This is a translation of the original documents in Japanese language for convenience purposes only, and in the event of any discrepancy, the Japanese language shall prevail.

March 6, 2017

To Our Shareholders

The items posted on the Internet Website in providing the convocation of the 49th Ordinary General Meeting of Shareholders

Pursuant to applicable laws and Article 14 of the Articles of Incorporation of the Company, the above items are provided to shareholders through the corporate website (http://cweb.canon.jp/ir/index.html).

Canon Marketing Japan Inc.

Systems for Ensuring Propriety of Operations and Outline of Activities

The content of the resolution of the Board of Directors regarding the systems necessary to ensure the properness of the Company's operations (basic policy) as well as the outline of activities for the aforementioned systems, are as follows:

Systems for Ensuring Propriety of Operations (the "Internal Control System")	<u>Content of Basic Policy Resolution</u> To ensure the properness of operations and to work for continuous improvement in corporate value, Canon Marketing Japan Inc. (the "Company") and the enterprises consisting of the Company and its subsidiaries (the "Canon MJ Group"), shall foster a sound corporate culture based on the Spirit of "Three Self" (Self-motivation, Self-management, and Self-awareness) – guiding principles of Canon Group. The Canon MJ Group shall also work to foster a law-abiding awareness through the "Canon Group Code of Conduct." Furthermore, the Canon MJ Group shall firmly strive to ensure management transparency through clearly defined approval processes of important matters of Canon MJ Group.
1. System for Compliance (Item 6, Paragraph 4, Article 362 of the Companies Act, and Item 4, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) The Board of Directors, in accordance with regulations prescribed by the Board of Directors (the "Regulations of the Board of Directors"), shall make decisions on important Canon MJ Group managerial matters after careful deliberation. Additionally, the Board of Directors shall have representative directors, executive directors and executive officers (collectively the "Officers") give reports regarding their execution of duties. (2) The Company shall thoroughly instill compliance awareness through training and other programs geared towards new employees, managers, and newly-appointed board members and executive officers, utilizing the "Canon Group Code of Conduct," as a standard to be adhered to in the execution of duties. (3) As a part of the Company's risk management system, the Company shall put in place business procedures/checking systems that prevent violation of laws and regulations and the Company's articles of incorporation in the course of daily business. It shall also maintain a compliance education system. (4) The internal audit division of the Company, which has the authority to audit all executions of duties, shall also conduct audits regarding the status of compliance with laws and regulations and the Company's articles of incorporation. (5) If an act that violates laws and regulations, or the Company's articles of incorporation is discovered in the Canon MJ Group, employees have the ability to report such fact by means of a whistleblowing system. Additionally, the Company shall prohibit any disadvantageous treatment of any whistleblower.
	<u>Outline of Activities</u> (1) During the current business term, 16 Board of Directors meetings were held. At these meetings, in addition to deliberating and deciding on important matters, the Board of Directors received reports from Directors in charge of major divisions concerning the execution of business. (2) In addition to implementing compliance training that follows the "Canon Group Code of Conduct," the Company held Compliance Meeting, an event held once every six months to discuss on familiar risks of law-and-regulation violations by each respective workplace. (3) The activity is described in (1), Outline of Activities, 2 below. (4) The internal audit division conducts audits of each division and subsidiaries including on various themes. The results of these audits have been then reported to the President and each Audit & Supervisory Board Member, and when necessary, proposals for improvement are given. (5) The rules on use of the whistleblowing system, including the explicit prohibition of the disadvantageous treatment of whistleblowers, are disseminated via the intranets of the Company, along with information on the contact counter for reporting internal problems. In the current business

