Canon

Our

Challenges

ANNUAL REPORT 2011

for the year ended December 31, 2011

Canon Marketing Japan Inc.

The global Canon Group is active in a wide spectrum of **business fields in over 180 countries**. As part of the Canon Group, the Canon Marketing Japan Group integrates **sales, service and marketing for Canon products** in the Japanese market.

"**Beyond CANON, Beyond JAPAN**"—Under this vision for the future evolution of the Canon Marketing Japan Group, we will **diversify** beyond Canon while continuing to make Canon the nucleus of our activities, and we will **expand our horizons** beyond Japan while still making Japan our main focus.

Under our strategy for sustainable growth, we will bring global perspectives to the task of supplying our customers with optimal services and high-added value solutions. Our core assets for this **customer-focused approach to growth** will be the powerful management resources of the Canon Marketing Japan Group and Canon Inc.

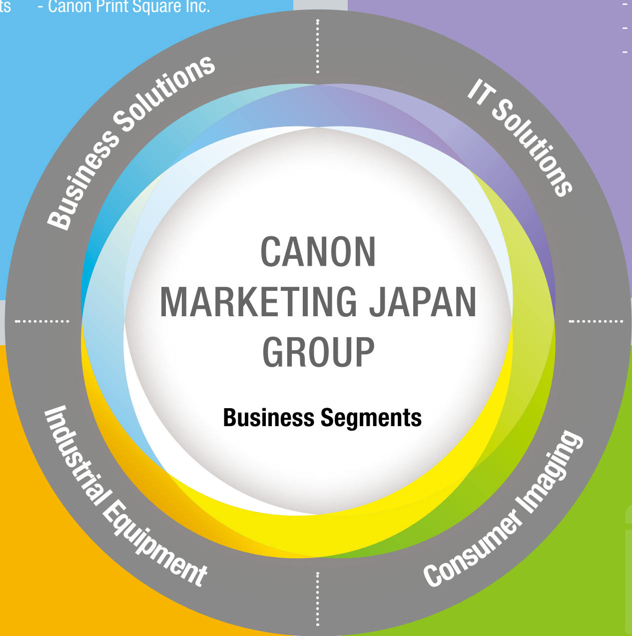
Contents

Embracing the **Challenge** of multi-way communication

Continual dialog with customers is the key to our ability to provide solutions that truly meet customer needs. We work closely with Canon Inc. and make a vital contribution to the Canon Group's manufacturing operations by ensuring that customer input is fed back to those working in research, development and production.

Our Operations

The strength of Canon products and the capacity of the Canon Marketing Japan Group to offer solutions will be the core drivers for our evolution into a service creation group capable of continually providing original added value in the global business arena.



Business Solutions

Performance

At ¥325.1 billion, net sales were 5.1% below the previous year's level. However, operating income was substantially higher year on year at ¥3.5 billion, thanks to cost-cutting efforts.

Major Products

- Business-use multifunctional products
- Laser printers
- Commercial printing systems
- Maintenance services
- Large-sized ink-jet printers
- Projectors and other products

Major companies / organizations

- Canon Marketing Japan Inc. Business Solutions Company
- Canon System & Support Inc.
- SHOWA INFORMATION SYSTEMS CO., LTD.
- OCE JAPAN CORPORATION
- Canon Print Square Inc.

IT Solutions

Performance

Net sales declined by 6.6% year on year to ¥124.5 billion. However, there was a moderate improvement in the operating loss, which was reduced to ¥3.1 billion.

Major Products

- System integration services
- Embedded software
- Solutions
- Infrastructure and outsourcing
- IT products

Major companies / organizations

- Canon Marketing Japan Inc. IT Product Promotion Headquarters
- Canon MJ IT Group Holdings Inc.
- Canon IT Solutions Inc.
- Canon Software Inc.
- Edifist Learning Inc.
- other 9 companies

Industrial Equipment

Performance

Net sales more than doubled compared with the previous year's result to ¥27.0 billion. However, there was little change in operating loss, which remained at ¥0.3 billion.

