TRANSLATION

Securities Code: 7739

NOTICE OF CONVOCATION OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS FOR THE 78TH BUSINESS TERM

Canon Electronics Inc.

To Our Shareholders

We are pleased to present our notice of convocation of the Ordinary General Meeting of Shareholders for the 78th Business Term (from January 1, 2016 to December 31, 2016).

March 2017 President & CEO
Hisashi Sakamaki

As for the global economy in the current business term, it has made a weak progress due to changes in political situation in the United States and Great Britain and a trend in the monetary market. Recovery of the economy in China and other Asian countries remains slow since economic growth rate was below the assumed rate.
In addition, domestic economy still lacked strength because of the sluggish exports due to the global economic slowdown and the trend of the appreciation of the yen, and the economy is still stepping down.
Under these circumstances, the Canon Electronics Group used its utmost efforts to increase the revenue, such as developing an aggressive sales promotion activities of shutter units, document scanners, handy terminals and security software etc. and also focusing on efforts of its new businesses such as space related businesses.
We further promoted activities to improve productivity by cost reduction and eliminating wastes by group, and improving work efficiency. We also actively worked on the 3R (reduce, reuse, recycle) activities aimed at contributing to global environmental conservation, and have been trying to improve profitability.
Thus, consolidated net sales for the current business term was 83,290 million yen (down 6.8% from the previous term), consolidated ordinary income was 7,959 million yen (down 25.5% from the previous term), profit attributable to owners of parent was 5,553 million yen (down 20.1% from the previous term).
Despite these severe business environment, for the term-end dividend, to express gratitude to our shareholders for their continuous support, we will propose a distribution of 30.00 yen per share at the Ordinary General Meeting of Shareholders for the 78th Business Term. As a result, the full-year dividend amount, when combined with the interim dividend (30.00 yen per share), will be 60 yen per share, which is the same amount distributed for the 77th Business Term.
The future of the global economy is expected to remain high in uncertainty and unpredictable, but we will respond quickly and flexibly to changes in the environment, continue to unite the power of all our employees and work on improving our performance even more than ever we did it.

We look forward to your continued support and encouragement.

MANAGEMENT POLICY

Aiming to improve the corporate quality,

"GROWTH & EXCELLENCE"

- ✧ Forming a considerate person as a member of society
- ✧ Company & Employee receiving respect and trust from the world

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COVER PHOTO

Picture: Mr. Seiji Maeda

Born in 1944 at Chiyoda-ku, Tokyo

He is taking pictures of daily landscapes of Tokyo and seasonal flowers currently with his PowerShot SX50 HS in hand.

As for this Photo, the Company obtained approval from Tokyo Tower for use as a cover photo.

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(Note: This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.)

Notice of Convocation of the Ordinary General Meeting of Shareholders for the 78th Business Term

March 6, 2017

To our shareholders:

Hisashi Sakamaki
President & C.E.O
CANON ELECTRONICS INC.
1248 Shimokagemori, Chichibu-shi, Saitama

Notice is hereby given that the Ordinary General Meeting of Shareholders for the 78th Business Term of CANON ELECTRONICS INC. (the "Company") will be held as described below and that you are invited to attend the Meeting.
If you do not expect to attend the Meeting, you may exercise your voting rights in writing. After reviewing the following Reference Documents for General Meeting of Shareholders, please indicate your for/against for each of the propositions on the enclosed Voting Form, and return it to us so that it reaches us by no later than 5:00 p.m. on March 28, 2017 (Tuesday), (Japan time).

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1 Date and Time **9:00 a.m. on March 29, 2017 (Wednesday) (Japan time)**

2 Venue: **Meeting Room at Misato Plant of the Company 1611 Oaza-Amakasu, Misato-machi, Kodama-gun, Saitama**

3 Purpose of the Meeting

Matters to be reported:

1. Reports on the contents of the Business Report and the Consolidated Financial Statements for the 78th Business Term (from January 1, 2016 to December 31, 2016), and reports on the Auditing Results of Accounting Auditor and Audit & Supervisory Board regarding the Consolidated Financial Statements

2. Reports on the content of the Financial Statements for the 78th Business Term (from January 1, 2016 to December 31, 2016)

Matters to be resolved upon:

Propositions:

Item No.1 - Dividend from Surplus

Item No.2 - Partial Amendment to the Articles of Incorporation

Item No.3 - Election of Twelve Directors

Item No.4 - Election of One Audit & Supervisory Board Member

Item No.5 - Grant of Bonus to Directors

4 Guidance Notes on the Exercise of Voting Rights

Please refer to the "Guidance Notes on the Exercise of Voting Rights" on the following page (written in Japanese only).

Notes:

1. Upon attending the Meeting, please present the enclosed Voting Form to the receptionist at the place of the Meeting.
2. Any changes in the matters described in Reference Documents for General Meeting of Shareholders, Business Report, Financial Statements and Consolidated Financial Statements will be posted on our website on the Internet (written in Japanese only).
   (http://www.canon-elec.co.jp/)

Guidance Notes on the Exercise of Voting Rights

Voting right at shareholders meeting is an important right of the shareholders. You are kindly requested to exercise the voting rights after reviewing the Reference Document for General Meeting of Shareholders. There are two ways to exercise the voting rights.

Exercise of Voting Rights by Attending the Meeting

Please bring and present the enclosed Voting Form to the receptionist at the place of the Meeting. Also please bring this Convocation Notice for the 78th Business Term with you.

- **Date and time of the Meeting: 9:00 a.m. on March 29, 2017 (Wednesday)**
- **Place of the Meeting: Meeting Room at Misato Plant of the Company**

Exercise of Voting Rights in Writing by Post

Please indicate your for/against for each of the propositions on the enclosed Voting Form and return it to us by post without a stamp.

- **Deadline:** Reach us by **no later than 5:00 p.m. on March 28, 2017 (Tuesday) (Japan time)**

Disclosure on the Internet

Following information are not described in this Convocation Notice for the 78th Business Term, since those information are posted on the Internet based on the provisions of the relevant laws and the Article 14 of the Company Articles of Incorporation.

1. Notes to Consolidated Financial Statements
2. Notes to Financial Statements
3. Statement of changes in Net Asset to Consolidated Financial Statements
4. Statement of changes in Net Asset to Financial Statements

ADDRESS http://www.canon-elec.co.jp/ (written in Japanese only)

Please note that the Consolidated Financial Statements and the Financial Statements audited by the Accounting Auditor and Audit & Supervisory Board shall include the information listed above 1 to 4 posted on the internet as well as those documents which are described in this Convocation Notice for the 78th Business Term.

Reference Documents for General Meeting of Shareholders

Item No.1: Dividend from Surplus

The basic policy of the Company is to provide a stable return and actively return profits to shareholders, mainly in the form of a dividend, by enhancing internal reserve, actively developing business and strengthening constitution to increase the shareholders' value.
After comprehensively considering the above policy, and also in order to express gratitude to our shareholders for their continuous support, we propose a term-end dividend of 30.00 yen per share, as follows.
As we have already paid an interim dividend of 30.00 yen per share, the full-year dividend will be 60.00 yen per share, which is the same as the previous business term.

i) Kind of dividend property: Cash
ii) Matters regarding allocation of the dividend property and its total amount:
30.00 yen per one common share of the Company
Total amount of dividend 1,224,493,020 yen
iii) Effective date of the distribution of the dividend from surplus:
March 30, 2017

Item No.2: Partial Amendment to the Articles of Incorporation

1. Reasons for Amendment

In order to prepare for the future expansion of our business, the Company proposes to add the objectives to Article 2 (Objects) of the current Articles of Incorporation.
Also taking into consideration the popularization of the Internet, the Company plans to change its means of giving public notices under Article 5 (Method of Giving Public Notice) of the current Articles of Incorporation to an electronic means to make it more convenient to read the public notices, and also provide the means of giving notice under circumstances where the Company is unable to give an electronic public notice because of any unavoidable reason.

2. Contents of Amendment

Contents of the amendment are as follows.

(The amended parts are underlined)

Current Articles of Incorporation	Proposed Amendment
Chapter 1. General Provisions	Chapter 1. General Provisions
Article 1 (Text omitted)	Article 1 (Same as present text)
(Objects) Article 2 The objects of the Company shall be to engage in the following business: (1) Manufacture and sale of precision machineries and instruments of various kinds. (2) Manufacture and sale of electrical and electronic machineries and instruments of various kinds. (3) Manufacture and sale of optical machineries and instruments of various kinds. (4) Manufacture and sale of information machineries and instruments of various kind. (5) Manufacture and sale of computer and telecommunication equipment software. (6) Manufacture and sale of clothing items printed and processed using textile printing equipment. (7) Management of golf course. (8) Management and administration of sports recreation facilities. (9) Power generation business, its management and administration and supply and sale of electricity. (10) Development, manufacture, sale and service of space industry equipment.	(Objects) Article 2 The objects of the Company shall be to engage in the following business: (1) Manufacture and sale of precision machineries and instruments of various kinds. (2) Manufacture and sale of electrical and electronic machineries and instruments of various kinds. (3) Manufacture and sale of optical machineries and instruments of various kinds. (4) Manufacture and sale of information machineries and instruments of various kind. (5) Manufacture and sale of computer and telecommunication equipment software. (6) Manufacture and sale of clothing items printed and processed using textile printing equipment. (7) Management of golf course. (8) Management and administration of sports recreation facilities. (9) Power generation business, its management and administration and supply and sale of electricity. (10) Development, manufacture, sale and service of space industry equipment.

Current Articles of Incorporation	Proposed Amendment
(11) Any and all business relative to each of the preceding items.	(11) Development, manufacture, sale and service of medical machineries and instruments of various kinds. (12) Management of agriculture and production, administration, processing and sale of agricultural products. (13) Any and all business relative to each of the preceding items.
Article 3 - (Text omitted) Article 4	Article 3 - (Same as present text) Article 4
(Method of Giving Public Notice) Article 5. Public notices of the Company shall be given in the Nikkei.	(Method of Giving Public Notice) Article 5 Public notices of the Company shall be given by electronic means; provided, however, that if the Company is unable to give an electronic public notice due to an accident or any other unavoidable reason, the notice shall be given in the Nikkei.

Item No.3: Election of Twelve Directors

The terms of office of all of the thirteen Directors will expire at the end of this Meeting. Therefore, we propose the election of twelve Directors.

