

Canon Inc.

FY 2019 Results

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External environment

- Phase of global economic slowdown, against a backdrop of uncertainty

Business performance

- Accelerated camera and laser printer market contraction, due to economic slowdown
- Net sales decline, due to restrained customer investment in Industry & Others
- Implemented structural reform in line with plan

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In 2019, faced with uncertainty about U.S.-China trade friction and the Middle East situation, economic activity centered on manufacturing became stagnant. The IMF projected global growth to be 3.5% at the beginning of 2019, but lowered its outlook with each subsequent update. According to their latest update, global growth was 2.9%, representing its lowest level since the collapse of Lehman Brothers.

In 2019, our sales and profits declined. This reflects accelerated market contraction for cameras, mainly entry-level models, and laser printers, both affected by the economic slowdown. It also reflects restrained customer investment in industrial equipment as well as the completion of structural reforms to improve future profitability in line with our plan.

FY 2019 Financial Results

(Full Year)

Canon

- Compared with previous year: Sales and profit decline
- Compared with previous projection: Below plan, due to weak market, particularly emerging markets

(Billions of yen)	FY 2019 Actual	FY 2018 Actual	% Change	FY 2019 Previous Projection	Amount Change
Net Sales	3,593.3	3,951.9	-9.1%	3,625.0	-31.7
Gross Profit (% of Net Sales)	1,610.0 44.8%	1,835.6 46.4%	-12.3%	1,623.0 44.8%	-13.0
Op. Expenses	1,435.3	1,492.6		1,435.0	-0.3
Op. Profit (% of Net Sales)	174.7 4.9%	343.0 8.7%	-49.1%	188.0 5.2%	-13.3
IBT	195.7	362.9	-46.1%	216.0	-20.3
Net Income (% of Net Sales)	125.1 3.5%	252.8 6.4%	-50.5%	140.0 3.9%	-14.9
USD	109.03	110.43		107.99	
EURO	122.03	130.29		121.07	

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Compared with last year, net sales declined by 9.1% to 3,593.3 billion yen, operating profit declined by 49.1% to 174.7 billion yen, and net income declined by 50.5% to 125.1 billion yen.

Compared with our previous projection, net sales, operating profit, and net income were below our plan because the markets in which we participate were sluggish, reflecting greater-than-expected global economic slowdown.

FY 2019 Financial Results by Business Unit

(Full Year)

- Sales and profit decline in Office, Imaging System, and Industry & Others
- Medical System sales in line with previous year

(Billions of yen)		FY 2019 Actual	FY 2018 Actual	% Change	FY 2019 Previous Projection	Amount Change
Office	Net Sales	1,702.6	1,807.3	-5.8%	1,699.0	+3.6
	Op. Profit	168.9	220.8	-23.5%	172.0	-3.1
Imaging System	Net Sales	807.4	970.4	-16.8%	822.0	-14.6
	Op. Profit	48.2	126.7	-62.0%	50.8	-2.6
Medical System	Net Sales	438.5	437.6	+0.2%	452.0	-13.5
	Op. Profit	26.7	28.8	-7.3%	30.5	-3.8
Industry & Others	Net Sales	737.9	842.9	-12.5%	748.0	-10.1
	Op. Profit	15.5	55.7	-72.2%	20.4	-4.9
Corporate & Eliminations	Net Sales	-93.1	-106.3	-	-96.0	+2.9
	Op. Profit	-84.6	-89.0	-	-85.7	+1.1
Total	Net Sales	3,593.3	3,951.9	-9.1%	3,625.0	-31.7
	Op. Profit	174.7	343.0	-49.1%	188.0	-13.3

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

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As for Office, sales and profit declined. While we posted solid sales of color MFDs that address the need to improve office work, sales of laser printer hardware and consumables declined due to the impact of economic slowdown in Europe and China.

In Imaging System, sales and profit also declined. While we enhanced our lineup in order to recover the ground we lost by entering the mirrorless camera market late, our camera business was negatively impacted by market contraction and the intensely competitive environment.

As for Medical System, sales were basically in line with last year as we were able to offset the impact of economic slowdown through our enhanced product lineup.

With regard to Industry & Others, full-year net sales of lithography equipment and OLED vacuum deposition equipment were down reflecting the significant impact of sluggish sales in the first half due to restrained customer investment. The new business of network cameras, however, posted a net sales increase, steadily capturing high demand for security.

Compared with our previous projection, we saw market conditions and a competitive environment that was more challenging than we expected. Additionally, in industrial equipment, we saw a negative impact from some equipment acceptance falling into later periods. As a result, we did not achieve our plan.

Key Message

(FY 2020 Projection)

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FX Assumptions

		Impact of exchange rate movement (Annual impact given a one yen change)		
	FY 2019	FY 2020	Net Sales	Op. Profit
USD/Yen	109.03 yen	108.00 yen	12.2 billion yen	4.4 billion yen
EUR/Yen	122.03 yen	120.00 yen	6.0 billion yen	2.7 billion yen

External Environment

- Generally expect economic recovery, but situation remains highly unpredictable due to various risks

FY 2020 Outlook

- Return to path of growth, limiting decline in camera and laser printer sales as much as possible and accelerating growth of new businesses

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As for our 2020 foreign currency exchange rate assumptions, we assumed 108 yen to the U.S. dollar and 120 yen to the euro.

According to the IMF's recent outlook, in addition to currently waning U.S.-China trade friction and recent moves by the UK to avoid leaving the EU without agreement, a gradual pick up in the depressed economies of emerging markets is expected. Overall, the global economy in 2020 is expected to move towards gradual recovery. That said, the situation remains highly unpredictable, as the world faces several downside risks such as further tension in the Middle East, and a possible flare up in trade friction.

Under such an environment, we will try to limit, as much as possible, the decline in sales of products such as cameras and laser printers where market contraction is expected to continue. For new businesses, however, we will work to accelerate improvement in profitability by expanding sales. Through these measures, we will work to establish a solid base this year that will support our efforts to return to a path of growth.

FY 2020 Financial Projection

(Full Year)

- Sales and profit growth, thanks to new business growth and structural reform

(Billions of yen)	2020 Projection	2019 Actual	% Change
Net Sales	3,700.0	3,593.3	+3.0%
Gross Profit (% of Net Sales)	1,670.0 45.1%	1,610.0 44.8%	+3.7%
Op. Expenses	1,440.0	1,435.3	
Op. Profit (% of Net Sales)	230.0 6.2%	174.7 4.9%	+31.7%
IBT	245.0	195.7	+25.2%
Net Income (% of Net Sales)	160.0 4.3%	125.1 3.5%	+27.9%
USD	108.00	109.03	
EURO	120.00	122.03	

As for our performance outlook for 2020, we expect net sales to increase by 3.0% to 3,700.0 billion yen, operating profit to increase by 31.7% to 230.0 billion yen, and net income to increase by 27.9% to 160.0 billion yen.