Major Products

- Industrial equipment
- Medical equipment
- Broadcasting equipment

Major companies / organizations

- Canon Marketing Japan Inc. Industrial Equipment Sales Headquarters
- ELK CORPORATION
- other 2 companies

Note: The result for 2011 have been recalculated to reflect a segment change in 2012

Consumer Imaging

Performance

Net sales were 14.8% lower year on year at ¥182.1 billion. Operating income declined by 13.3% to ¥8.5 billion.

Major Products

- Compact digital cameras
- Digital single-lens reflex cameras
- Digital video cameras
- Ink-jet printers
- Compact photo printers
- Calculators and other products

Major companies / organizations

- Canon Marketing Japan Inc. Consumer Imaging Company
- Canon Customer Support Inc.
- Canon Field Assist Inc.
- withPhoto Inc.

Note: The result for 2011 have been recalculated to reflect a segment change in 2012

To Our Stockholders and Stakeholders

"FY2011 was a very difficult year on many levels. However, the Canon Marketing Japan Group made its best efforts to meet every challenge and never abandoned its goals."

Chairman **Haruo Murase** (on left)

President **Masami Kawasaki** (on right)

In 2011, Canon Marketing Japan Inc. (Canon MJ), as well as our shareholders and stakeholders, had to cope with the wide-ranging consequences of a series of events that no one could have predicted. As a result of the Great East Japan Earthquake that struck on March 11, 2011, we were forced to announce changes to our financial forecasts on April 21 for FY2011 (the year ended December 31, 2011), which we had previously announced on January 26. October brought another disaster in the form of flooding in Thailand. This had a serious impact on Canon's manufacturing operations, causing major disruptions to supplies of digital cameras, which are a key product category. There were also severe problems with supplies of ink-jet printers during the critical year-end marketing season.

We responded to this challenging business environment by adjusting product supply plans, reviewing costs and expenses and implementing strategic marketing activities based on our Three-Year Management Plan. Ultimately we were able to achieve net income in excess of our initial target.

Canon MJ is currently working toward Long-Term Management Objectives covering the period between the years ending December 2011 and December 2015. While we can never predict with certainty what challenges may arise, we will continue to move forward steadily with our medium- and long-term growth strategies, never losing sight of our goals for 2015.

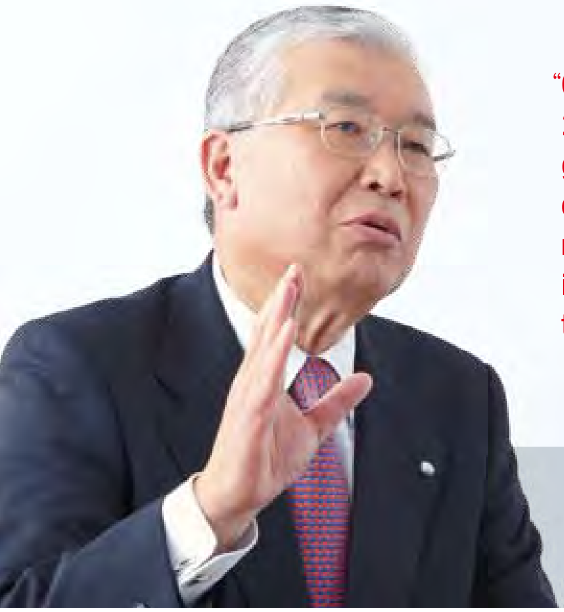
We are determined to achieve continuing growth in partnership with our shareholders and stakeholders, and we look forward to your continuing support and understanding.

Financial forecasts for the year ended December 2011

(Billions of yen)

	Announced January 26	Announced April 21	Final Results
Net sales	685	633	632.4
Operating income	9	0	8.4
Net income	4	(1.9)	6.8

Accepting the Challenge in our long-term management objectives



"Our consolidated net income for the year ended December 2011 was 82% higher than the previous year's result. This growth was achieved despite the many challenges that we encountered during the year, including product shortages resulting from the Great East Japan Earthquake and the floods in Thailand, and a decline in consumer confidence caused by the high yen and the European credit crisis."

