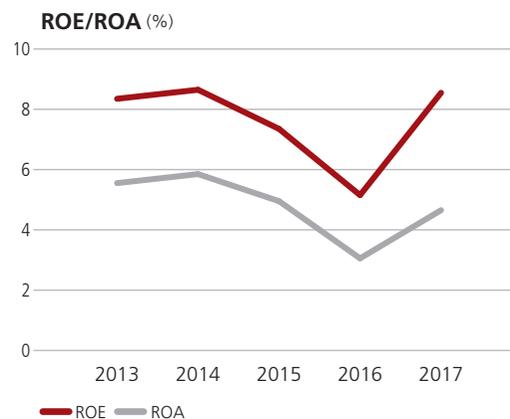
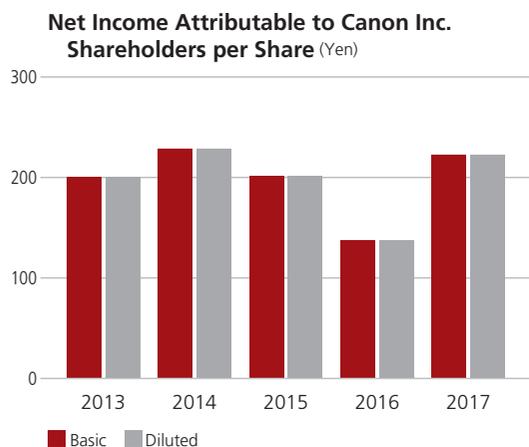
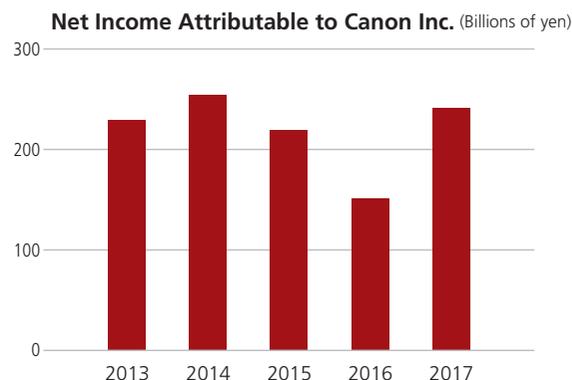
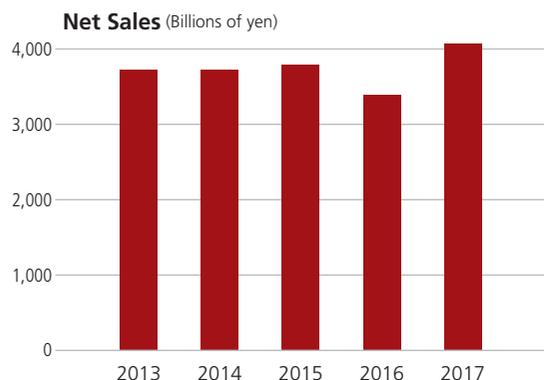


FINANCIAL HIGHLIGHTS

	Millions of yen (except per share amounts)		Change (%)	Thousands of U.S. dollars (except per share amounts)
	2017	2016		2017
Net sales	¥4,080,015	¥3,401,487	+19.9	\$ 36,106,327
Operating profit	331,479	228,866	+44.8	2,933,442
Income before income taxes	353,884	244,651	+44.6	3,131,717
Net income attributable to Canon Inc.	241,923	150,650	+60.6	2,140,912
Net income attributable to Canon Inc. shareholders per share:				
—Basic	¥ 222.88	¥ 137.95	+61.6	\$ 1.97
—Diluted	222.88	137.95	+61.6	1.97
Total assets	¥5,198,291	¥5,138,529	+1.2	\$46,002,575
Canon Inc. shareholders' equity	¥2,870,630	¥2,783,129	+3.1	\$25,403,805

Notes:

1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY113=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 29, 2017, solely for the convenience of the reader.



TO OUR SHAREHOLDERS



FUJIO MITARAI

Chairman & CEO
Canon Inc.

Canon will further promote a grand strategic transformation by accelerating reforms.

