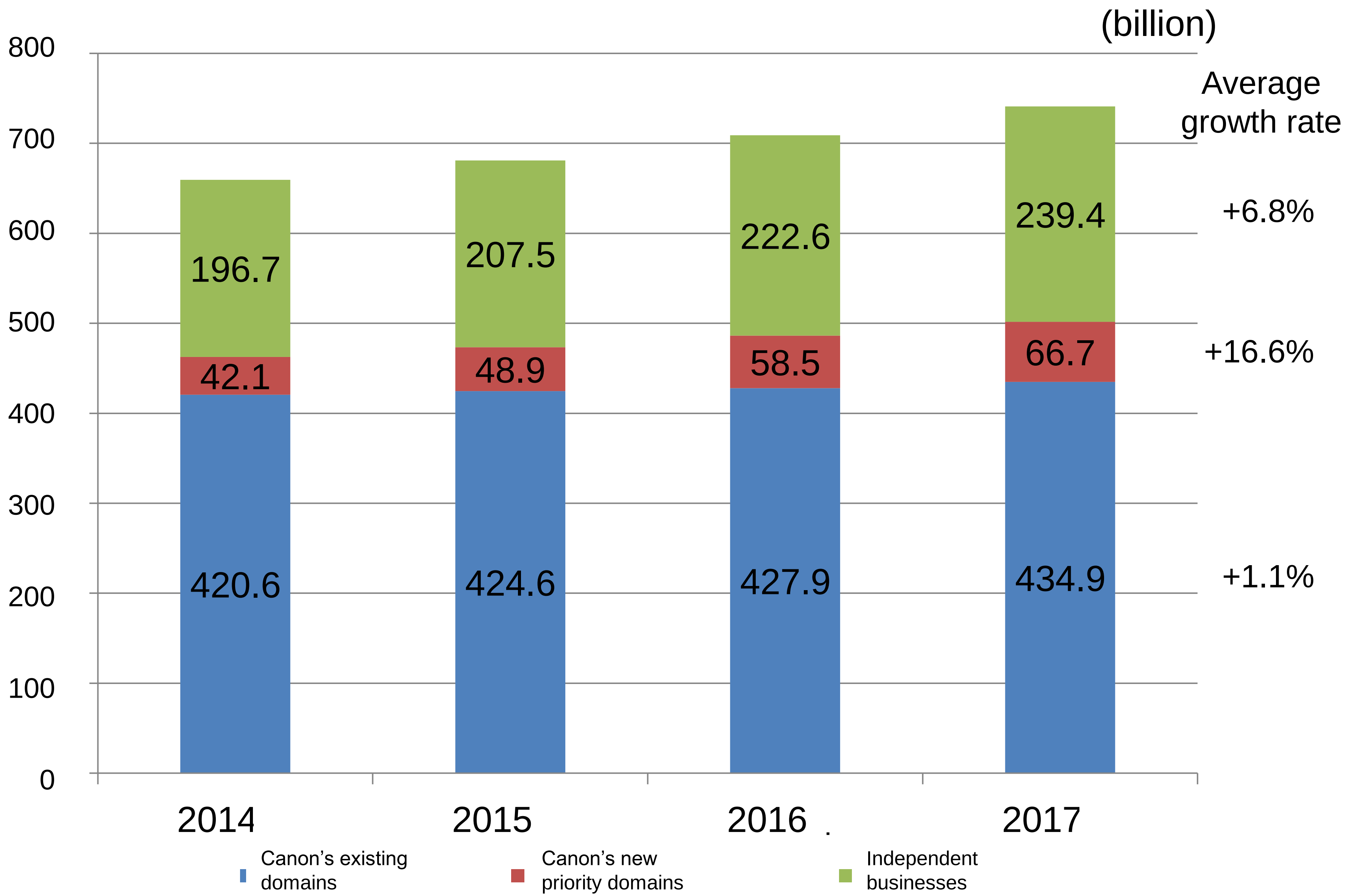
Performance Objectives by Segments

(billion)