	term, there were no whistleblower reports relating to serious violations of laws and regulations, or the like.
2. System for Risk Management (Item 2, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) The Company shall conduct various measures with regard to improving the risk management system in accordance with the regulations regarding risk management. These measures include the system for grasping any significant risks (violation of laws and regulations, inappropriate financial reporting, quality issues, work-related injuries, disasters, etc.) that the Canon MJ Group may face in the course of business. Additionally, the Company shall evaluate the status of improvement and implementation of the risk management system and report its findings to the Board of Directors. (2) The Company established the Management Committee, and even if certain item is not submitted to the Board of the Directors, the Committee shall carefully deliberate those items in case it is considered important.
	<u>Outline of Activities</u> (1) The Canon MJ Group categorized the risks which may cause significant impact on the Canon MJ Group into 3 risks of Financial risk, Compliance risk and Business risk, in accordance with the "Regulations of Risk Management." The Canon MJ Group conducted various measures with regard to improving the risk management system. Additionally, the Company evaluated the status of improvement and implementation of the risk management system and reported its findings to the Board of Directors, based on the activity plan of this term approved by the Board of Directors. (2) The Management Committee was held 15 times in the current business term, and important matters were deliberated. In addition to the Directors in charge of executing business operations, the Outside Directors and Audit & Supervisory Board Members also attended, as necessary, and provided opinions.
3. System for Efficient Execution of Duties (Item 3, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) Based on regulations regarding approval processes of important matters and the division of duties adopted by the Board of Directors, the Directors and other officers shall execute shared duties under the supervision and direction of the President. (2) The Company shall at its Management Committee formulate Long-Term Management Objectives as 5-year management goals and 3-year priority measures, contained in Three-Year Management Plan. Based upon these plans, the Company shall manage operations from a unified group approach.
	<u>Outline of Activities</u> (1) The Officers have executed the duties allocated to them in accordance with the related rules. (2) The Company decides on a mid-term management plan and the necessary measures, which is decided based on discussions such as held at the Management Committee attended by the Officers of the Company and the executive officers of the major subsidiaries, and ensures the cohesion of the Group's corporate management.
4. System for Group Management (Item 5, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> The Company strengthens the internal control system by requiring Group Companies to follow the respective items: a) to obtain prior approval from the Company or report to the Company important decisions in accordance with the "Regulations of Important Matters Approval of Canon MJ Group Companies," prescribed by the Board of Directors, b) to grasp significant risks that the Group Companies may face in the course of business and to verify and evaluate the status of improvement and implementation of the risk management system and report their findings to the Company in accordance with the regulations regarding risk management, c) to design an appropriate organization under the governing law of

	incorporation and to clearly define approval processes and authorities of executive officers, d) in addition to thoroughly instilling compliance awareness through the "Canon Group Code of Conduct," to put in place business procedures/checking systems that prevent violation of laws and regulations and Group Company's articles of incorporation in the course of daily business and prepare a compliance education system as a part of the Group Company's risk management system, and e) to establish a whistleblowing system and prohibit any disadvantageous treatment of any whistleblower.
	<u>Outline of Activities</u> a) The Company received reports from subsidiaries or provided prior approval in accordance with the "Regulations of Important Matters Approval of Canon MJ Group Companies." b) In order to conduct evaluation of the status of improvement and implementation of the risk management system described in (1), Content of Basic Policy Resolution, 2 above, the subsidiaries being evaluated implemented evaluation of the respective targeted risks. c) Each subsidiary performs, as appropriate, a review of the appropriateness of organizational design, and approval criteria and processes in accordance with the applicable laws and regulations and the nature of business and other factors. d) In addition to the activities of (1), Outline of Activities, above, each subsidiary establishes places for training and discussion as necessary and ensures utmost compliance. e) Each subsidiary establishes an in-house hotline system and totally prohibits any disadvantageous treatment of any whistleblower.
5. System for Storing and Managing Information (Item 1, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> Information related to the execution of duties of Officers, including meeting minutes of the Board of Directors and settlement documents, shall be maintained and managed by respective divisions in charge of such management in accordance with laws and regulations, the "Regulations of the Board of Directors," and other related rules. Directors and Audit & Supervisory Board Members have the ability to inspect this information at anytime.
	<u>Outline of Activities</u> Whenever deemed necessary, Directors, Audit & Supervisory Board Members and members of the internal audit division peruse or obtain copies of minutes of the Board of Directors meeting, minutes of the Management Committee, and other records such as approvals by the President.
6. System for Auditing by Audit & Supervisory Board Members (Paragraph 3, Article 100 of the Enforcement Regulations of the Companies Act)	<u>Content of Basic Policy Resolution</u> (1) Although the Company does not assign a dedicated full-time employee or set an organization to assist the duties of Audit & Supervisory Board Members, the internal audit division, the legal division and other divisions will consult and assign an employee to assist the works of Audit & Supervisory Board Members (the "Assisting Employee"), on matters requested by Audit & Supervisory Board Members. The Assisting Employee shall give priority to execute the duties requested by Audit & Supervisory Board Members. Any change in the Assisting Employee shall require the prior consultation of the Audit & Supervisory Board. (2) Audit & Supervisory Board Members shall grasp the execution of duties by Director and other officers, by attending not only meetings of the Board of Directors, but also other important meetings such as meetings of the Management Committee. (3) The administrative divisions of the headquarters, such as human resources, finance & accounting, and legal affairs, shall hold meetings with Audit & Supervisory Board Members and report on the execution of duties in a timely manner. Additionally, if any material breach of laws and regulations occurs, the relevant division shall immediately report this to Audit & Supervisory

