Three-Year Management Plan 2017 to 2019

January 31, 2017

Canon Marketing Japan Inc.
Masahiro Sakata, President

1.Review of Long-Term Management Objectives Phase Ⅲ

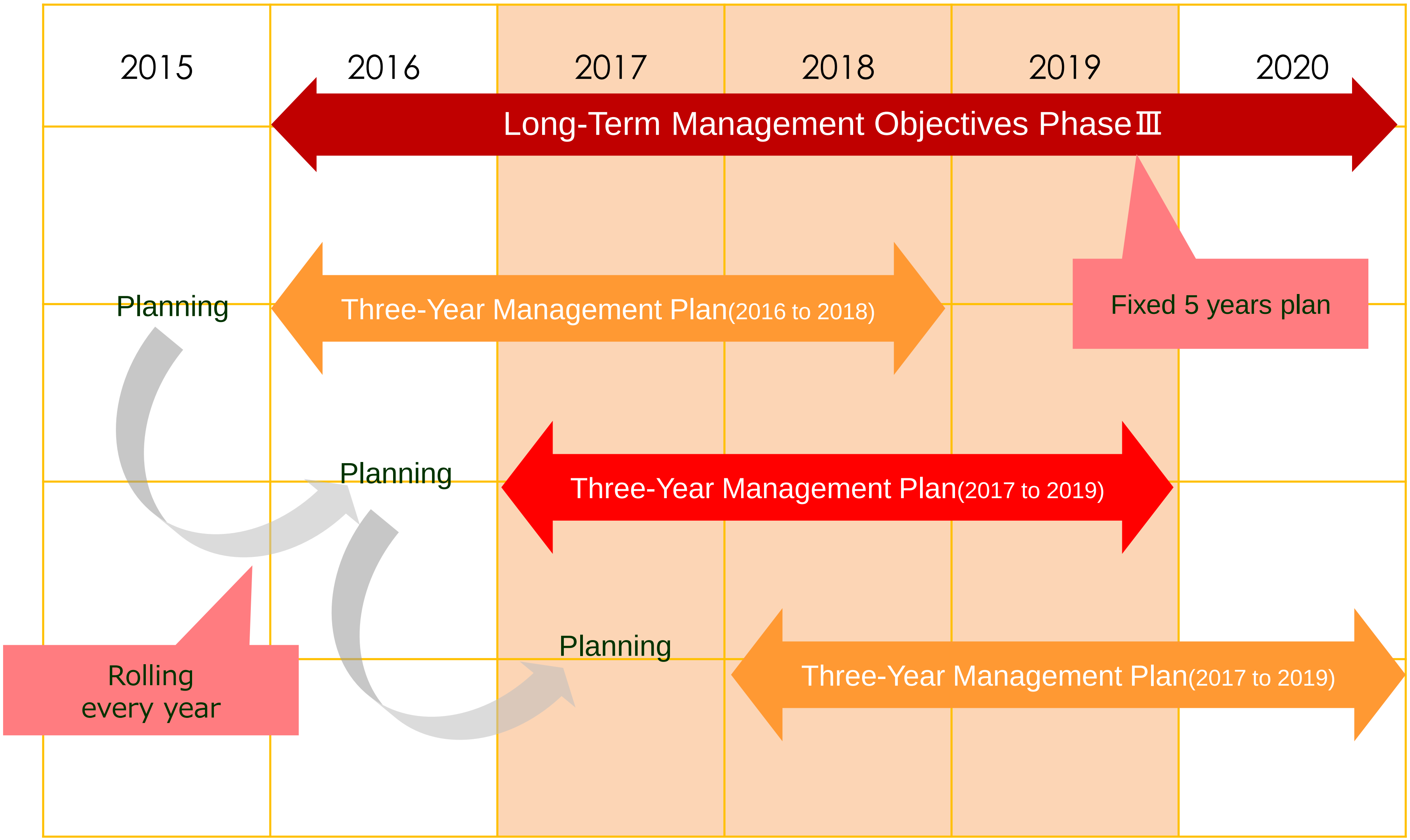
- Long-Term Management Objectives Phase Ⅲ (2016 to 2020)
- 2016 General Overview

2. Three-Year Management Plan (2017 to 2019)

- Environmental Changes & Expansion of Business Opportunities
- Growing Sales
- Improving Profits

3. Strategic Investment & Policy on Dividends to Shareholders

The Relationship of the Long-Term Management Objectives Phase III and Three-Year Management Plans



Long-Term Management Objectives Phase III
(2016 to 2020)

Image of Achieving our Mission and Vision

Mission: Help solve social issues

Vision: Deeply understand customers and grow with them

Create results together with customers

Create "Imaging & IT" solutions

CANON Group

Strengths of manufacturer's sales companies

Customers

Customer base

IT

Technical skills

Key Management Indicators

Net Sales	Operating Margin	Ratio of sales from growth areas	SG&A expenses to net sales
¥800billion	¥40billion	Over50%	30% or less