	2014 result		2015 objective		2016 objective		2017 objective		Average growth rate between 2014 and 2017
	Sales	Op. Profit	Sales	Op. Profit	Sales	Op. Profit	Sales	Op. Profit	
Business Solutions	330.2	8.2	340.0	8.7	351.4	12.5	362.0	13.5	+3.1%
	+0.9%	2.5%	+3.0%	2.6%	+3.4%	3.6%	+3.0%	3.7%	
IT Solutions	148.8	3.2	151.7	4.2	159.5	6.4	173.6	8.4	+5.3%
	+4.5%	2.1%	+2.0%	2.8%	+5.1%	4.0%	+8.8%	4.8%	
Imaging Systems	185.4	14.3	188.8	13.2	195.0	12.7	200.0	13.0	+2.6%
	-3.3%	7.7%	+1.8%	7.0%	+3.3%	6.5%	+2.6%	6.5%	
Industrial/ Medical	28.0	-1.0	31.5	-0.5	37.8	1.0	42.4	1.7	+14.8%
	+7.3%	-	+12.4%	-	+20.1%	2.6%	+12.1%	4.0%	
Other/Sales eliminations	-33.0	0.4	-31.0	0.4	-34.7	0.4	-37.0	0.4	
Group consolidated	659.4	25.1	681.0	26.0	709.0	33.0	741.0	37.0	+4.0%
	+0.3%	3.8%	+3.3%	3.8%	+4.1%	4.7%	+4.5%	5.0%	

* The percentage in the lower part of each segment shows the YOY growth rate for sales and the operating margin for operating profit.

Growth scenario (changes in net sales)



Growth strategies for each segment

Business Solutions

Growth scenario

(billion)

Target: Total sales ¥362/O.P ¥13.5 (2017)

Category	Annual average growth rate (between 2014 and 2017)	Included businesses
Independent business	+6%	IT Solutions
		Document Solutions
		Support Business
Canon's new priority domain	+15%	Production Printing Business
		Network Cameras, Projector
Canon's existing domain	+0.2%	MFP(including maintenance business)
		LBP(including maintenance business)

Growth strategies

1	Increase market share for MFP and improve profitability of MFP by innovating the business style
2	Increase the market shares for LBP and retain the top position in specific printing
3	Secure a competitive edge in the markets of CRD, data print services and commercial printing, and expand the MDS business
4	Strengthen and enhance the solutions business
5	Expand the network camera business to new application fields
6	Expand the projector business to new application fields