We expect sales of cameras, which face continued market contraction, and laser printers, which are being impacted by economic slowdown in China, to decline. However, with recovery in the market situation of industrial equipment, medical and network camera sales growth, as well as the effects of last year's completed structural reform, we will work to achieve sales and profit growth for the first time in three years.

FY 2020 Financial Projection by Business Unit (Full Year)

- In Office, performance of MFD - solid, laser printer consumables - stabilizing
- Improvement in Imaging System profitability despite continued net sales decline
- Significant sales and profit growth, thanks to favorable market situation surrounding Medical System and Industry & Others

(Billions of yen)		2020 Projection	2019 Actual	% Change
Office	Net Sales	1,694.0	1,702.6	-0.5%
	Op. Profit	188.3	168.9	+11.5%
Imaging System	Net Sales	787.0	807.4	-2.5%
	Op. Profit	53.7	48.2	+11.5%
Medical System	Net Sales	487.0	438.5	+11.1%
	Op. Profit	39.0	26.7	+45.8%
Industry & Others	Net Sales	829.0	737.9	+12.3%
	Op. Profit	44.8	15.5	+189.4%
Corporate & Eliminations	Net Sales	-97.0	-93.1	-
	Op. Profit	-95.8	-84.6	-
Total	Net Sales	3,700.0	3,593.3	+3.0%
	Op. Profit	230.0	174.7	+31.7%

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As for Office, with regard to MFDs, we expect sales to be solid for new color models designed for emerging markets and production equipment that capture demand for in-house printing. For laser printers, we expect sales of consumables to stabilize thanks to the expansion of high-quality MIF, by which we can expect higher print volume and usage of genuine consumables. Through these measures, we expect to secure an increase in profit for the entire Business Unit.

In Imaging System, although we expect camera revenue to decline due to the impact of continuing market contraction, we will put a stop to the decline in profitability, by further enhancing our mirrorless lineup with an advanced feature full-frame model and lenses, and by accelerating review of our business structure.

As for Medical System, in addition to the full-year contribution to sales of competitive new products that were launched last year, we will work to realize sales and profit growth, strengthening our sales & marketing capability, particularly outside Japan.

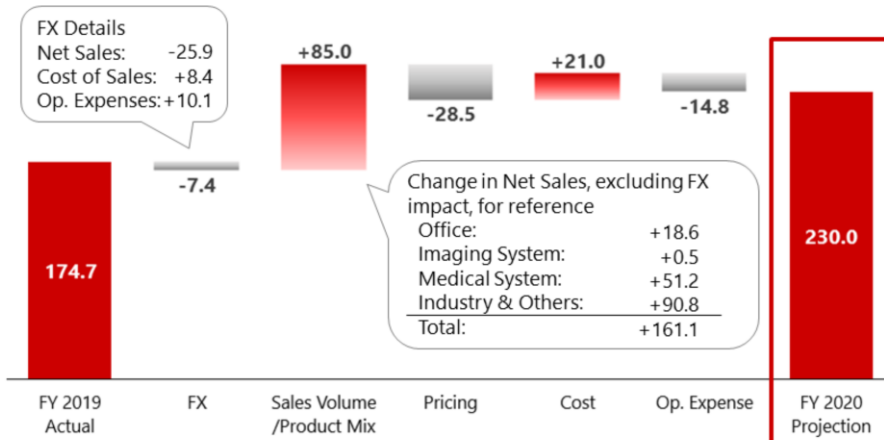
In Industry & Others, we expect significant unit sales expansion of lithography and OLED vacuum deposition equipment thanks to recovery in the situations of these markets. Additionally, with regard to network cameras, we aim to maintain sales growth, capturing expanding demand through the functional improvement in camera performance and the enhancement of our software lineup.

FY 2020 Operating Profit Analysis

(FY 2020 Projection versus FY 2019 Actual)

- Increasing profit due to increased sales of Medical System and Industry & Others
- Includes expenses for new business performance expansion

(Billions of yen)



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As for the change in operating profit compared with last year, we expect the yen to appreciate against both the U.S. dollar and euro, which will have negative impact on our sales and profit.

As for changes in sales volume, in addition to lithography and OLED vacuum deposition equipment, where demand is rising, we expect profit growth to also come from increased medical and network camera sales.

As for price reduction, through the launch of competitive new products by each product group, we will limit the impact to below last year's level.

As for expenses, although last year's structural reform costs are not a factor this year, we expect expenses to be higher in 2020. This mainly reflects an increase in R&D expenses and investment towards accelerating the expansion of new businesses.

- 2019 sales of new color MFDs and production models performed well
- Realize market exceeding unit sales growth in 2020, thanks to new products

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
MFDs	645.6	684.3	-5.7%	648.8	-3.2	658.7	645.6	+2.0%
LPs	628.3	706.5	-11.1%	623.5	+4.8	603.3	628.3	-4.0%
Others	428.7	416.5	+2.9%	426.7	+2.0	432.0	428.7	+0.8%
Net Sales	1,702.6	1,807.3	-5.8%	1,699.0	+3.6	1,694.0	1,702.6	-0.5%
Op. Profit (% of Net Sales)	168.9 9.9%	220.8 12.2%	-23.5%	172.0 10.1%	-3.1	188.3 11.1%	168.9 9.9%	+11.5%

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
MFDs	-2.9%	+3.0%
LPs	-9.4%	-3.6%
Others	+5.6%	+1.6%
Total	-3.5%	+0.2%

Unit Growth Rate Y/Y

MFDs	2019 Actual	2020 Projection
Monochrome	-2%	+1%
Color	+2%	+5%
Total	+1%	+3%



Production equipment for
in-house production printing
imagePRESS C165

We expect the MFD market to remain firm in 2020, supported by growing demand for advanced feature models that address the need to raise office efficiency, and by the ongoing shift to color models, particularly in emerging markets.

In 2019, we grew unit sales of next-generation color models that feature enhanced security and increased convenience through their connectivity with cloud services, particularly in the U.S. and Europe. Furthermore, in October we launched the imagePRESS C165, which enabled us to access a previously untapped segment of the production printing market. This model has gained broad acceptance for its ability to produce professional-quality prints at high-speed and in high-volume, despite being compact, similar in size to office MFDs. As a result, we significantly increased unit sales of this model by capturing demand for in-house printing.