The candidates for the Directors are as follows:

Candidate No.	Name	Positions and business in charge in the Company	
1	**Hisashi Sakamaki**	President & C.E.O	Re-nominated
2	**Takeshi Hashimoto**	Executive Vice President and Director, Group Executive of LBP Group and Business Machine Components Group	Re-nominated
3	**Takashi Ehara**	Senior Managing Director, Group Executive of Magnetics & Components Group.	Re-nominated
4	**Takumi Ishizuka**	Senior Managing Director, Senior General Manager of Human Resources Management Center and General Manager of Finance & Accounting Div.	Re-nominated
5	**Tadashi Arai**	Managing Director, Deputy Group Executive of Business Machine Components Group and Group Executive of Motor Group and Senior General Manager of Production Engineering Center	Re-nominated
6	**Zhou Yaomin**	Managing Director, Group Executive of Materials Research Center & General Manager of Material Research Div.	Re-nominated
7	**Akiyoshi Kimura**		Newly nominated
8	**Takeshi Uchiyama**	Director, President & Representative Director of Canon Electronics Technology Inc.	Re-nominated
9	**Junichi Takahashi**	Director, Group Executive of Nickel Alloy Group	Re-nominated
10	**Toshio Uetake**	Director, Senior General Manager of Procurement Center and Group Executive of EI Group	Re-nominated
11	**Masakazu Toyoda**	Director	Re-nominated Candidate for Outside Director Independent Director
12	**Katsuhiko Utsumi**	Director	Re-nominated Candidate for Outside Director Independent Director

Candidate No. 1	Brief personal record, position, business in charge and important concurrent posts
Hisashi Sakamaki Re-nominated **Date of birth:** Mar. 6, 1940 **Number of the Company's shares held:** 8,800 shares	As of Jan. 1967: Entered Canon Inc. Mar. 1989: Director Feb. 1991: In charge of Global Corporate Planning May 1992: Group Executive of Production Headquarters and in charge of Environmental Assurance Mar. 1996: Managing Director Audit & Supervisory Board Member of the Company Mar. 1999: President & C.E.O of the Company (present) **[Important concurrent posts]** Outside Director of Fujitsu General Limited Outside Director of Yaoko Co. Ltd.

【Reasons for being selected as a candidate】

Mr. Hisashi Sakamaki had been leading the development, design, production and environmental conservation divisions of Canon Inc for many years. After he joined, he has been managing the Company as President and CEO with methods of environmental management, and made the Company a highly profitable company with a net profit of over 10%. The Company has selected him as a candidate for director upon determining that his wealth of expertise, ability and insight as a management are vital to the Company's important decision making and supervision of managerial executions.

Candidate No. 2	Brief personal record, position, business in charge and important concurrent posts
Takeshi Hashimoto Re-nominated **Date of birth:** Sep. 12, 1962 **Number of the Company's shares held:** 4,900 shares	As of Apr. 1985: Entered Canon Inc. May 2002: General Manager of LBP Administration Div., LBP Group of the Company Apr. 2004: Deputy Group Executive of LBP Group and General Manager of LBP Administration Div. Mar. 2007: Director Group Executive of LBP Group (present) Mar. 2009: Managing Director Jan. 2012: Group Executive of Business Machine Components Group (present) Mar. 2012: Senior Managing Director Mar. 2013: Executive Vice President & Director (present) Nov. 2013: Senior General Manager of Functional Components Business Promotion Center Dec. 2013: Senior General Manager of Production Engineering Center

【Reasons for being selected as a candidate】

Mr. Takeshi Hashimoto has been leading the laser printer division and a laser scanner unit for multi-function peripheral division over the years and contributed greatly to the Company. He serves a position as an executive vice president and director. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 3	Brief personal record, position, business in charge and important concurrent posts
Takashi Ehara Re-nominated **Date of birth:** Feb. 10, 1957 **Number of the Company's shares held:** 3,300 shares	As of Apr. 1980: Entered the Company Jan. 2002: General Manager of Magnetics & Components Sales Div., Magnetics & Components Group Mar. 2007: Director Group Executive of Magnetics & Components Group and General Manager of Magnetics & Components Sales Div. Apr. 2008: Group Executive of Magnetics & Components Group Mar. 2009: Managing Director Mar. 2013: Senior Managing Director (present) Oct. 2013: Group Executive of Magnetics & Components Group and General Manager of Magnetics & Components Design Div. Mar. 2016: Group Executive of Magnetics & Components Group (present)

【Reasons for being selected as a candidate】

Mr. Takashi Ehara has been leading the camera related division over the years and contributed greatly to the Company. He serves a position as a senior managing director. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 4	Brief personal record, position, business in charge and important concurrent posts
Takumi Ishizuka Re-nominated **Date of birth:** Dec. 7, 1958 **Number of the Company's shares held:** 3,600 shares	As of Apr. 1982: Entered the Company Jan. 2001: General Manager of Human Resources Management Div. Apr. 2004: General Manager of Human Resources Management Div. and Facilities Administration Div. Mar. 2005: Director Jan. 2006: General Manager of Human Resources Management Div. Apr. 2008: Senior General Manager of Human Resources Management Center Mar. 2009: Managing Director Jan. 2013: Senior General Manager of Human Resources Management Center and General Manager of Finance & Accounting Div. (present) Mar. 2016: Senior Managing Director (present)

【Reasons for being selected as a candidate】

Mr. Takumi Ishizuka has been leading the human resource management division and accounting and finance division over the years and contributed greatly to the Company. He serves a position as a senior managing director. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 5	Brief personal record, position, business in charge and important concurrent posts
Tadashi Arai Re-nominated **Date of birth:** Jan. 19, 1958 **Number of the Company's shares held:** 1,950 shares	As of Apr. 1981: Entered the Company Apr. 2003: General Manager of Business Machine Components Administration Div., Business Machine Components Group Apr. 2005: Plant Manager of Business Machine Components Plant 3, Business Machine Components Group Dec. 2007: Plant Manager of Business Machine Components Plant 4, Business Machine Components Group Mar. 2011: Director Jul. 2011: Deputy Group Executive of Business Machine Components Group and Plant Manager of Business Machine Components Plant 2 Oct. 2012: Deputy Group Executive of Business Machine Components Group and Group Executive of Motor Group Jun. 2015: Deputy Group Executive of Business Machine Components Group and Group Executive of Motor Group and Senior General Manager of Production Engineering Center (present) Mar. 2016: Managing Director (present)

【Reasons for being selected as a candidate】

Mr. Tadashi Arai has been leading the motor manufacturing division over the years and contributed greatly to the Company. He serves a position as a managing director. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 6	Brief personal record, position, business in charge and important concurrent posts
Zhou Yaomin Re-nominated **Date of birth:** Nov. 11, 1962 **Number of the Company's shares held:** 1,300 shares	As of Apr. 2000: Entered the Company Feb. 2008: General Manager of Materials Research Div., Materials Research Center, Central Research Laboratory Mar. 2008: Group Executive of Materials Research Center, Central Research Laboratory and General Manager of Materials Research Div. Mar. 2009: Group Executive of Materials Research Center and General Manager of Materials Research Div. (present) Mar. 2012: Director Mar. 2016: Managing Director (present)

【Reasons for being selected as a candidate】

Mr. Zhou Yaomin has been leading the materials research division over the years and contributed greatly to the Company. He serves a position as a managing director. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 7	Brief personal record, position, business in charge and important concurrent posts
Akiyoshi Kimura Newly nominated **Date of birth:** Jul. 19, 1956 **Number of the Company's shares held:** 0 shares	As of Apr. 1980: Entered Canon Inc. Jan. 2009: Group Executive of OIP Production System Group, Office Imaging Products Operations Apr. 2011: Executive Officer, Deputy Chief Executive of Office Imaging Products Operations Jan. 2013: Group Executive of Office Imaging Product Corporate System Group & Group Executive of Office Imaging Products Development Group Mar. 2014: Director, Chief Executive of Office Imaging Products Operations Mar. 2016: Managing Executive Officer (present) Apr. 2016: Group Executive of Corporate Planning Development Headquarters (present)

【Reasons for being selected as a candidate】

Mr. Akiyoshi Kimura has lead the office imaging product division of Canon Inc. for many years and contributed greatly to the company. He served a position as director and currently serves a position as managing executive officer of Canon Inc. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 8	Brief personal record, position, business in charge and important concurrent posts
Takeshi Uchiyama Re-nominated **Date of birth:** Dec. 22, 1964 **Number of the Company's shares held:** 5,900 shares	As of Apr. 1987: Entered Asia Computer Inc. (present Canon Electronics Technology Inc.) Apr. 1998: General Manager of Sales Promotion Div. Jun. 1999: Director, Group Executive of Sales Group Apr. 2006: Managing Director, Executive Officer, Group Executive of SI Group and Deputy Group Executive of Sales Group Dec. 2007: Senior Managing Officer, Group Executive of System Integration Group Mar. 2008: President & Representative Director (present) Mar. 2010: Director of the Company (present) **[Important concurrent posts]** President & Representative Director of Canon Electronics Technology Inc.

【Reasons for being selected as a candidate】

Mr. Takeshi Uchiyama has been leading the IT related business over the years and contributed greatly to the Company. He served a position as director of the Company and the president of the subsidiary. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 9	Brief personal record, position, business in charge and important concurrent posts
Junichi Takahashi Re-nominated **Date of birth:** Jan. 1, 1960 **Number of the Company's shares held:** 1,750 shares	As of Apr. 1982: Entered the Company Oct. 2004: General Manager of Materials Research Div., Material Research Center Feb. 2008: Deputy General Manager of Nickel Alloy Business Promotion Div. Mar. 2008: General Manager of Nickel Alloy Business Promotion Div. Apr. 2011: Group Executive of Nickel Alloy Group (present) Mar. 2013: Director (present)

【Reasons for being selected as a candidate】

Mr. Junichi Takahashi has been leading the division for the development of electroforming parts using nickel alloy over the years, and contributed greatly to the Company. He served a position as director of the Company. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 10	Brief personal record, position, business in charge and important concurrent posts
Toshio Uetake Re-nominated **Date of birth:** Jun. 17, 1960 **Number of the Company's shares held:** 400 shares	As of Apr. 1981: Entered Canon Inc. May 2008: President of Canon Engineering Hong Kong Apr. 2011: General Manager of Procurement Management Planning Div., Global Procurement Management Center, Global Procurement Headquarters of Canon Inc. Apr. 2012: Senior General Manager of Procurement Center of the Company Feb. 2013: Senior General Manager of Procurement Center and Group Executive of EI Group (present) Mar. 2016: Director (present)

【Reasons for being selected as a candidate】

Mr. Toshio Uetake has been leading the procurement and EI (electronic interconnect) division of the Company, and contributed greatly to the Company. He served a position as director of the Company. The Company has selected him as a candidate for director upon determining that his extensive expertise, wide range of experience in his duty and his good personality and deep insight are vital to further increase the corporate value of the Canon Electronics Group.