1 Increase the market share for MFP and improve the profitability of MFP by innovating the business style

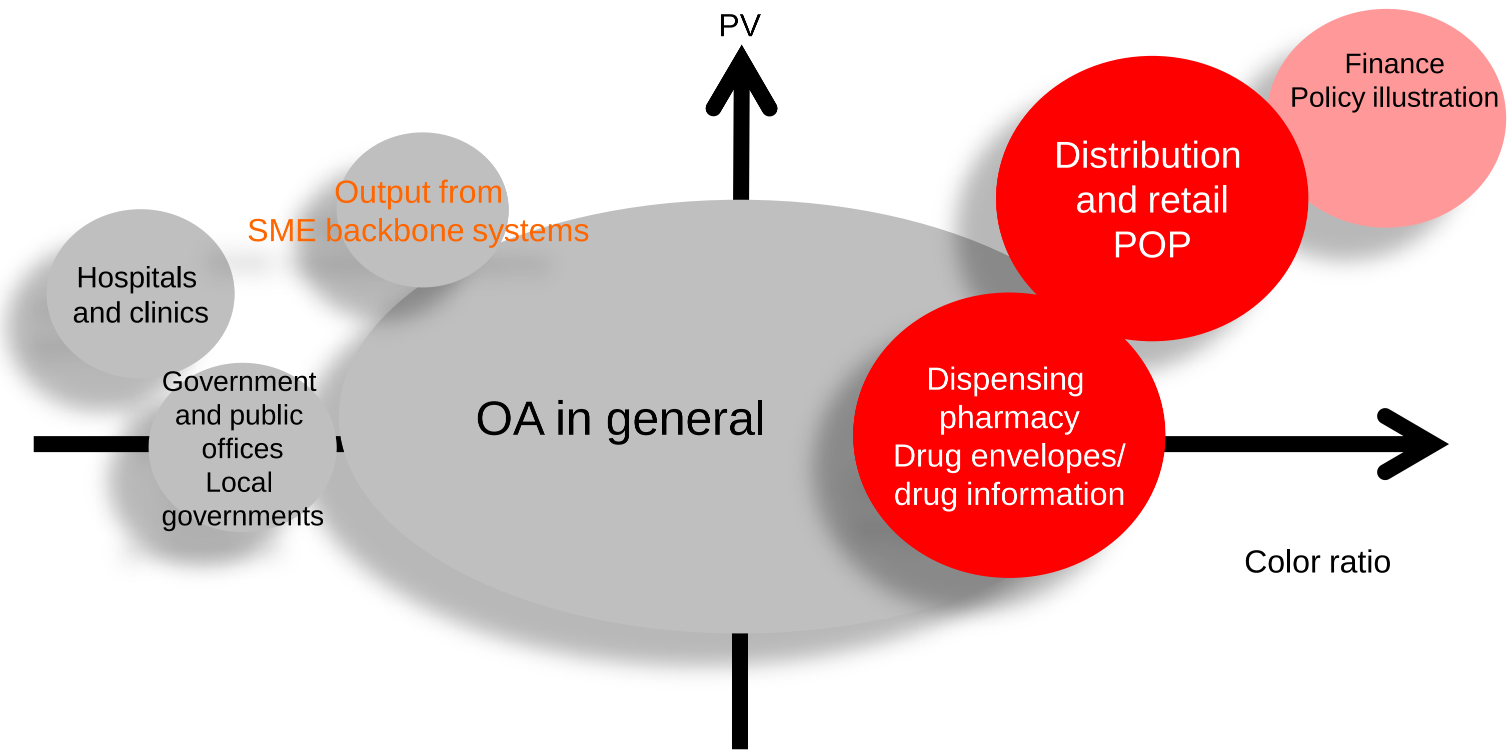
Strategies for the MFP business

Sales reform	1. Strategically target specific sectors with a focus on major enterprises. 2. Increase sales capabilities aimed at midsize companies in urban areas nationwide. 3. Establish an efficient sales expansion system for low-PV machines and kit machines aimed at small and medium-sized companies.
Service reform	1. Promote the unification of service department groups 2. Improve service productivity 3. Transfer service personnel to growth fields 4. Increase profits from new services and expand value-added services
Operational reform	1. Promote BPR (contract-related operations and distribution operations) 2. Integrate call center operations

2 Increase the market share for LBP and retain the top position in the market of specific printing

Strategies for LBP business

- Establish a system for expanding sales from existing customers by targeting specific customers
- Continuous provision of the function for linking devices to sector-specific applications



Secure a competitive edge in the markets of CRD, data print services and commercial printing, and expand the MDS business

Strategies for the production printing business

Increase shares in the domains of CRD* and data print services by expanding the lineup of light production devices and continuous feed printing systems

*CRD : Central Reprographics Department

Full-scale entry into the commercial printing market with inkjet products from OCE
Develop new customers such as newspaper companies in addition to printing firms

ColorStream3700Z

Introduced by a major newspaper company in 2014

Enter the package market

Target sales of PPS business for 2017: ¥48 billion

Strategies for the solutions business

Expand the solutions business for major enterprises by strengthening unique solutions with a focus on documents

- Expand common solutions such as input and output and the document management base.
- Expand the license/development business by strengthening cooperation with Salesforce.
- Promote data center business with a focus on hosting services.

Expand solutions to new sectors and business domains

- Expand to technology areas (drawing management, drawing release) with 3D solutions at the core.
- Medical care, nursing care, agriculture, infrastructure, construction, real estate, business related to Social Security and the Tax Number System (My Number system)

Expand the IT Solutions business for SMEs with the central role played by Canon System & Support

- Expand sales of HOME to enable security strengthening and communication improvement.
- Strengthen solutions that are specific to sectors/operations and expand introduction/ maintenance services.
- Take challenges to new stock businesses.