	Board Members. (4) Audit & Supervisory Board Members shall be reported from accounting auditors periodically and upon necessity. (5) Audit & Supervisory Board Members shall hold periodic meetings with counterparts of domestic Group Companies and work to improve the auditing system from a unified group perspective by sharing information. Additionally, Audit & Supervisory Board Members shall grasp the execution of duties by Directors and other officers of Group Companies, by auditing major Group Companies in and outside Japan as necessary. (6) The Company prohibits any disadvantageous treatment of any person that reports to Audit & Supervisory Board Members. The Company also seeks its Group Companies to prohibit any disadvantageous treatment. (7) For expenses that are required in the execution of the Audit & Supervisory Board Members duties, they shall be borne by the Company as requested by the Audit & Supervisory Board Members.
	Outline of Activities (1) The Company assigned the Assisting Employee from the legal division, and the Assisting Employee executed the duties as requested by Audit & Supervisory Board Members. Change to the Assisting Employee, were decided upon prior consultation with the Audit & Supervisory Board. (2) Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, attended important meetings such as the Board of Directors meetings, the Management Committee meetings, and the executive officers meetings. (3) The administrative divisions of the headquarters held periodic meetings with the Audit & Supervisory Board Members, and reported the status of execution of business operations. In addition, the internal audit division reported the results of audits to not only the President but to Audit & Supervisory Board as well. (4) Audit & Supervisory Board Members, in addition to periodically receiving reports from the Accounting Auditor on the results of the audit of the business term in accordance with laws and regulations, they also hold hearings with the Accounting Auditor to inquire on the status of audits as necessary. (5) Audit & Supervisory Board Members, as necessary, held meetings with audit & supervisory board members of domestic subsidiaries and exchanged information. In addition, Audit & Supervisory Board Members audited the major subsidiaries. (6) In addition to (5), Outline of Activities, 1 above, the Company did not treat any person that reported to Audit & Supervisory Board Members disadvantageously. (7) In the current business term, there were no situations of shortfalls in the budget allocated for the implementation of audits in accordance with the audit plan.

Consolidated Statement of Changes in Net Assets
(from January 1, 2016 to December 31, 2016)

(Millions of yen, amounts less than one million yen are rounded down)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	73,303	82,820	151,036	(31,911)	275,247
Changes of items during period					
Cash dividends	-	-	(5,835)	-	(5,835)
Profit attributable to owners of parent	-	-	18,161	-	18,161
Purchase of treasury shares	-	-	-	(2)	(2)
Profit attributable to non-controlling interests	-	-	-	-	-
Cash dividends paid to non-controlling interests	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	-	12,326	(2)	12,324
Balance at end of current period	73,303	82,820	163,363	(31,914)	287,571

	Accumulated other comprehensive income					Non-controlling interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	2,775	0	224	(1,240)	1,760	430	277,438
Changes of items during period							
Cash dividends	-	-	-	-	-	-	(5,835)
Profit attributable to owners of parent	-	-	-	-	-	-	18,161
Purchase of treasury shares	-	-	-	-	-	-	(2)
Profit attributable to non-controlling interests	-	-	-	-	-	33	33
Cash dividends paid to non-controlling interests	-	-	-	-	-	(10)	(10)
Net changes of items other than shareholders' equity	(446)	(15)	(77)	(8,319)	(8,859)	(7)	(8,866)
Total changes of items during period	(446)	(15)	(77)	(8,319)	(8,859)	16	3,481
Balance at end of current period	2,328	(14)	147	(9,560)	(7,099)	446	280,919

Notes to Consolidated Financial Statements

(Notes on important items forming the basis of consolidated financial statements)

1. Scope of consolidation

(1) Consolidated subsidiaries	24
Major consolidated subsidiaries	Canon System & Support Inc., Canon Production Printing Systems Inc., Canon IT Solutions Inc., Canon Lifecare Solutions Inc.
(2) Non-consolidated subsidiaries	None

2. Application of equity method

(1) Affiliates subject to equity method	None
(2) Affiliates not subject to equity method	None

3. Fiscal years for consolidated subsidiaries

The closing date for consolidated subsidiaries is the same as all other consolidated closing dates.