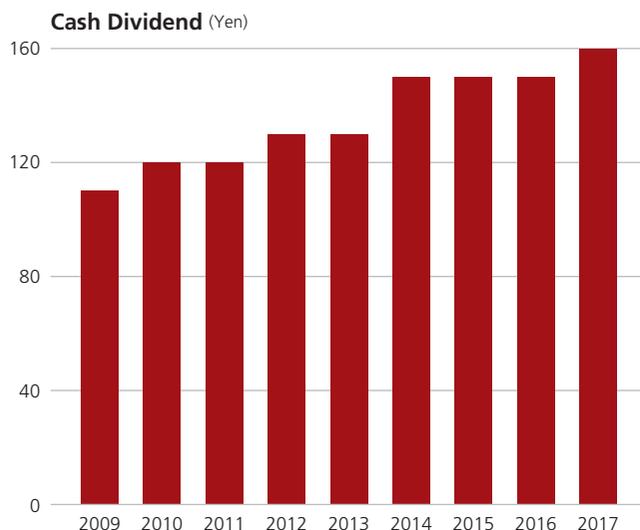
Performance in 2017

Looking back at the world in 2017, although politically it was an unstable year with unrelenting turmoil and tension, the global economy as a whole continued to expand moderately and stably. Against this backdrop, under our five-year management plan, Phase V (2016 - 2020) of the Excellent Global Corporation Plan, the Canon Group strived to thoroughly strengthen the profitability of the existing businesses that support its business foundation by honing our capabilities on all fronts, including product competitiveness and sales capabilities. At the same time, we endeavored to strengthen and expand our four new businesses: commercial printing, network cameras, healthcare and industrial equipment.

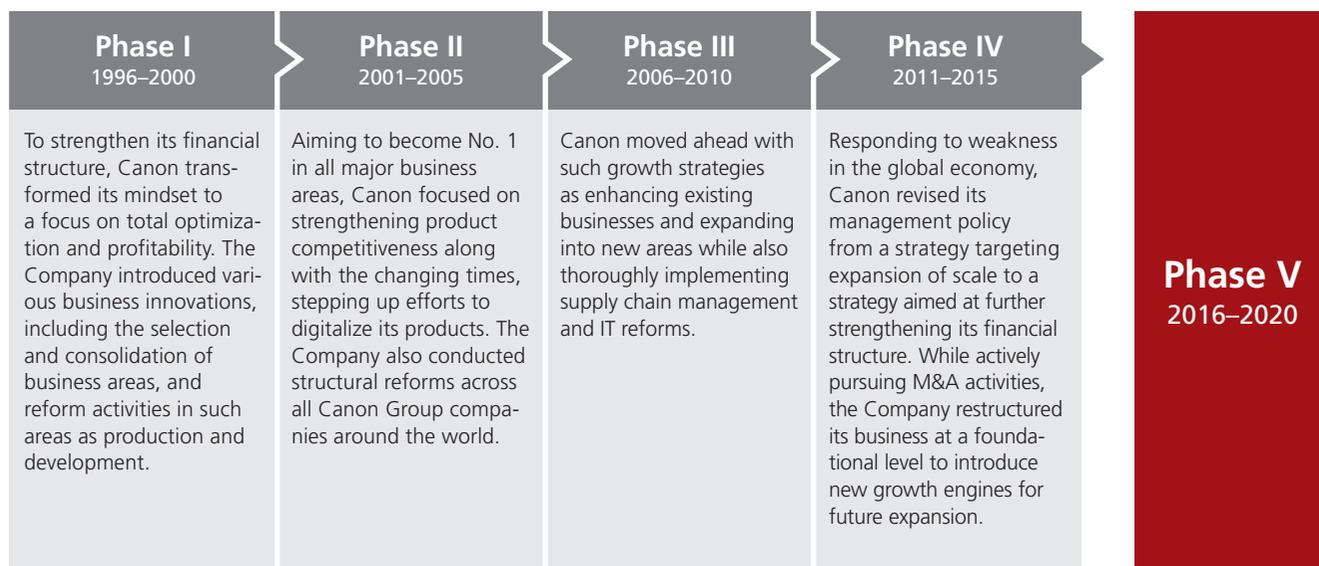
Turning to an overview of each business unit, in the Office Business Unit, sales of office multifunction devices (“MFDs”) were strong, particularly for color devices, and laser printer sales grew thanks to the expanding Chinese market and an

enhanced product lineup. In the Imaging System Business Unit, although unit sales of interchangeable-lens digital cameras declined slightly and sales of digital compact cameras were flat year on year, camera sales increased overall due to growth in sales of high-value-added products. Sales of inkjet printers maintained the same level as the previous year, as the trend toward market contraction came to a halt. In the Medical System Business Unit, sales of computed tomography (“CT”) systems and diagnostic ultrasound systems were firm due to replacement demand for medical equipment in developed countries and growing medical needs in emerging countries. In the Industry and Others Business Unit, sales of FPD lithography equipment and Organic LED (“OLED”) panel manufacturing equipment grew significantly, as demand expanded due to active capital investment by panel manufacturers. Sales of network cameras were also robust, with demand stemming from heightened crime prevention concerns as well as the increasingly diverse application of network cameras in such fields as marketing support.