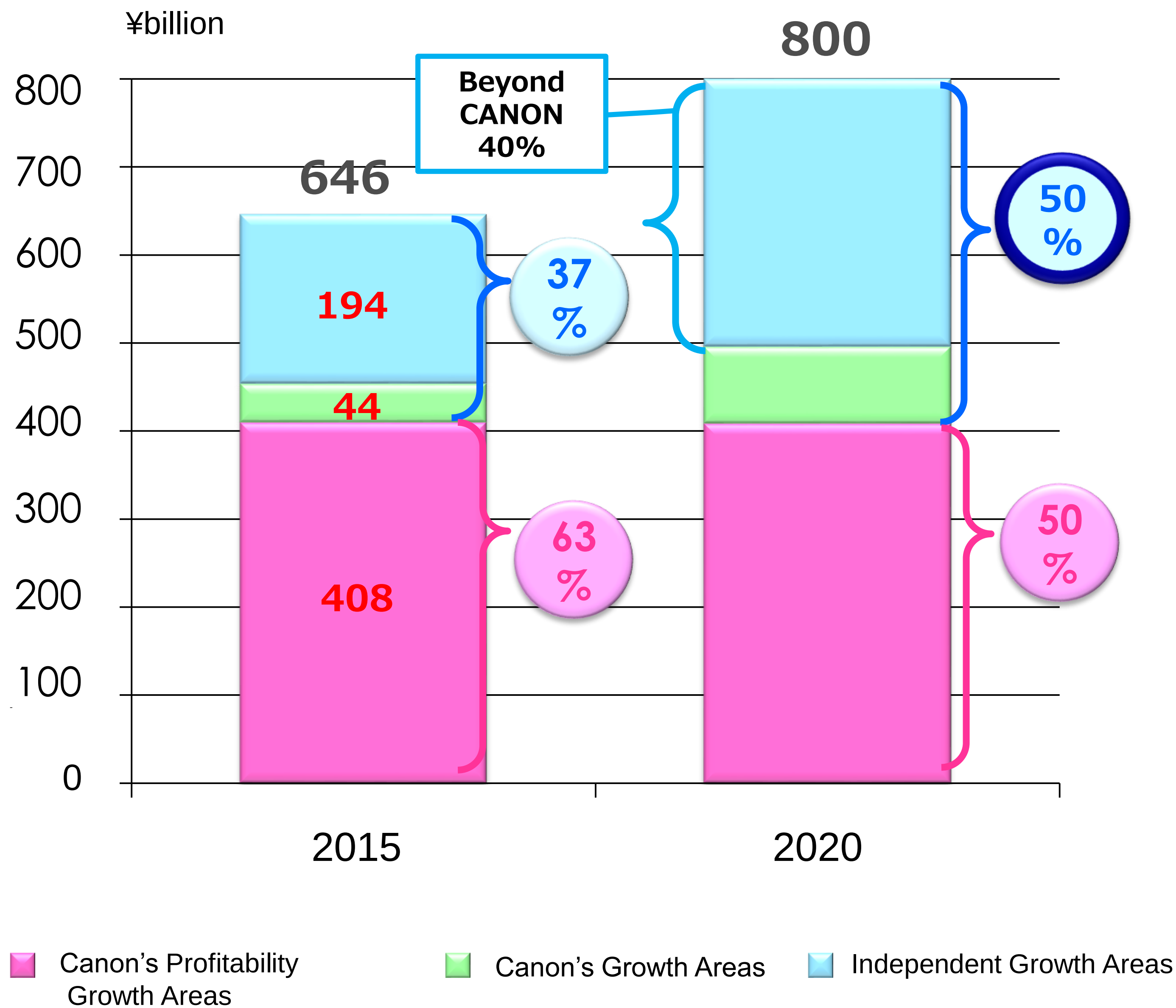
Six Basic Policies and Priority Strategies

1. Become the “true partner”of our customers
2. Maintain the high profitability base of Canon’s Profitability Growth Areas
3. Turn Canon Growth Areas into core businesses
   (Improve solution skills and promote cooperation)
4. Expand IT solution business using the Groups’ collective abilities
   (Independent Growth Areas)
5. Aggressively implement business structure / process reforms
6. Become a corporate group where employees work more energetically

Growth Scenario Categories & Strategy Overview

	Strategy Overview	Key Products and Services
Canon's Profitability Growth Areas	➢ Achieve and maintain No.1 market share of key products ➢ Increase productivity by reforming sales and services	MFP and LBP Cameras, Inkjet Printers, Digital X-ray camera (CXDI)
Canon's Growth Areas	➢ Expand the network camera business • Cooperate with Axis and Milestone • Enhance solutions ➢ Expand the production printing business area • Upstream and downstream processes of commercial printing • Package printing, industrial printing area	Network Cameras, Projectors, Production Printing, Business Inkjet Printers, Commercial Imaging Equipment, DreamLabo, Machine Vision
Independent Growth Areas (Beyond Canon)	➢ Strengthen and expand IT solutions in all businesses ➢ Change from entrusted development business to solution proposing Sier ➢ Expand cross-industry solutions (security, outsourcing, etc.) ➢ Turn Industrial Business Unit into a commercial firms ➢ Strengthen solutions in the medical business	IT Solutions Industrial Equipment (semiconductors and non-semiconductors) Medical Solutions, Infection Control, and Dispensing Equipment

Shifting Weight to Growth Areas



2016 General Overview

2016 General Overview

- Progress of important business management indicators -

- Sales decreased while profits increased. It was a rough start for the initial year for Phase III of our Long-Term Management Objectives.
- In particular, B-to-C sales declined more than anticipated, and despite a review and revision to the initial plan for the start of the year in the 3rd quarter, we were unable to achieve our planned figures for the year.
- There was an upturn in operating profits due to the company-wide reduction in SG&A expenses and the increase in the proportion of highly profitable businesses.
- Percentage operating profits were the highest ever recorded, at 4.4%.
- Our policy is to improve ROE by increasing profits. ROE exceeded the planned level due to the upturn in profits.

	Plan at start of year	Recent plan	Actual results
Sales	¥660 billion	¥638 billion	¥629.3 billion
SG&A expenses	32.0%	31.5%	31.5%
Operating profits	¥27 billion	¥27 billion	¥27.7 billion
Operating profits	4.1%	4.3%	4.4% (Highest ever recorded)
Profit attributable to owners of parent	¥17.7 billion	¥17.7 billion	¥18.2 billion
ROE	6.3%		6.5%

2016 General Overview

- Progress of weight shift towards growth areas -

➢Percentage sales in independent (“Beyond Canon”) growth segments showed a year-on-year increase lead by SI, security business and industrial devices sales.

➢While there was growth in network camera sales, percentage sales Canon growth segments remained at a constant level.

➢Percentage sales for Canon profit improvement segments showed a year-on-year decrease, as we were unable to cover the slump in B-to-C revenues with B-to-B sales. The profitability of these segments showed a year-on-year improvement due to improvements in productivity, etc.

