

# Canon Inc.

## Corporate Strategy Conference 2017

---

March 6, 2017

Fujio Mitarai, Chairman & CEO

This presentation contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project" or "should" and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this presentation. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

**Canon**



## Phase V

### Excellent Global Corporation Plan

---

(Basic Policy)

## **Embrace the challenge of new growth through a grand strategic transformation**

(Key Strategies)

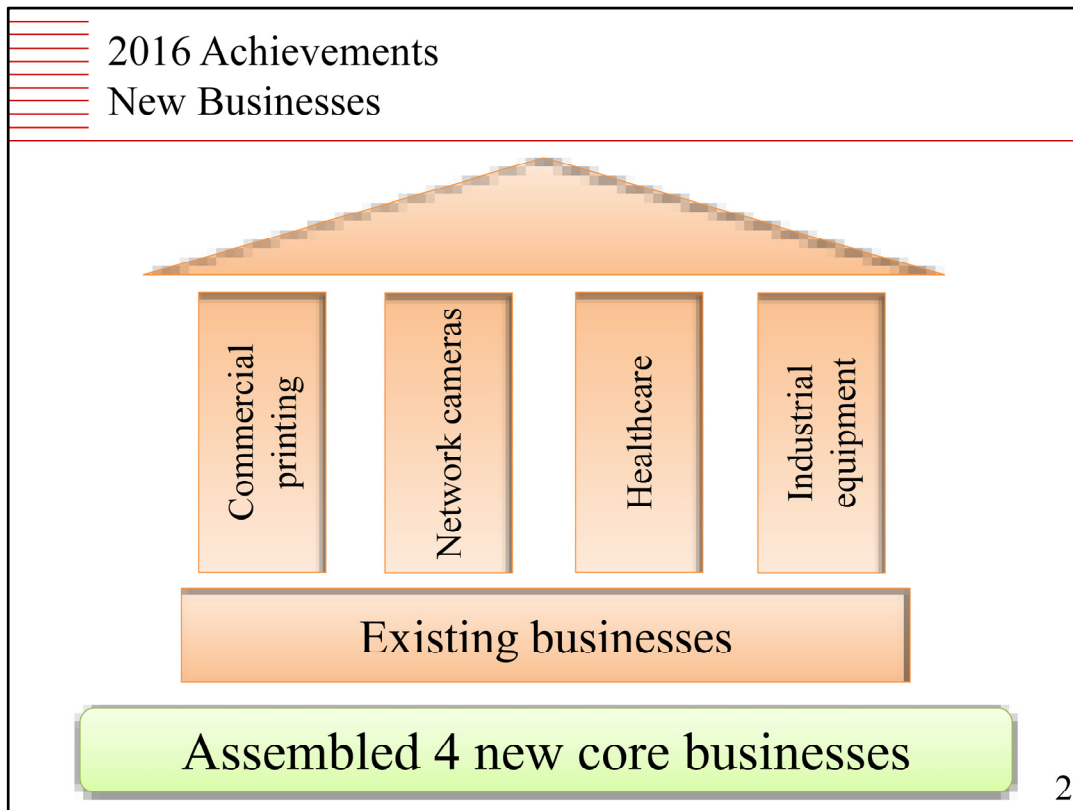
1. Establish a new production system to achieve a cost-of-sales ratio of 45%
2. Reinforce and expand new businesses while creating future businesses
3. Restructure global sales network in accordance with market changes
4. Enhance R&D capabilities through open innovation
5. Complete the Three Regional Headquarters management system capturing world dynamism

1

Last year, we embarked on a new 5-year initiative, Phase V of the Excellent Global Corporation Plan. This 5-year plan is based on a basic policy of “embracing the challenge of new growth through a grand strategic transformation,” and under it, we are working to carry out fundamental reforms ahead of the curve, expanding further, the reforms we have promoted so far. These are the 5 key strategies outlined in the 5-year plan.

Today, I will start off by reviewing our achievements in 2016, and will follow this up with a discussion about the steps we are taking to accelerate growth, from and after 2017.