In 2020, in addition to these products contributing to sales over the full year, we will work to accelerate sales through the combination of hardware and solutions, sequentially launching new products that capture user's needs. In January of this year, we launched an entry-class model designed for emerging markets with the aim of stimulating a further shift from monochrome to color. We narrowed down the feature set of this model based on local customer feedback and with its simple and easy-to-understand usability, we aim to particularly penetrate small- and medium-size offices.

Through the contribution of these new products, we will realize market exceeding unit sales growth and at the same time, we will work to strengthen profitability, expanding sales of products such as color MFDs and production equipment where we can expect high service revenue.

- 2019 market contraction greater than expected, challenging environment expected to persist in 2020
- Expand high-quality MIF, actively selling medium- and high-speed models where demand remains firm
- Aim to stabilize sales of consumables, continuing actions against patent infringement

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
MFDs	645.6	684.3	-5.7%	648.8	-3.2	658.7	645.6	+2.0%
LPs	628.3	706.5	-11.1%	623.5	+4.8	603.3	628.3	-4.0%
Others	428.7	416.5	+2.9%	426.7	+2.0	432.0	428.7	+0.8%
Net Sales	1,702.6	1,807.3	-5.8%	1,699.0	+3.6	1,694.0	1,702.6	-0.5%
Op. Profit (% of Net Sales)	168.9 9.9%	220.8 12.2%	-23.5%	172.0 10.1%	-3.1	188.3 11.1%	168.9 9.9%	+11.5%

Net Sales Growth Rate Y/Y
(Local Currency)

	2019 Actual	2020 Projection
MFDs	-2.9%	+3.0%
LPs	-9.4%	-3.6%
Others	+5.6%	+1.6%
Total	-3.5%	+0.2%

Unit Growth Rate Y/Y

LPs	2019 Actual	2020 Projection
Monochrome	-11%	-13%
Color	+5%	-9%
Total	-8%	-12%

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From a medium-term perspective, we expect the laser printer market to continue down a path of gradual contraction. In 2019, however, the decline was more substantial than we expected due to economic slowdown in emerging markets, particularly China. Amid the decline in hardware sales, the more important point is how we can consistently sell consumables.

Recognizing this, we must capture solid demand for medium- and high-speed models where print volumes are high, and consumable sales can be expected, and will actively sell our products that offer functional advantages over competing offerings.

In order to do this, we will work to further shorten product development lead-time and be the first to launch products with enhanced features. In doing so, we work to raise the convenience of users. For example, we had good results in penetrating the market last year with new products that were recognized for low energy consumption, made possible through their use of new toner that allowed lower temperature fixing. In 2020, we will expand our high-quality MIF by further expanding the sales of these products.

Furthermore, we will work to stabilize sales of consumables through our unwavering focus to protect our patent rights.

- Continue to launch products for graphic arts market in 2020
- Deepen cooperation under the unified brand of Canon

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
MFDs	645.6	684.3	-5.7%	648.8	-3.2	658.7	645.6	+2.0%
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Op. Profit (% of Net Sales)	168.9 9.9%	220.8 12.2%	-23.5%	172.0 10.1%	-3.1	188.3 11.1%	168.9 9.9%	+11.5%

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
MFDs	-2.9%	+3.0%
LPs	-9.4%	-3.6%
Others	+5.6%	+1.6%
Total	-3.5%	+0.2%



Wide-format printer
Colorado 1650



High-speed cut sheet inkjet printer
VarioPrint i-series+

Despite the impact of economic slowdown in Europe and Asia, the commercial printing market continues to grow thanks to demand to switch from analog to digital.

We have been strengthening our lineup for graphic arts applications, including posters and catalogs, where growth is high. In 2019 as well, we launched new products such as the Colorado 1650, a wide-format printer capable of handling a broader range of media. We also launched the VarioPrint i-series +, a high-speed cut-sheet printer that offers improved image quality through its use of Canon's advanced inkjet image-processing technology.

In 2020 as well, by incorporating feedback from print service providers, we will continue to market highly competitive products. At the same time, we will expand sales, integrating the Océ brand of commercial printing under the Canon umbrella, and deepening our printing business cooperation.

Imaging System – Cameras

- Interchangeable-lens camera market continues to shrink in 2020 at similar rate as 2019
- Plan to improve hardware product mix, focusing on professional and advanced-amateur market segments where demand remains stable

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Cameras	466.8	594.9	-21.5%	474.7	-7.9	434.5	466.8	-6.9%
IJPs	288.1	320.2	-10.0%	292.2	-4.1	292.4	288.1	+1.5%
Others	52.5	55.3	-5.2%	55.1	-2.6	60.1	52.5	+14.5%
Net Sales	807.4	970.4	-16.8%	822.0	-14.6	787.0	807.4	-2.5%
Op. Profit	48.2	126.7	-62.0%	50.8	-2.6	53.7	48.2	+11.5%
(% of Net Sales)	6.0%	13.1%		6.2%		6.8%	6.0%	

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
Cameras	-18.4%	-6.0%
IJPs	-7.2%	+2.4%
Total	-13.8%	-1.6%

Units (Millions) & Unit Growth Rate Y/Y

	2019 Actual		2020 Projection	
	Units	% Change	Units	% Change
DILCs	4.16	-17%	3.50	-16%
DCs	2.57	-19%	1.90	-26%



Flagship model
EOS 1D X Mark III



New concept camera
IVY REC

In 2019, the interchangeable-lens camera market shrank 15% to 8.8 million units, as sales of entry-level models, which are being impacted by smartphones, continued to contract. We were also impacted by this.

In 2020, although we expect market contraction to continue at a similar rate and the market size to be around 7.5 million units, we also see stable demand for professional and advanced-amateur models. In order to maintain profitability, it is important for us to secure market share and improve our product mix further in this area.

Although we have launched two full-frame mirrorless cameras as well as ten dedicated lenses, our lineup is still insufficient. In order to recover from our late entry into the mirrorless camera market, we have plans to launch a model that incorporates a newly developed image sensor and image-processing engine that offer even more advanced features. We will work to raise our presence in the mirrorless camera category, leveraging large trade exhibitions around the world. Even amid increasing competition, we will expand sales of higher-end models driven by new products and aim for top market share even in the mirrorless camera market.