5 Expand the network camera business into new application fields

Strategies for network camera business

◆ Expand applications for crime prevention and monitoring to address risks
Expansion of applications for marketing and improvement of operating processes

<u>Fields in which the business is growing and introduction examples</u>

- Food defense (monitoring of food/beverage production and packaging lines)
- Security monitoring of shop streets and shopping malls
- On-site store management
- Security and safety management in nursing-care facilities (monitoring to prevent wandering)
- Improvement of operating processes in hospitals

Strengthen the dedicated sales personnel system

Launch cloud businesses such as multiple device compatibility and image analysis

Strengthen solutions capabilities by promoting alliances

6 Expand the projector business into new application fields

Strategies for projector business

◆Increase business opportunities by expanding applications in a variety of categories, including use in offices, education, and digital signage)

<u>Introduction examples</u>

- Digital signage for video advertisement outside premises by an automobile retailer operating showrooms all over Japan
- Illumination/projection mapping show for a Christmas event at a commercial complex

Target total sales of network camera and projector businesses for 2017: ¥10 billion

IT Solutions

Growth scenario

Target: Total sales ¥173.6 /O.P¥8.4 (2017)

Category	Annual average growth rate (between 2014 and 2017)	Included businesses
Independent business	+6%	System Integration Business
	+12%	IT Infrastructure & Service Business
	+8%	Embedded System Business
	-0.4%	Products Business
Canon’s new priority domain	+45%	MR*

* MR: Mixed Reality

IT Solutions: Growth strategies

1	Improve efficiency and shift to service business through structural reform of business
2	Expand business in SI services based on strength in particular sectors and solutions in our strong areas
3	Start full-scale operation of Tokyo West Data Center as soon as possible and expand system operation services
4	Expand product business by strengthening our own package products and discovering competitive external products for which we have exclusive distribution rights
5	Expand the embedded system business for the automotive industry and others
6	Reinforce the business structure in the ASEAN region, with MAT at the core
7	Accelerate the launch of new businesses

3 Start full-scale operation of Tokyo West Data Center as soon as possible and expand system operation services

◆Expand stock business by operating the service business with high value-added data centers at the core

Facility		Operation and monitoring		Services	
Co-location	Housing	Monitoring services	Operation services	Private cloud	
				SI services	NW services

Tokyo West Data Center

IT Solutions: Growth strategies

1	Improve efficiency and shift to service business through structural reform of business
2	Expand business in SI services based on strength in particular sectors and solutions in our strong areas
3	Start full-scale operation of Tokyo West Data Center as soon as possible and expand system operation services
4	Expand product business by strengthening our own package products and discovering competitive external products for which we have exclusive distribution rights
5	Expand the embedded system business for the automotive industry and others
6	Reinforce the business structure in the ASEAN region, with MAT at the core
7	Accelerate the launch of new businesses

6 Reinforce the business structure in the ASEAN region, with MAT at the core

Target sales of ITS global business*: ¥26 billion in 2017

- Shift from businesses focusing on IT and infrastructure services to solutions businesses including applications
- Operate businesses and plan M&A based on the characteristics of each trade area
- Expand solutions provided in Japan (including solutions related to security, MR, and network) to overseas markets

*Sales of IT global business include domestic sales of overseas products for which we have exclusive distribution rights

7 Accelerate launch of new businesses

Target sales of 3D-related business: ¥15 billion in 2017

Category	Average growth rate between 2014 and 2017
MR	+45%
3D CAD	+14%
3D printers	+52%
3D medical solutions	+93%
Total of 3D-related business	+31%

- Strengthen cooperation on 3D products within the Group
- Expand to the areas of manufacturing and medical care on a full scale

Strengthen the Group's IT Solutions capabilities

(billion yen)

	2014 result	2017 target
Overall Group ITS sales	174.9	206.5
ITS sales in segments besides ITS segment	58.4	69.1
ITS segment sales	148.8	173.6
Inter-segment sales (eliminations)	-32.3	-36.2

Imaging Systems

Growth scenario

Target: Total sales ¥200 /O.P¥13 (2017)