4. Accounting policies

(1) Valuation standards and methods for key assets

(i) Securities

Held-to-maturity securities	Amortized cost method (straight-line method)
Other securities	
Securities with market value	Market value method, based on market price on last day of accounting term, etc. (Valuation differences included in total net assets, cost of products sold calculated based on moving-average method)
Securities with no market value	At cost based on moving-average method

(ii) Inventory assets

Merchandise	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Repair parts	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Work in process	At cost based on specific identification method
Supplies	Last-purchase price method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

(2) Method of depreciation for key depreciable assets

(i) Property, plant and equipment

(Excluding Lease assets, net)	Based on declining-balance method Buildings and structures at the company's Makuhari office, rental assets in the Business Solutions segment, and selected consolidated subsidiaries, are depreciated by the straight-line method. Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

Buildings	five years to seventy-five years
Furniture and fixtures	two years to twenty years
Rental assets	three years

(ii) Intangible assets

(Excluding Lease assets, net)	Based on straight-line method Marketable software is depreciated by the straight-line method based on the estimated effective duration of sales (up to three years). In-house software is depreciated by the straight-line method based on the length of in-house durability (five years).
(iii) Lease assets, net	Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.

(3) Standards for recording key allowances

(i) Allowance for doubtful receivable	To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.
(ii) Provision for bonuses	The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.
(iii) Provision for directors' bonuses	The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.
(iv) Provision for product warranties	Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs. To cover payment of free program maintenance and repairs for selected consolidated subsidiaries, the estimated amount of future costs is recorded based on actual figures for previous years.

(v) Provision for loss on order received

The estimated amount of losses from the next fiscal year onwards is recorded for ongoing development projects based on software service contracts, in cases that are expected to result in a loss in the future (as of the end of the current year) and in which it is possible to reasonably estimate the relevant losses, in order to cover losses on orders received.

(vi) Allowance for long-term continuous service rewards

The estimated amount payable is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.

(4) Accounting methods for retirement benefits

(i) Method of aligning estimated retirement benefits

Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current consolidated accounting year.

(ii) Method of recording actuarial differences and prior service costs

Prior service costs are generally expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs. Actuarial differences are generally expensed from the following consolidated accounting year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.

(iii) Using simplified methods for small companies, etc.

For selected consolidated subsidiaries, simplified methods are applied in order to calculate retirement benefit liabilities and costs. This entails listing retirement benefit obligations as the amount payable in retirement benefits at the end of the year, based on the relevant company's circumstances.

(5) Standards for recording key revenue and expenses

Standards for recording revenue from customized software development

The percentage-of-completion method is applied to contracts in progress, and whose outcomes can be reliably estimated, as of the end of the current consolidated accounting year, based on the percentage of completion (the cost-to-cost method is used to estimate rate of progression). The completed contracts method is used for other contracts.

(6) Key hedge accounting methods

(i) Hedge accounting method — Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.

(ii) Hedging instrument and subject

Hedging instrument — Forward exchange contracts

Subject of hedging — Foreign currency denominated payables

(iii) Hedging policy — Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.

(iv) Method of evaluating effectiveness of hedging

For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

(7) Method of amortization of goodwill and amortization period

As a rule, the straight-line method is used for amortization of goodwill over the period in which goodwill is expected to take effect (five years from the date of which goodwill is accrued).

(8) Other important items forming the basis of consolidated financial statements

(i) Accounting methods for consumption tax, etc.

The before-tax method is used for consumption tax, etc.

(ii) Application of the consolidated tax system

For itself and selected consolidated subsidiaries, the company applies the consolidated tax system, with itself as the consolidated tax parent company.

(Notes on changes to accounting policies)

(Application of the Accounting Standard for Business Combination)

The Accounting Standard for Business Combination (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 12, 2013), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013) have been applied to the current fiscal year. As a result, gains from changes in the Company's equity in subsidiaries remaining under its control are listed under capital surplus, and acquisition-related costs are listed under costs for the relevant fiscal year. Changes have also been made to business combinations formed since the start of the current fiscal year. In the event that any revisions are made to the allocation of historical costs, based on provisional accounting procedures, during the fiscal year after the year in which the combination was formed, the effects of the relevant revisions on the opening balance for that year are now required to be listed in sections. The opening balance should then be listed after the relevant adjustments have been taken into account.

There have also been changes to net income listings, and changes from minority shareholdings to non-controlling shareholdings.

The Accounting Standard for Business Combination will be applied from the start of the current fiscal year and will continue to be applied in the future, in line with transitional procedures set out under Article 58-2-(4) of the Accounting Standard for Business Combination, Article 44-5-(4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4-(4) of the Accounting Standard for Business Divestitures.

This will have no impact on financial statements or information per share for the current fiscal year.

(Application of practical procedures in line with changes to depreciation methods following revisions to the tax system in 2016)

As a result of revisions to the Corporation Tax Act, practical procedures in line with changes to depreciation methods following revisions to the tax system in 2016 (Practical report No. 32, June 17, 2016) have been applied to the current consolidated fiscal year. This means that depreciation in relation to furniture, fixtures and structures acquired on or after April 1, 2016 has changed from the declining-balance method to the straight-line method.