President
Masami Kawasaki

Our business environment in 2011 was affected by extreme events that could not have been anticipated at the start of the year. However, we continued to move forward resolutely toward the realization of the three basic strategies defined in our Three-Year Management Plan for the period from FY2011 to FY2013.

Consolidated net sales were 6.2% below the previous year's level at ¥632.4 billion, but we were able to improve our gross profit margin by expanding sales of high-added value products. We also reduced selling, general and administrative expenses, including advertising budgets. As a result of these efforts, consolidated operating income increased by 9.1% year on year to ¥8.4 billion, while consolidated net income was 81.6% higher at ¥6.8 billion.

Canon MJ is involved in four business segments: Business Solutions, IT Solutions, Consumer Imaging and Industrial Equipment. Segment data show that net sales in the Industrial Equipment were substantially higher year on year, in part because of the conversion of ELK CORPORATION into a consolidated subsidiary. However, sales were lower in the other three segments.

Operating income from the Business Solutions segment was 53.0% higher year on year, while the result for the Industrial Equipment segment was similar to the previous year's figure. The figure for the Consumer Imaging segment was 14.7% lower. The operating loss in the IT Solutions segment was reduced by ¥0.6 billion.

Financial Highlights

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2008	2011
FOR THE YEAR:					
Net sales	¥ 632,419	¥ 674,159	¥ 686,615	¥ 827,487	$ 8,107,936
Operating income	8,442	7,736	6,297	25,416	108,231
Income (loss) before income taxes and minority interests	10,972	8,584	(595)	22,229	140,667
Net income (loss)	6,764	3,724	(4,343)	11,186	86,718
AT YEAR-END:					
Total assets	447,765	448,592	449,607	484,937	5,740,577
Total stockholders' equity	250,671	246,680	246,829	255,220	3,213,731
PER SHARE OF COMMON STOCK:	Yen				U.S. dollars (Note 1)
Net income (loss) (Note 2)	¥ 49.30	¥ 26.70	¥ (31.62)	¥ 78.63	$ 0.63
Cash dividends (Note 3)	20.00	20.00	20.00	40.00	0.26
Stockholders' equity	1,827.25	1,798.16	1,797.31	1,858.39	23.43

Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥78 to U.S.$1, the prevailing exchange rate as of December 31, 2011.
2. Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.

One of our priority strategies for the Three-Year Management Plan covering the period from FY2011 to FY2013 is to achieve top market shares for Canon products. In FY2011, we maintained Canon's leadership in the digital SLR camera market, but Canon slipped into second place in the ink-jet printer market, in part because of product shortages. We aim to maintain Canon's number one position in key product markets, or to reclaim that status as quickly as possible.

One of the key goals identified in the Three-Year Management Plan is the evolution of Canon MJ into a service company. To realize this goal, we will need to create innovative IT-based solutions that offer high added value, and integrate our capacity to provide strong product value and original solutions in all business domains.

In the area of IT services, we introduced a series of new cloud-type services in FY2011. We also commenced construction of a new data center, which is scheduled to open in the fall of 2012. In the consumer imaging category, we launched a new web-based service based on the use of photography to enhance customer satisfaction and create new demand. A key achievement in relation to business diversification was the announcement of our entry into the commercial photo printer market. We also strengthened our commercial printing business by converting OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD. to consolidated subsidiaries. The conversion of ELK CORPORATION into a consolidated subsidiary further strengthened and expanded our activities in the medical equipment business. We also made steady progress in other areas, including the announcement of our full-scale entry into the motion picture production equipment market.

Introducing the New Three-Year Management Plan (FY2012–FY2014)

Three Basic Policies under the Three Year Management Plan (FY2012–FY2014)

1. We will strengthen our collaboration with the global Canon Group and further enhance the solutions capabilities of the Canon MJ Group, so as to achieve overwhelming leadership for Canon products and establish them as No. 1 in terms of world market shares.
2. We will use the core competencies and know-how of the Canon Group and the Canon MJ Group to create original solutions with high added value.
3. We will contribute to the global Canon Group by moving forward with the complete revamping of the business model based on the "Beyond CANON, Beyond JAPAN" concepts.