At the same time, we will expand our lineup of dedicated lenses launching several innovative ones that take advantage of the new mount that allows greater flexibility when designing lenses. We will accelerate sales by responding to user need to capture various images, expanding options by combining camera bodies and lenses.

Imaging System – Cameras

- Interchangeable-lens camera market continues to shrink in 2020 at similar rate as 2019
- Plan to improve hardware product mix, focusing on professional and advanced-amateur market segments where demand remains stable

(Billions of yen)

	Full Year					Full Year		
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Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Net Sales Growth Rate Y/Y (Local Currency)

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Total	-13.8%	-1.6%

Units (Millions) & Unit Growth Rate Y/Y

	2019 Actual		2020 Projection	
	Units	% Change	Units	% Change
DILCs	4.16	-17%	3.50	-16%
DCs	2.57	-19%	1.90	-26%



Flagship model
EOS 1D X Mark III



New concept camera
IVY REC

Additionally, we will improve profitability, conducting a comprehensive review of our business structure, including development, production, and sales. In production, amid shrinking volumes, we will work for efficiency, reviewing our manufacturing structure with the aim of optimization, taking into account the function and role of each site around the world. We will also work to lower cost of sales, accelerating both automation and in-house production. In the area of development, through comprehensive selection and focus of themes, freeing up human and other resources that will be shifted to expand business areas such as the concept camera, IVY REC that was launched recently.

As for compact cameras, the market shrank 19% to 8.5 million units in 2019. We also posted a decline in unit sales that was in line with the market. In 2020, we expect the market to shrink 29% to 6.0 million units as major players have not launched any new popularly priced models. Although we expect our sales to continue to decline, we will work to improve profitability by focusing sales on high-margin G-series models.

Imaging System – Inkjet Printers

- 2019 net sales down, due to market contraction
- Expand inkjet printer sales in 2020, raising appeal of refillable ink tank models

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Cameras	466.8	594.9	-21.5%	474.7	-7.9	434.5	466.8	-6.9%
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Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
Cameras	-18.4%	-6.0%
IJPs	-7.2%	+2.4%
Total	-13.8%	-1.6%

Units (Millions) & Unit Growth Rate Y/Y

	2019 Actual	2020 Projection
IJPs	-9%	+1%



Refillable ink tank models

G Series

In 2019, the overall inkjet printer market shrank. This reflects not only market contraction in developed countries, but also economic slowdown in emerging markets, regions that have supported the market up to now. In 2020, we expect to see a moderation in market contraction, thanks to steady pickup in economic activity in emerging markets and recovery in sales of refillable ink tank models.

In 2019, though our sales declined due to market contraction, through such measures as strengthening our sales channel and enhancing our lineup of refillable ink tank models, we have established a structure that will allow us to capture demand in emerging markets where we expect growth over the medium term. As a result, we grew unit sales of refillable ink tank models in 2019. And in 2020, we will work to accelerate the momentum we generated last year, by further enhancing the competitiveness of our offering.

As for cartridge models, we will stimulate printing demand making it even easier to print at home through, for example, enhanced smartphone applications. We will also promote this by enhancing the content we provide through our print service and loyalty point program.

- 2019 net sales up, thanks to effect of new products launched so far
- Expand sales in 2020, concentrating efforts on enhancing sales capability
- Improve profitability, accelerating cost reduction activities by strengthening cooperation among the Group

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Net Sales	438.5	437.6	+0.2%	452.0	-13.5	487.0	438.5	+11.1%
Op. Profit	26.7	28.8	-7.3%	30.5	-3.8	39.0	26.7	+45.8%
(% of Net Sales)	6.1%	6.6%		6.7%		8.0%	6.1%	

**Net Sales Growth Rate Y/Y
(Local Currency)**

	2019 Actual	2020 Projection
Total	+2.4%	+11.7%



CT
Aquilion Start



MRI
**Vantage Galan 3T
Focus Edition**

14-1

We expect the market to grow at a rate of around two to three percent over the medium term thanks to the need for advanced medical care and improvements being made to medical infrastructure in emerging markets. In 2019, however, the market was basically flat, due to the economic situation of some emerging market countries, including those in Asia and Middle/South America.

In 2019, our diagnostic imaging equipment business, through a series of new product launches, achieved market exceeding growth, through solid sales in Japan and also on a local currency basis overseas. Within this, by strengthening our lineup of mainly high cost performance CT and ultra-sound diagnostic systems, we enhanced our ability to respond to various customer needs, including price and features.

Our parts sales to medical equipment manufacturers, however, was negatively impacted by aggressive competition and as a result, we posted sales for the entire Business Unit around the same level as last year.

- 2019 net sales up, thanks to effect of new products launched so far
- Expand sales in 2020, concentrating efforts on enhancing sales capability
- Improve profitability, accelerating cost reduction activities by strengthening cooperation among the Group

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Net Sales	438.5	437.6	+0.2%	452.0	-13.5	487.0	438.5	+11.1%
Op. Profit (% of Net Sales)	26.7 6.1%	28.8 6.6%	-7.3%	30.5 6.7%	-3.8	39.0 8.0%	26.7 6.1%	+45.8%

**Net Sales Growth Rate Y/Y
(Local Currency)**

	2019 Actual	2020 Projection
Total	+2.4%	+11.7%



CT
Aquilion Start



MRI
**Vantage Galan 3T
Focus Edition**

14-2

In 2020, in addition to the full contribution to sales of high-end CT and MRI systems that were launched in the second half of last year, we expect sales to grow significantly through measures focused on strengthening our sales capability, particularly in overseas markets.

Particularly in the United States, the world's largest and most influential market where leading-edge technology and highly trained experts come together, our sales force is insufficient as we believe building a presence in this market has a rippling effect to push up sales in other regions. Integrating the medical equipment sales subsidiary we have in the U.S. with Canon Medical, we will initiate selling of diagnostic imaging equipment through their dealer network, and significantly increase our sales force. This will facilitate efforts to expand our market share and the number of deals we compete for in this market.

Additionally, in emerging markets, due to growing preference for domestically produced products, we are strengthening our cooperation with local manufacturers. Indeed, in January 2020, we concluded an agreement regarding the manufacturing and sales of our products with a medical equipment manufacturer in India.

Furthermore, as a way to improve profitability, we will accelerate cost reduction activities that leverage Canon's know-how. In addition to standardizing production processes, and procurement related cost reduction, we will expand measures such as reducing the number of parts and production man-hours, sharing units, and promoting designs intended to reduce costs from a production perspective in order to raise profitability.