Last year, the yen’s appreciation against the U.S. dollar and euro had a large impact on our performance. Amid the challenging environment, however, proactive measures to expand sales and the launch of new products contributed to market share gain. During the year, we also strongly promoted activities to reduce cost on a company-wide basis. Furthermore, for cameras and laser printers, businesses that are our main source of profit, we saw signs of recovery as market contraction decelerated.



In addition to this kind of development in existing businesses, we are also delivering solid results in new businesses. For example, in commercial printing, we worked to enhance our lineup, and started full-fledged sales of a high-speed cut sheet inkjet printer based on Océ technology

In the area of network cameras, we accelerated sales by strengthening cooperation within the Canon Group. We announced our first jointly developed product that combines Axis's network technology with Canon's optical technology. Furthermore, in terms of sales organization, we are now selling Canon branded network cameras through Axis's sales network in Europe and the U.S.

Within our industrial equipment segment, Canon Tokki's sales doubled compared with last year, mainly thanks to OLED production equipment. This contributed significantly to this segment's performance. Furthermore, at the end of last year, we took a strategic step towards strengthening and growing our healthcare business, adding Toshiba Medical Systems Corporation (TMSC) to the Canon Group.

We got off to an ideal start last year, one befitting the first year of our 5-year plan. With the four new core businesses, namely commercial printing, network cameras, industrial equipment and healthcare that we assembled, we are now ready to drive new growth.

 <p>Phase V 2nd Yr. of Actions and Important Measures</p>
<p>(Fundamental Policy)</p> <p><b>Further promote the grand strategic transformation by accelerating reforms</b></p> <ul style="list-style-type: none"><li>• Thoroughly bolster existing businesses</li><li>• Strengthen and grow new businesses</li><li>• Rebuild global sales network</li><li>• Strengthen R&amp;D through an open innovation approach</li><li>• Cultivate global human resources</li></ul> <p>3</p>

Against this backdrop, in the second year of our 5-year plan, we will do our utmost to fully drive the four engines we assembled last year to strengthen and grow new businesses. At the same time, we will further promote the grand strategic transformation by accelerating reforms and working to thoroughly strengthen existing businesses.

From here, I will discuss the measures we have for both new and existing businesses.

For us to achieve sustainable growth in the future, we must expand our business, shifting to areas where significant growth is expected. In order to accomplish this, we have been proactively making use of M&A.

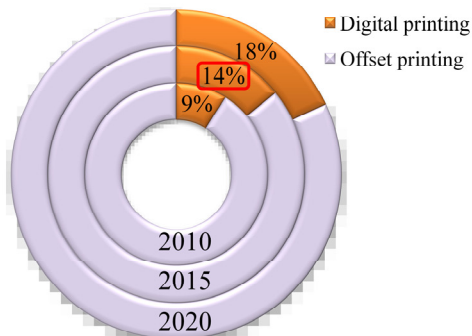
2017 is positioned as a year of progress, where we plan to significantly expand sales of these new businesses.

Phase V – 2nd Yr. of Actions and Important Measures  
Strengthen and Grow New Businesses – Commercial Printing