Candidate No. 11	Brief personal record, position, business in charge and important concurrent posts
Masakazu Toyoda Re-nominated Candidate for Outside Director Independent Director **Date of birth:** Jun. 28, 1949 **Number of the Company's shares held:** 0 shares	As of Apr. 1973: Entered Ministry of International Trade and Industry Aug. 2003: Director-General, Commerce and Information Policy Bureau Jul. 2006: Director-General, Trade Policy Bureau Jul. 2007: Vice-Minister for International Affairs Aug. 2008: Secretary-General, Secretariat of Strategic Headquarters for Space Policy, Cabinet Secretariat Special Advisor to the Ministry of Economy, Trade and Industry Nov. 2008: Special Advisor to the Cabinet Jun. 2010: Outside Statutory Auditor of Murata Manufacturing Co., Ltd. Jul. 2010: Chairman & CEO of The Institute of Energy Economics, Japan (The organization was changed from incorporated association to general incorporated foundation under the same English name) (present) Jun. 2011: Outside Corporate Auditor of Nitto Denko Corporation (present) Mar. 2015: Outside Director of the Company (present) Jun. 2016: Outside Director of Murata Manufacturing Co., Ltd. (present) **[Important concurrent posts]** Chairman & CEO of The Institute of Energy Economics, Japan Outside Director of Murata Manufacturing Co., Ltd. Outside Corporate Auditor of Nitto Denko Corporation

【Reasons for being selected as a candidate】

Mr. Masakazu Toyoda has been served, over the years, a key position such as Vice-Minister for International Affairs of Ministry of Economy, Trade and Industry and Special Advisor to the Cabinet, and has a wealth of experience and a sophisticated and wide-range of expertise in the field of economy and international trade. The Company has selected him as a candidate for outside director upon determining that the Company's management may utilize his high-level expertise and wealth of experience gained from his career, although he did not have an experience in the management of the company other than serving as Outside Director and Outside Auditor.

Candidate No. 12	Brief personal record, position, business in charge and important concurrent posts
Katsuhiko Utsumi Re-nominated Candidate for Outside Director Independent Director **Date of birth:** Jul. 15, 1946 **Number of the Company's shares held:** 0 shares	As of Apr. 1969: Entered Furukawa Electric Co., Ltd. Jun. 1993: General Manager of Electronic Device Sales Department, Sales & Marketing Division Jun. 1997: General Manager of the Chubu Branch Jun. 2000: Director, General Manager of the Chubu Branch Jun. 2003: Managing Director and Corporate Senior Vice President Apr. 2004: Managing Director and Corporate Senior Vice President, CMO and General Manager of the Export Security Administration Department Jun. 2005: President and Representative Director of The Furukawa Battery Co., Ltd. Jun. 2012: Senior Adviser Mar. 2015: Outside Director of the Company (present) Outside Director of Lilycolor Co., Ltd. (present) Apr. 2015: President and Representative Director of JATEC Co., Ltd. (present) **[Important concurrent posts]** President and Representative Director of JATEC Co., Ltd. Outside Director of Lilycolor Co., Ltd.

【Reasons for being selected as a candidate】

Mr. Katsuhiko Utsumi has a high-level expertise and a wealth of experience in management of the company for many years and also serves the outside directors of the other companies. The Company has selected him as a candidate for outside director upon determining that the Company is able to obtain from him valuable comments and suggestions for company management.

Special matters concerning candidates for Outside Directors

Number of Years in office after the appointment of the Outside Directors etc.

- Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi are candidates for Outside Directors defined by Item 7, Paragraph 3, Article 2 of the Enforcement Regulations of the Companies Act.
- The Company regards Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi as Independent Directors who satisfy the "Independence Standards for Independent Outside Directors/ Audit & Supervisory Board Members" as stipulated by the Company (reference below).
- Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi will have served for two years as Outside Directors of the Company as of the end of this Meeting.

Contracts for limitation of liability

The Company has entered into contracts with Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi limiting the amount of their damage compensation liabilities defined in Paragraph 1, Article 423 of the Companies Act to the limit prescribed by the relevant laws and regulations. Should they be elected, the Company will continue the aforementioned contracts with them.

Matters concerning independent directors

The Company has notified Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi as independent directors to the Tokyo Stock Exchange on which the Company is listed as provided under the regulations of the said Exchange. Should they be elected, the Company will make both of them independent directors.

(Note common to all of the twelve candidates above)

There is no special interest between each candidate and the Company.

【Reference】

Establishment of "Independence Standards for Independent Outside Directors/Audit and Supervisory Board Members" of Canon Electronics Inc."

Canon Electronics Inc. hereby establishes the "Independence Standards for Independent Outside Directors/Audit and Supervisory Board Members" in order to clarify the standards for ensuring independence of Independent Outside Directors/Audit and Supervisory Board Members of Canon Electronics Inc..

Independence Standards for Independent Outside Directors/Audit and Supervisory Board Members

Canon Electronics Inc. deems that a person who satisfies the requirements for Outside Directors/Audit and Supervisory Board Members prescribed by the Companies Act of Japan, and meets the independence criteria set by Securities Exchanges in Japan, and does not fall into any of the items below, is an "Independent Outside Director/Audit and Supervisory Board Member" (a person who is independent from the management of Canon Electronics Inc. and unlikely to have conflicts of interest with general shareholders).

1. A person/organization for which Canon Electronics Group (Canon Electronics Inc. and its subsidiaries; hereinafter the same) is a major client, or a major client of Canon Electronics Group, or an executing person of such organization or client
2. A major lender to Canon Electronics Group, or an executing person of such lender
3. A large shareholder of Canon Electronics Inc., or an executing person of such shareholder
4. A person/organization receiving large amounts of contributions from Canon Electronics Group, or an executing person of such organization
5. A consultant, accounting professional or legal professional who has received a large amount of money or other properties from Canon Electronics Group, other than as compensation for being a director/Audit and Supervisory Board Member (if the recipient is a corporation, partnership or any other organization, this item applies to any person belonging to said organization.)
6. A certified public accountant belonging to the audit firm engaged to conduct the statutory audit of Canon Electronics Group (including any such accountant to whom this item has applied in the last 3 business years)
7. An executing person of another company in cases where an executing person of Canon Electronics Group is an outside director/audit and supervisory board member of such other company
8. An immediate family member (spouse and a relative within the second degree of kinship) of any of the persons listed in each of items 1 to 7; provided, however that the persons to whom this is applicable shall be limited to key executing persons such as directors, executive officers of companies and partners of advisory firms

Notes:
* In item 1, "major" means in cases where the total amount (for any business year during the last 3 business years) of transactions between Canon Electronics Group and such client exceeds 1% of the consolidated sales of Canon Electronics Group or such client.
* In item 2, "major" means in cases where the debt outstanding exceeds 1% of the consolidated total assets of Canon Electronics Inc. for any business year during the last 3 business years.
* In item 3, "a large shareholder" means a shareholder who directly or indirectly holds 5% or more of the total voting rights of Canon Electronics Inc.
* In item 4, "a large amount" means in cases where the total amount of contributions exceeds JPY 12 million (in cases where the recipient is an individual) or 1% of the annual gross income of such recipient (in cases where the recipient is an organization), for any business year during the last 3 business years of Canon Electronics Inc.
* In items 1 to 4 and 7, an "executing person" means an executive director, advisory director, executive officer and employee including manager (in items 1 to 4, including a person to whom this item has applied in any business year during the last 3 business years).
* In item 5, "a large amount" means in cases where the total amount of money or other properties received by said consultant, etc., exceeds JPY 12 million (in cases where the recipient is a person) or 1% of the annual gross sales of such consultant, etc. (in cases where the recipient is an organization).

Item No.4: Election of One Audit & Supervisory Board Member

The term of office of Audit & Supervisory Board Member, Mr. Tatsuya Kawana will expire at the end of this Meeting. Therefore, we propose the election of one Audit & Supervisory Board Member.
The candidate for the Audit & Supervisory Board Member is as follows.
Prior to our proposal of this item, we have already obtained the consent of the Audit & Supervisory Board.

Candidate	Brief personal record, position and important concurrent posts
Tatsuya Kawana Re-nominated **Date of birth:** Apr. 27, 1956 **Number of the Company's shares held:** 2,700 shares	Apr. 1980: Entered Canon Inc. Mar. 2001: Senior General Manager of Product Management Group 2 of Canon Europe Ltd. Mar. 2003: General Manager of IMS Marketing & Planning Div., Image Management Systems Group Mar. 2005: Director, Group Executive of Handy Terminals Group Mar. 2010: Managing Director Mar. 2012: President & Representative Director of e-System Corporation (present Canon Esquisse System Inc.) Jan. 2013: General manager of Planning Div. and Internal Auditing Office Mar. 2013: Audit & Supervisory Board members (present)

【Reasons for being selected as a candidate】
Mr. Tatsuya Kawana has served Director and Audit & Supervisory Board Member of the Company. He has an insight and experience on each business unit of the Canon Electronics Group. The Company has selected him as a candidate for Audit & Supervisory Board Member upon determining that the Company judges that his good personality and deep insight is vital to the effective audit of the Canon Electronics Group.

Note: There is no special interest between a candidate and the Company

Item No.5: Grant of Bonus to Directors

It is proposed that bonus be granted to the eleven Directors excluding Outside Directors as of the end of this term, in appreciation of their services during this business term, which totals 27,340,000 yen considering the business results for this business term and the members to be granted, etc.

(Materials delivered pursuant to Article 437 and Article 444 of the Companies Act)

BUSINESS REPORT (From Jan 1, 2016 to Dec. 31, 2016)

1 Current Conditions of the Canon Electronics Group

(1) Business Progress and Results

The global economy in the current business term continues to be high in uncertainty and unpredictable due to sense of vigilance towards European economy resulting from Britain's exit from the European Union, transition of political power in the United States, and economic downturn in emerging nations etc. in Asia. Although Japanese economy is showing improvement in employment and income environment, its growth rate remained low due to deterioration of corporate profitability caused by appreciation of the yen, and such, the market remained at stagnant level. As for the currency, both the US dollar and the euro had a stronger yen appreciation than the previous term.
In a market related to Canon Electronics Group, both the digital camera market in interchangeable lens digital camera category and compact digital camera category continued to shrink due to the spread of smartphones. Document scanner market continued to grow, driven by increase in demand of document e-materialization of the emerging markets in Asia and Middle East region. In the information related market, despite signs of a recovery in corporate investment motivation, intensified competition within the industry continued.
Under these circumstances, Canon Electronics Group has proactively continued expansion of existing products, while launching the following new products to promote business activities.
"ScanFront 400", network scanner that can digitalize documents and directly send it to computers and other peripheral equipments in computer-less one touch operation with 10.1 inch large touch panel screen.
"ST-300", excellent durability and dustproof grip type handy terminal, targeting warehousing, logistics, and distribution industry.
" LS-715 Series", small injection molding machine that reduces installation space, mold replacement time, and work in progress inventory, and flexibly manage in-house production of parts and high-variety low-volume production.
"SML Malware Server Trace Function", security software for Windows that protects corporate information assets from targeted attacks by hackers, etc. By adding those products in lineup, we strongly promoted sales activities.

In addition, we are now working on space related business as a new business, such as, in a field of microsatellite where active rise of demand in global market is expected, in particular, doing research and development of earth observation satellite implemented with optical technology which is a

specialty area of Canon Group, and ground station to operate the satellite. We are aiming to swiftly commercialize them, in response to our accomplishment of the said research and development.