	Actual results for 2015	Actual results for 2016	Target for 2020
Independent Growth Areas	30% (¥193.8 billion)	31% (¥196.6 billion)	40% (¥320.0 billion)
Canon’s Growth Areas	7% (¥44.0 billion)	7% (¥44.5 billion)	10% (¥80.0 billion)
Canon’s Profitability Growth Areas	63% (¥408.2 billion)	62% (¥388.2 billion)	50% (¥400.0 billion)

2016 Topics (1)

✓ Establishment of ITS company (business unit)

- An ITS business unit was established in order to increase and expand IT solutions business across all business operations.
- An Educational Industry Sales Group was established within the ITS business unit with the aim of expanding business by consolidating the various education-related sales departments scattered throughout the Group, at a level that transcends individual business segments.
- A Security Solution Planning Division was established with the objective of increasing sales of security-related products within the group across all sales channels, as the Security business segment is one that is expected to see significant growth in the future.

✓ Launch of various projects and formulation of policies towards 2020

- Various projects were launched, including a call center project, a digital marketing / EC (E-commerce) project, and an after-care service innovation project.

✓ New business initiatives

- We entered the drone market by investing in Prodrone Co., Ltd., a drone manufacturer with high level technological capabilities.
- We also invested in a FinTech-specialized fund and venture-oriented fund for venture companies utilizing next-generation IT; with the objective of forming cooperative partnerships with venture companies.

2016 Topics (2)

✓**Augmentation of network camera business**

・Started partnerships with Milestone Systems, Fujitsu and NEC Corporation.

✓**Progress and new initiatives for IT solutions business**

・Transfer of security solutions such as the ESET series and the FortiGate UTM (Unified Threat Management) system is progressing well.

・Transferal of service orders for the West-Tokyo Data Center is also progressing smoothly.

✓ **Maintaining No.1 share for interchangeable-lens digital cameras, compact digital cameras, inkjet printers and laser printers**

Three-Year Management Plan
(2017–2019)

Environmental Changes & Expansion of Business Opportunities

Market maturation, low birth rate and aging population→
Rising demand for high-efficiency solutions in society and business

- **Need for workflow improvement at companies**

→ Intensifying use of outsourcing and cloud systems for concentration on main business/services
→ Improving work efficiency and bolstering sales capabilities through proactive utilization of IT at small-to-medium sized businesses

- **Need for reduction of medical costs accompanying social aging**

→ Solutions for reducing costs at medical institutions through utilization of IT technologies

Technological advancement and evolution →
Increased investment in new business opportunities and expanding security needs

- **Incorporation of IT technologies through technological innovation**

→ Investing in IoT and robotics, etc., in various industry segments
→ Investment for revolutionizing points of contact with customers in the financial sector utilizing FinTech technologies

- **Reforming and revolutionizing business models**

→ Investing in new businesses that utilize AI, 3D technologies and digital marketing, etc.

- **Rising demand for improved security**

→ Bolstering security against increasingly sophisticated cyber attacks

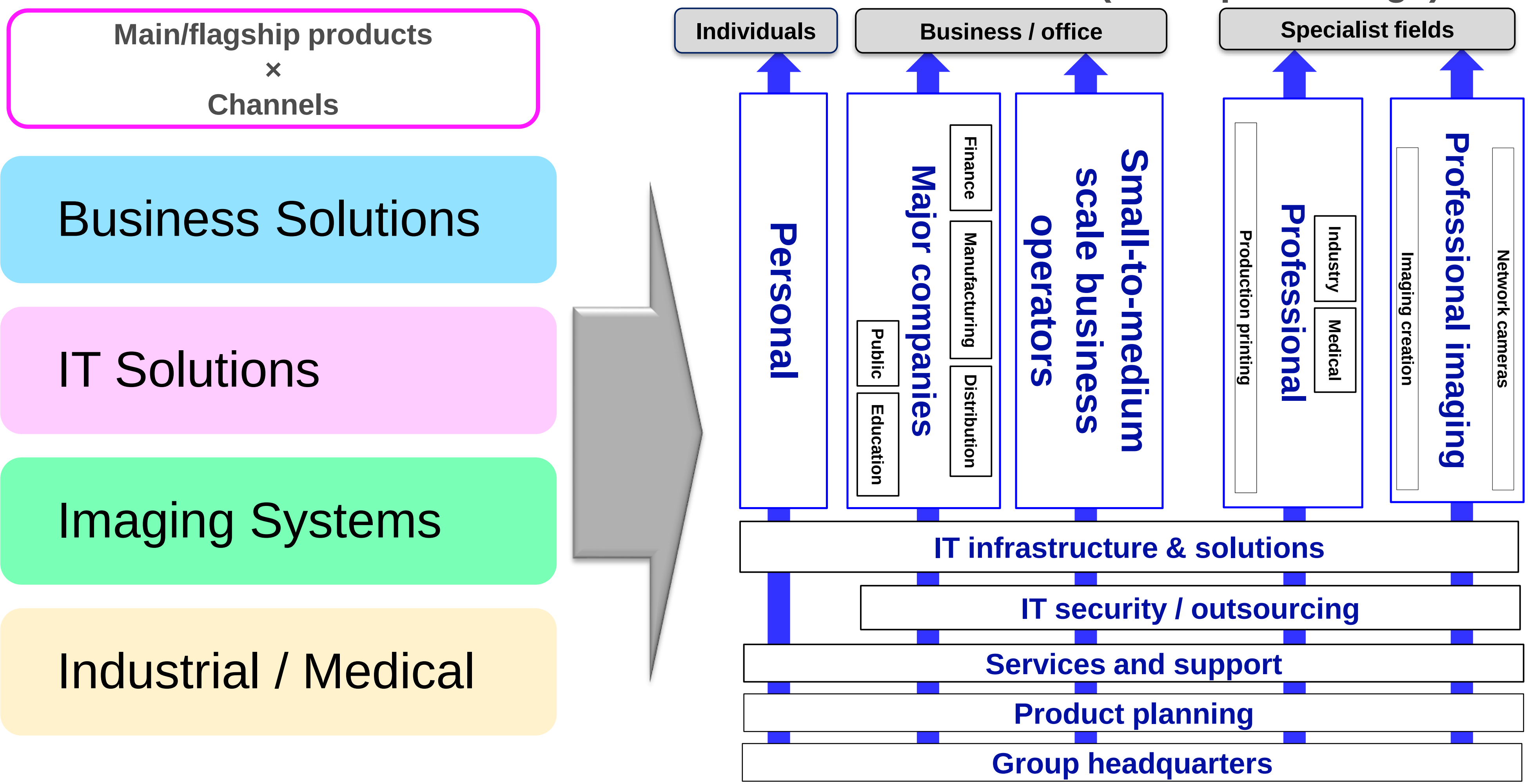
- **Advancement of business and higher efficiency in society through utilization of imaging technologies**