Industry & Others – Lithography Equipment

- Improve profitability, accelerating cost reduction activities by strengthening cooperation among the Group
- Post significant growth in lithography equipment unit sales in 2020, thanks to memory market recovery

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Litho. Equip.	157.2	199.8	-21.3%	159.4	-2.2	180.1	157.2	+14.6%
Others	580.7	643.1	-9.7%	588.6	-7.9	648.9	580.7	+11.7%
Net Sales	737.9	842.9	-12.5%	748.0	-10.1	829.0	737.9	+12.3%
Op. Profit (% of Net Sales)	15.5 2.1%	55.7 6.6%	-72.2%	20.4 2.7%	-4.9	44.8 5.4%	15.5 2.1%	+189.4%

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
Litho. Equip.	-20.9%	+14.5%
Others	-8.3%	+12.4%
Total	-11.3%	+12.8%

Lithography Equipment (Units)

	2018 Actual	2019 Actual	2020 Projection
IC	114	84	134
FPD	69	50	54



Handles manufacturing process of various devices

i-line stepper **FPA-3030iWa** 15

In 2019, our full-year unit sales of semiconductor lithography equipment were below those of last year due to the impact of weak market conditions for memory.

Currently, however, memory investment is recovering as prices have stopped falling thanks to a better balance between supply and demand. Additionally, we think demand for semiconductor lithography equipment will be at a high level in 2020 as technical innovation in the IoT space is boosting demand for sensors and other non-memory semiconductor devices.

Under such circumstances, we are gathering a lot of support from semiconductor manufacturers that produce a diverse range of devices for our ability to flexibly respond to customer requests, which differentiates us from others. As a result, we expect our sales to reach 134 units in 2020, significantly exceeding the level of last year thanks to the market's recovery and our ability to maintain strong competitiveness.

As for FPD lithography equipment, due to sluggish sales of smartphones and continuing restraints on investment towards small- and medium-size panels by panel manufacturers, we posted lower unit sales in 2019.

In 2020, we expect steady demand for large-size, high-resolution panels used in televisions to continue. Under this circumstance, we will continue efforts to expand our market share by capturing this kind of demand, leveraging our proprietary one-shot lithography system.

- Return to OLED vacuum deposition equipment net sales growth in 2020, thanks to recovery in customer investment
- Aiming for network camera growth also in 2020, thanks to enhanced lineup

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
Litho. Equip.	157.2	199.8	-21.3%	159.4	-2.2	180.1	157.2	+14.6%
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Op. Profit	15.5	55.7	-72.2%	20.4	-4.9	44.8	15.5	+189.4%
(% of Net Sales)	2.1%	6.6%		2.7%		5.4%	2.1%	

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
Litho. Equip.	-20.9%	+14.5%
Others	-8.3%	+12.4%
Total	-11.3%	+12.8%



Network camera
VB-R13VE (H2)

16-1

As for OLED vacuum deposition equipment, in 2019, investment towards smartphone panels was in a phase of adjustment. As a result, our net sales of OLED vacuum deposition equipment was down for the full year.

In 2020, we expect the use of OLED panels to expand into lower priced smartphones. We also expect a pickup in replacement demand with the deployment of 5G, the next-generation communication standard. From this, we expect increased investment into OLED panels.

Under this circumstance, we will further brush up our ultra-high resolution technology. We will also work to maintain our overwhelming market share by promoting a further strengthening of our manufacturing structure that responds to increased demand. As for 2020, due to the long manufacturing lead-time of OLED vacuum deposition equipment, we are already fully involved in production, and plan for sales to increase over last year.

Additionally, as OLED panels are being increasingly used in televisions, we will continue moving forward the development of equipment for large-size panels.

- Return to OLED vacuum deposition equipment net sales growth in 2020, thanks to recovery in customer investment
- Aiming for network camera growth also in 2020, thanks to enhanced lineup

(Billions of yen)

	Full Year					Full Year		
	2019 Actual	2018 Actual	% Change	2019 Previous Projection	Amount Change	2020 Projection	2019 Actual	% Change
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Op. Profit	15.5	55.7	-72.2%	20.4	-4.9	44.8	15.5	+189.4%
(% of Net Sales)	2.1%	6.6%		2.7%		5.4%	2.1%	

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Net Sales Growth Rate Y/Y (Local Currency)

	2019 Actual	2020 Projection
Litho. Equip.	-20.9%	+14.5%
Others	-8.3%	+12.4%
Total	-11.3%	+12.8%



Network camera
VB-R13VE (H2)

16-2

The network camera market continues to expand mainly driven by surveillance applications due to the increasing need to respond to people's safety and security. Over the medium-term as well, we expect high growth to continue thanks to technological advancement, which has made possible advanced image analytics, a feature that broadens the usage of network cameras from not only surveillance application, but to other areas such as marketing analysis and smart cities.

In surveillance, light sensitivity and resolution are very important features. Our cameras have been highly evaluated for this by public institutions and large corporations, which has allowed us to win large deals and expand our net sales in 2019.

In 2020, we will continue to improve the performance of our cameras. At the same time, we will enhance our range of applications that address the growing need for image analytics. In addition to applications that instantly count several thousands of people for marketing purposes, applications used to detect traffic and adjust the timing of traffic light changes, and applications that provide information such as traffic congestion, we will work to steadily expand the variety of applications we offer.

Going forward as well, we will realize high growth by strengthening our lineup, and deepening cooperation between Canon Group companies such as Axis, Milestone, and BriefCam.

- Building up inventory of Medical System and lithography equipment, as sub-segment of Industry & Others, to respond to future sales growth
- Plan to reduce inventory level of cameras, a sub-segment of Imaging System

(Billions of yen)		FY 2018				FY 2019			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Office	Amt.	207.5	209.9	224.6	206.1	215.2	205.8	201.1	191.7
	Days	41	42	46	42	44	44	44	41
Imaging System	Amt.	140.5	145.2	173.8	139.6	156.2	151.6	156.9	127.9
	Days	47	57	67	50	62	73	73	55
Medical System	Amt.	80.4	86.0	89.3	90.6	93.8	93.0	92.3	97.5
	Days	66	74	80	73	75	79	77	79
Industry & Others	Amt.	160.1	158.3	172.7	175.0	185.7	180.7	184.0	167.7
	Days	73	75	86	91	101	103	105	95
Total	Amt.	588.5	599.4	660.4	611.3	650.9	631.1	634.3	584.8
	Days	52	56	62	56	62	65	65	59

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

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To be thorough in cash flow management, keeping inventory at an appropriate level is essential.