Net Sales	83,290 million yen Down 6.8% from the previous term
Operating Income	8,077 million yen Down 23.2% from the previous term
Ordinary Income	7,959 million yen Down 25.5% from the previous term
Profit Attributable to Owners of Parent	5,553 million yen Down 20.1% from the previous term

(Reference) Canon Electronics Group in Numbers

ROE	ROA
6.9%	7.8%
Equity Ratio	**Ordinary Income Ratio**
78.9%	9.6%
Facilities Investment	**R&D Expenditure**
3,332 million yen	4,010 million yen
Dividend Payout Ratio	**Number of Employees**
44.1%	4,314 persons

Component Division

(Main Products)
Production and Sale of Shutter Unit, Aperture Unit, Magnetic Sensor, Laser Scanner Unit, Mounting of Printed Circuit Board

Consolidated Net Sales **44,181** **million yen Down 9.0% from the previous term**

Overview of the Term

In Component Division, Digital camera market both in interchangeable lens digital camera category and compact digital camera category continued to be in a tough situation due to the spread of smartphones. Under these circumstances, although we made proactive effort in sales activities of main products such as shutter unit and aperture unit for digital cameras, sales declined as the market continued to shrink.

As for Laser Scanner Unit for Laser Printers and Multifunction Peripherals, we are making continuous effort in reducing cost-of-sales by proactively strengthening production system by improving productivity and producing in-house component parts. With the effect of launching new products, unit sales and net sales have been at the same level as the previous term.



Interchangeable Lens Shutter Unit for digital camera



Laser Scanner Unit

Digital Information Equipment Division

(Main Products)
Production and Sale of Document Scanner, Handy Terminal, Laser Printer

Consolidated Net Sales **30,246** **million yen** **Down 5.3% from the previous term**

Overview of the Term

For Document Scanners, we have made continuous efforts in expansion of sales of imageFORMULA series by enhancing product lineup from low speed to high speed scanners. Although unit sales in Japan and Asia, Oceania region were good, total sales declined due to the effect from appreciation of the yen, intensified competition in the U.S., and unit sales decline in Europe due to economic recession and political instability.

For Handy Terminals, area of services and usage in business industry have expanded by introducing new auto recognition technology and differentiating from smartphones and tablets by specializing in capturing barcodes and two-dimensional barcodes. Under these circumstances, we have enhanced product lineups and proactively expanded sales activities. Sales increased due to acquiring orders for large scale business negotiations at the PDA type handy terminal for meter reading services.

For Laser Printers, sales remained on a moderate growth track as we expanded production system to start volume production of new products, increase efficiency in parts procurement, improve productivity and respond to the market trends.



New Handy Terminal
"PRea ST-300" targeting logistics, and warehousing industry



New Network Scanner
"imageFORMULA ScanFRONT 400"

Other Product Division

(Main Products)
Business Analysis Service, Information Security Countermeasure Service, Business Card Management Service, Customer Information Management Service, System Development/Maintenance/Implementation, Factory Automation Product, Environment Related Product, Small Injection Molding Machine, 3D Milling Machine.

Consolidated Net Sales **8,862 million yen** **Down 0.2% from the previous term**

Overview of this Term

In the Information Related Business, we have made proactive sales activities in information security countermeasure service (SML), business analysis service (Log Management), business card management service (UltimaBlue) and package software for medical institution (Medical Dictionary). In particular, as a result of proactive effort to expand sales, especially of "SML Malware Server Trace Function", a security software for Windows that protect corporate information asset from targeted attacks by hackers, new business opportunities have increased.
Also, along with fostering to acquire system development/maintenance/implementation and infrastructure related projects such as server and network structuring, we have focused our efforts on selling My Number Management Solution using cloud service and "MENTAL AID", a mental healthcare support solution that responds to stress check obligation.
In Environment Related Product Business, we have made proactive sales activities by setting 3D Milling Machine "MF-150A", Food Waste Decomposer "Land care 16Ⅱ", Small Electric Injection Molding Machine "LS-715 series" as main products.
Considering the importance of product designs, we have reviewed the color of main products as a first step and renovated them in two-tone coloring in order to give a sense of unity among small 3D Milling Machines, Small Injection Molding Machines and Food Waste Decomposer.
Also, we are seeking to enhance sales and service network by entering the dental market with Small Injection Molding Machine.

MENTALAID メンタルエイド

Total Security Solution in the era of targeted attacks
SML セキュリティスイート with Yarai


New color
Food Waste Decomposer
"Land care16Ⅱ"

(2) Facilities Investment

The investment in facilities by the Canon Electronics Group during this term totaled 3,332 million yen, which are mainly investment in the tooling of new products and equipment renewal etc.

(3) Business Challenges and Countermeasures

As for the global economy, it is uncertain and unpredictable due to the impact of British exit from EU, US fiscal policy, uncertainty of the economy outlook and political climate in China and the emerging countries in Asia, change in financial market etc. Under these circumstances, the environment surrounding our products continues to be severe, such as a shift to low-priced products due to intense price competition etc.

Under these circumstances, we will work on the following subjects.

Entry into space business

This fiscal year, we will actively develop a plan to sell earth observation satellites etc. as a year to establish the foundation for entering the space business. When launching a new business, we will further concentrate the power that all employees can possess than ever, and aim to strongly promote the creation of quality (creating a high-quality company with ethics, knowledge, technology and execution capabilities that are world level).

Improvement in the quality of products and R&D capabilities

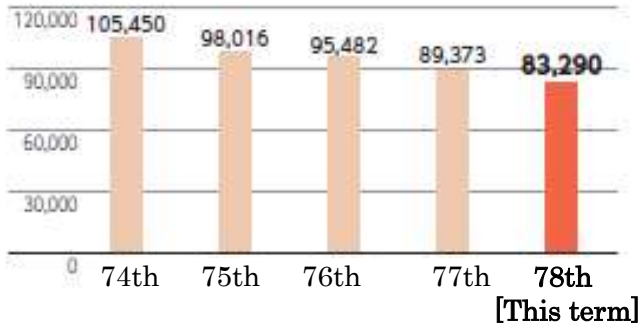
R & D department will carry out "efficient product development" that accurately captures the needs of users and improving a product quality, by exchanging information among divisions even more dense. Furthermore, in order to achieve "improvement in the quality of R & D capabilities", and in order for each of our employees to act to become a leading expert in their field, we will try to make necessary investment and develop and utilize human resources.

Pursuit of production system by promoting IoT (Internet of Things)

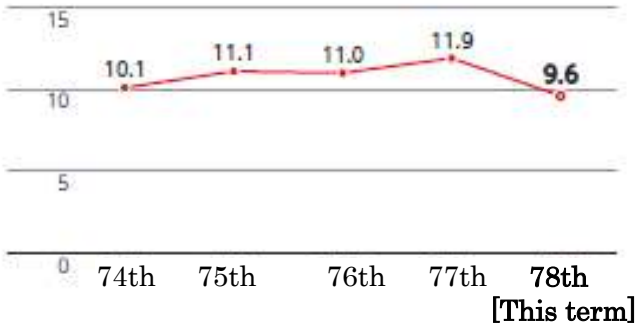
By promoting IoT, by pursuing a visualization of production site making full use of sensors and establishing a network that can constantly monitor operating conditions, we look a step ahead and optimize the entire production process. In the meantime, we will realize a stable operating condition and thoroughly eliminate all waste and improve productivity. We will constantly review the functions of our production plants, respond quickly and flexibly to changes in the environment at the site-oriented system, and continue to provide customers with truly valuable products with high functionality, high quality at low cost.

Financial Highlights (Consolidated)

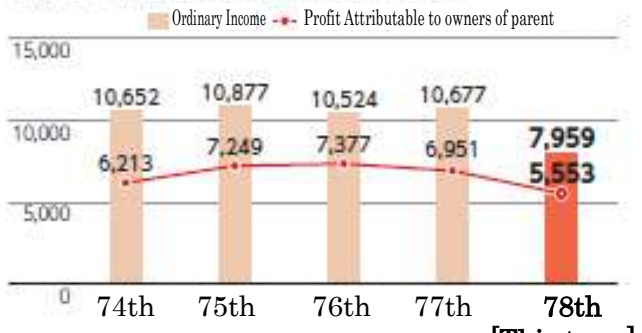
Net Sales [Millions of yen]



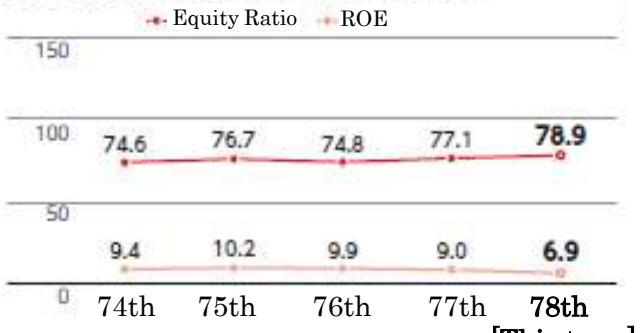
Ordinary Income Ratio [%]



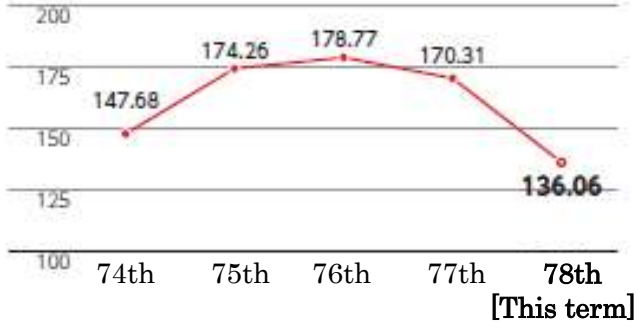
Ordinary Income / Profit Attributable to Owners of Parent [Millions of yen]



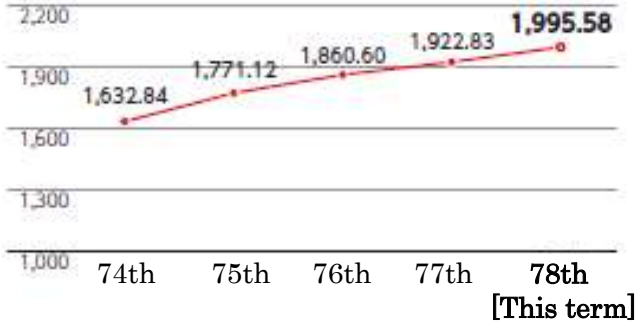
Equity Ratio / ROE [%]



EPS [yen]



BPS [yen]



Status of Assets and Earnings (Consolidated)

	74th Business Term	75th Business Term	76th Business Term	77th Business Term	78th Business Term (This term)
Net Sales (millions of yen)	105,450	98,016	95,482	89,373	**83,290**
Ordinary Income (millions of yen)	10,652	10,877	10,524	10,677	**7,959**
Ordinary Income Ratio (%)	10.1	11.1	11.0	11.9	**9.6**
Profit Attributable to Owners of Parent (millions of yen)	6,213	7,249	7,377	6,951	**5,553**
Profit Ratio (%)	5.89	7.39	7.72	7.77	**6.66**
BPS (yen)	1,632.84	1,771.12	1,860.60	1,922.83	**1,995.58**
EPS (yen)	147.68	174.26	178.77	170.31	**136.06**
Total Assets (millions of yen)	91,061	96,013	101,542	101,780	**103,171**
Net Assets (millions of yen)	68,202	73,953	75,996	78,539	**81,515**
Equity Ratio (%)	74.6	76.7	74.8	77.1	**78.9**
ROE (%)	9.4	10.2	9.9	9.0	**6.9**
ROA (%)	11.7	11.6	10.7	10.5	**7.8**
Dividend Payout Ratio (%)	40.6	34.4	33.6	35.2	**44.1**
Number of Employees (persons)	6,073	5,477	4,839	4,440	**4,314**

(4) Parent Company and Principal Subsidiaries

Relation with Parent Company

Parent Company Name	Location	Activities	Number of Voting Rights (Ratio of Voting Rights)	Relation with the Company
Canon Inc.	Ohta-ku Tokyo	Manufacture and sale of business machines, cameras and optical products	225,006 (55.4%)	The company manufactures camera units , laser printer and laser scanner units for the Parent Company's products

Note: In transaction with the Parent company, the terms are negotiated and determined by presenting the preferred prices from the Company taking into account market prices and total cost.
Thus, the board of directors assesses that the Company's profit is not harmed in the transactions with the Parent company.