From Offset to Digital  
Printing

Expansion of Package Printing

Total print volume: 90 trillion yen



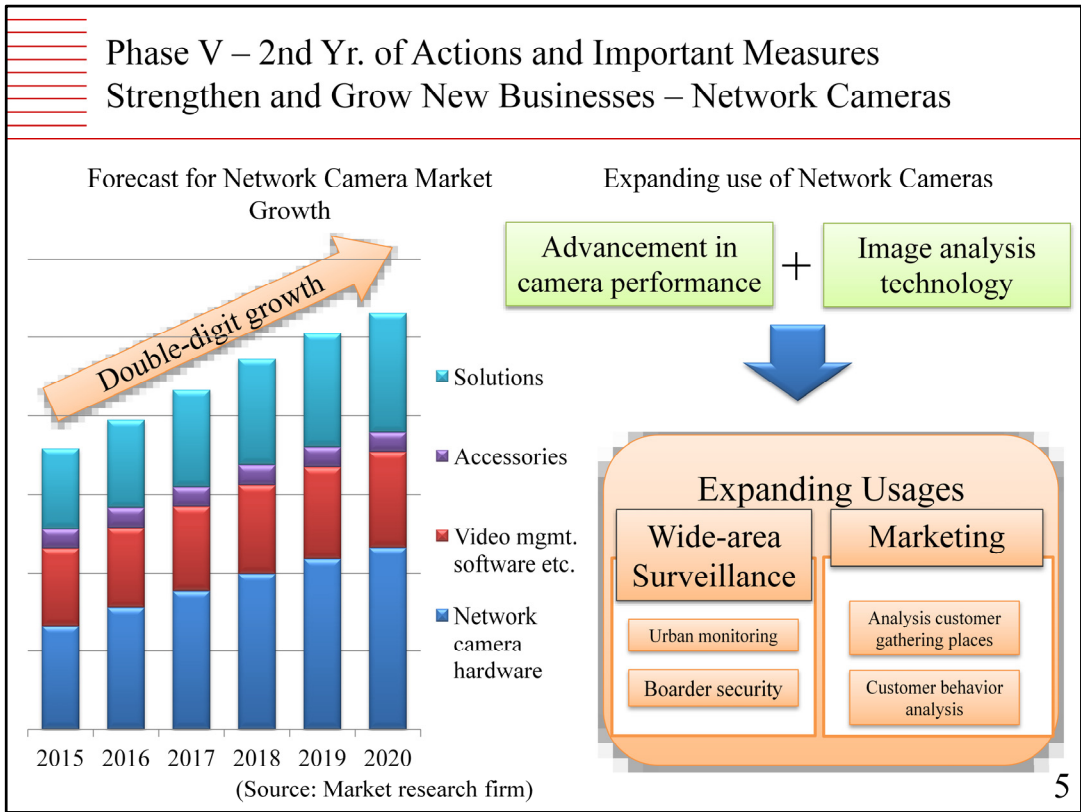
(Source: Market research firm)

The first one of the four new businesses that will drive our growth is commercial printing. In this market, digital commercial printing equipment, which have advantages in printing a wide variety of easily customized short-run jobs, are starting to replace offset printers, which are based on the premise of high-volume printing. This is largely due to further improvement in image quality and speeds of digital commercial printing equipment.

We are seeing a paradigm shift from offset to digital in the commercial printing market, a market said to be around 90 trillion yen size. Currently, digital printing is only around 14% of the market, this portion is expected to grow, however, as digitalization occurs not only in documents printing but also in packaging, labels, and graphic art areas.

Canon, with a view to capture these kinds of new trends, is cooperating with Océ and taking steps, one of which is in the area of package printing where high market growth is expected. Our aim is to develop new products with the same level of image quality as offset printing.

We will also work to further expand sales in the commercial printing area, adding high speed devices to our existing copier business.



Next, Network cameras.

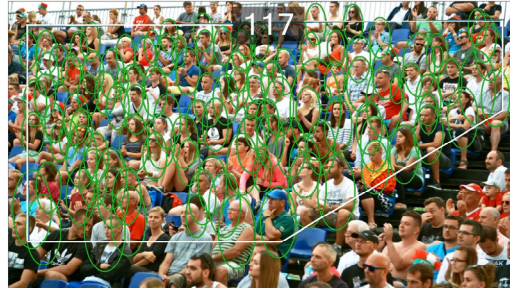
In the IoT era, various devices are being connected to networks. One good example is network cameras. The network camera market continues to grow at a yearly rate of above 10%. The use of network camera application is not limited to the monitoring of towns, airports, and borders. The range of applications just keeps growing, including, for example, grasping the status of production lines, and analyzing customer behavior in retail establishments for marketing purposes.