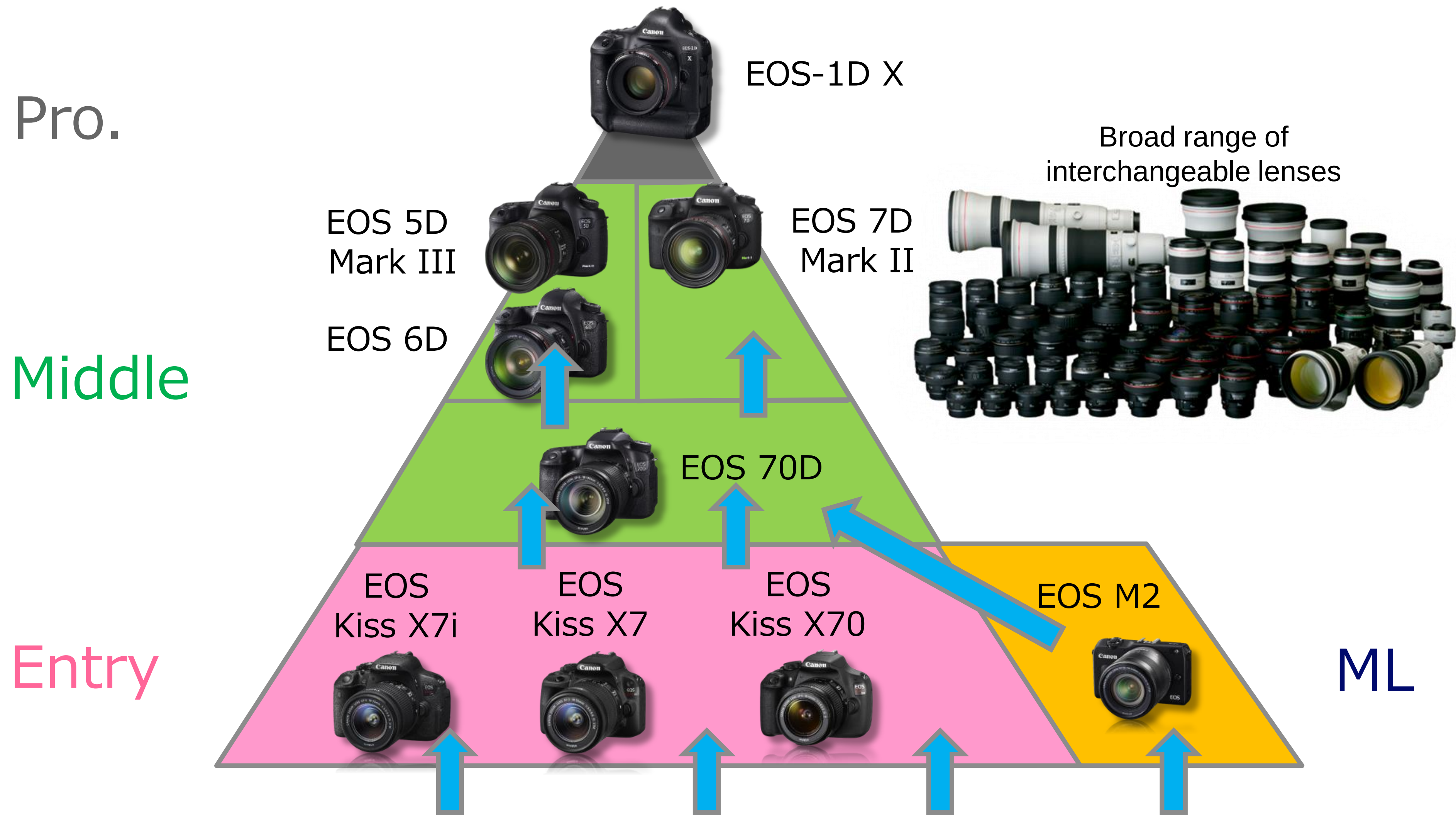
Category	Annual average growth rate (between 2014 and 2017)	Included businesses
Independent business	+21%	Framed photo rental (Shuttle Photo)
		Photo-related online services (withPhoto)
		IT products
Canon's new priority domain	+19%	Commercial imaging equipment
		Commercial photo printers (DreamLabo)
Canon's existing domain	+2%	Interchangeable lens digital cameras
		Compact digital cameras
		Digital video cameras
		Inkjet printers
		Other consumer equipment

Imaging Systems: Growth strategies

1	Achieve the largest market shares for all the categories of interchangeable-lens digital cameras
2	Achieve the overwhelmingly largest market share for compact digital cameras through a full-lineup strategy centering on premium models
3	Expand PV of inkjet printers
4	Expand commercial imaging equipment by strengthening 4K and over-4K products and SI capabilities
5	Expand and improve CRM* systems and promote digital marketing.