Principal Subsidiaries

Company Name	Capital Stock	Ratio of Voting Rights of the Company	Main Activities
Canon Electronics (Malaysia) Sdn.Bhd.	22,500 (thousands of M$)	100.0%	Manufacture and sale of precision machinery
Canon Electronics Vietnam Co.,Ltd.	54,000 (thousands of US$)	100.0%	Manufacture and sale of precision machinery
Canon Electronics Business Systems Inc.	10 (millions of yen)	100.0%	Sale of business machines etc.
Canon Esquisse System Inc.	100 (millions of yen)	100.0%	Consulting for implementation of Customer Relationship Management systems, sale of a business card management service and information security solutions
Canon Electronics Technology Inc.	2,400 (millions of yen)	100.0%	Design, development, operation, and maintenance of computer software and computer system

Note: The Specified Wholly Owned Subsidiary is not included at the end of this business term.

Consolidated Status

The number of consolidated subsidiaries was 9.

Outline of Consolidated Results (pages 27)

(5) Employees

Consolidated

Number of Employees	
4,314	(Decrease of 126 employees from the previous term)

Non-Consolidated

Number of Employees	
1,713	(Decrease of 24 employees from the previous term)

(6) Canon Electronics Group Global Network

Name		Location
Canon Electronics Inc.	Headquarters	Chichibu-shi,Saitama
	Tokyo Head Office	Minato-ku,Tokyo
	Chichibu Plant	Chichibu-shi,Saitama
	Misato Plant	Misato-machi,Kodama-gun,Saitama
	Akagi Plant	Showamura,Tone-gun,Gunma
Canon Electronics (Malaysia) Sdn.Bhd.	Headquarters	Malaysia
Canon Electronics Vietnam Co.,Ltd.	Headquarters	Vietnam
Canon Electronics Business Systems Inc.	Headquarters	Chichibu-shi,Saitama
Canon Esquisse System Inc.	Headquarters	Minato-ku,Tokyo
Canon Electronics Technology Inc.	Headquarters	Minato-ku,Tokyo

2 Shares of the Company

Number of Shares Issuable 60,000,000 shares

Issued Shares, Capital Stock, Number of Shareholders

		As of the beginning of the This Term	Change during This Term	As of the end of This Term
Issued Shares	(share)	42,206,540	-	42,206,540
Capital Stock	(yen)	4,969,150,000	-	4,969,150,000
Number of Shareholders	(person)	15,960	+ 468	16,428

Major Shareholders (Ten shareholders)

Name of Shareholders	Number of Shares Held (thousands of shares)	Shareholding Ratio (%)
Canon Inc.	22,500	55.1
BNP PARIBAS SEC SERVICES LUXEMBOURG/ JASDEC/ ABERDEEN GLOBAL CLIENT ASSETS	882	2.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	847	2.1
Japan Trustee Services Bank, Ltd. (Trust Account)	834	2.0
Japan Trustee Services Bank, Ltd. (Trust Account9)	497	1.2
CBNY-GOVERNMENT OF NORWAY	449	1.1
The Dai-ichi Life Insurance Company, Limited	414	1.0
The BANK OF NEW YORK MELLON 140042	262	0.6
STATE STREET BANK AND TRUST COMPANY 505223	243	0.6
Mizuho Bank, Ltd.	234	0.6

Note: Shareholding ratio is calculated by deducting the number of treasury shares (1,390,106 shares) from total shares issued.

Shareholding Ratio by Category

Financial Institusions	4,626,900 shares	(11.0%)
Securities Companies	320,197 shares	(0.8%)
Other Domestinc Companies	23,345,108 shares	(55.3%)
Foreign Companies, etc.	4,610,315 sheres	(10.9%)
Individuals and others	9,304,020 shares	(22.0%)
	42,206,540 shares	

Note: Category of Individuals and others includes the number of Treasury shares (1,390,106 shares).

3 Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

Position	Name	Business in Charge or Important Concurrent Posts
President & C.E.O	Hisashi Sakamaki	Outside Director of Fujitsu General Limited and Outside Director of Yaoko Co. Ltd.
Executive Vice President	Takeshi Hashimoto	Group Executive of LBP Group and Business Machine Components Group
Senior Managing Director	Takashi Ehara	Group Executive of Magnetics & Components Group
Senior Managing Director	Takumi Ishizuka	Senior General Manager of Human Resources Management Center and General Manager of Finance & Accounting Div.
Managing Director	Eiichi Shimizu	
Managing Director	Tadashi Arai	Deputy Group Executive of Business Machine Components Group and Group Executive of Motor Group and Senior General Manager of Production Engineering Center
Managing Director	Zhou Yaomin	Group Executive of Materials Research Center
Director	Yasuji Tsuneto	President of Canon Electronics Vietnam Co.,Ltd.
Director	Takeshi Uchiyama	President & Representative Director of Canon Electronics Technology Inc.
Director	Junichi Takahashi	Group Executive of Nickel Alloy Group
Director	Toshio Uetake ＊	Senior General Manager of Procurement Center and Group Executive of EI Group
Director	Masakazu Toyoda	Chairman & CEO of The Institute of Energy Economics, Japan and Outside Director of Murata Manufacturing Co., Ltd. and Outside Corporate Auditor of Nitto Denko Corporation
Director	Katsuhiko Utsumi	President and Representative Director of JATEC Co., Ltd. and Outside Director of Lilycolor Co., Ltd.
Standing Audit & Supervisory Board Member	Tatsuya Kawana	
Audit & Supervisory Board Member	Syunji Onda ＊	
Audit & Supervisory Board Member	Syuji Iwamura	Attorney and Outside Corporate Auditor of FamilyMart UNY Holdings Co., Ltd. and Outside Corporate Auditor of Riken Corporation and Outside Audit & Supervisory Board Member of Hokkaido Bank, Ltd.
Audit & Supervisory Board Member	Seiho Nakata	Certified Public Accountant and President & Representative Director of Knowledge Network Inc.

Notes: 1. A Director and an Audit & Supervisory Board Member with asterisk were newly elected at the Ordinary General Meeting of Shareholders for the 77th Business Term held on March 29, 2016, and assumed their office.

2. Audit & Supervisory Board Member Mr. Akira Kurosawa has resigned at the end of the Ordinary General Meeting of Shareholders for the 77th Business Term held on March 29, 2016.
3. Directors Mr. Masakazu Toyoda and Mr. Katsuhiko Utsumi are Outside Directors defined by Item 15, Article 2 of the Companies Act of Japan. Also, the Company has notified the above Outside Directors as independent directors to Tokyo Stock Exchange, Inc. on which the Company is listed as provided under the regulations of Tokyo Stock Exchange, Inc.
4. Audit & Supervisory Board Members Mr. Syuji Iwamura, Mr. Seiho Nakata are Outside Audit & Supervisory Board Members defined by Item 16, Article 2 of the Companies Act of Japan. Also, the Company has notified the above Outside Audit & Supervisory Board Members as independent auditors to Tokyo Stock Exchange, Inc. on which the Company is listed as provided under the regulations of Tokyo Stock Exchange, Inc.
5. Audit & Supervisory Board Member Mr. Seiho Nakata is qualified as a Certified Public Accountant and has a wealth of expertise in finance and accounting.

(2) Remuneration and Other Amounts to Directors and Audit & Supervisory Board Members

Members		
Directors	14 persons	326 million yen (including 12 million yen for 2 Outside Directors)
Audit & Supervisory Board Members	5 persons	32 million yen (including 10 million yen for 2 Outside Audit & Supervisory Board Members)

Notes: 1. The above numbers of Directors and Audit & Supervisory Board Members respectively include 1 Director and 1 Audit & Supervisory Board Member who have retired at the end of the Ordinary General Meeting of Shareholders for the 77th Business Term held on March 29, 2016.
2. Directors' remuneration and other amounts do not include amount paid as salary for employees to those Directors who are also employees.
3. Remuneration and other amounts to Directors include accrued director's bonuses for this term in the amount of 27 million yen.

(3) Outside Directors and Outside Audit & Supervisory Board Members

Relation Between Important Organization of Concurrent Post and Canon Electronics Inc.

Name	Concurrent Post	Organization of Concurrent Post	Relation with the Company
Masakazu Toyoda	Chairman & CEO	The Institute of Energy Economics Japan	No special relation
	Outside Director	Murata Manufacturing Co., Ltd.	No special relation
	Outside Corporate Auditor	Nitto Denko Corporation	No special relation
Katsuhiko Utsumi	President and Representative Director	JATEC Co., Ltd.	No special relation
	Outside Director	Lilycolor Co., Ltd.	No special relation
Syuji Iwamura	Outside Corporate Auditor	FamilyMart UNY Holdings Co., Ltd.	No special relation
	Outside Corporate Auditor	Riken Corporation	No special relation
	Outside Audit & Supervisory Board Member	Hokkaido Bank, Ltd.	No special relation
Seiho Nakata	President & Representative Director	Knowledge Network Inc.	No special relation

Principal Activities

Name	Principal Activities
Masakazu Toyoda Outside Director	Attended 14 out of 15 Board of Directors meetings held during this term, and provided input based on his experience and insight in the field of economy and international trade when necessary.
Katsuhiko Utsumi Outside Director	Attended all 15 of Board of Directors meetings held during this term, and provided input based on his experience and insight in business management over the years when necessary.
Syuji Iwamura Outside Audit & Supervisory Board Member	Attended all 15 of Board of Directors meetings and 6 out of 7 Audit & Supervisory Board meetings held during this term, and provided input based on his experience and insight as a legal profession when necessary.
Seiho Nakata Outside Audit & Supervisory Board Member	Attended 14 out of 15 Board of Directors meetings and all 7 of Audit & Supervisory Board meetings held during this term, and provided input based on his experience and insight as a Certified Public Accountant and in business management when necessary.

Outline of Contracts for Limitation of Liability

Pursuant to the provision of Paragraph 1, Article 427 of the Companies Act, the Company has entered into a contract with Outside Directors and Outside Audit & Supervisory Board Members which sets forth the limitation on their damage compensation liabilities resulting from negligence of the Director's or Audit & Supervisory Board Member's duty. The amount of the limitation on the damage compensation liabilities under the said contract shall be the amount provided by the relevant laws and regulations.