Consequently, consolidated net sales for 2017 totaled ¥4.08 trillion (an increase of 19.9% year on year), and the gross profit ratio was 48.8%. Despite an increase in operating expenses of 15.0% year on year, operating profit amounted to ¥331.5 billion (an increase of 44.8% year on year), and net income attributable to Canon Inc. totaled ¥241.9 billion (an increase of 60.6% year on year). We distributed a record-high full-year dividend of ¥160.00 per share, comprising the interim dividend (¥75.00 per share) and the year-end dividend (¥85.00 per share, comprising an ordinary dividend of ¥75.00 plus a commemorative dividend of ¥10.00 to mark our 80th anniversary).



Excellent Global Corporation Plan



From Phase I to Phase IV (1996-2015)

Canon launched the Excellent Global Corporation Plan in 1996, and has strengthened its management base through each of the plan's five-year initiatives, from Phase I to Phase IV.

During Phase I, we stressed thorough cash-flow management and significantly boosted productivity through the introduction of our cell production system, along with other measures. In Phase II, we stepped up efforts to digitalize our copying machines and camera offerings, while building the foundation for a robust financial structure. During Phase III, we actively carried out M&A activities, and welcomed Océ to the Group in 2010, clearing the way for a move into the commercial printing market, which has shown growth potential.

As the markets for our core businesses—such as cameras and office equipment—were maturing, during Phase IV, which began in 2011, we promoted diversification via the lateral expansion of our existing businesses—such as the Cinema EOS System and commercial photo printers—while also accelerating our M&A strategy. In this manner, we set a clear direction for shifting our focus for growth from B2C

to B2B. We subsequently reinforced and expanded our rapidly growing network camera business by making Milestone Systems (“Milestone”) a subsidiary in 2014, followed by Axis Communications (“Axis”) in 2015. Additionally, Canon Nanotechnologies, formerly Molecular Imprints, became a subsidiary in 2014, and we are accelerating the development of next-generation semiconductor manufacturing equipment that uses nanoimprint lithography, which will make it possible to achieve both miniaturization and cost reductions for semiconductor devices.

As a manufacturer, Canon strives unceasingly to achieve production reforms and thorough cost reductions. At the same time, we stay on top of opportunities to add excellent companies to the Group, in order to shift our focus towards changing growth markets, with the aim of unlocking new growth potential.

Phase V (2016-2020)

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 the 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

The year 2016 marked the start of Phase V, our latest five-year initiative within the Excellent Global Corporation Plan. Under the basic policy of “Embracing the challenge of new growth through a grand strategic transformation,” we aim to achieve net sales of ¥5 trillion, a cost-of-sales ratio of 45% or less, an operating profit ratio of 15% or more, a net income ratio of 10% or more, and a shareholders’ equity ratio of 70% or more (based on exchange rates of US\$1 = ¥125 and €1 = ¥135) in 2020, the final year of Phase V.

In 2017, the year in which Canon marked the 80th anniversary of its founding, we worked to thoroughly bolster the profitability of existing businesses, while strengthening and expanding our four new businesses: commercial printing, network cameras, healthcare and industrial equipment.

Explanations regarding the progress of the key strategies of Phase V, as well as our future course of action, are presented as follows.

Strategy 1

Establish a new production system to achieve a cost-of-sales ratio of 45%



We are enhancing productivity via automated toner cartridge production.

Canon’s foundation is made up of our existing businesses, and we must continue to reinforce these businesses within their maturing markets. We are taking a two-pronged approach to achieve this: developing and expanding the market shares of “Dantotsu Products” and thoroughly reducing manufacturing costs.

“Dantotsu Products” refers to products with extraordinary features that cannot be imitated by other companies. In order to strengthen our product capabilities, Canon will move forward with development by steadily evolving the technologies we possess, while accelerating the shift from B2C to B2B in all areas from development to design, procurement, manufacturing, quality management, logistics, sales and services.