Phase V – 2nd Yr. of Actions and Important Measures  
Strengthen and Grow New Businesses – Network Cameras

Anti-terror Exercise Held at Canon Inc.  
Headquarters



Counting People in Designated Area



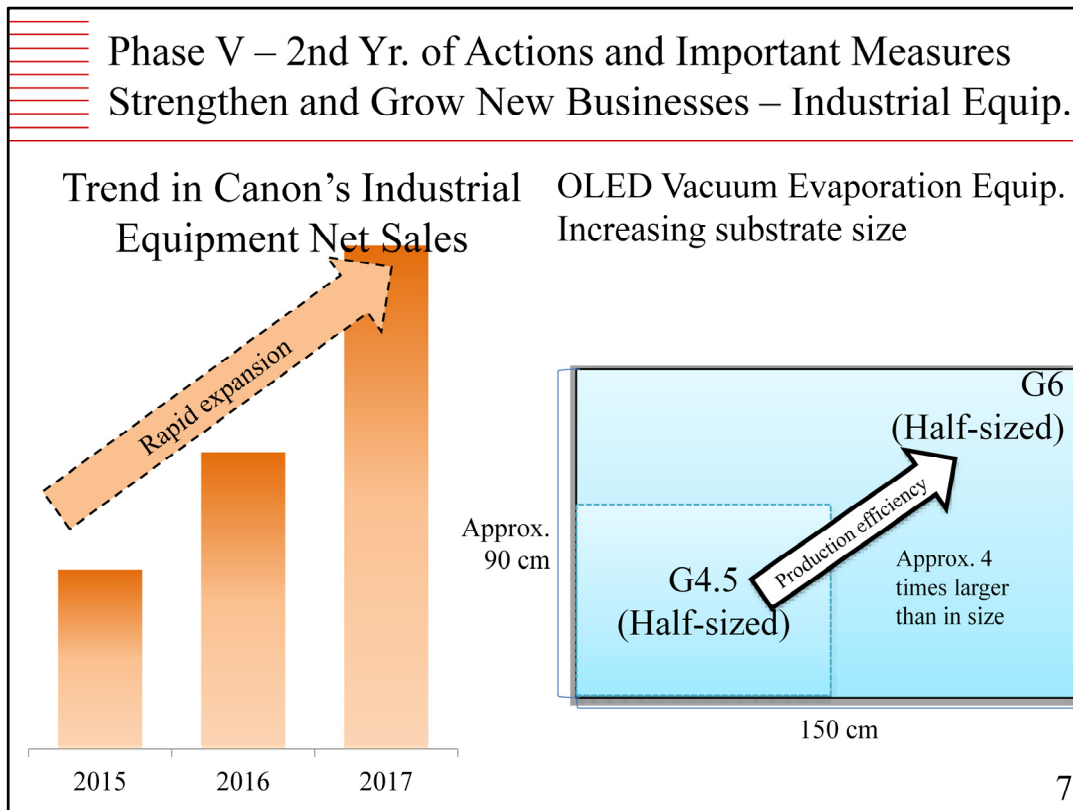
Offer high value-added solutions,  
strengthening both hardware and software

6

Last year, in preparation for a future international event that will be held in Japan, Canon, at its headquarters, hosted anti-terror exercises led by the Tokyo Metropolitan Police Department. Our products were used in the process to find suspicious objects in darkness. And our technological capabilities have been highly evaluated.

Additionally, in response to a growing need to analyze video footage, we launched software which can count more than 1000 people at one time. This provides information on congestion and people's movement to support such safety measures as security personnel placement and emergency escape route planning. It can also be used to grasp customer behavior for marketing activities. Additionally, we are accelerating the development of imaging solutions, running proof-of-concept trials that allow people to enter events via facial recognition.

In this way, we will strive to provide high value-added solutions and work to differentiate ourselves from the competition, visualizing useful information from an enormous amount of data, by strengthening both hardware and software. We will also endeavor to expand sales in emerging markets by enhancing our cost competitiveness.



Next, Industrial Equipment, our third new business.

Up until now, Canon has been acquiring companies, for instance, Tokki, Anelva, and Machinery, to advance initiatives in such areas as automated production and the in-house production of manufacturing equipment. These companies, however, are also steadily contributing to the Canon Group through businesses they manage directly. Tokki's OLED production equipment business is one good example. Amid growing demand for OLED production equipment, Tokki was the world's first to produce equipment that could be used in the mass-production of half-sized G6 OLED panels. This equipment is contributing significantly to the productivity improvement of panel manufacturers.