4 Accounting Auditor

(1) Name of Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Remuneration and Other Amounts to Accounting Auditor for This Term

		Amount
(i)	Remuneration and other amounts payable by the Company for the services defined in Paragraph 1, Article 2 of the Certified Public Accountants Act	67 million yen
(ii)	Total amount of cash and other financial benefits payable by the Company and its subsidiaries to the Accounting Auditor	78 million yen

Notes: 1 In the audit agreement between the Company and the Accounting Auditor, remuneration amounts are determined on a lump-sum without breakdown into a separate remuneration amount for auditing in accordance with the Companies Act and in accordance with the Financial Instruments and Exchange Law. Accordingly, the amounts shown in (i) above represent total amounts of remuneration and other amounts for both of these auditing services.

2 The Audit & Supervisory Board has received necessary documents and reports from the Directors, related internal divisions, and the Accounting Auditor, as well as confirming the audit plan, status of the performed audit for the previous term, and that the estimated remuneration is appropriate for the relevant term, etc. As a result, the Audit & Supervisory Board reached an agreement regarding the remuneration to Accounting Auditor, upon judging it to be a rational standard for maintaining the improvement of audit quality.

(3) Policy Regarding Decision to Either Dismiss or Not Reappoint Accounting Auditor

The Audit & Supervisory Board, by unanimous agreement, as needed, will dismiss the Accounting Auditor when confirmed that the Accounting Auditor falls under any Item of Paragraph 1, Article 340 of the Companies Act.

In addition to the above, should anything occur to negatively impact the qualifications or independence of the Accounting Auditor, making it unlikely that the Accounting Auditor will be able to properly perform an audit, the Audit & Supervisory Board will decide the contents of the item to be proposed at a General Meeting of Shareholders regarding the dismissal or refusal of reappointment of the Accounting Auditor.

Note: As described in (4) below, Ernst Young ShinNihon LLC was disposed by the Financial Services Agency of Japan, but the Company decided to re-appoint the said accounting firm as an accounting auditor, because it was confirmed there were no matters in the past audit which had been pointed out by the Agency as a reason for the disposition, and the quality of the audit was secured and it was confirmed that the said audit corporation had formulated and implemented an appropriate measures to respond to the disposition in question.

(4) Business Suspension Disposition to Which the Accounting Auditor Was Subject during the Past Two years

(i) Subject of disposition

Ernst & Young ShinNihon LLC

(ii) Contents of disposition

- Suspension of accepting new engagements : three months
  (From January 1, 2016 to March 31, 2016)
- Business improvement order (improvement of the operation control structure)

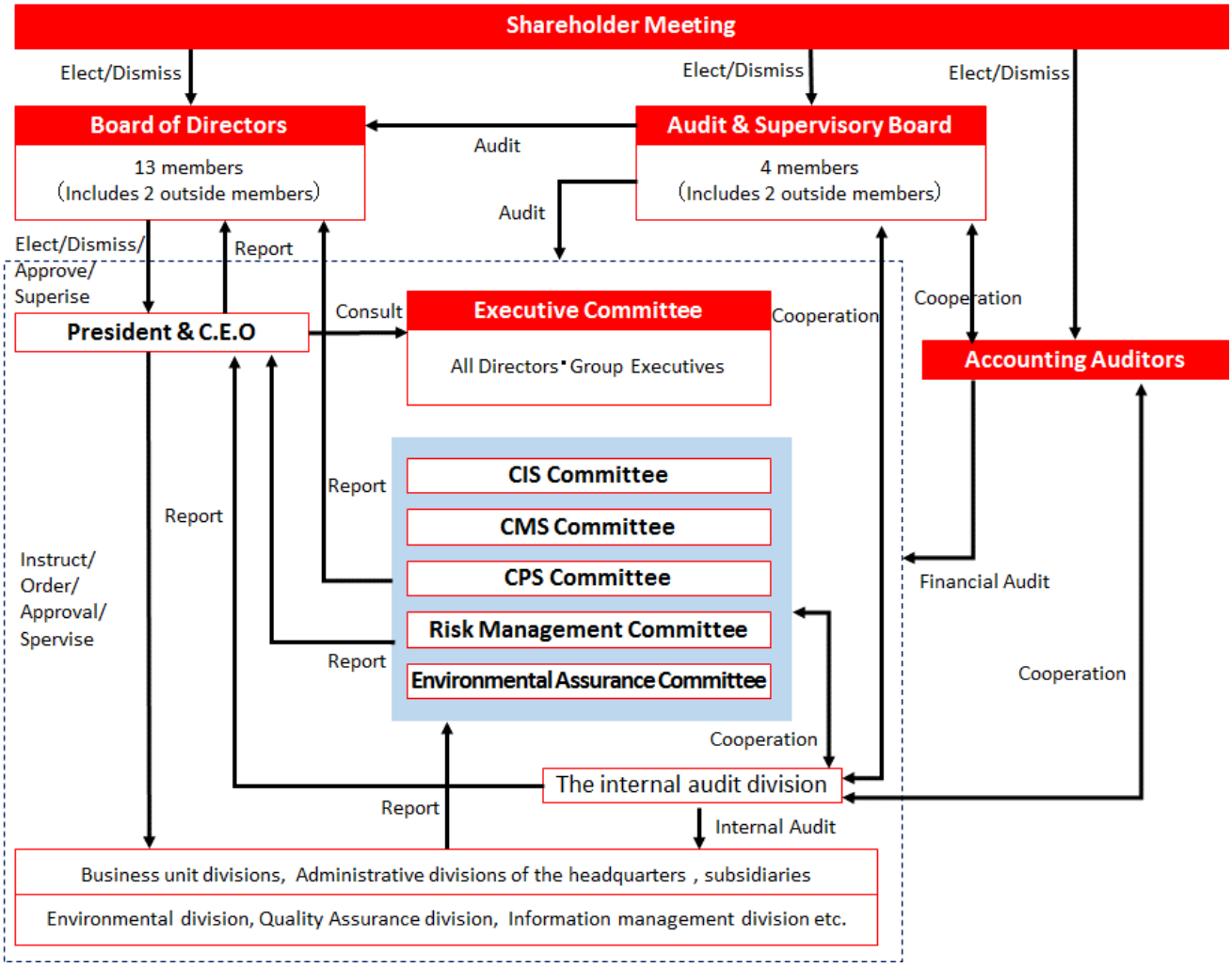
(iii) Reason for disposition

- In regard to the audit of financial statements for TOSHIBA CORPORATION in the fiscal year ended March 31, 2010, the fiscal year ended March 31, 2012, and the fiscal year ended March 31, 2013, the above mentioned auditing firm's certified public accountants, in negligence of due care, attested financial statements containing material false matters as those containing no material false matters.
- The above mentioned auditing firm's operation of the services was found to be grossly inappropriate.

5 Basic Policy Regarding Systems Necessary to Ensure the Properness of Operations (the "Internal Control System") as well as the outline of activities for the aforementioned systems

To ensure the properness of operations and to work for continuous improvement in corporate value, Canon Electronics Inc. (the "Company") and the enterprises consisting of the Company and its subsidiaries (the "Canon Electronics Group"), shall foster a law-abiding awareness based on the Spirit of "Three Selfs" (Self-motivation, Self-management, and Self-awareness) - a Canon universal principle - and "Canon Group Code of Conduct." Furthermore, the Canon Electronics Group shall firmly strive to ensure "management transparency" through clearly defined approval processes and authorities of the President & CEO and Chief/Group Executives of the Company as well as executive officers of each subsidiary of the Company.

(Reference) Corporate Governance Chart



1. System for Compliance as well as the outline of activities for the aforementioned system

(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)

(1). The Board of Directors shall make decisions on important Canon Electronics Group managerial matters after careful deliberation. Additionally, the Board of Directors shall have President & CEO and executive directors (collectively the "Directors etc.") give reports regarding their execution of duties.

(Outline of Activities)

During the current business term, 15 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 etc. in charge of major divisions concerning the execution of business.

(2). The Board of Directors adopted the "Canon Group Code of Conduct," as a standard for Directors etc. and employees to adhere in the execution of their duties. The Company shall promote compliance activities to develop law-abiding, independent and strong individuals with a high sense of ethics.

(Outline of Activities)

In addition to implementing compliance training that follows the Canon Group Code of Conduct, the Company established "Compliance Week", an event held once every six months to provide an opportunity for discussion on familiar risks of law-and-regulation violations by each respective workplace and to ensure thorough compliance awareness.

(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.

(Outline of Activities)

Through the Risk Management Committee's activities, risks were grasped, business processes were inspected and improved. The activity is described in (1), 2 below.

(4). The internal audit division of the Company, which has the authority to audit the execution of duties by Directors etc. and employees, shall also conduct audits regarding the status of compliance with laws and regulations and the Company's articles of incorporation.

(Outline of Activities)

Audit & Supervisory Board Members、the Accounting Auditors、the internal audit division (Internal Auditing Office) conducted audits and frequently exchanged information when necessary, they gave proposals for improvement to the management.

(5). If an act that violates laws and regulations, or the Company's articles of incorporation is discovered in the Canon Electronics Group, employees have the ability to anonymously report such fact to any Directors etc., including Outside Directors and outside Audit & Supervisory Board Members by means of a whistleblowing system. Additionally, the Company shall declare to prohibit any disadvantageous treatment of any whistleblower under its principle.

(Outline of Activities)

The Company disseminated the establishment of the contact counter for reporting internal problems and dealt with whistleblower reports. The Company also explicitly declared to prohibit any disadvantageous treatment of any whistleblower under its principle.

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 as well as the outline of activities for the aforementioned system

(Item 2, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)

(1). The Company established the Risk Management Committee in accordance with the basic policy regarding risk management. This Committee shall develop various measures with regard to improving the risk management system. These measures include the system for grasping any significant risks (violation of laws and regulations, inappropriate financial reporting, quality issues, worker's accident, natural disasters etc.) that the Canon Electronics Group may face in the course of business. Additionally, in accordance with any action plan that is approved by the Board of Directors, this Committee shall evaluate the status of improvement and implementation of the risk management system and report its findings to the Board of Directors.

(Outline of Activities)

Established under the Risk Management Committee are the following three subcommittees: "the Financial Risk Management Subcommittee", which is in charge of improving systems to ensure the reliability of financial reporting, "the Compliance Subcommittee", which is in charge of improving systems to ensure compliance of corporate ethics and major laws and regulations such as the antitrust law, the Foreign Exchange Control Law, the Labor Act, and "the Business Risk Management Subcommittee", which is in charge of improving systems to manage quality risks, information leakage risks and other significant business risks. These subcommittees carried out evaluation based on their respective roles of the status of improvement and implementation of Canon Electronics Group's risk management system. The result of such evaluation did not discover any major flaws in the system.

(2). Even if the authority to decide certain items is delegated from the Board of the Directors to the President & CEO, the Executive Committee and Management Committees shall carefully deliberate those items in cases that are considered particularly important.