Priority Strategies for the Long-Term Management Objectives
1. Expand the market shares of Canon products
2. Diversify business
3. Evolve into a service company
4. Further group management innovation "Beyond CANON, Beyond JAPAN"

Numerical Targets for FY2015	
Net sales	¥850 billion or higher
Operating income (margin)	¥42.5 billion (5%)
Income per share	¥185 or higher
Beyond CANON ratio (Note A)	30%
Beyond JAPAN ratio (Note B)	10%

Note A: Sales of products purchased externally and sales of original services as a percentage of total net sales
Note B: Overseas sales and sales of imported goods as a percentage of total net sales

Our Long-Term Management Objectives remain unchanged, including our determination to achieve new growth through business creation. We are determined to evolve into a service creation group capable of realizing our core philosophy of focusing on customer needs from a global perspective.

The Canon MJ Group remains fundamentally committed to its basic goals of achieving growth and the expansion of corporate value over the medium- to long-term future. Our efforts to achieve the Long-Term Management Objectives for the period from FY2011 to FY2015 and our targets for the final year of that period are guided by a Three-Year Management Plan, which is updated each year under a rolling review process to reflect changes in the business environment.

No one could have predicted the changes that affected the business environment in FY2011, and we cannot rule out further changes in the years ahead. However, we are determined to adapt appropriately and flexibly to change so that we can move forward to achieve our targets for FY2015, the final year of the period covered by the Long-Term Management Objectives.

We will continue to work toward the realization of the Long-Term Management Objectives by pursuing the three basic strategies of the Three-Year Management Plan. We will also move forward on the achievement of top market shares for Canon products, the evolution of Canon MJ as a service company, and business diversification, as expressed in the "Beyond CANON" concept.

In FY2012, we face a number of downside risk factors, including the persistently high value of the yen and the deceleration of the world economy due to the debt crisis in Europe. On the positive side, the post-earthquake reconstruction process is generating demand in Japan, and product supplies are expected to return to normal following the resumption of production operations in Japan and Thailand. Based on these forecasts, the Canon MJ Group will continue to move forward resolutely toward the achievement of targets for FY2015 through the implementation of the Three-Year Management Plan for FY2012-2014.

Our priority strategies under the current Three Year Management Plan are as stated below. Details of our tactics can be found in the individual segment sections.

Business Solutions
- Increase earning performance in the document segment
- Expand the production printing business

IT Solutions
- Implement structural reform to improve profitability
- Strengthen and expand of outsourcing business
- Pursue active global business development

Consumer Imaging
- Pursue total No. 1 strategy
- Strengthen and grow new businesses

Industrial Equipment
- Expand industrial equipment business
- Aggressively expand medical equipment business

FY2012 performance forecasts and future investment plans look ahead.

We regard FY2012 as a year in which we will move forward toward the achievement of our goals for FY2015 by watering the seeds that we have already planted and sowing new seeds for the period beyond FY2015.

Many uncertainties still cloud the outlook for the business environment. However, we have set targets for FY2012 of consolidated net sales of ¥717 billion, consolidated operating income of ¥12 billion, and consolidated net income of ¥7 billion. Our plans for the period from FY2012 to FY2014 call for investment cash flows of ¥100 billion based on three-year operating cash flows of ¥85.5 billion. We plan to undertake strategic investments in M&A, cloud IT infrastructure, data centers and new business areas. With an equity ratio of 56.0% and in-hand cash flows of ¥102.4 billion at the end of FY2011, our financial position remains sound.

Growth strategies based on medium- and long-term perspectives, for sustained growth in shareholder value.

Long-term perspectives have consistently guided the management policies of the Canon MJ Group. That is why we have made the fulfillment of our corporate social responsibilities as a member of the global community a core element in our approach to sustainable management. While focusing on medium- to long-term growth, we also recognize the distribution of income to shareholders as our most important priority. Our basic dividend policy calls for the maintenance of stable dividends, and we aim to achieve a consolidated payout ratio of about 30%. In line with our commitment to dividend stability, we have set the annual dividend for the current year at ¥20 per share, which represents a payout ratio of 40.6%.