At this point in time, our OLED vacuum process equipment is completely overwhelming the competition. In order to meet the strong demand we see, the Canon Group is working in a concerted effort to increase production capacity.

As for OLED panels, current ones have reached a point where they have become flexible due to technology advancement, and in the future, foldable panels are expected to become available. The era of foldable smartphones is in sight. Developing products that offer different value, we can also expect the market to get a further boost.

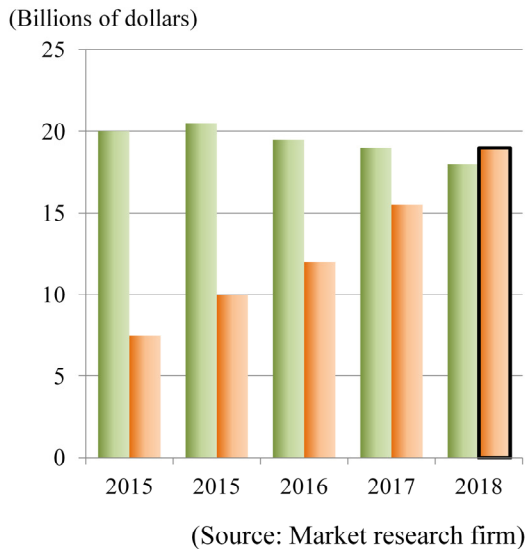
We will drive the market, cultivating industrial equipment into one of our core businesses, by further raising our proprietary production engineering function and maintaining our technological advantage.



## Phase V – 2nd Yr. of Actions and Important Measures Strengthen and Grow New Businesses – Industrial Equip.

OLED Smartphone Panel Market Expected to Exceed LCD in 2018

Nanoimprint Semiconductor Production Equipment Being Developed for use in Mass-production



Nanoimprint semiconductor production equip.



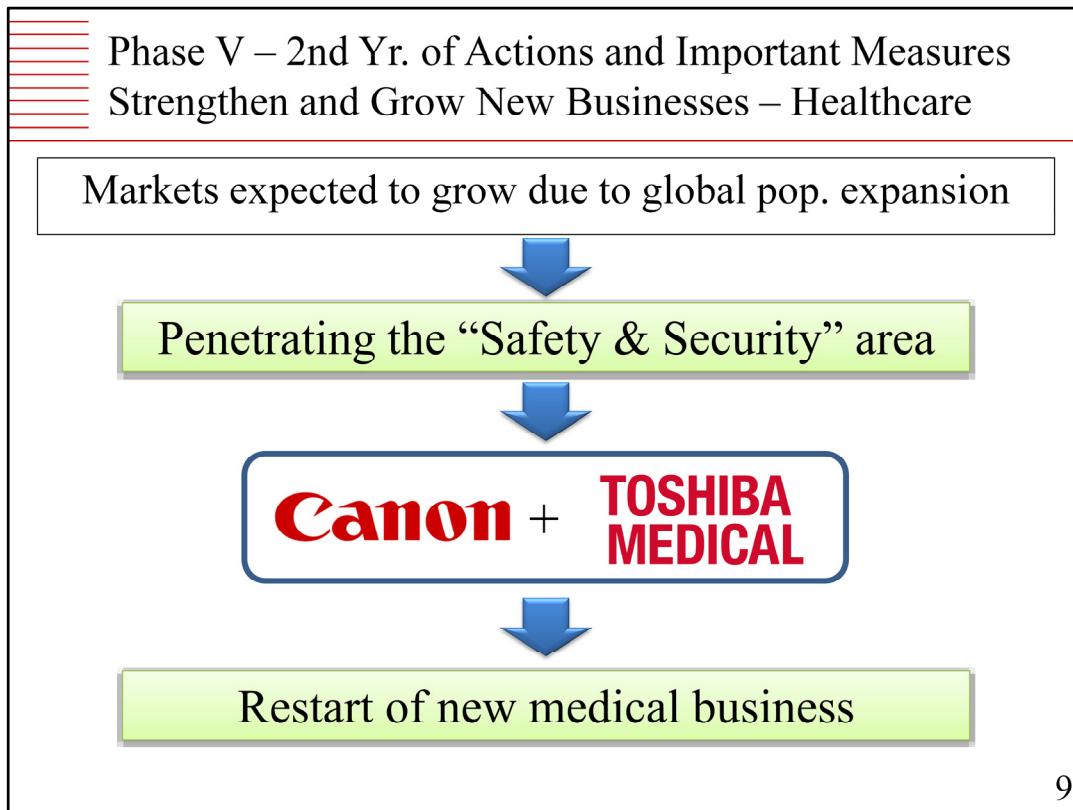
Replica mask mfg. equip.