* CRM: Customer Relationship Management

1 Achieve the largest market shares for all the categories of interchangeable-lens digital cameras

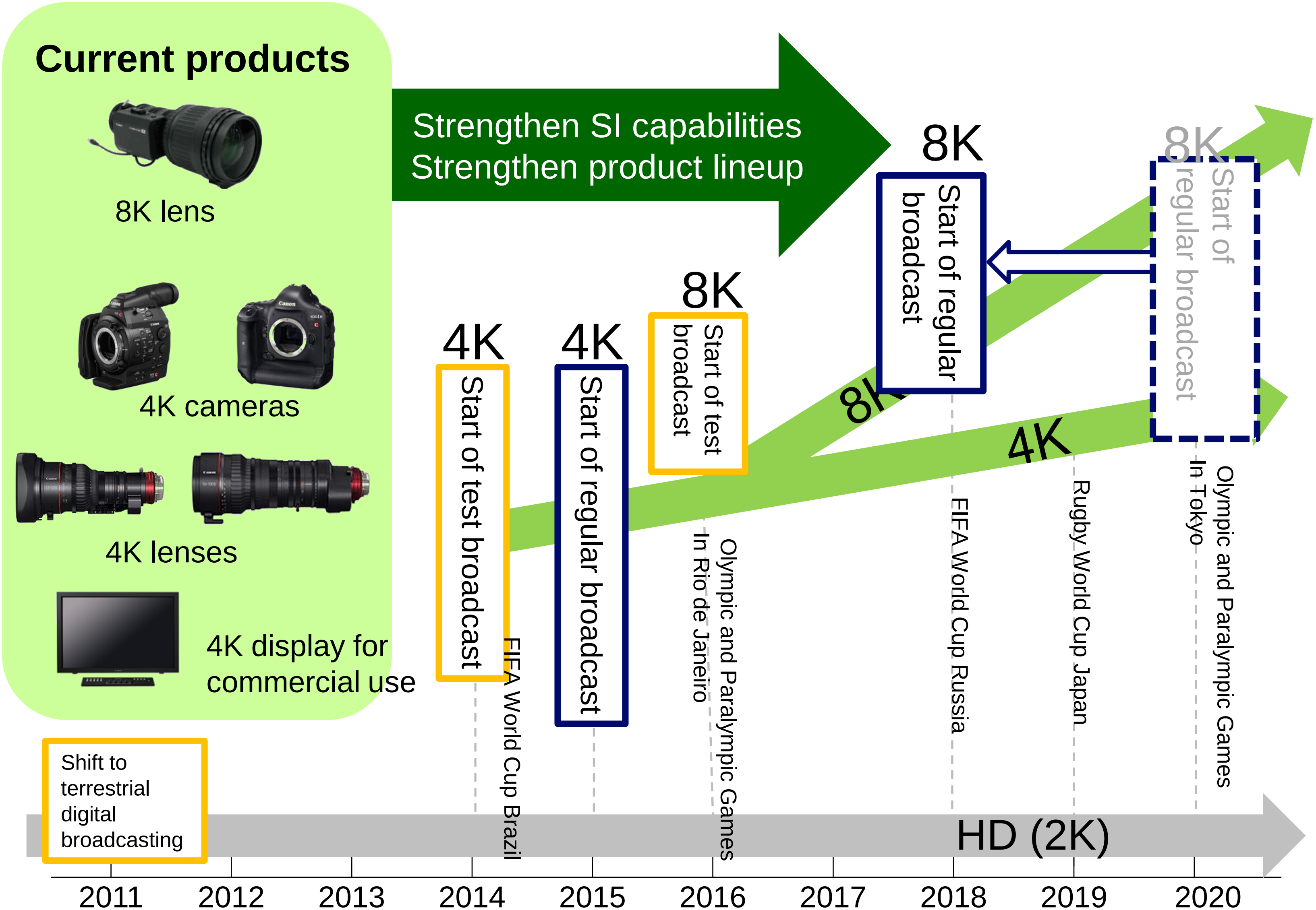


Promote the step-up strategy powerfully by strengthening the product lineup from the user point of view