We are engaged in efforts to reduce manufacturing costs in all processes, including development, design and procurement. We are actively promoting such measures as the utilization of cutting-edge production and manufacturing technologies—including automation and robotics—in-house production, sharing knowhow between businesses and across the Group, and strengthening collaboration with external entities.

Strategy 2

Reinforce and expand new businesses while creating future businesses

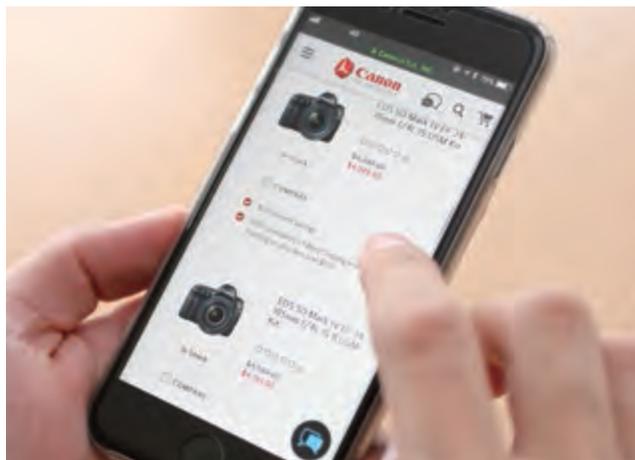


CEO Fujio Mitarai (middle) listening to the explanation from Canon Medical President Toshio Takiguchi (left) on the Ultra High-Resolution CT “Aquilion Precision™” introduced at the International Technical Exhibition of Medical Imaging 2017 (Japan).

With the aim of reinforcing and expanding our four new businesses where greater growth is expected—commercial printing, network cameras, healthcare and industrial equipment, Canon has steadily achieved results by leveraging synergies between Group companies. In commercial printing, we are raising our presence by combining the technologies of Canon and Océ. In network cameras, we are collaborating with Milestone and Axis to accelerate product development. We are expanding the breadth of solutions we offer by refining our image-analysis technologies in addition to camera performance. In healthcare, we are pursuing further growth by combining the technologies possessed by Canon with those of Canon Medical Systems (“Canon Medical”), which changed its company name from Toshiba Medical Systems (“TMSC”) as of January 4, 2018. In industrial equipment, we are striving to achieve thorough cost reductions while establishing an innovative manufacturing approach with regard to the manufacturing equipment handled by Canon Tokki, Canon ANELVA and Canon Machinery.

Strategy 3

Restructure the global sales network in accordance with market changes



Canon is focusing on e-commerce sites where customers can purchase products online anywhere at any time.

In order to adapt to our strengthening B2B shift, we are reinforcing our organization to ascertain customer needs from an early stage and present optimal solutions by coordinating the entire process from R&D to production, sales and logistics. As part of such efforts, we are training highly-skilled sales engineers who possess in-depth knowledge of both hardware and software and can provide effective consulting.

We are also focusing on responding to the rapidly expanding e-commerce market. In China, where growth has been especially rapid, we are steadily increasing the e-commerce ratio of Canon China’s consumer-oriented business. At Canon U.S.A., we are concentrating on providing limited-edition and customized products and strengthening services and support in order to significantly increase e-commerce sales.

Strategy 4

Enhance R&D capabilities through open innovation



Canon engages in medical research collaboration with Harvard-affiliated medical institutions (Healthcare Optics Research Lab, Canon U.S.A., United States)

With R&D representing a rising share of expenses in recent years, Canon will promote the selection and concentration of research themes and carry out more efficient R&D investment.

In preparation for the coming age of the Internet of Things (“IoT”), we are pursuing open innovation that utilizes external expertise and technology as necessary to accelerate the pace of development. For example, Canon is a partner in a basic research consortium organized by IBM in which we are collaborating on cutting-edge technology programs in such areas as artificial intelligence (“AI”), big data and sensing. Canon researchers are dispatched to R&D centers in order to accelerate the creation of practical applications. We are also engaged in joint development programs for photoacoustic tomography in cooperation with Kyoto University and Keio University and we are continuing to pursue collaboration with industry, government and academic partners in order to accelerate technological innovation.

Furthermore, as software becomes increasingly important in bringing out the full potential of a product and for providing various services, we are training highly-skilled software engineers with a focus on trends in AI and IoT technologies.