At the end of December, inventory was lower than it was at the end of September in both value and turnover in days. When compared with the end of December 2018, however, although the value was lower, turnover was three days longer.

One reason for the increase was the intentional buildup of inventory to prepare for the future expansion of medical and lithography equipment sales.

As for cameras, which are a part of Imaging System, however, inventory was still at a high level. While watching market trends, micromanaging everything from production to sales, and promoting development of an optimized production structure, we will both raise efficiency and reduce the level of inventory going forward.

Cash Flow

(Full Year)

- 2019 cash-on-hand maintained at level that provides sufficient liquidity
- Promote a healthier financial constitution in 2020, improving operating cash flow

(Billions of yen)	FY 2020 Projection	FY 2019 Actual	FY 2018 Actual
Net cash provided by operating activities	430.0	358.5	365.3
Net cash used in investing activities	-210.0	-228.6	-195.6
Free cash flow	220.0	129.9	169.7
Net cash provided by (used in) financing activities	-220.0	-232.6	-354.9
Effect of exchange rate changes on cash and cash equivalents	-2.8	-5.1	-16.0
Net change in cash and cash equivalents	-2.8	-107.8	-201.2
Cash and cash equivalents at end of period	410.0	412.8	520.6
Cash-on-hand (In months of Net sales) (Note)	1.3	1.4	1.6
Capital expenditure	160.0	178.1	159.3
Depreciation	220.0	237.3	251.6

Note: 2020 was calculated using full-year net sales. 2019 and 2018 were calculated using second-half net sales.

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At the end of 2019, cash-on-hand was 412.8 billion yen or 1.4 months of net sales, which represents a level that provides sufficient liquidity.

In 2020, in addition to expanding profit, we will work to improve the efficiency of working capital use, in areas such as inventory to improve operating cash flow. Through these measures, we will promote the repayment of debt and secure a similar level of cash-on-hand as last year.

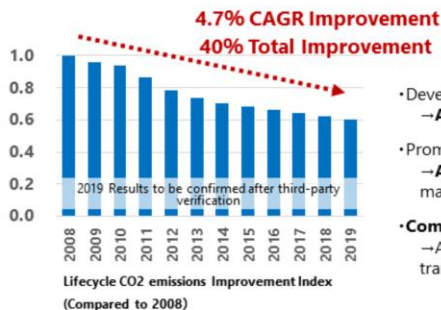
Although we expect the global economy to turn to modest recovery this year, many factors are still unpredictable, such as raising tension in the Middle East and the possibility of U.S.-China trade friction flaring up again.

Even under this situation, to return to a path of growth this year, we need to solidify a foundation that will allow us to reinforce our existing business and accelerate the expansion of new ones. This year represents the last year of our current 5-year initiative, Phase V of the Global Excellent Corporation Plan, and the year in which we will strive to post increased sales and profits, giving momentum to our next 5-year plan.

Sustainability Measures Major Achievements in 2019

■ Realize low-carbon society

Achieved 3.4% Lifecycle CO2 emissions per product improvement compared to 2018 (CAGR target 3%)



- Development and sales of **energy saving products**
→ **Approx. 1.6% improvement** when in use
- Promotion of **energy saving activities at production sites**
→ **Approx. 1.0% improvement** during manufacturing
- **Comprehensive transportation by ship**
→ **Approx. 0.8% improvement** during transportation



■ Supply chain

Join RBA and strengthen CSR activities throughout entire supply chain



An international industry coalition committed to supporting the rights and well-being of workers, environmental conservation, and ethical management in the global supply chain

With the aim of realizing a low-carbon society, we established lifecycle CO2 emissions improvement index per product as a key measure of our success in the environment field, and are promoting activities that target an average yearly improvement of 3%.

Last year as well, we achieved our target, realizing an improvement of 3.4%, promoting improvement in energy-saving performance, particularly of MFDs, printers, and diagnostic imaging systems, and encouraging efficiency in logistics. Using 2008 as a base year, this means we have achieved a yearly average improvement of 4.8% or a cumulative improvement of 40%. In the future as well, we will continue to achieve our target, promoting such things as compact and light-weight product designs, energy-saving at production sites, and product recycling.

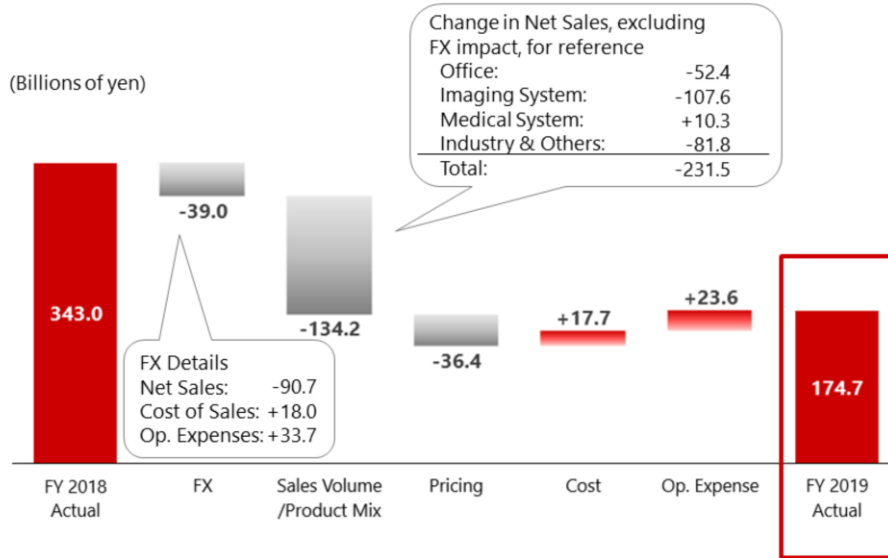
With regard to our supply chain, we have promoted activities that foster improvement, not only focusing on costs, deliver times, and product quality, in line with the Canon Supplier CSR Guidelines, but also simultaneously inspecting the actual situation of all our trading partners from various perspectives such as human rights, environmental, and health & safety.

At the end of 2019, we joined the Responsible Business Alliance (RBA), and international industry coalition that promotes corporate social responsibility. With this as a starting point, we will work to further strengthen our CSR activities through our entire supply change, in accordance with the code of conduct and auditing standards of the RBA.