(Outline of Activities)

Various items of Canon Electronics Group's business were carefully reported and deliberated, and decided at the Executive Committee (Keiei Kaigi) which was held 12 times in the current business term as well as a meeting attended by the executives of the Canon Electronics Group held every month and a meeting attended by the group executives of the Company.

3. System for Efficient Execution of Duties as well as the outline of activities for the aforementioned system

(Item 3, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)

(1). Directors etc. shall execute shared duties under the supervision and direction of the President & CEO.

(Outline of Activities)

The President & CEO and other Directors etc. executed the duties including the settlements of account allocated to them in accordance with the related regulations.

(2). The President & CEO shall formulate mid-term management plans. Based upon these plans, the President & CEO shall manage operations from a unified group approach.

(Outline of Activities)

The President & CEO decided on a mid-term management plan and necessary measures, which has been decided based on discussions with group executives of the Company and the executives of the subsidiaries in Japan and overseas, and ensures the cohesion of the Group's corporate management.

4. System for Group Management as well as the outline of activities for the aforementioned system

(Item 5, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)

In accordance with the basic policy of group companies management, prescribed by the Board of Directors of the Company regarding important decisions of subsidiaries, the Company strengthens the internal control system of the Canon Electronics Group by setting following items that require obtaining approval from the Company or report to the Company.

The items are as follows:

a. to obtain prior approval from the Company or report to the Company on important decisions.

(Outline of Activities)

The Company received reports on certain subjects from subsidiaries and provided prior approval to subsidiaries at a meeting attended by the executive officers of the subsidiaries which was held every month.

b. to grasp significant risks that the subsidiary 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 basic policy regarding risk management".

(Outline of Activities)

In order to conduct evaluation of the status of improvement and implementation of the risk management system described in (1), 2 above, the subsidiaries being evaluated implemented evaluation of the respective targeted risks. The result of such evaluation did not discover any major flaws in the system.

c. to design an appropriate organization under the governing laws of incorporation and to clearly define approval processes and authorities of executive officers,

(Outline of Activities)

Each subsidiary performed, 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. The company established a system in which subsidiaries are required to obtain an approval from the Company for settlement of certain sum of money that are more than a predetermined amount. The result of such evaluation did not discover any major flaws in the system.

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 subsidiaries' articles of incorporation in the course of daily business and prepare a compliance education system as a part of the subsidiaries' risk management system.
(Outline of Activities)
In addition to the activities of (1), 2 above, each subsidiary conducted training and discussion as necessary and ensures utmost compliance.

e. to establish a whistleblowing system and declare to prohibit any disadvantageous treatment of any whistleblower based on its principle.
(Outline of Activities)
Each company established a whistleblowing system and totally prohibits any disadvantageous treatment of any whistleblower.

5. System for Storing and Managing Information as well as the outline of activities for the aforementioned system
(Item 1, Paragraph 1, Article 100 of the Enforcement Regulations of the Companies Act)

Information related to the execution of duties of Directors, 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 the relevant laws and regulations, and other related rules. Directors, Audit & Supervisory Board Members, and members of the internal audit division have the ability to inspect this information at any time.
(Outline of Activities)
During the current business term, whenever deemed necessary, Directors, Audit & Supervisory Board Members and members of the internal audit division perused or obtained copies of meeting minutes of the Board of Directors and the Executive Committee meetings, and other records such as settlement documents of the President & CEO for the execution of their duties.

6. System for Auditing by Audit & Supervisory Board Members as well as the outline of activities for the aforementioned system
(Paragraph 3, Article 100 of the Enforcement Regulations of the Companies Act)

(1). When Audit & Supervisory Board Members request the Company to assign employee to assist their duties, the Company shall appoint such employee. The employee is outside the control of Directors in respect of the duties of Audit & Supervisory Board Members to be assited,

though the employee hold a post concurrently. Any change in such employee shall require the prior consent of the Audit & Supervisory Board.

(Outline of Actions)

The employees of the administrative divisions of the headquarters, from time to time, assisted Audit & Supervisory Board Members.

(2). Audit & Supervisory Board Members shall grasp the execution of duties by Directors, attending not only meetings of the Board of Directors, but also other important meetings such as meetings of the Executive Committee and Risk Management Committee.

(Outline of Activities)

Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, in addition to attending almost all the Board of Directors meetings, also attended the Executive Committee meetings and the Risk Management Committee as necessary.

(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.

(Outline of Activities)

The managers in charge of the administrative divisions of the headquarters and its members reported to Audit & Supervisory Board Members in respect of the important matters and had discussion with the Members. In the current business term, there were no reports to Audit & Supervisory Board Members relating to serious violations of laws and regulations, or the like.

(4). Audit & Supervisory Board Members shall have accounting auditors periodically give reports.

(Outline of Activities)

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 the relevant laws and regulations, they also held hearings with the Accounting Auditor to inquire on the status of audits as necessary.

(5). Audit & Supervisory Board Members shall hold periodic meetings with counterparts of domestic subsidiaries of the Company 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 officers etc. of subsidiaries by making visiting audits at subsidiaries.

(Outline of Activities)

Audit & Supervisory Board Members drew up an annual audit plan and periodically perform visiting audits at subsidiaries. In addition, at the time of visiting audits at subsidiaries, Audit& Supervisory Board Members shared information with audit & supervisory board members of the subsidiaries individually.

(6). The Company shall declare to prohibit any disadvantageous treatment of any person that reports to Audit & Supervisory Board Members under its principle.

(Outline of Activities)

The company declared in the internal notification the establishment of the contact counter

for reporting internal problems to prohibit of disadvantageous treatment of any person that reports to Audit & Supervisory Board Members.

(7). The Audit & Supervisory Board shall draw up an annual audit plan and an annual budget covering the audit of the Company and its subsidiaries. And the Company shall secure necessary funds for the annual budget. When an outlay outside the budget is incurred, due to a special audit etc., the expense shall be reimbursed by the Company.
(Outline of Activities)
In the current business term, there were no shortfalls in the budget allocated for the implementation of audits in accordance with the audit plan.

Note: We have made a revision to this Systems for Compliance based on the resolution of the Board of Directors Meeting held on January 30th, 2017 in order to conform to the current situation of the Canon Electronics Group.

6 Basic policy regarding the determination of distribution of surplus as dividend etc.

The basic policy of the Company is to provide a stable return and actively return profits to shareholders, mainly in the form of a dividend, by enhancing internal reserve, actively developing business and strengthening constitution to increase the shareholders' value.

CONSOLIDATED FINANCIAL STATEMMENTS

Consolidated Balance Sheets

[Millions of yen]

	As of December 31, 2016	As of December 31, 2015 (Reference)
ASSETS		
Current assets:	63,905	61,957
Cash and deposits	16,270	19,729
Notes and accounts receivable-trade	22,394	21,488
Merchandise and finished goods	975	1,068
Work in process	2,233	2,039
Raw materials and supplies	76	90
Short-term loans receivable	20,000	15,000
Deferred tax assets	280	314
Other	1,673	2,227
Allowance for doubtful accounts	(0)	(0)
Non-current assets	39,266	39,822
Property, plant and equipment	34,409	34,628
Buildings and structures, net	11,935	12,708
Machinery, equipment and vehicles, net	4,299	4,212
Tools, furniture and fixtures, net	3,265	2,858
Land	14,618	14,493
Construction in progress	290	356
Intangible assets	1,447	1,221
Investments and other assets	3,408	3,972
Investment securities	565	763
Deferred tax assets	2,060	2,408
Other	782	800
Allowance for doubtful accounts	(0)	(0)
Total assets	103,171	101,780

	As of December 31, 2016	As of December 31, 2015 (Reference)
LIABILITIES		
Current liabilities	16,274	16,721
Accounts payable -trade	12,105	12,014
Accrued expenses	1,295	1,324
Income taxes payable	629	1,480
Provision for bonuses	377	373
Provision for directors' bonuses	27	33
Provision for loss on order received	188	65
Other	1,650	1,431
Non-current liabilities	5,381	6,519
Provision for directors' retirement benefits	230	247
Net defined benefit liability	4,878	5,979
Deferred tax liabilities	58	61
Other	213	230
Total liabilities	21,655	23,240
NET ASSETS		
Shareholders' equity	83,215	80,111
Capital stock	4,969	4,969
Capital surplus	9,595	9,595
Retained earnings	71,229	68,125
Treasury shares	(2,579)	(2,578)
Accumulated other comprehensive Income	(1,762)	(1,627)
Valuation difference on available-for sale securities	203	264
Deferred gains or losses on hedges	(40)	-
Foreign currency translation adjustment	719	832
Remeasurements of defined benefit plans	(2,645)	(2,723)
Non-controlling interests	63	55
Total net assets	81,515	78,539
Total liabilities and net assets	103,171	101,780

Consolidated Statements of Income

[Millions of yen]

	As of December 31, 2016	As of December 31, 2015 (Reference)
Net sales	83,290	89,373
Cost of sales	64,610	68,033
Gross profit	18,679	21,340
Selling, general and administrative expenses	10,602	10,816
Operating income	8,077	10,523
Non-operating income	128	186
Interest and dividend income	91	80
Other	36	105
Non-operating expenses	246	33
Foreign exchange losses	197	25
Other	48	7
Ordinary income	7,959	10,677
Extraordinary income	47	2
Gain on sales of investment securities	47	0
Other	0	1
Extraordinary losses	65	67
Loss on sales and retirement of non-current assets	1	10
Loss on valuation of investment securities	-	56
Loss on valuation of golf club membership	64	-
Profit before income taxes	7,941	10,612
Income taxes-current	2,087	3,044
Income taxes-deferred	292	610
Profit	5,561	6,957
Profit attributable to non-controlling interests	7	5
Profit attributable to owners of parent	5,553	6,951

FINANCIAL STATEMENTS

Balance Sheets

[Millions of yen]

	As of December 31, 2016	As of December 31, 2015 (Reference)
ASSETS		
Current assets	55,225	53,568
Cash and deposits	9,225	12,674
Notes receivable-trade	24	1,544
Accounts receivable-trade	21,006	18,647
Merchandise and finished goods	676	861
Work in process	1,600	1,516
Raw materials and supplies	54	55
Short-Term loans receivable	20,840	15,910
Accounts receivable-other	976	1,019
Deferred tax assets	272	312
Other	549	1,027
Non-current assets	48,912	49,271
Property, plant and equipment	31,079	31,079
Buildings, net	9,899	10,467
Structures, net	299	316
Machinery and equipment, net	3,044	2,680
Vehicles, net	20	26
Tools, furniture and fixtures, net	2,978	2,765
Land	14,572	14,493
Construction in progress	264	330
Intangible assets	571	468
Leasehold right	57	57
Software	487	392
Right of using facilities	18	8
Other	7	10
Investments and other assets	17,261	17,723
Investments securities	520	719
Shares of subsidiaries and associates	14,511	14,511
Long-term prepaid expenses	30	29
Deferred tax assets	1,467	1,705
Other	732	757
Total assets	104,138	102,839