→ Utilizing high-resolution images (i.e. 4k & 8k)
→ Deploying monitoring and security/protection solutions utilizing the data of network camera for marketing applications
→ Developing new businesses utilizing drones

Conversion to a New Customer-Centric Framework

- By converting to this new framework, the company will shift from being an organization composed simply of products and channels into an organization that is able to provide solutions catering to both the needs of the market and the needs of the customers.
- By consolidating all of the Group's resources, we will thoroughly solve the issues being faced by customers with powerful, unified capabilities.

Current situation | **New framework (conceptual image)**



Expansion of Growth Areas by Resource Shifting & Intensification

- Based on our Long-Term Management Objectives III, in January 2017 we implemented measures seeking to shift and consolidate resources.
- By shifting large numbers of personnel who until now had been engaged in profit improvement segments to work on Canon's Growth Areas and Independent Growth Areas, we will seek to expand the scale of sales turnover.

Augmentation of Medical IT resources

- Sought to consolidate and strengthen links between various Medical businesses scattered throughout the group

(Organized Canon ITS Medical into Medical segment)

Augmentation of network camera business

- Consolidated network camera business and shift necessary personnel

Consolidation of Business Process Outsourcing (BPO) business resources

- Consolidated resources towards expansion of outsourcing business

(Organized Canon Biz Attenda into Business Solutions segment)

Establishment of integrated Group service & support capabilities

- Established an organization for maintaining (and improving) optimal service and support capabilities for the entire Group

Establishment of new imaging solution co-creation project

- Launched a project for creating new solutions together with customers based on Canon's Imaging technologies

In January 2017 we implemented large-scale organizational restructuring, shifting approx. 1,000 members of personnel in total

Core Themes in the Three-Year Management Plan (2017 to 2019)

Growing sales

Achieving growth through attack & reform

- ✓ Seek to expand business to markets and customers that we were unable to offer solutions to until now, by shifting to a framework that caters to market and customer needs.
- ✓ Seek to expand business by shifting manpower, funds and other resources from Canon's profitability Growth Areas to Canon's Growth Areas and Independent Growth Areas.

Improving percentage profits

Conversion to a muscular business structure/model

- ✓ Seek to further improve profitability of B-to-C, Document Businesses and other Canon's profitability Growth Areas.
- ✓ Implement fundamental structural reforms and seek to reduce SG&A expenses.

Group Targets (Consolidated)

(Billions of Yen)

	Actual Results	3-year Management Plan		
	2016	2017	2018	2019
Net sales (%)	629.3 -	645.0 (+2.5%)	670.0 (+3.9%)	700.0 (+4.5%)
Operating income (ratio)	27.7 (4.4%)	28.8 (4.5%)	30.6 (4.6%)	34.0 (4.9%)
Ordinary income (ratio)	28.7 (4.6%)	29.6 (4.6%)	31.8 (4.7%)	35.2 (5.0%)
Profit attributable to owners of parent (ratio)	18.2 (2.9%)	19.8 (3.1%)	20.7 (3.1%)	23.0 (3.3%)
EPS	¥140	¥153	¥160	¥177
ROE	6.5%	6.8%	6.9%	7.1%
Free Cash Flow (accumulated 3 years)	22.0 (2014-16)	27.0 (2017-19)		

Targets by segments

(Billions of Yen)

	Actual Results		3-year Management Plan					
	2016		2017		2018		2019	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
	%	ratio	%	ratio	%	ratio	%	ratio
Business Solutions	334.6	12.1	345.0	12.3	354.0	12.9	371.7	13.9
	-	3.6%	+3.1%	3.6%	+2.6%	3.6%	+5.0%	3.7%
IT Solutions	128.8	4.0	130.0	4.1	143.0	5.0	153.1	6.3
	-	3.1%	+0.9%	3.2%	+10.0%	3.5%	+7.1%	4.1%
Imaging System	159.2	10.9	161.0	11.0	161.5	11.4	161.7	11.6
	-	6.8%	+1.1%	6.8%	+0.3%	7.1%	+0.1%	7.2%
Industrial / Medical	32.2	0.2	33.5	1.2	37.4	1.3	40.6	2.0
	-	0.6%	+4.0%	3.6%	+11.6%	3.5%	+8.6%	4.9%
Other	-25.5	0.6	-24.5	0.2	-25.9	0.0	-27.0	0.2
Total -Consolidated-	629.3	27.7	645.0	28.8	670.0	30.6	700.0	34.0
	-	4.4%	+2.5%	4.5%	+3.9%	4.6%	+4.5%	4.9%

Targets by Growth Areas

(Billions of Yen)

	Actual Results	3-year Management Plan		
	2016 (Composition ratio)	2017 (Composition ratio)	2018 (Composition ratio)	2019 (Composition ratio)
Canon's Profitability Growth Areas	388.2 (61.7%)	387.2 (60.0%)	384.0 (57.3%)	381.7 (54.5%)
Canon's Growth Areas	44.5 (7.1%)	55.1 (8.5%)	64.6 (9.6%)	75.2 (10.7%)
Independent Growth Areas	196.6 (31.2%)	202.7 (31.4%)	221.4 (33.0%)	243.1 (34.7%)
Total	629.3	645.0	670.0	700.0