8

Furthermore, due to IoT expansion, demand for semiconductor devices is increasing, and we are seeing a broadening in the way they are being used.

Under this scenario, in addition to i-line and KrF lithography equipment where we already hold an advantage, we are taking steps to establish nanoimprint technology, a next-generation semiconductor production apparatus that aims to lower production cost and realize miniaturization.

We are working to make steady progress towards mass-production, significantly raising productivity in areas like throughput. Furthermore, we have already started shipments of peripheral tools, like the nanoimprint replica mask manufacturing equipment that was announced on February 23, 2017. In this way, we are making steady progress towards our goal of mass production and expect a significant contribution to our performance going forward.






The fourth new business is healthcare.

From a mid- to long-term perspective, one potential driver of global economy growth is population expansion. We are seeing explosive growth in the world's population and with this, the market for safety and security is certain to grow. As long as there are people, safety and security will always be sought. In this domain, when we considered business spheres that had potential for high affinity, it was only natural that we decided to strengthen our healthcare business. Not many years after Canon's founding, Canon developed Japan's first indirect X-ray camera in 1940. In addition to X-ray equipment, Canon has been involved with ophthalmology equipment via fundus cameras etc. As a medical equipment manufacturer, however, Canon has never had a large presence in this field. Therefore, adding TMSC to the Canon Group represents a new start of our medical business.

Phase V – 2nd Yr. of Actions and Important Measures  
Strengthen and Grow New Businesses – Healthcare

➤ Working to expand nascent healthcare business  
 ✓ Canon’s proprietary medical technology + TMSC’s R&D capability

 <p>Photoacoustic Mammography</p>	 <p>DNA Diagnostic Systems</p>	<p>R&amp;D of Clinical Applications</p> <ul style="list-style-type: none"> <li>Computed Tomography (CT)</li> <li>X-Ray</li> <li>Ultrasound</li> <li>Magnetic Resonance Imaging (MRI)</li> </ul>
--	---	---