3 Expand PV of inkjet printers

- ◆ Create new demand for printing with smartphone printing
- ◆ Strengthen the appeal of products for professional use
- ◆ Increase market shares for printers for SOHO with a full lineup combined with laser printers

4 Expand commercial imaging equipment by strengthening 4K and over-4K products and SI capabilities



Business opportunities will increase with accelerated spread of next-generation (4K/ 8K) broadcast

Industrial/Medical

Growth scenario

Move into the black definitively while trying to expand new businesses

Category	Annual average growth rate (between 2014 and 2017)	Included businesses
Independent business	+22%	Testing and measurement
		Process equipment
		Field engineers
		New products
Canon's new priority domain	+148%	Industrial cameras, machine vision, AGV
Canon's existing domain	+7%	Component business

Industrial Equipment: Growth strategies

1	Expand and improve the line-up of new products handled and build into a pillar of growth Strengthen the technology trading company function
2	Launch Canon's priority businesses early, including those for machine vision and industrial cameras
3	Develop Taiwan market through Canon Advanced Technologies Taiwan Inc.

Targets in expansion of handled products

Market		Domain	Application/product	Manufacturers currently handling application/product	Manufacturers planning to handle application/product
Existing business domains	Main semiconductors	Wafers	Lamp annealing, defect measurement	Mattson, Raytex	
		DRAM, NAND, Flash memory Logic IC, CMOS image sensors	Lamp annealing, ashing, etching, defect measurement, mass measurement, film thickness measurement, dicing, surface shape, etc.	Mattson, Raytex, Metryx, Camtek, RAVE, JVS, EUV tech., ZYGO	PlasmaTherm
		Consumables (filters)	Chemical filter	KAEL	
	Peripheral semiconductors	MEMS, LED, power supply IC, etc.	Ashing, etching, defect measurement, shape measurement, sputtering, cleaning, etc.	MAS, Camtek, Zygo, memsstar	Plasma Therm, Oerlikon, EcoSnow
	Non-semiconductors	Precision machining	Precision sensors, galvanometer scanners, etc.	Canon	
		Precision measurement	Surface shape, surface roughness, etc.	Zygo	Schmidt*
Domains being newly entered	Peripheral semiconductors	LCD drivers	Probe cards*	-	ProbeAce
	Non-semiconductors	Production innovation	3D printers, machine vision, industrial cameras Multi-wire saws		3D Systems, Canon, CMJ independently
		Preclinical (Pharmacy)	Small animal PET/SPECT/CT/MRI		TriFoil Imaging

*Marketed in Taiwan

Medical: Growth scenario

Move into the black definitively while trying to expand new businesses

Category	Included businesses average growth rate between 2014-2017	Included businesses
Independent business	+11%	Procurement modality/Ophthalmic products
		PACS/Medical imaging solutions
		Ophthalmic equipment
		Infection management
		Pharmaceutical dispensing
		Healthcare products
Canon's new priority domain	-	Medical IT business
Canon's existing domain	+11%	CXDI
		Digital non-mydriatic retinal cameras/OCT