Growing Sales

Group IT Solutions Sales Targets

Monetary units: Billion yen

	2016 (actual)	2019 (planned)
ITS segment (SI, IT infrastructure, Embedded Solutions & IT products)	128.8	153.1
Other segments (Small-to-medium sized businesses, Medical, Document Solutions, Security, etc.)	73.2	93.3
Between-segment sales	- 27.0	- 27.0
Group IT solutions total	175.0	219.4

Consolidated Group sales	629.3	700.0
Group IT solutions percentage sales	28%	31%

Major-Company-Oriented Segment-Specific Solutions Strategy

Finance | Manufacturing | Distribution | Public | Education

Deepen markets with industry-specific solutions

Resolve customers' business management issues

Expand customer base

IT technological capabilities & **Customer base**

Expansion of Cross-Industry Solutions

- Seeking to optimize resources within the Group and provide comprehensive and high value-added cross-industry solutions

IT security

CAGR (2016-19): 11%

- ESET
- FortiGate
- HOME
- GUARDIAN

Major & mid-sized

Small-to-medium scale

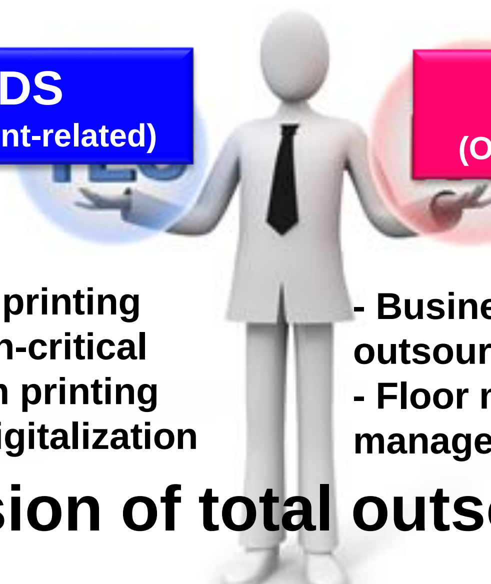
Scenarios by customer demographic

Maximum channel utilization

Business expansion by Group strategy

Outsourcing

CAGR (2016-19): 16%



MDS
(Document-related)

- Commercial printing
- Core/mission-critical business form printing
- Document digitalization

BPO
(Office-related)

- Business process outsourcing
- Floor machine management

Provision of total outsourcing

Customer base

MDS : Managed Document Service BPO : Business Process Outsourcing

Expansion of Cross-Industry Solutions

➢Contributing to the resolution of various customer issues, primarily through Canon ITS's extensive range of IT solutions

IT Platform Services (Data centers, cloud integration)

We provide a full chain of services, from infrastructure selection to design and system operation. We cater to customer needs through a combination of our own SOLTAGE cloud, public cloud services such as AWS, and our own top-class domestic data centers.

Development infrastructure solutions (Web Performer)

By providing super high-speed development tools that generate web applications automatically without the need for programming, we achieve co-creation style development between the user and IT divisions, and provide system-building support that responds flexibly to environmental changes.

Application of mathematical techniques (FOREMAST)

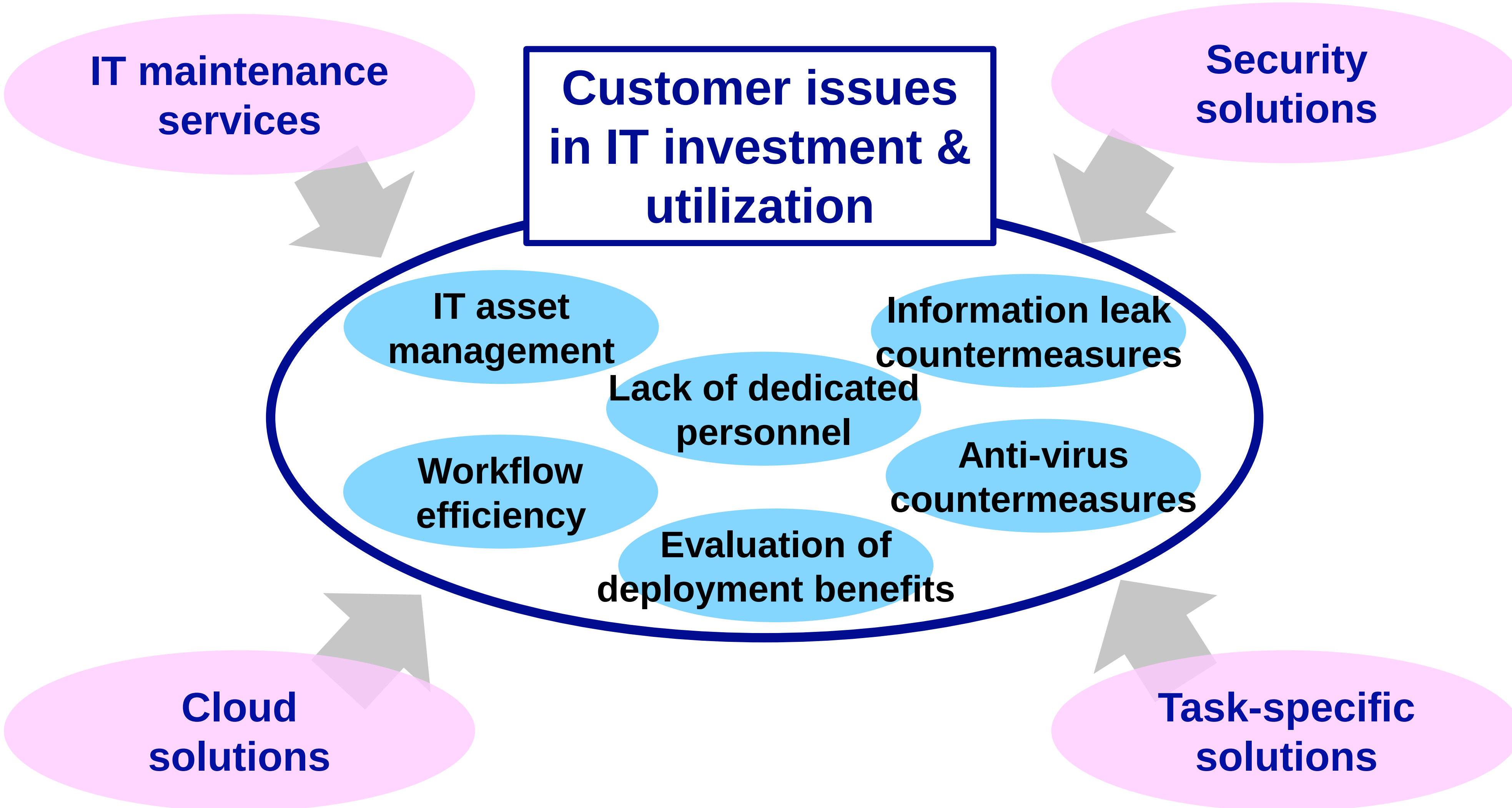
Through the provision of FOREMAST, a demand prediction solution that applies mathematical techniques developed by our R&D division (one of the Company's strengths), we offer consulting and system-building support for solving issues in the manufacturing and sales fields.