We hope that shareholders and investors will continue to support the management policies and business approach of Canon MJ, so that we can move forward together to achieve long-term growth.

FTSE4Good MS-SRI

Canon MJ's strong commitment to CSR is reflected in our inclusion in FTSE4Good and MS-SRI.

Under the slogan "Enjoy! Photo & Movie," we offer consumers new ideas for photographic enjoyment based on our extensive range of products and services. We also share customer feedback with Canon Inc. for use in the development and production of new high-added-value products and services as part of our continuing quest for leadership in terms of market share.

Overcoming Challenge to be the **No. 1** company in customer satisfaction and market share

Marketing efforts centering on the entry-level EOS Kiss X5 helped Canon maintain its position as the leading manufacturer of digital single-lens reflex cameras on an annual sales basis.

EOS Kiss X5

Maintaining No. 1 Share in Digital Cameras

Important Memories

Canon MJ will continue to supply products to meet a wide variety of consumer needs, including digital still and video cameras capable of creating vivid records of happy, emotion-filled moments, and easy-to-use printers that allow users to edit and print their images and videos.

Creative Expression

PHOTOPRESSO

The PHOTOPRESSO service provides a simple way for users to order beautifully bound and finished photo books resembling commercial publications.

Photography Enjoyment

The “withPhoto” web services were created to enhance users’ enjoyment of photography in their lifestyles. There are services and functions for a wide range of lifestyle situations, including travel and family life.

withPhoto

Fast Response

As part of our commitment to customer satisfaction, we offer many ways to access after-purchase services, including service centers and online support pages.

Customers First

Meeting the Challenge of new-business development in a competitive global environment

Our goals under the “Beyond CANON, Beyond JAPAN” concept are to increase sales by at least ¥100 billion over the 2010 result through diversification, and to raise the service business ratio (sales of non-hardware products, excluding consumables, as a percentage of total net sales) to 45% by 2015. We will drive our evolution into a service-creation business group by carefully nurturing each of the seeds that we have planted as the basis for business diversification and our evolution as a service company.

Growth

Expanding the

Medical Equipment Business

Our aim in acquiring ELK CORPORATION as a consolidated subsidiary in June 2011 was to expand sales through cross-selling of Canon medical products and ELK products. We are also committed to the dynamic expansion of the medical business, including the start-up of new businesses and global marketing of ELK products.

Strengthening the

Commercial Printing Business

In June 2011, we completed the acquisition of OCE JAPAN CORPORATION as a wholly owned subsidiary and SHOWA INFORMATION SYSTEMS CO., LTD. as a consolidated subsidiary. These two companies give us access to powerful marketing and service organizations and excellent customer bases. We will use these assets to expand our commercial printing business, including equipment sales.

Commercial Imaging Equipment Business

In November 2011, we signaled our full-scale entry into the video production equipment market, which includes motion pictures and TV commercials, with the announcement of the CINEMA EOS SYSTEM.

Overseas Operations

In March 2012, we established Canon Advanced Technologies Taiwan Inc. The creation of this Taiwan-based company, which will be involved in the marketing of semiconductor fabrication, inspection and measurement systems, represents a new step toward the development of our global business activities.

A next-generation data center scheduled to commence service provision in October 2012 will be the core facility for our efforts to expand our outsourcing business.

Business Process Outsourcing and Cloud Services

Business Solutions

(Billions of yen)

Performance (Years ending December 31)	2010	2011	2012 (Forecast)
Net sales	342.5	325.1	352.0
Operating income	2.3	3.5	3.5

Key Strategies

We will expand the number of pages printed by expanding MIF (Machines in field) for office multifunction products and laser printers.

We aim to improve the productivity of the document business by reducing the number of sales and service personnel by around 10% from the FY2010 level by FY2014. We also aim to achieve sustained improvement in earning performance by creating stock-type businesses in this segment.