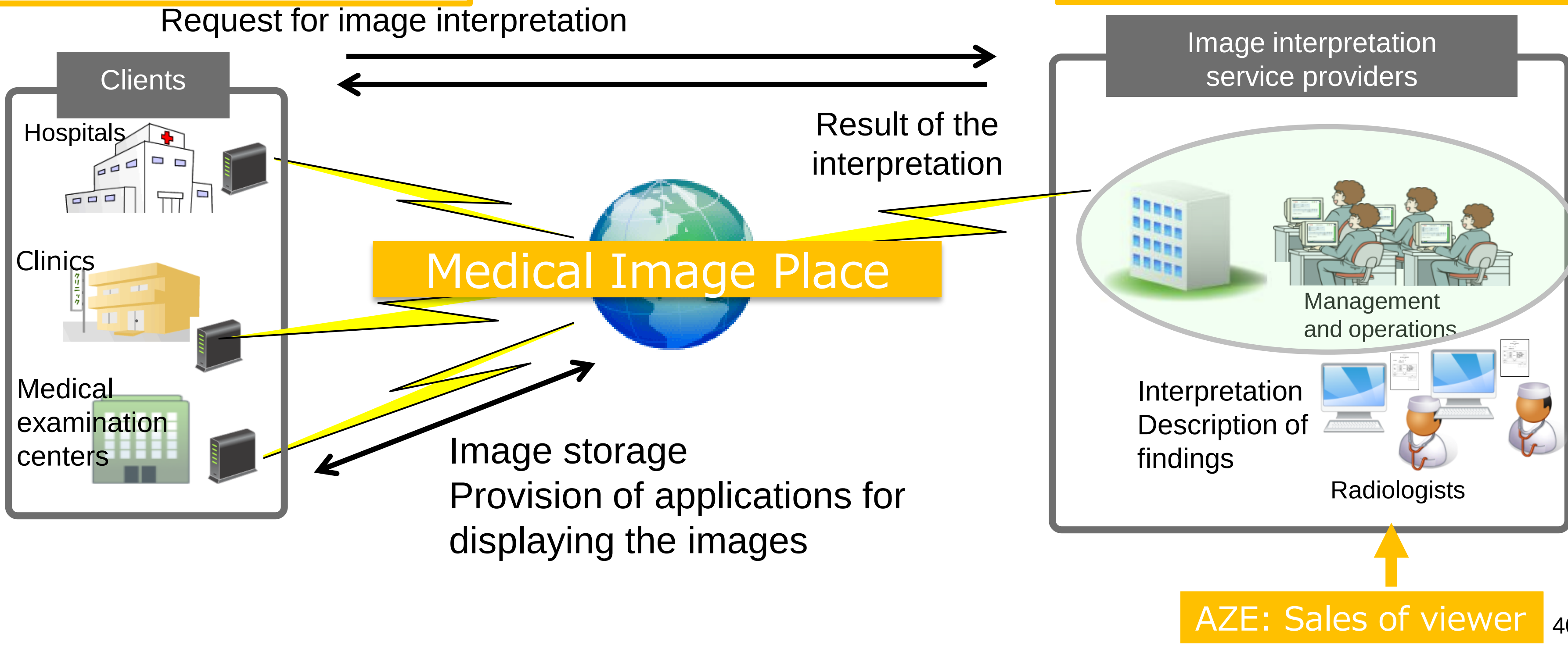
Medical: Growth strategies

1	Expand sales of modalities by strengthening sales force
2	Strengthen consulting and one-stop trading company functions for hospitals
3	Strengthen and expand medical imaging IT solutions
4	Rigorously expand independent business areas of infection management and pharmaceutical dispensing in Japan
5	Expand overseas businesses

3 Strengthen and expand medical imaging IT solutions

Medical Image Place

Infrastructure services for remote image interpretation (Launched in 2014)	Medical image external storage service (planned to be launched in the future)	Medical image system service (planned to be launched in the future)
Provide infrastructure linking image interpretation service providers to facilities requesting interpretation	Provide archive for image data generated in the facility	Storage of images generated in the facility and provision of application for displaying them (Cloud PACS)



Investing for Growth

		Breakdown of investment	3-year cumulative investment amount
General investment	Main investment items	MFP rental assets	Around ¥21 billion
		Additional investment in Tokyo West Data Center	Around ¥5 billion
		Development of internal IT equipment/ systems	Around ¥9 billion
	Total		Around ¥50 billion
Strategic investment		M&A-related funds <Target areas> IT solutions, medical care, documents	Around ¥40 billion (Preparatory funds)

Shareholder dividend policy

- Pay dividends with comprehensive consideration of the medium-term profit forecast, investment plans, and cash flows, with a consolidated payout ratio of at least 30%

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.

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