Supplementary Information

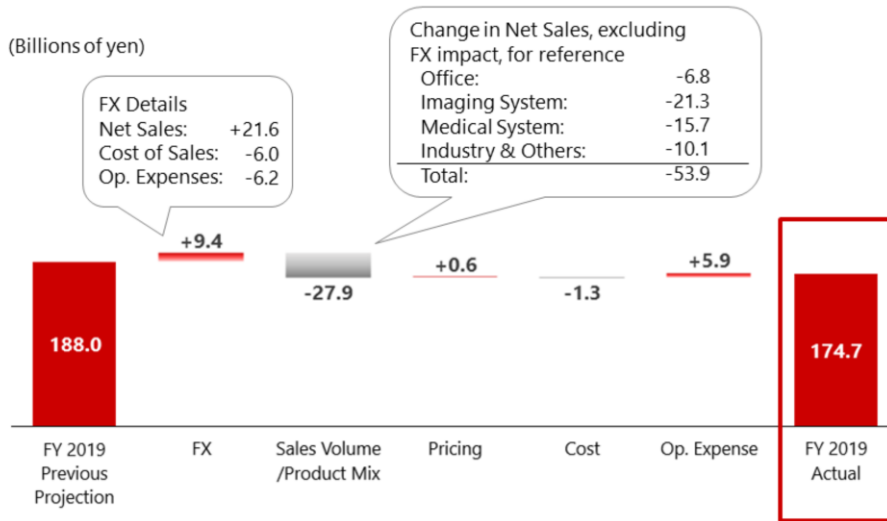
FY 2019 Operating Profit Analysis

(FY 2019 Actual versus FY 2018 Actual)

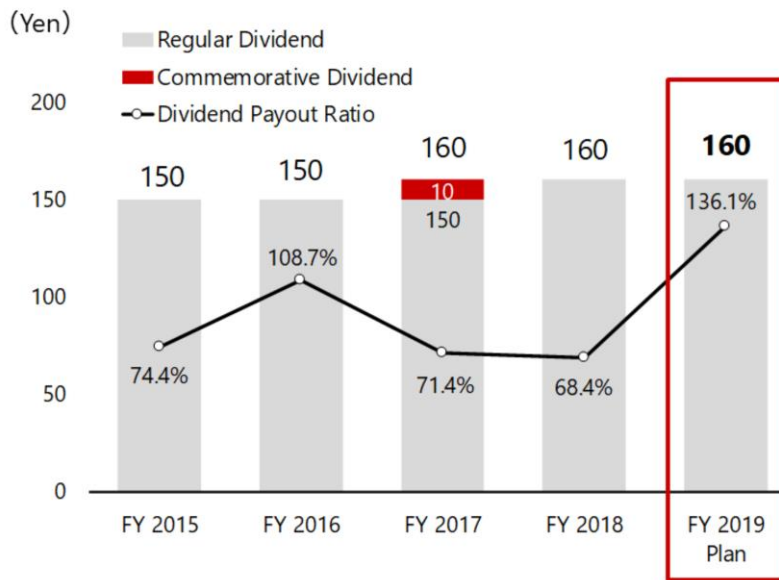


FY 2019 Operating Profit Analysis

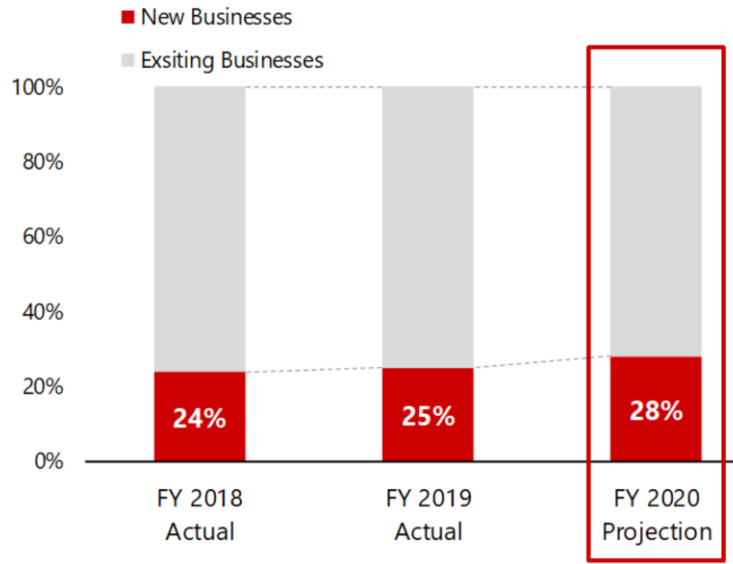
(FY 2019 Actual versus FY 2019 Previous Projection)



Dividend



Change in New Businesses Sales Composition Ratio



Net Sales Growth Rate of Hardware & Non-hardware

		FY 2020	FY 2019		FY 2018	
		Full Year Projection	4Q Actual	Full Year Actual	4Q Actual	Full Year Actual
MFDs						
JPY	Hardware	+5%	-10%	-7%	-1%	-1%
	Non-hardware	0%	-5%	-5%	-6%	-1%
LC	Hardware	+6%	-6%	-4%	0%	-2%
	Non-hardware	+1%	-2%	-2%	-5%	-2%
LPs						
JPY	Hardware	-9%	-13%	-5%	+4%	+1%
	Non-hardware	-1%	-11%	-15%	-3%	-1%
LC	Hardware	-8%	-11%	-3%	+5%	+1%
	Non-hardware	-1%	-9%	-13%	-3%	-1%
IJPs						
JPY	Hardware	+24%	-10%	-9%	-8%	-3%
	Non-hardware	-9%	-13%	-10%	-6%	-5%
LC	Hardware	+25%	-7%	-7%	-7%	-3%
	Non-hardware	-8%	-9%	-8%	-5%	-5%

Color Ratio (MFDs & LPs)

		FY 2020	FY 2019		FY 2018	
		Full Year Projection	4Q Actual	Full Year Actual	4Q Actual	Full Year Actual
MFDs	Net Sales	60%	60%	59%	60%	59%
	Units	59%	58%	59%	58%	58%
LPs	Net Sales	51%	51%	52%	51%	51%
	Units	21%	21%	20%	19%	18%

Sales Growth by Monochrome & Color MFDs

		FY 2020	FY 2019		FY 2018	
		Full Year Projection	4Q Actual	Full Year Actual	4Q Actual	Full Year Actual
JPY	Monochrome	0%	-8%	-6%	-6%	-3%
	Color	+3%	-7%	-5%	-3%	0%
LC	Monochrome	+1%	-4%	-4%	-4%	-3%
	Color	+4%	-3%	-2%	-1%	-1%