	As of December 31, 2016	As of December 31, 2015 (Reference)
LIABILITIES		
Current liabilities	19,016	19,870
Accounts payable-trade	12,125	12,214
Short-term loans payable	4,000	4,000
Accounts payable-other	158	318
Accrued expenses	991	1,111
Income taxes payable	544	1,428
Accrued consumption taxes	229	19
Deposits received	402	410
Provision for bonuses	271	271
Provision for directors' bonuses	27	33
Other	265	64
Non-current liabilities	1,174	2,073
Provision for retirement benefits	931	1,816
Provision for directors' retirement benefits	230	247
Other	12	9
Total liabilities	20,191	21,943
NET ASSETS		
Shareholders' equity	83,793	80,642
Capital stock	4,969	4,969
Capital surplus	9,595	9,595
Legal capital surplus	9,595	9,595
Other capital surplus	0	0
Retained earnings	71,808	68,656
Legal retained earnings	129	129
Other retained earnings	71,679	68,527
General reserve	19,000	19,000
Retained earnings brought forward	52,679	49,527
Treasury shares	(2,579)	(2,578)
Valuation and translation adjustments	153	253
Valuation difference on available-for-sale securities	193	253
Deferred gains or losses on hedges	(40)	-
Total net assets	83,946	80,896
Total liabilities and net assets	104,138	102,839

Statements of Income

[Millions of yen]

	As of December 31, 2016	As of December 31, 2015 (Reference)
Net sales	74,137	80,127
Cost of sales	57,214	61,105
Gross profit	16,922	19,022
Selling, general and administrative expenses	8,642	8,697
Operating income	8,280	10,324
Non-operating income	83	151
Interest and dividend income	61	58
Other	21	92
Non-operating expenses	548	264
Interest expenses	11	12
Foreign exchange losses	529	246
Other	7	4
Ordinary income	7,815	10,211
Extraordinary income	47	1
Gain on sales of investment securities	47	-
Other	0	1
Extraordinary losses	65	64
Loss on sales and retirement of non-current assets	1	8
Loss on valuation of investment securities	-	56
Loss on valuation of golf club membership	64	-
Profit before income taxes	7,796	10,148
Income taxes-current	1,866	2,933
Income taxes-deferred	329	611
Profit	5,600	6,603

ACCOUNTING AUDIT REPORT OF ACCOUNTING AUDITOR ON CONSOLIDATED FINANCIAL STATEMENTS

(TRANSLATION)

Independent Auditor's Report

February 7, 2017

The Board of Directors
Canon Electronics Inc.

Ernst & Young ShinNihon LLC
Sayaka Shimura Certified Public Accountant
Designated and Engagement Partner
Ryo Kayama Certified Public Accountant
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Canon Electronics Inc. (the "Company") applicable to the fiscal year from January 1, 2016 through December 31, 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Canon Electronics Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended December 31, 2016 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

ACCOUNTING AUDIT REPORT OF ACCOUNTING AUDITOR
(TRANSLATION)

Independent Auditor's Report

February 7, 2017

The Board of Directors
Canon Electronics Inc.

Ernst & Young ShinNihon LLC
Sayaka Shimura Certified Public Accountant
Designated and Engagement Partner
Ryo Kayama Certified Public Accountant
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Canon Electronics Inc. (the "Company") applicable to the 78th fiscal year from January 1, 2016 through December 31, 2016.

Management's Responsibility for the Financial Statements and the Related Supplementary Schedules
Management is responsible for the preparation and fair presentation of these financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Canon Electronics Inc. applicable to the 78th fiscal year ended December 31, 2016 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

AUDIT REPORT OF AUDIT & SUPERVISORY BOARD

Audit Report

Regarding the performance of duties by the Directors for the 78th business term from January 1, 2016, to December 31, 2016, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

1. Auditing Methods Employed by the Audit & Supervisory Board Members and Audit & Supervisory Board and Details of Such Audit

(1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

(2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the internal auditing and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.

(i) Each Audit & Supervisory Board Member participated in the meetings of the Board of Directors and other important meetings, received reports from such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the headquarters and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received business reports from subsidiaries as necessary.

(ii) We periodically received reports from Directors, employees and others, requested explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the Business Report;

i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and

ii) the system stipulated in Item 1 and Item 3, Article 100, of the Enforcement Regulations of the Companies Act, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.

(iii) We examined the contents of the matters considered and the assessment and reason described in this Business Report under (a) & (b) of Item 5, Article 118 of the Enforcement Regulations of the Companies Act taking into account of the status of deliberations of the Board of Directors etc.

(iv) We monitored and verified whether the Accounting Auditor maintained their independence and implemented appropriate audits, and we received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that "System for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Company Accounting Regulations) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying detailed statements, the financial statements (balance sheet, statement of income, statement of changes in net assets, and notes to non-consolidated financial statements) and the accompanying detailed statements as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of equity, and notes to consolidated financial statements) for this business term.

2. Audit Results

(1) Results of Audit of Business Report and Other Relevant Documents

(i) We confirm that the business report and the accompanying detailed statements fairly represent the Company's conditions in accordance with the related laws and regulations and Articles of Incorporation.

(ii) We have found no significant evidence of wrongful act or violation of related laws and regulations, nor the Articles of Incorporation with regard to the execution of duties by the Directors.

(iii) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the description of the business report and the execution of duties by the Directors regarding the Internal Control System.

(iv) With respect to the transactions with Parent Company, etc. which are described in this Business Report, we have found no matters on which to remark in respect to the matters considered and the Board of Directors' assessment and reason as to the harm to the Company's profit.

(2) Results of Audit of financial statements and the accompanying detailed statements

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst Young ShinNihon LLC, are proper.

(3) Results of Audit of consolidated financial statements

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst Young ShinNihon LLC, are proper.

February 7, 2017

Audit & Supervisory Board, Canon Electronics Inc.
Audit & Supervisory Board Member Tatsuya Kawana
Audit & Supervisory Board Member Shunji Onda
Audit & Supervisory Board Member Shuji Iwamura
Audit & Supervisory Board Member Seiho Nakata

Note: Audit & Supervisory Board Members, Shuji Iwamura and Seiho Nakata are Outside Audit & Supervisory Board Members, as provided in Item 16, Article 2, and Paragraph 3, Article 335, of the Companies Act.

Those are the materials delivered pursuant to Article 437 and Article 444 of the Companies Act.

General Share Information

Business term	From January 1 to December 31 of each year
Ordinary general meeting of shareholders	March of each year
Record date for above	December 31 of each year
Record date for interim dividends	June 30 of each year
Record date for end-of year dividends	December 31 of each year
Manager of the register of shareholders / Account management institution for the special account(tokubetsu koza)	2-1,Yaesu 1-chome, Chuo-ku, Tokyo Mizuho Trust & Banking Co., Ltd.
Inquiries regarding share handing procedures	Should you have any inquiries about Address change, Requests for purchase or sale of shares less than one unit and Dividend transfer designation pertaining to shares of Canon Electronics Inc., please contact your securities company etc. Should you have any inquires about procedure for payment of accrued dividends or about the above procedures in cases where your shares are managed in a special account (tokubetsu koza), Mizuho Trust & Banking Co., Ltd. handles these procedures, so please contact as shown below. Stock Transfer Agency Department of Mizuho Trust & Banking Co., Ltd. 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507 Phone 0120-288-324(Toll free, available in Japan only)
Number of shares constituting one unit	100 shares
Method of public notice	Publication in The Nikkei
Stock exchange listings	Tokyo Stock Exchange (First Section)
Securities code	7739

Topics

Release of Handy Terminal PRea ST-300 (March)



The Company released a new grip type handy terminal for business use mainly targeted for logistics and warehouses market. The Company tried to meet the needs of the customer and it has a wireless communication and scanner function. Further, it is also excellent in robustness. In addition, it is a small, lightweight, easy-to-grasp, model with keys arranged considering the use with one hand. The Company will proactively engage in sales activities and aim to expand our market share.

Sponsorship to "2nd River Terrace Half Marathon - YASAI OKOKU SHOWA Village". (May)



In May 29th, 2016, 2nd River Terrace Half Marathon - YASAI OKOKU SHOWA Village was held at Showamura, Tone-gun, Gunma where our Akagi Plant locates. Under the blue sky on the day, over 1,500 runners ran through the fresh green Akagi Plateau. The Company has been sponsoring the marathon since the first event in 2015 year and Canon products were awarded to those with excellent results.

2016 Jun. Feb. Mar. Apr. May. Jun.

Release of SML FortiGate・FortiSandbox Trace Option (April)



By functionary linking "FortiGate" and "FortiSandbox" of Fortinet Japan K.K. and the Company's "SML", the Company has achieved the multiple defense security solution against security threats including targeted attack. The Company will continue to realize multiple defense security solution against the threat to computer security by linking SML to various products in the future.

* "FortiGate" and "FortiSandbox" are registered trademarks of Fortinet, Inc..

Social Contribution Activities ~ Environmental Conservation Activities by New Employees~ (April/December)





In April 22nd, 2016, at the Mitsumine Shrine in Chichibu-shi, Saitama, 35 new employees carried out environmental conservation activities. This activity has been continued since 2005 and aims to have them understand the importance of environmental conservation activities, while experiencing part of social contribution activities. The Company, as a part of its social contribution activities, supports the renovation of Mitsumine Shrine as well as sponsoring the Chichibu Night Festival (Chichibu Yomatsuri) which is the national important intangible cultural folk asset and which had been approved and registered as UNESCO's intangible cultural heritage in December of last year.

Acquisition of International Standard “Integrated Certification of ISO9001:2015” (July)



As for the quality management system, the Company has acquired international standard "Integrated Certification of ISO9001:2015" in July. The Company is aiming to realize a high-quality company by working on quality assurance activities targeting all quality of business activities, such as quality of service, quality of business, quality of employees, as well as product quality.

Holding “Canon Business Solution 2016 in Chichibu” (November)



In November 11th, 2016 Canon Electronics Business Systems Inc. held an exhibition of the Canon products and in-house developed products at its office in Chichibu Plant. Many customers came to visit, and they appealed to the high level of technical capabilities of Canon and Canon Electronics products and a large variety of product groups. They also proposed suggestions that will solve the problems of the customer.

Jul. Aug. Sep. Oct. Nov. Dec.

Sales start : Misato Photovoltaic Power Plant (August)



In August 8th, 2016, Misato photovoltaic power plant started selling solar power. It has a capacity of generating 942 kW on the roof of the plant and 1,187kW in the forest within the premises (generation volume 2.1 Million kWh per year, corresponding to 580 houses for ordinary household). The Company sells all the power generated to the electric power company based on the Renewable Energy Fixed Purchase Price System.

Release of New Document Scanner imageFORMULA ScanFront400 (December)



This product is equipped with a 10.1 inch large screen touch panel, and it is possible to transmit scanned data via the network, realizing a simple operation that does not require the operation on the PC. This is a product that responds to various needs such as digitization of documents and information sharing at financial institutions, medical institutions and government agencies, etc. where large volume of paper documents are handled.