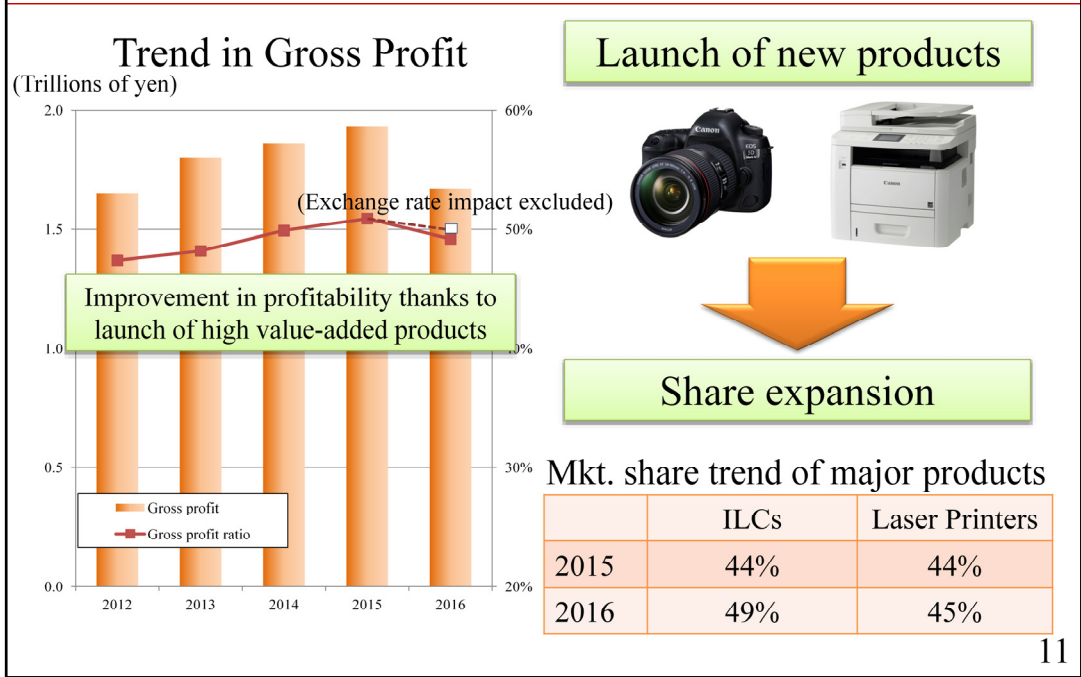
10

In order to significantly grow this nascent healthcare business, in the diagnostic imaging equipment market, we must overcome competition coming from leading companies in Europe and the U.S. And to accomplish this, the Canon Group will do its utmost to ensure that necessary management resources are made available.

Furthermore, we aim to build a business at an early stage, combining Canon’s distinctive medical technology such as genetic testing and photoacoustic mammography that has been certified as a national project, with TMSC’s R&D capabilities.

Additionally, we will not only leverage the optical technology that we have cultivated through cameras, but also our micro fabrication, cost reduction, so-called production technologies etc. on TMSC products. By making the most of our combined strengths, we will draw out synergies, as we work to foster the healthcare business into a core business of the company.

Phase V – 2nd Yr. of Actions and Important Measures  
Thoroughly Bolster Existing Businesses



So far, strengthen and grow new businesses was the topic. In order to carry out the grand strategic transformation, however, we need to continuously generate profit. And to do this, we need to thoroughly bolster existing businesses.

As for core businesses like cameras and laser printers, due to market maturity, we can no longer expect to see double-digit growth. Having said that, however, these are core businesses that yield profit and we must continue efforts to improve profitability.

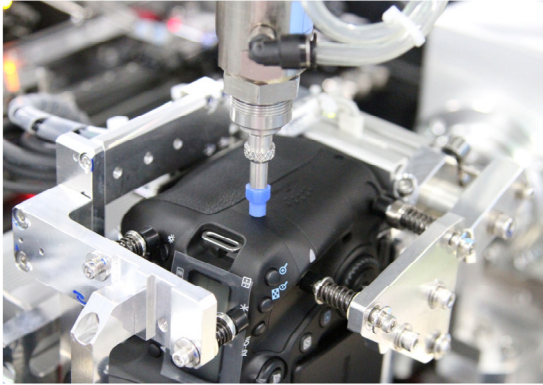
Phase V – 2nd Yr. of Actions and Important Measures  
Thoroughly Bolster Existing Businesses

➤ Advancement of automation and in-house production

- ✓ Designs that assume automated assembly
- ✓ In-house Production of key parts & key components