We aim to achieve sales of ¥60 billion from the commercial printing business in FY2015 through strategies that include the maximization of synergy benefits with our group companies, OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD., and the expansion of sales of digital commercial printing equipment and large-format printers.

Performance and Key Trends

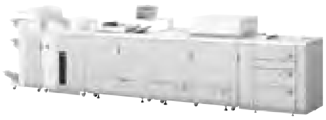
Office Multifunction Products (MFPs)

Sales of office multifunction products (MFPs) were substantially lower in the first half of the year because of shortages, stemming from the Great East Japan Earthquake, of the flagship imageRUNNER ADVANCE 5000 and imageRUNNER ADVANCE 2000 series. Second-half sales exceeded the result for the same period in the previous year, thanks to the recovery of product supplies and increased sales. However, the total for the whole year was lower year on year.

Laser Printers

Factors contributing to a year-on-year increase in laser printer shipments included the expansion of special commercial applications, and the closing of major deals. However, sales were lower because of an increase in the percentage of low-priced products.

“Last year, following the major earthquake and tsunami disaster, the entire Canon MJ organization united to expand sales activities, and ultimately achieved income growth. Our challenge in the current year is to surpass last year’s income result. We are working to expand sales of equipment, especially MFPs, while also intensifying our efforts to reduce costs.”



imagePRESS C7010VP

This printer combines all of Canon's unique digital photography technology to create high-quality, high-resolution output for all needs, from commercial printing to corporate in-house publishing.

imageRUNNER ADVANCE C2030F

The most compact, space-saving color system yet produced, this model features a highly intuitive user interface and a variety of personalization options.

Satera LBP8630

Capable of printing 37 pages a minute, this environment-friendly A3 monochrome laser printer is ideal for smaller offices.

Large-Format Ink-jet Printers

Sales of large-format printers capable of printing on A1 paper remained strong, especially in the CAD and poster printing markets.

Maintenance Services, Document Services

Despite steady demand for printing, sales of maintenance services failed to reach the previous year's level because of lower unit prices. The profitability of this business improved, however, because of sustained efforts to reduce costs.

Net sales from the Business Solutions segment in FY2011 amounted to ¥325.1 billion, a year on year decline of 5.1%. However, operating income was substantially higher than previous year's result at ¥3.5 billion because of cost-cutting efforts.

Measures and Developments

Counter-Attack in the MFP and Laser Printer Markets

We aim to expand sales of MFPs by improving our solutions proposal capabilities. We also aim to use synergies with OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD. which joined the Canon MJ Group last year, to drive major growth in sales of production equipment.

Improving Productivity in the Document Business

In the area of maintenance services, we will continue our efforts to improve both profitability and customer satisfaction by introducing Internet-based remote management systems, expanding IT support services for small and medium offices, and reducing staffing levels.

Outlook for FY2012

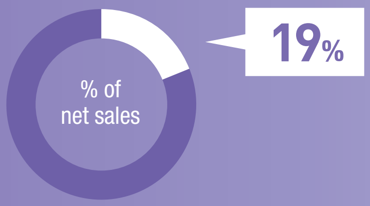
The Business Solutions segment is one of the core business areas that support the earnings of the Canon MJ Group. By establishing and strengthening our position in the markets for office MFPs and laser printers, which are our flagship product categories, we will help to maintain the number one status of the Canon brand. In the commercial printing area, we will take full advantage of synergies with OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD., which became part of the Canon MJ Group last year, to drive the expansion of our commercial printer business.

The targets for this segment in FY2012 are net sales of ¥352.0 billion and operating income of ¥3.5 billion.

IT Solutions

(Billions of yen)

Performance (Years ending December 31)	2010	2011	2012 (Forecast)
Net sales	133.3	124.5	134.9
Operating income	(3.7)	(3.1)	(1.3)



Key Strategies

We aim to achieve an operating margin of 4.7% in FY2014 by restructuring and consolidating the Group's organizations and business sites, and by reducing personnel by around 8% from the FY2010 level by FY2014.