Strategy 5

Complete the Three Regional Headquarters management system capturing world dynamism



R&D on high-speed cut-sheet inkjet printers (Océ, Netherlands)

With global headquarters in Japan, the United States and Europe, Canon aims to establish a system that promotes global development through diversification by leveraging the unique features of each region.

Canon U.S.A.’s Healthcare Optics Research Laboratory is collaborating with Massachusetts General Hospital (“MGH”) and Brigham and Women’s Hospital (“BWH”), both teaching affiliates of Harvard Medical School, on the development of an ultra-miniature endoscope that can make possible direct examination and diagnosis in anatomies that have previously been inaccessible, as well as a guided needle insertion system that assists with the insertion of needles in patients by guiding a needle to a precise position and depth.

In Europe, our collaboration with Océ has enabled us to expand the scope of our commercial printing business to cover a variety of fields. Furthermore, many new synergies are being created as Canon and Océ integrate our sales networks and provide various products and services.

Key Challenges for 2018

Our basic policy for 2018 is to “Pursue total optimization and profitability to complete our grand strategic transformation,” as we work on the following six key challenges.

The first of these is to strengthen our research capabilities in the world’s leading-edge technologies. We aim to strengthen our investigation and analysis abilities to accurately grasp global trends that contribute to our strategic initiatives.

The second is to strengthen our product development capability. We will accelerate the selection and concentration of research themes as well as the pursuit of open innovation. In addition to implementing prototype-less design, product design optimized for robotic assembly and standardized product platforms, we will also strengthen our software development capability.

The third challenge is to comprehensively reinforce our manufacturing abilities. In addition to building a globally optimized manufacturing system, we will promote our mother plant concept that integrates development, production technology and manufacturing. We will also thoroughly implement cost reduction measures, including for new businesses, through strengthening in-house production of key components, generic parts and production equipment.

The fourth is to thoroughly strengthen our strategic procurement functions. In addition to accelerating a global procurement network, we will promote component sharing, adoption of generic parts and in-house production.

The fifth is to reform our sales organization to reflect market changes. We will enhance the capabilities of our global sales engineers, bolster local service support systems and optimize such sales channels as e-commerce.

Our sixth challenge is to establish human resource policies that evolve with changing times. We aim to create a personnel system and human resources training system that will open up diverse career paths.

In Conclusion

Since launching Phase I of the Excellent Global Corporation Plan in 1996, Canon has built a strong financial foundation and successfully weathered the 2008 financial crisis and numerous other difficulties, including exchange rate fluctuations, guided by our commitment to pursuing total optimization and profitability. Today, we are in the midst of a digital revolution in which the dramatic development of IT has ushered in the age of IoT, known as the fourth industrial revolution. We are now confronted with the question of how to respond to this profound transformation of society.

The global economy in 2018 is generally expected to continue a trend toward gradual recovery. In that environment, we will return to a policy of total optimization and profitability to take Canon to the next level as an excellent global corporation.

We look forward to your continued understanding and support.



Fujio Mitarai
Chairman & CEO
Canon Inc.

GROWTH STRATEGY



The Océ VarioPrint i300 sheet-fed inkjet color press, which is a high-speed commercial printer, uses Océ's unique paper transport technology to achieve stable, high-speed output. Océ's proven technologies enable printing on a range of media, including coated paper, to meet diverse needs in commercial printing. (Customer Experience Center Venlo, Netherlands)

Aiming to become the world's No. 1 printing company in a commercial printing market that is becoming increasingly digitized.

The shift in demand towards digital printing is accelerating

The commercial printing market, encompassing newspapers, magazines and books, promotional catalogs and flyers, and transaction printing such as statements and invoices, has long been dominated by offset printing, which offers superb quality, low cost, and high speed printing of large-volume publications. However, the field of digital printing, which can print straight from data without the use of plates, has continued to expand since the 1990s. In particular, in recent years the diversification and segmentation of commercial printing needs, including production of a broader range of applications requiring shorter turnaround times, has propelled the shift to digital printing.

Digital printing needs are also growing in the industrial printing market, including printing on non-paper materials such as ceramic, glass, and plastic, as well as 3D printing, which involves applying hundreds of layers of ink.