Any impact on operating income, ordinary income and before-tax net income for the current fiscal year will be minimal.

(Notes on changes to presentation methods)

(Relationship to Consolidated Statements of Changes in Equity)

Having been previously presented as a single net figure, the method of presenting the changes of items other than shareholders' equity during the current year has been changed in order to improve convenience for those using consolidated financial statements. From the current consolidated accounting year onwards, items constituting the relevant changes will be presented individually under the reasons for major changes and the amount.

(Notes on consolidated balance sheets)

1. Accumulated depreciation on property, plant and equipment	83,711 million yen
2. Assets pledged as collateral	
Assets pledged as collateral were as follows.	
Assets pledged as collateral	
Time deposits	55 million yen
3. Guarantee liabilities	
Guarantees for employees' housing loans	25 million yen

(Notes to Consolidated Statements of Changes in Equity)

1. Type and total number of issued shares as of end of current year Common share 151,079,972 shares

2. Dividends paid from retained earnings during the current year

Resolution	Type of share	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 29, 2016 General shareholders' meeting	Common share	3,241	25	December 31, 2015	March 30, 2016
July 25, 2016 Board of Directors' meeting	Common share	2,593	20	June 30, 2016	August 26, 2016

3. Dividends for which the base date falls within the current year, and the date effective in the following year

Discussion	Type of share	Funds used to pay dividends	Total dividends (million yen)	Dividends per share (yen)	Base date	Date effective
March 29, 2017 General shareholders' meeting	Common share	Retained earnings	3,890	30	December 31, 2016	March 30, 2017

(Notes on financial instruments)

1. Status of financial instruments

(1) Policies for financial instruments

As the Group, we limit asset management to financial instruments characterized as very safe, and believe that financing should mainly be conducted through the use of group funds whenever necessary. We enter into derivative transactions to hedge against foreign exchange fluctuation risks, but have a policy of not engaging in speculative transactions.

(2) Details of financial instruments, risks, and systems to control risks

Operating receivables, consisting of notes and accounts receivable, are exposed to customer credit risks. We aim to mitigate such risks through strict credit control, based on credit data provided by external credit agencies, and through credit insurance and other risk-hedging measures.

Short-term loans receivable are mainly loans to the parent company, provided in accordance with internal regulations on investment and management of funds.

Securities and investments in securities consist primarily of held-to-maturity debt securities and shares in companies with business ties to the Group, and are exposed to market price fluctuation risks. To counter such risks, we regularly monitor fair values and the financial condition of companies issuing shares (business counterparties). For securities other than held-to-maturity debt securities, we continuously review the status of our holdings, taking into consideration market conditions and relationships with business counterparties.

Trade payables, consisting of notes and accounts payable, are mainly those due within six months.

Derivative transactions consist of forward exchange contracts to hedge against the risk of fluctuations in foreign currency denominated trade payables. With regard to hedge accounting, notes on important items forming the basis for compiling the aforementioned consolidated accounting documents are outlined under “4. Accounting standards (6) Key hedge accounting methods.”

(3) Supplementary explanation of fair values of financial instruments

Fair values of financial instruments include not only values based on market quotations, but also values calculated on a theoretical basis in cases where market quotations are not available. Values may vary depending on different assumptions, due to the fact that variables are factored into the calculation of such values.

2. Fair values of financial instruments

Book values on consolidated balance sheets as of December 31, 2016, their corresponding fair values, and the difference between the two are as follows.

	Book value on consolidated balance sheets (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and deposits	76,785	76,785	—
(2) Notes and accounts receivable	124,475	124,475	—
(3) Securities and investments in securities	36,814	36,814	—
(4) Short-term loans receivable	90,044	90,044	—
Total assets	328,119	328,119	—
(5) Notes and accounts payable	102,662	102,662	—
Total liabilities	102,662	102,662	—

(*) 1. Calculation methods for fair values of financial instruments, and other details relating to securities

Assets

(1) Cash and deposits, (2) Notes and accounts receivable, and (4) Short-term loans receivable

Book values are used as the fair values of these assets, because they are to be settled in the short term, meaning that their fair values approximate their book values.

(3) Securities and investments in securities

Fair values of equity securities are based on prices at security exchanges. Fair values of debt securities are based on prices at security exchanges or quotations obtained from counterparty financial institutions.

Liabilities

(5) Notes and accounts payable

Book values are used as the fair values of these liabilities, because they are to be settled in the short term, meaning that their fair values approximate their book values.

2. As it can be extremely difficult to assess the fair value of unlisted share or funds from investment partnerships (book value on consolidated balance sheets: 1,108 million yen), because they do not have a market value, they are not included in "(3) Short-term investments in securities and investments in securities" above.