We aim to increase the contribution from stock-type IT service businesses, such as high-added-value cloud services, system operating services and business process outsourcing, to at least 29% by FY2015. The core facility for these activities will be a next-generation data center that will begin to provide services in October 2012.

We will work with the Canon Group and overseas companies in the global Canon Group to expand the contribution from global business activities in this segment to at least 15% by FY2015.

Performance and Key Trends

Business conditions for the IT Solutions segment remained generally difficult. Users continued to reduce and postpone IT investment because of the effects of the earthquake and the persistently high value of the yen.

SI Service Business

There was firm demand for individual system development for financial institutions and companies in the distribution and service industries. However, demand for embedded software development was slow.

Solutions Business

We recorded firm trends in the area of security solutions, but orders for integrated backbone systems (ERP) and backbone system migration were lower year on year.

"Multiple natural disasters, combined with the high yen and other factors, resulted in slow investment in information technology last year. This situation was reflected in our business results. In the current year, we are determined to achieve a V-shaped recovery trend by implementing decisive restructuring measures."

Remote Operation Center

We provide advanced system operating services and data center services to ensure that our customers' systems can be used with optimal safety throughout their lifecycles. We also offer a full range of support for system installation and operation, including ITO and BPO services.

Our high-quality, one-stop system operations and management services are available 24/365 to meet customer needs throughout the lifecycles of their systems.

Infrastructure Outsourcing Business

There was firm demand for infrastructure-related development services, such as network storage, and maintenance services.

IT Products Business

Sales were lower year on year because of a slowdown in the business PC market and a major review of trading in unprofitable products.

Net sales in this segment were 6.6% lower year on year at ¥124.5 billion. The operating loss was moderately lower than in the previous year at ¥3.1 billion.

Measures and Developments

Improving Earning Potential through Group Restructuring

Through its IT Solution segment, the Canon MJ Group owns 12 consolidated subsidiaries (as of January 2012), including one Chinese subsidiary. We have formulated a program to restructure and consolidate duplicated activities among these subsidiaries, and to centralize head office and management functions that are duplicated within the Group. In FY2012, we will implement measures to reduce costs, including the consolidation of 11 business sites belonging to eight companies into three sites. Work force restructuring measures will also be implemented to reduce the number of employees by approximately 8% from the FY2010 level by FY2014. Through these measures, we aim to achieve an operating margin of 4.7% in FY2014.

Reinforcement and Expansion of Outsourcing Business

A next-generation data center scheduled to commence service provision in October 2012 will play a core role in the reinforcement of our system operating services, cloud services and business process outsourcing (BPO) services as part of our efforts to increase the contribution from stock-type IT services to the IT solutions business. Our target is to increase this contribution to at least 29% by FY2015.

Dynamic Expansion of Global Business Activities

We will raise the Beyond JAPAN ratio to at least 15% by providing support for the internal systems of companies in the global Canon Group, by developing global business activities in collaboration with the Canon Group, and by expanding our solutions business activities targeting Japanese and local companies in Asia.

Outlook for FY2012

We will work steadily to improve project profitability and reduce costs through restructuring, while also building the outsourcing business into a core part of our income base for the medium- to long-term future. Our performance forecasts for this segment in FY2012 are net sales of ¥134.9 billion and an operating loss of ¥1.3 billion.

Consumer Imaging

(Billions of yen)

Performance (Years ending December 31)	2010	2011	2012 (Forecast)
Net sales	213.8	182.1	212.5
Operating income	9.8	8.5	9.3

Note: The results for 2011 have been recalculated to reflect a segment change in 2012.

Key Strategies

We will work to build number one market shares for key Canon products while also enhancing customer satisfaction.

We aim to achieve net sales of ¥10 billion from the commercial imaging equipment business in FY2015, primarily in the motion picture and production markets and the broadcasting industry.

We will develop and expand service businesses, including new content businesses based on the provision of ideas for new photography-linked lifestyles.

Performance and Key Trends

This segment was seriously affected by product shortages resulting from the Great East Japan Earthquake in March and the October floods in Thailand.