IoT & Digital Marketing Solutions

We create new services and offer solutions aimed at solving customer issues making comprehensive use of digital data and digital technologies.

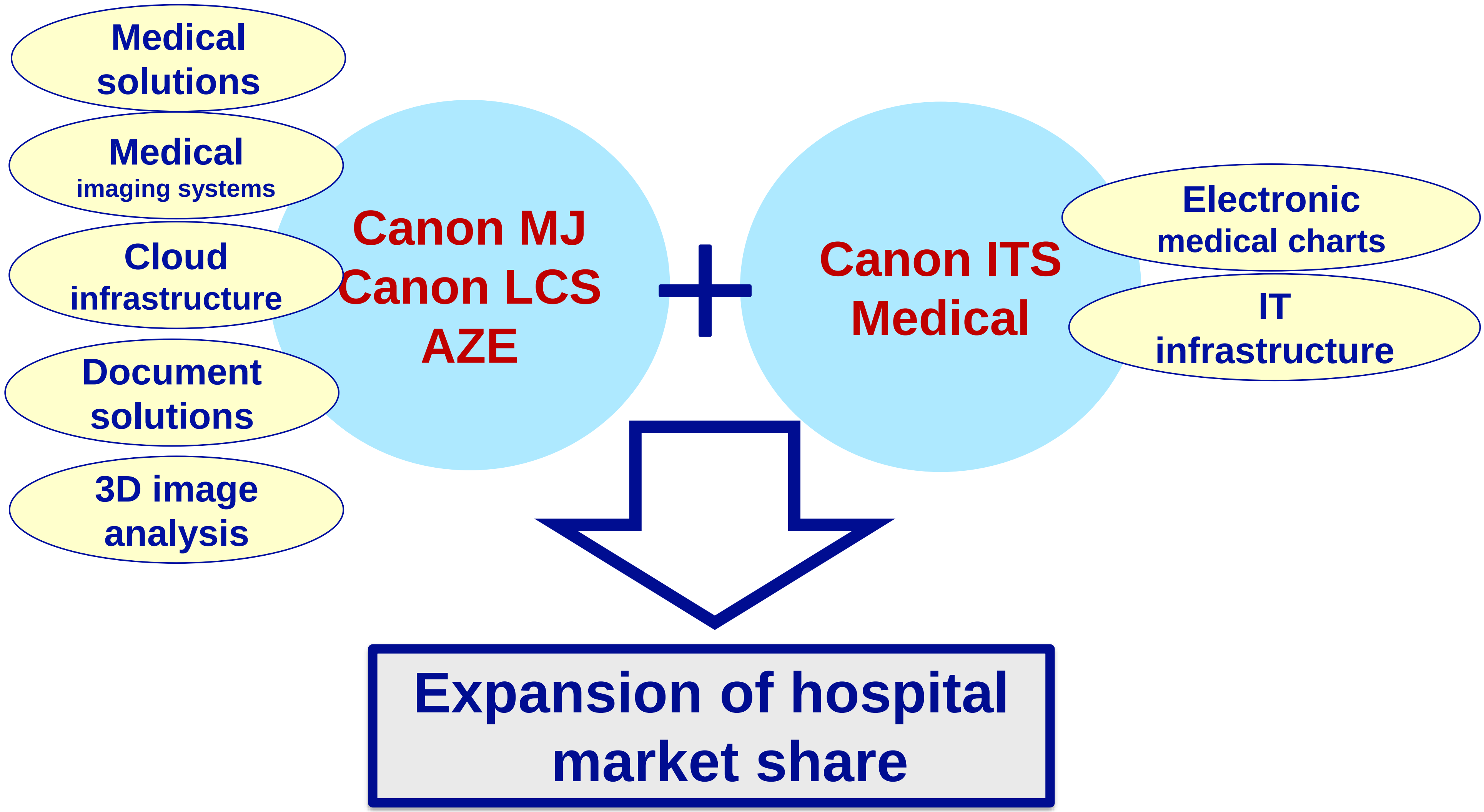
Medium-& Small-Business-Oriented Solutions

Achieve business growth by offering solutions to resolve issues that are specific to small-and-medium-sized businesses