(Notes on rented and other real estate)

No notes are required due to the low level of importance.

(Notes on information per share)

1. Net assets per share 2,162.96 yen
2. Profit attributable to owners of parent per share 140.06 yen

Statement of Changes in Net Assets
(from January 1, 2016 to December 31, 2016)

(Millions of yen, amounts less than one million yen are rounded down)

	Shareholders' equity				
		Capital surplus			Retained earnings
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings
Balance at beginning of current period	73,303	85,198	0	85,199	2,853
Changes of items during period					
Cash dividends	-	-	-	-	-
Profit attributable to owners of parent	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Increase by corporate division	-	-	5	5	-
Reversal of reserve for advanced depreciation of non-current assets	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	-	-	5	5	-
Balance at end of current period	73,303	85,198	5	85,204	2,853

	Shareholders' equity				
	Retained earnings				Treasury shares
	Other retained earnings			Total retained earnings	
	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward		
Balance at beginning of current period	9	81,700	51,502	136,065	(31,915)
Changes of items during period					
Cash dividends	-	-	(5,835)	(5,835)	-
Profit attributable to owners of parent	-	-	13,593	13,593	-
Purchase of treasury shares	-	-	-	-	(2)
Increase by corporate division	-	-	-	-	-
Reversal of reserve for advanced depreciation of non-current assets	(3)	-	3	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	(3)	-	7,761	7,758	(2)
Balance at end of current period	6	81,700	59,264	143,824	(31,918)

	Shareholders' equity	Valuation and translation adjustments			Total Net Assets
	Total Shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	262,652	2,327	0	2,328	264,980
Changes of items during period					
Cash dividends	(5,835)	-	-	-	(5,835)
Profit attributable to owners of parent	13,593	-	-	-	13,593
Purchase of treasury shares	(2)	-	-	-	(2)
Increase by corporate division	5	-	-	-	5
Reversal of reserve for advanced depreciation of non-current assets	-	-	-	-	-
Net changes of items other than shareholders' equity	-	(309)	(15)	(324)	(324)
Total changes of items during period	7,760	(309)	(15)	(324)	7,436
Balance at end of current period	270,413	2,018	(14)	2,003	272,417

Notes to Non-Consolidated Financial Statements

(Notes regarding key accounting policies)

1. Asset valuation standards and methods

(1) Valuation standards and methods for securities

Held-to-maturity securities	Amortized cost method (straight-line method)
Shares in subsidiaries and affiliates	At cost based on moving average method
Other securities	
Securities with market value	Market value method, based on market price on last day of accounting term, etc. (valuation differences included in total net assets, cost of products sold calculated based on moving-average method)
Securities with no market value	At cost based on moving average method

(2) Valuation standards and methods for inventory assets

Merchandise	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Repair parts	At cost based on monthly moving-average method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)
Work in process	At cost based on specific identification method
Supplies	Last-purchase price method (Carrying amounts on balance sheet calculated to include write-downs due to decreased profitability)

2. Method of depreciation for Long-Term assets

(1) Property, plant and equipment

(Excluding Lease assets) Based on declining-balance method

Buildings and structures at the company's Makuhari office, and rental assets in the Business Solutions segment, are depreciated by the straight-line method.

Buildings acquired on or after April 1, 1998 (excluding furniture and fixtures), and related furniture, fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

Useful lives are as follows:

Buildings	five years to seventy-five years
Furniture and fixtures	two years to twenty years
Rental assets	three years

(2) Intangible fixed assets

(Excluding Lease assets) Based on straight-line method

Marketable software is depreciated by the straight-line method based on the effective duration of sales (up to three years). In-house software is depreciated by the straight-line method based on the length of in-house durability (five years).

(3) Lease assets — Lease assets are depreciated by the straight-line method based on their useful life, which is lease period, with zero residual value.

3. Standards for recording allowances

(1) Allowance for doubtful receivables — To cover possible losses on collection, general accounts receivable are calculated based on the actual rate of uncollected receivables, and doubtful account receivables based on individually estimated uncollectible amounts for specific items.

(2) Provision for bonuses — The estimated amount payable is recorded for the next round of employees' bonuses, which are classed as liability for the current year, based on actual payments for the previous round of bonuses.

(3) Provision for directors' bonuses — The estimated amount payable is recorded for the next round of directors' bonuses, which are classed as liability for the current year.

(4) Provision for product warranties — Costs arising from a one-year free warranty contract for consumer products are recorded based on the actual cost of free repairs.

(5) Provision for losses on orders received — The estimated amount of losses from the next fiscal year onwards is recorded for ongoing development projects based on software service contracts, in cases that are expected to result in a loss in the future (as of the current fiscal year) and in which it is possible to reasonably estimate the relevant losses, in order to cover losses on orders received.