To be the world's No. 1 printing company

Canon made a full-fledged entry into the commercial printing market in 2006, based on the core technologies it had accumulated in printer development since the development of the copy machine in the 1960s. In 2010, we welcomed the Dutch company, Océ into the Canon Group. Océ is a printer manufacturer with a history spanning 140 years. Its high-productivity printers are highly regarded for black-and-white printing jobs in the fields of invoices, direct mail, and publishing. Océ's high-speed continuous-feed printers make it a strong contender in the European and U.S. markets.

Currently, we are generating new synergies for growth, including the introduction of Océ's print controller into Canon's printing systems. In February 2017, Océ announced

the continuous feed printer, Océ ProStream 1000, aiming for the growing graphic arts market, where items such as catalogs demand high image quality. This digital system has attracted attention for providing the same high level of image quality and productivity as in offset printing. In April 2017, Canon opened the Customer Experience Center Tokyo at our Shimomaruko headquarters. This center, which is the fourth large facility worldwide for equipment demonstrations and inspections, allows commercial printing businesses to experience Canon's leading digital printing solutions.

With a wide-ranging product lineup, Canon has been laying the groundwork to become the world's No. 1 printing company since its entry into the commercial printing market. We will continue seeking business growth by further pursuing new possibilities in the digital printing market, which is expected to encompass various fields, including package printing and industrial printing, which involves printing on non-paper materials.



At the Customer Experience Center Tokyo, customers can bring in their print data and have it verified. (Shimomaruko Headquarters, Canon Inc., Japan)

NETWORK CAMERAS



Canon network cameras play a role in enabling optimal video stream at high resolution and definition 24 hours a day at an aircraft maintenance center.

Responding to demand for network cameras used in all sorts of settings through rapidly expanding solutions business

Rapid growth by expanding the scope of solutions

The network camera industry continues to expand due to rising security concerns worldwide. In the era of the IoT, network cameras are evolving as a means of visualizing real-time information based on higher performance cameras and sophistication in image analysis technologies, along with AI technologies. As a result, the scope of solutions businesses using network cameras is spreading in all sorts of settings, including stores and commercial facilities, factories, healthcare and nursing care, sports and other events, and transportation.

Becoming an innovative network imaging solutions company

Based on the camera and camcorder technologies Canon has cultivated since our foundation, we have been producing the cameras for the purpose of security and surveillance. We formally established our network camera business in 2013, and welcomed Axis into the Group in 2015. An outstanding range of network image processing technologies enables Axis to offer solutions to more than 90,000 partner companies in 180 countries and regions. Canon and Axis collaborate in the areas of product development, service, and support, while striving to improve efficiency, and in April 2017 we launched our first jointly developed product, the AXIS Q1659 interchangeable-lens network camera. The AXIS Q1659 employs eight different interchangeable lenses for EOS-series cameras, ranging from wide-angle to telephoto, which can be used to satisfy a wide range of monitoring needs in environments such as airports and stadiums.

Taking maximum advantage of network cameras, in which

multiple cameras are coordinated, requires video management software that provides centralized management of high-resolution images. In 2014, Canon welcomed Milestone, the leading provider of video management software for video images captured by network cameras, into the Group. Canon and Milestone are striving to develop video analysis technologies. We are also proposing innovative solutions that combine Canon's high-sensitivity, high-resolution differentiated cameras with image analysis software capable of counting people and identifying physical attributes.

Canon's aim is to provide innovative network imaging solutions that integrate Axis's network image processing technology and Milestone's video management technology with Canon's proprietary imaging technology. Network cameras are evolving for a growing range of applications that will support a safe and secure future.



Axis network cameras protect the safety of people in Yokohama, one of the largest cities in Japan.



Canon Medical's 320-row detector, Aquilion ONE™, which achieves wide-area, high-speed imaging with low radiation exposure and high image quality, is widely used for the diagnosis of cerebral aneurysms and cancer. (Fujita Health University Hospital, Japan)

Expanding our healthcare business centered on Canon Medical

Dramatically growing healthcare industry due to population growth and aging societies

The healthcare industry, which comprises the field of health, including health promotion, disease prevention, and nursing care, and the field of medicine, including testing, diagnosis, treatment, and rehabilitation, represents a growing market driven by the growing global population and the aging of societies. This market is expected to expand dramatically, increasing from ¥16 trillion in 2013 to ¥37 trillion in 2030 in Japan, and from ¥163 trillion to ¥525 trillion overseas. According to the Ministry of Economy, Trade and Industry, the global market for medical equipment continues to grow at a rate of 8% per year, and is expected to be worth approximately \$450 billion (roughly ¥50 trillion) in 2018.