Expansion of Medical IT Business

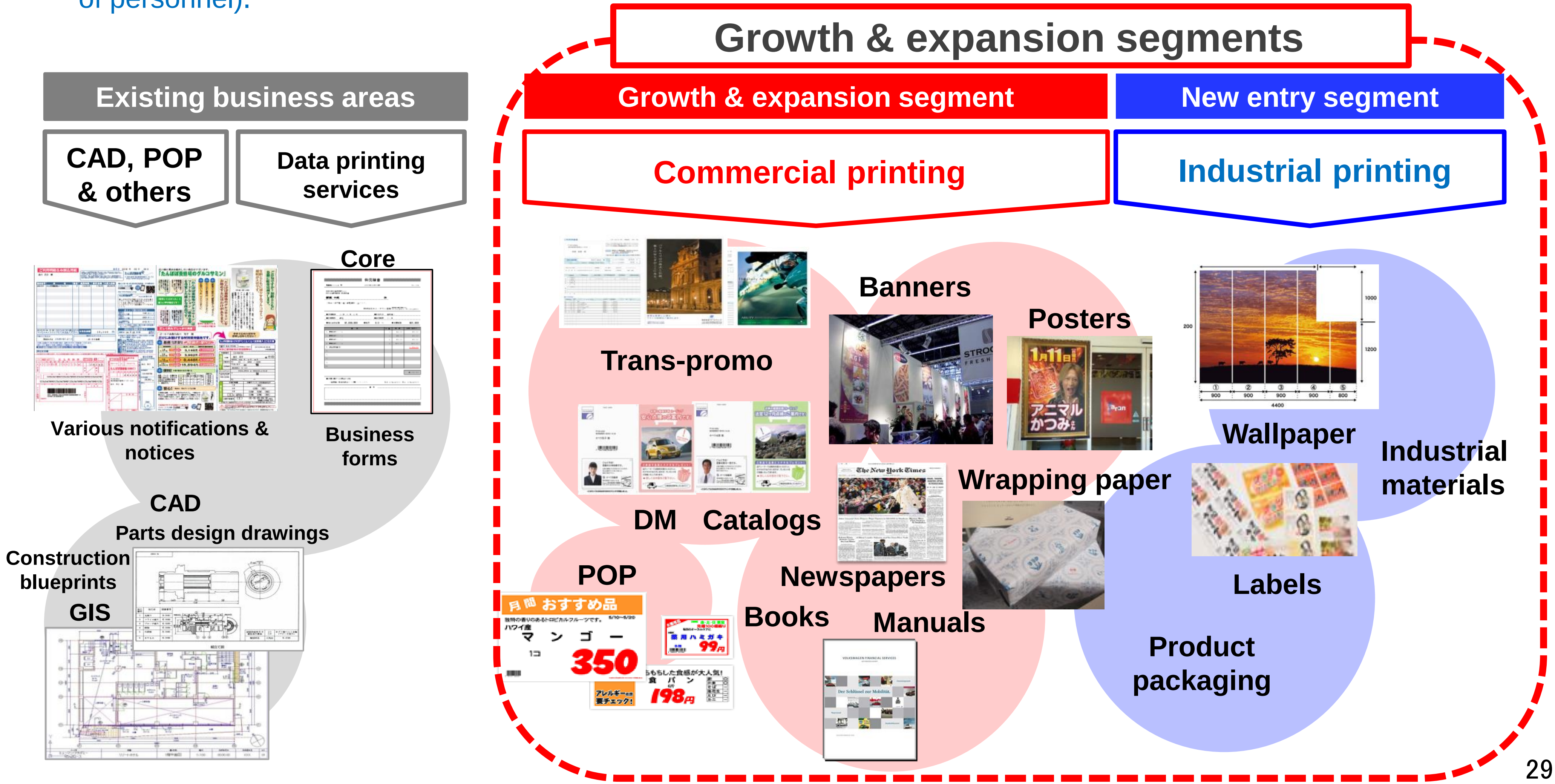
Augment Medical IT business through transfer of control of Canon ITS Medical



CAGR (2016-19): 11%

Expansion of Production Printing Business

- We have set our growth and expansion segment as the commercial printing segment, and new entry segment as the industrial printing segment; and have established an organizational structure for expanding our business in these areas.
- From this year onwards, we will seek to make a good start towards expansion, armed with our wide-ranging product lineup (with the addition of Océ products), accumulated know-how and powerful salesforce (with increased numbers of personnel).



CAGR (2016-19): 46%

Augmentation of Network Camera Business

- This market is showing continued growth. By making maximum use of Group resources, while at the same time gathering together our various strengths (including our customer base and sales capabilities) and augmenting them through business alliances, etc., we will seek to expand our operations in this business area.

Canon

Advanced technological capabilities
- Sensor technology
- Lens technology
- Image processing technology

AXIS COMMUNICATIONS

Network technologies
Extensive lineup

milestone

Video management
Software infrastructure

Accumulate & consolidate Group resources

Canon MJ Group

-Customer base & sales capabilities
- Solution proposal capabilities
- System integration
- Maintenance support

- Image analysis software
- Industry vs. application-specific products & services
- BI / Deep learning
- Cloud service linkage

Alliance partners

Become able to cater to all manner of markets

- Agriculture
- Medical & Nursing care
- Financial & Insurance
- Public & Infrastructure
- Plant & Factory
- Buildings & Offices
- Shops & Distribution

New Initiatives Towards Augmentation of imaging Solutions

Imaging solution co-creation project

- Co-create new imaging solutions together with customers
- Co-create imaging solutions through utilization of Canon's imaging technologies and partnerships with external partners

Drone solutions business

- Create new solutions through utilization of drones and imaging / IT technologies
- Partnership with Prodrone Co., Ltd.
- Establish dedicated organization and seek to develop business from this year onwards

Improving Profits

Enhancing Profitability of B-to-C Businesses

Further expansion of market share

- We will seek to expand our market share in the interchangeable-lens digital camera market, with a central focus on mirrorless cameras.
- We will also seek to increase the proportion of high value-added inkjet printers that we sell, as well as to further increase our market share in this area.

+

Reform of processes and increased productivity

- Optimal placement of salesforce
- Reform service framework
- Augment CRM & digital marketing efforts

Improving Profitability of Document Businesses

MFP
(Multi Functional Products)

- We will seek to shift our sales activities from small-to-medium sized businesses (one of our strengths) to mid-to-large sized businesses, and increase our share in the intermediate-speed printer zone (for which our percentage share is currently low).
- We will utilize information from the MFP remote service NETEYE (which makes use of the Internet) and efficiently strengthen the guard of our printers through target approach.