Interchangeable Lens Digital Camera Ratio

	FY 2020	FY 2019		FY 2018	
	Full Year Projection	4Q Actual	Full Year Actual	4Q Actual	Full Year Actual
Net Sales	85%	86%	85%	85%	85%
Units	65%	64%	62%	60%	61%

* Net Sales Includes Interchangeable Lenses

IC Lithography Equipment Unit Breakdown by Light Source

(Units)

	FY 2020	FY 2019		FY 2018	
	Full Year Projection	4Q Actual	Full Year Actual	4Q Actual	Full Year Actual
KrF	30	8	22	7	32
i-Line	104	19	62	23	82
Total	134	27	84	30	114

4Q 2019

FY 2019 Financial Results

(4Q 2019)



(Billions of yen)	4Q 2019 Actual	4Q 2018 Actual	% Change
Net Sales	953.5	1,058.3	-9.9%
Gross Profit (% of Net Sales)	423.4 44.4%	489.3 46.2%	-13.5%
Op. Expenses	370.7	389.7	
Op. Profit (% of Net Sales)	52.7 5.5%	99.6 9.4%	-47.1%
IBT	51.5	100.0	-48.5%
Net Income (% of Net Sales)	32.8 3.4%	71.7 6.8%	-54.3%
USD	108.75	112.89	
EURO	120.35	128.74	

FY 2019 Financial Results by Business Unit (4Q 2019)

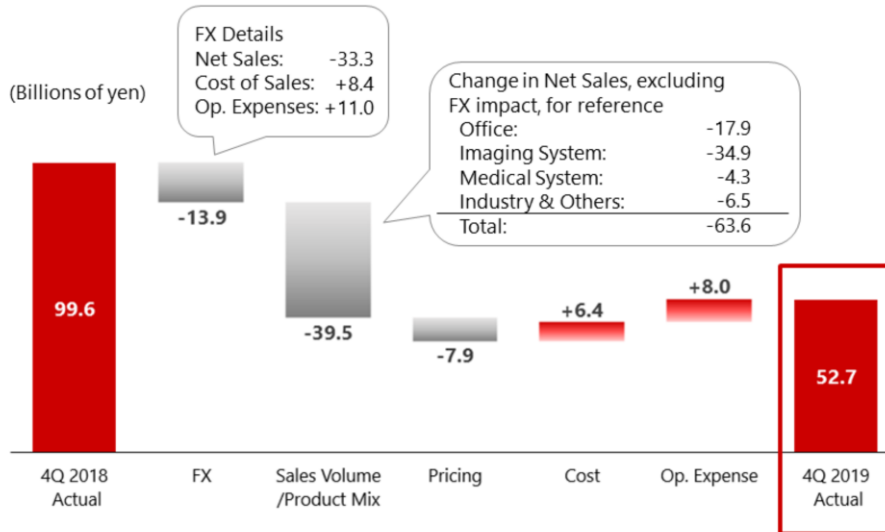


(Billions of yen)		4Q 2019 Actual	4Q 2018 Actual	% Change
Office	Net Sales	435.3	471.6	-7.7%
	Op. Profit	40.6	60.7	-33.1%
Imaging System	Net Sales	237.2	287.2	-17.4%
	Op. Profit	20.7	42.5	-51.3%
Medical System	Net Sales	110.0	118.2	-6.9%
	Op. Profit	7.6	8.8	-13.5%
Industry & Others	Net Sales	192.9	208.5	-7.5%
	Op. Profit	0.6	8.8	-93.1%
Corporate & Eliminations	Net Sales	-21.9	-27.2	-
	Op. Profit	-16.8	-21.2	-
Total	Net Sales	953.5	1,058.3	-9.9%
	Op. Profit	52.7	99.6	-47.1%

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

FY 2019 Operating Profit Analysis

(4Q 2019 Actual versus 4Q 2018 Actual)



Office / Imaging System (4Q 2019)



Office

(Billions of yen)

	4Q		
	2019 Actual	2018 Actual	% Change
MFDs	167.8	181.3	-7.5%
LPs	156.2	177.3	-11.9%
Others	111.3	113.0	-1.4%
Net Sales	435.3	471.6	-7.7%
Op. Profit	40.6	60.7	-33.1%
(% of Net Sales)	9.3%	12.9%	

Net Sales Growth Rate Y/Y Unit Growth Rate Y/Y
(Local Currency)

	4Q 2019 Actual	MFDs	4Q 2019 Actual	LP	4Q 2019 Actual
MFDs	-3.8%	Monochrome	+1%	Monochrome	-16%
LPs	-9.6%	Color	-1%	Color	0%
Others	+2.0%	Total	0%	Total	-13%
Total	-4.6%				

Imaging System

(Billions of yen)

	4Q		
	2019 Actual	2018 Actual	% Change
Cameras	137.8	174.9	-21.2%
IJPs	85.6	97.3	-12.0%
Others	13.8	15.0	-8.1%
Net Sales	237.2	287.2	-17.4%
Op. Profit	20.7	42.5	-51.3%
(% of Net Sales)	8.7%	14.8%	

Net Sales Growth Rate Y/Y Units (Millions) &
(Local Currency) **Unit Growth Rate Y/Y**

	4Q 2019 Actual	DILCs	4Q 2019 Actual		IJPs	4Q 2019 Actual
			Units	% Change		
Cameras	-17.3%	DILCs	1.26	-19%	IJPs	-10%
IJPs	-8.5%	DCs	0.71	-31%		
Total	-13.6%					

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.

Medical System

(Billions of yen)

	4Q		
	2019 Actual	2018 Actual	% Change
Net Sales	110.0	118.2	-6.9%
Op. Profit	7.6	8.8	-13.5%
(% of Net Sales)	6.9%	7.5%	

Net Sales Growth Rate Y/Y (Local Currency)

	4Q 2019 Actual
Total	-3.6%

Industry & Others

(Billions of yen)

	4Q		
	2019 Actual	2018 Actual	% Change
Litho. Equip.	40.4	48.9	-17.3%
Others	152.5	159.6	-4.5%
Net Sales	192.9	208.5	-7.5%
Op. Profit	0.6	8.8	-93.1%
(% of Net Sales)	0.3%	4.2%	

Net Sales Growth Rate Y/Y Lithography Equipment (Units) (Local Currency)

	4Q 2019 Actual		4Q 2019 Actual	4Q 2018 Actual
Litho. Equip.	-17.0%	IC	27	30
Others	-2.1%	FPD	10	17
Total	-5.6%			

Note: 2018 results for businesses such as broadcast equipment and cinema-use video cameras that were included in Imaging System were reclassified to Industry & Others.