➔

Cost reduction  
+  
Accumulation of  
proprietary technology



Automated camera assembly equipment designed and build in-house

12

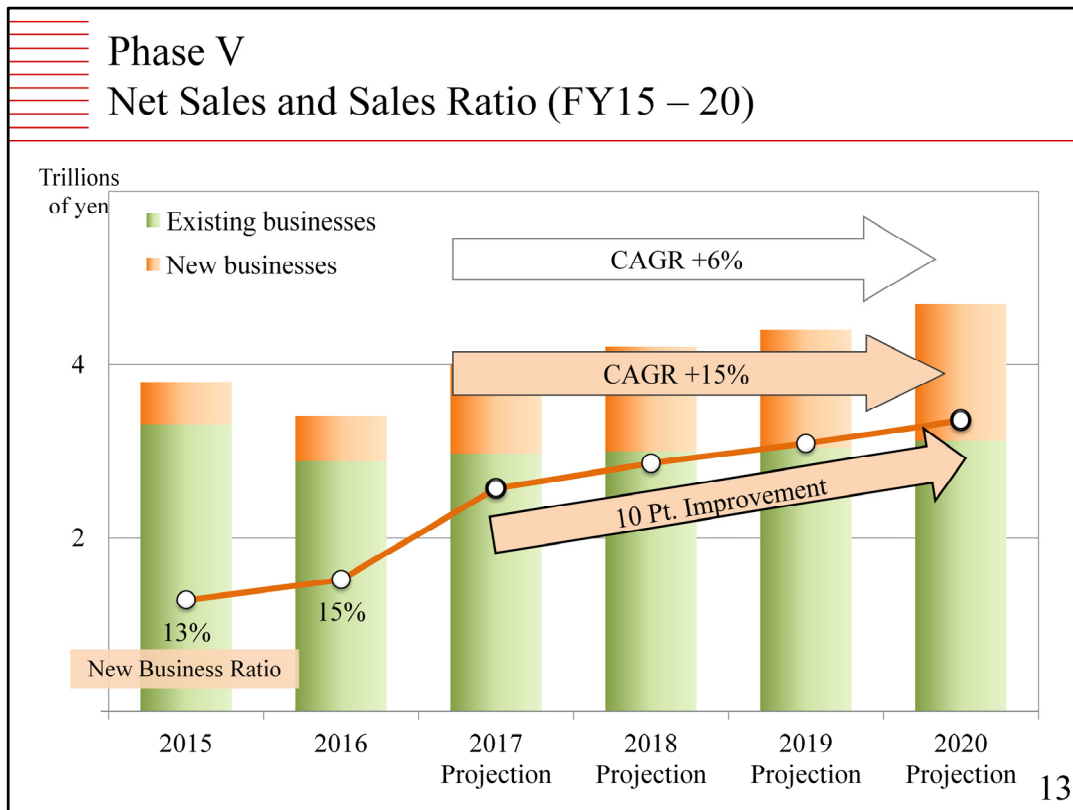
Another measure is to thoroughly reduce production cost. Here, through our manufacturing capabilities, we bring together development, procurement, production engineering, and actual production sites, which work together as one for this common goal. For this, we will work to drastically raise the level of automation and in-house production and link this to cost reduction.

As for automation, at the beginning of last year, we started mass-production of DSRs that utilize automated equipment, incorporating production technologies cultivated through the assembly of cameras and the expertise of actual production sites.

This year, we will extend this manufacturing process to other models. We will not only make advancement in automated assembly technologies, but also change the way products are designed by assuming automated assembly from the start. Through simple designs and reduction in the number of parts, we will realize cost reduction.

As for in-house production, in addition to promoting the internal production of key parts and key components, we will take active steps to produce production equipment used in processing and assembly. We already have automation equipment for DSLRs that are internally designed and produced, which not only allows lower costs, but also assists in the accumulate proprietary technologies.

In the future, we will apply this to other businesses, leveraging our strength as we promote cost reduction.



Last year, we reported lower sales and profits, mainly due to the rapid appreciation of the yen. In many businesses, even in existing ones, however, our products still capture top market share. From this perspective, we believe the competitiveness of our products has not waned in any way.

Last year, we took a determined first step towards the grand strategic transformation that is set forth in our new 5-year plan. And through new businesses with high growth that are supported by stable existing ones, we are planning to post sales in 2020 that exceeds our record set in 2007. Towards this aim, we will cultivate new businesses that drive growth of the entire company, including the four that were discussed. New businesses overall are projected to grow at an average yearly rate of around 15%, leading to 6% growth for the entire company, which exceeds global economy expansion.

This year is not only an important turning point to return to a growth trajectory, it is also Canon's 80th anniversary, a milestone year. With this in mind, the entire company will work in a concerted effort, taking on challenges and implementing measures for new growth.

**Canon**