LBP
(Laser Printers)

- We will seek to further augment our sales activities with respect to task-specific application markets that make heavy use of color printing in their work processes; such as POP (Point of Purchase) advertising in the retail distribution industry, and the medicine pouches, labels and information sheets used by pharmacies. This will lead to further highly profitable ink cartridges sales.

Maintenance services

- By expanding use of NETEYE to the LBP and LFP segments, we will achieve reductions in service costs and expand sales of consumables.
- We will also seek to increase the efficiency of our maintenance services and shift service personnel to growth segments, which will lead to increased profitability.

Advancement of Fundamental Structural Reforms

- We will implement thorough, fundamental, Group-wide reforms with the aim of eliminating waste and improving business management efficiency.

By 2019:

Cut percentage SG&A expenses to 30% or less of sales

Fundamental reform of workflow processes & building of next-generation IT systems

Construction of an optimal Group organizational structure for after-sales service & call centers

Reform of logistics locations & framework

Consolidation (& elimination) of business locations

Strategic Investment
&
Policy on Dividends to Shareholders

Strategic Investment

➢ We will prepare ¥40 billion of capital for strategic investments such as M&A investments in order to accelerate our growth strategies with our new framework.

¥40 billion

M&A
Capital injection
Alliances

Accelerate growth of Beyond Canon growth segments

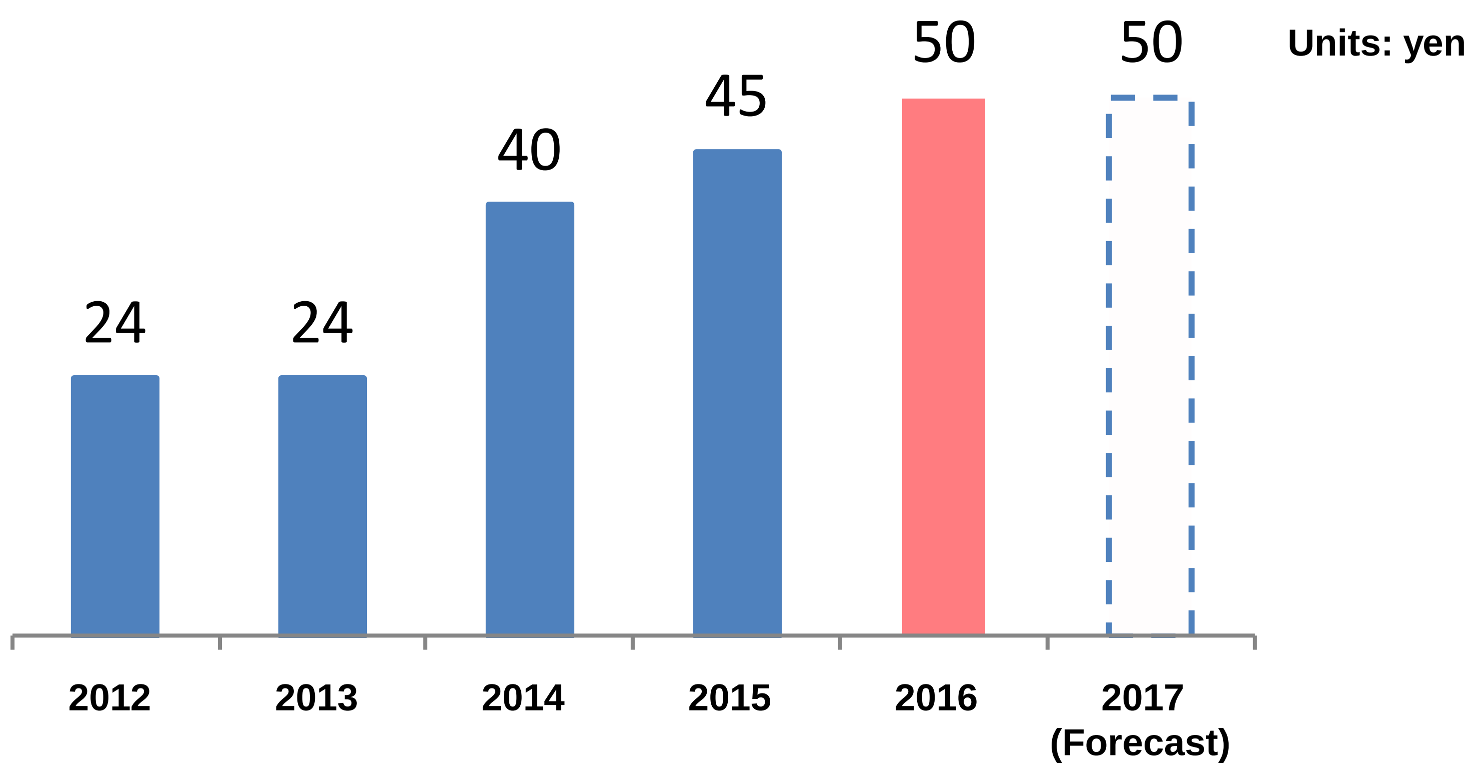
① System infrastructure (including IT security)
② Business Process Outsourcing (BPO)
③ Industry/task-specific solutions
④ Core technologies for digital business

Expand business areas for Canon growth segments

① Network cameras
② Production printing
③ Business-use imaging devices

Policy on Dividends to Shareholders

- We will pay dividends to shareholders based on a dividend payout ratio of at least 30%, while also taking into overall consideration issues such as medium-term profit outlook, investment plans and cash flow.
- 2016 was the third consecutive year to see a dividend increase, with the actual dividend payout rising to ¥50 per share (from the predicted payout amount of ¥45 per share announced in October.)



Canon Marketing Japan Group

The performance and future projections made in this document are based on information available at the 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.

*Fractions of less than 100 million yen are rounded off in this document.