Expanding the scope of our healthcare business

Canon entered the healthcare business in 1940 with the development of Japan's first indirect X-ray camera. Since that time, we have continued to support new areas of advanced medical care through the development of products such as digital radiography equipment and ophthalmic equipment, based on our proprietary optical and image processing technologies.

In 2016, Canon welcomed TMSC, a leading manufacturer of medical equipment, into the Group, and in January 2018 changed the company's name to Canon Medical. Canon Medical has a broad product portfolio that spans diagnostic X-ray systems, X-ray computed tomography ("CT") systems, magnetic resonance imaging ("MRI") systems, diagnostic ultrasound systems, diagnostic nuclear medicine systems, and medical sample testing systems. In the CT market,

Canon Medical holds the top market share position in Japan and maintains high market share globally. In April 2017, Canon Medical carried out the domestic launch of Aquilion Precision™, a high-precision CT scanner that delivers substantially higher resolution than ever before. In the future, through synergies generated from the strengths of Canon and Canon Medical in manufacturing technology and sales networks, we will aim to create new value in medical care.

The Healthcare Optics Research Lab at Canon U.S.A. has been steadily pursuing research on ultra-miniature endoscopes and medical robotics, including a needle guidance system, based on open innovation.

Through synergies with Canon Medical and integrated medical operations spanning from R&D to sales in the United States, we will continue to provide total solutions for the needs of today's medical facilities and better healthcare for the future.



Research has been pursued on the needle guidance system, which assists physicians to insert a needle accurately into the targeted location of internal organ. (Healthcare Optics Research Lab, Canon U.S.A., United States)

INDUSTRIAL EQUIPMENT



Canon Tokki produces OLED panel manufacturing equipment with unrivalled technology required for advanced manufacturing equipment, including vacuum evaporation equipment for depositing organic materials onto panel substrates and automated supply lines for glass substrates. Canon Tokki continues to be the industry leader.

Seeking new growth with industrial equipment that support manufacturing and achieve innovation

Industrial equipment enters a new era of growth in the fourth industrial revolution

With the arrival of the fourth industrial revolution, the industrial equipment field has entered a new era of growth in areas such as semiconductor manufacturing equipment and organic LED ("OLED") panel manufacturing equipment. In particular, demand for OLED panels is growing rapidly for devices such as smartphones and TVs, due to advantages such as thinness, light weight, low power consumption, and ability to produce vibrant colors. Expectations are high for OLED panels in terms of applications, including the capability to be bent, and in the future, folded.

Leading the industry in OLED panel manufacturing equipment

Canon supports the growth of manufacturing and industry by applying proprietary technologies that we have developed over many years to the creation of industrial equipment. Canon Tokki, Canon ANELVA, and Canon Machinery play key roles in meeting the needs of a wide range of industries, from semiconductor manufacturing equipment to OLED panel manufacturing equipment.

Canon Tokki's OLED panel manufacturing equipment leads the industry, setting the standard worldwide. In 2017, we significantly increased production of OLED panel manufacturing equipment due to a rapid increase in demand for OLED panels used in smartphones. Orders were so strong we were nearly unable to keep up. This contributed significantly to substantial sales growth in industrial equipment in 2017.

Canon ANELVA engages in the development, manufacturing, and sales of vacuum thin-film deposition equipment that

meet the needs of the times, based on its proprietary ultra-high vacuum technology and thin-film deposition technology.

Canon Machinery boasts the top domestic market share for its die bonders, a device which attaches dies (individual semiconductor chips printed with circuits) to substrates. In 2017, Canon Machinery began expanding its Malaysia plant in order to strengthen its production system by further enhancing production capacity. Canon Machinery develops and produces customized automation and labor-saving equipment, such as automotive component assembly equipment and assembly equipment for secondary batteries for electric vehicles, which are expected to see rapid growth in the future.

Canon, together with Canon Tokki, Canon ANELVA, and Canon Machinery, will continue to aim for high growth in the industrial equipment field by leveraging group synergies through collaboration in areas such as manufacturing technology, procurement, and personnel support.



In order to meet the needs of miniaturized semiconductor devices, Canon ANELVA is proceeding with the development of sputtering equipment based on thin-film deposition technologies.