(6) Provision for retirement benefits — The estimated amount of benefit obligations and pension assets as of the end of the current fiscal year is recorded in order to cover retirement benefits payable to employees.

Retirement benefit obligations are calculated based on standard benefit calculation formula, to align the estimated amount of retirement benefits with the relevant period as of the end of the current fiscal year. Prior service costs are expensed using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs. Actuarial differences are expensed from the following fiscal year, using the straight-line method based on the average remaining years of service for the relevant employee at the time of incurring costs.

(7) Allowance for long-term continuous service rewards

The estimated amount payable is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.

4. Standards for recording revenue and expenses

Standards for recording revenue from customized software development

The percentage-of-completion method is applied to contracts in progress, and whose outcomes can be reliably estimated, as of the end of the current fiscal year, based on the percentage of completion (the cost-to-cost method is used to estimate rate of progression). The completed contracts method is used for other contracts.

5. Key hedge accounting methods

(1) Hedge accounting method — Appropriation accounting is applied to foreign currency denominated payables subject to forward exchange contracts in line with accounting requirements.

(2) Hedging instrument and subject

Hedging instrument	Forward exchange contracts
Subject of hedging	Foreign currency denominated payables

(3) Hedging policy — Measures are taken to hedge against the risk of cash flow fluctuations due to exchange rate fluctuations in the future, in relation to foreseeable foreign currency denominated payables up to a certain amount.

(4) Method of evaluating effectiveness of hedging

For forward exchange contracts, the same amount is appropriated on the same date in the same currency, in accordance with the company's hedging policy. The effectiveness is not evaluated on the date of settlement of accounts because it is guaranteed to correlate with subsequent exchange rate fluctuations.

6. Other important items forming the basis of financial statements

(1) Accounting methods for consumption tax, etc.

The before-tax method is used for consumption tax, etc.

(2) Application of the consolidated tax system

The company applies the consolidated tax system.

(3) Retirement benefit accounting — Different methods of accounting are used for unrecognized actuarial differences and unrecognized prior service costs in relation to retirement benefits, as opposed to accounting methods used for consolidated financial statements.

(Notes on changes to accounting policies)

(Application of the Accounting Standard for Business Combination)

The Accounting Standard for Business Combination (Accounting Standards Board of Japan (ASBJ)

Statement No. 21, September 13, 2013) and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013) have been applied to the current fiscal year. As a result of this change, acquisition-related costs are listed under costs for the relevant fiscal year. Changes have also been made to business combinations formed since the start of the current fiscal year. In the event that any revisions are made to the allocation of historical costs, based on provisional accounting procedures, during the following fiscal year after the year in which the combination was formed, the effects of the relevant revisions on the opening balance for that year are now required to be listed in sections. The opening balance should then be listed after the relevant adjustments have been taken into account.

The Accounting Standard for Business Combination will be applied from the start of the current fiscal year and will continue to be applied in the future, in line with transitional procedures set out under Article 58-2-(4) of the Accounting Standard for Business Combination, and Article 57-4-(4) of the Accounting Standard for Business Divestitures.

This will have no impact on financial statements or information per share for the current fiscal year.

(Application of practical procedures in line with changes to depreciation methods following revisions to the tax system in 2016)

As a result of revisions to the Corporation Tax Act, practical procedures in line with changes to depreciation methods following revisions to the tax system in 2016 (Practical report No. 32, June 17, 2016) have been applied to the current fiscal year. This means that depreciation in relation to furniture, fixtures and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

Any impact on operating income, ordinary income and before-tax net income for the current fiscal year will be minimal.

(Notes on balance sheets)

1. Accumulated depreciation on property, plant and equipment	71,363 million yen
2. Guarantee liabilities	
Guarantees for employees' housing loans	25 million yen
3. Receivables from and payable from affiliates	
Short-term monetary receivables	109,691 million yen
Short-term monetary payables	121,652million yen
Long-term monetary receivables	11 million yen
Long-term monetary payables	218 million yen

(Notes on statements of income)

Transactions with affiliates	
Net sales	58,025 million yen
Purchasing	260,141 million yen
Other business transactions	7,792 million yen
Non-business transactions	3,685 million yen

(Notes on Statement of Changes in Equity)

Type and total of treasury share owned as of end of current fiscal year

Common share 21,409,021 shares

(Notes on tax effect accounting)

1. Breakdown of main causes of deferred tax assets and liabilities

(1) Current assets/liabilities

Deferred tax assets	
Sales promotion costs	1,249 million yen
Provision for bonuses	582 million yen
Valuation loss on disposal or sale of inventory assets	368 million yen
Accrued business tax and business office tax	313 million yen
Provision for product warranties	137 million yen
Other	219 million yen
Total deferred tax assets	2,871 million yen

(2) Non-current assets/liabilities

Deferred tax assets	
Allowance for retirement benefits	9,037 million yen
Loss on valuation of investment securities	834 million yen
Over-depreciation of property, plant and equipment	738 million yen
Over-depreciation of software	659 million yen
Additions to deemed dividends	191 million yen
Allowance for long-term continuous service rewards	172 million yen
Asset retirement obligations	170 million yen
Allowance for doubtful receivables	126 million yen
Other	284 million yen
Subtotal deferred tax assets	12,215 million yen
Valuation reserve	(1,080) million yen
Total deferred tax assets	11,135 million yen
Deferred tax liabilities	
Net unrealized gain on securities	906 million yen
Other	2 million yen
Total deferred tax liabilities	909 million yen
Net deferred tax assets	10,226 million yen

2. Adjustments to deferred tax assets and liabilities due to changes in the corporate tax rate, etc.

The Diet enacted the Act for Partial Amendment of the Income Tax Act and the Act for Partial Amendment of the Local Tax Act on March 29, 2016. This was followed by the Act for Partial Amendment of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security, and the Act for the Partial Amendment of the Local Tax Act and the Local

Tax Allocation Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security, on November 18, 2016. As a result, the effective statutory rate for calculating deferred tax assets and deferred tax liabilities was reduced from 32% to 31% under accounts for the previous fiscal year.

As a result of this change in the tax rate, total deferred tax assets (minus deferred tax liabilities) has been reduced by 422 million yen. Income taxes-deferred have increased by 451 million yen, as recorded for the current fiscal year, and the valuation difference on available-for-sale securities has increased by 29 million yen, with deferred gains or losses on hedges down 0 million yen.

(Notes on transactions with concerned parties)

1. Parent company and major corporate shareholders, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	End-of-term balance (million yen)
Parent company	Canon Inc.	Ohta-ku, Tokyo	174,761	Development and production for the office, imaging systems and industrial equipment sectors, etc.	(Ownership in the company) Direct: 58.5 Indirect: 0.0	Production of the company's merchandise	Business	Purchase of merchandise (*1)	212,620	Accounts payable	70,743
								Sale of consumables for office equipment, etc. (*2)	6,370	Accounts receivable, other	2,235
							Non-business	Provision of funds (*3)	10,000	Short-term loans	90,000

Of the above figures, “value of transaction” does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

(*1) When purchasing merchandise, the company sets out its preferred price, taking into account market prices, and then enters into price negotiations to determine a final price for the relevant period.

(*2) Sales of consumables for office equipment are based on the same terms as regular transactions.

(*3) When lending funds, a reasonable loan rate is determined by taking into account market rates. There is no provision for security.

2. Subsidiaries, etc.

Category	Name of company or individual	Location	Capital or investment (million yen)	Business activities or job title	Voting rights (or ownership) (%)	Relationship with concerned party	Nature of transactions		Value of transaction (million yen)	Heading	End-of-term balance (million yen)
Subsidiary	Canon System & Support Inc.	Shinagawa-ku, Tokyo	4,561	Consultation of a solution, sale, support and maintenance service, mainly for Canon products	(Ownership by the company) Direct: 100.0	Sale of the company's merchandise Concurrent Officers: 3	Business	Payment of service charges for business equipment, etc. (*1)	32,883	Accounts payable	5,798
								Sale of consumables for office equipment, etc. (*2)	47,585	Accounts receivable, other	12,769
							Non-business	Provision of funds (*3)	3,000	Short-term loans	26,500
Subsidiary	Canon IT Solutions Inc.	Shinagawa-ku, Tokyo	3,617	SI and consulting, IT service and development and sale of various softwares	(Ownership by the company) direct: 100.0	Production of the company's merchandise Concurrent Officers: 3	Non-business	Provision of funds (*3)	1,400	Short-term loans	7,500

Of the above figures, “value of transaction” does not include consumption tax, etc. The balance of receivables and payables on the other hand does include consumption tax, etc.

Terms of transactions and policy for determining terms, etc.

(*1) When making payment of service charges for business equipment, prices are determined through negotiation, based on the price calculated by the company.

(*2) When selling consumables for business equipment, prices are determined through negotiation, based on the price calculated by the company.

(*3) When lending funds, a reasonable loan rate is determined by taking into account market rates. There is no provision for security.

(Notes on information per share)

1. Net assets per share	2,100.83 yen
2. Net income per share	104.83 yen