Digital SLR Cameras

In volume terms, sales of digital SLR cameras fell below the previous year's level. However, we maintained our top share in the domestic market thanks to marketing efforts centering on the EOS Kiss X5, which was launched in March 2011.

Compact Digital Cameras

Total shipments in the domestic market for compact digital cameras were substantially lower year on year. We launched a number of new high-resolution, high-quality models with high unit prices, including the IXY

"Last year we were seriously affected by the earthquake, flooding in Thailand and other events. This year we are keen to make up for lost time by deploying new products at a faster-than-normal pace and securing number-one positions in existing business areas. Another priority is the early start-up and reinforcement of our new commercial imaging equipment business."

EOS Kiss X5

This high-performance entry-level digital SLR camera combines an 18-megapixel CMOS sensor with the DIGIC4 imaging engine. It is packed with features to make photography easy and fun, including fully automatic shooting and video recording.

IXY 600F

Features of this compact digital camera include the HS System for optimized shooting in low-light situations, the Multi-Scene IS advanced camera-shake correction system, and an 8x optical zoom lens.

PIXUS MG6230

In addition to wireless LAN support, the “Intelligent Touch” system and a silent mode, this printer also has the ability to print cloud-based photographs and data without using a computer.

600F in September 2011 and the PowerShot S100 in December. However, the earthquake in Japan and the floods in Thailand inevitably affected the market, and sales volumes were lower year on year.

Digital Video Cameras

Our priority in this market was the development of new demand based on the appeal of the superb high-resolution images created by our cameras, especially the iVIS HFM43/41 cameras with the high-performance HD CMOSPRO CMOS sensor.

Ink-jet Printers

Strong consumer and business demand helped to maintain a healthy trend in shipment volumes until September. However, problems caused by the floods in Thailand had a serious impact on sales during the peak demand season in November and December.

Net sales in the Consumer Imaging segment were 14.8% lower year on year at ¥182.1 billion. Operating income declined by 13.3% to ¥8.5 billion.

Measures and Developments

Aiming for a Number-One Market Share in the Digital Camera Market

We will combine the aggressive introduction of new digital SLR cameras and exchangeable lenses with optimized marketing targeted toward specific user profiles. Our priority in the compact digital camera category will be the marketing of products with high-added-value features, such as high sensitivity, resolution and zoom capabilities. Our goal is to maintain or restore Canon’s position as number one in terms of market share in each product category.

Recovery in the Ink-jet Printer Category

Ink-jet printer sales in FY2011 were severely affected by the floods in Thailand. In FY2012, we are planning much larger shipments than in FY2011. Sales of consumables are expected to be similar to the figures for FY2011.

Full-Scale Entry into the Motion Picture Production Equipment Market

In November 2011, we launched the CINEMA EOS SYSTEM, which is designed to capture high-quality images. In January 2012, we transferred the commercial imaging equipment business from the Industrial Equipment segment to the Consumer Imaging segment.

New Photography-Linked Lifestyle Ideas

In August 2011, we launched the “withPhoto” web services, which support the use of photographs for a wide range of purposes. Targeted toward individual users, the system includes photo storage and processing services.

Outlook for FY2012

The core mission for the Consumer Imaging segment is to establish key Canon brand products as leaders in terms of market share while also strengthening our commitment to user needs. By aggressively launching new products and implementing effective marketing strategies, we aim to achieve net sales of ¥212.5 billion and operating income of ¥9.3 billion.

Industrial Equipment

(Billions of yen)

Performance (Years ending December 31)	2010	2011	2012 (Forecast)
Net sales	13.4	27.0	39.1
Operating income	(0.2)	(0.3)	0.1

Note: The results for 2011 have been recalculated to reflect a segment change in 2012.

Key Strategies

We will expand sales of equipment for various markets, including the semiconductor and LED industries, and establish new businesses targeting the environmental sector.

We aim to increase medical-related sales to ¥60 billion by FY2015 through the expansion of group synergies and the development and reinforcement of the medical solutions business.

Performance and Key Trends

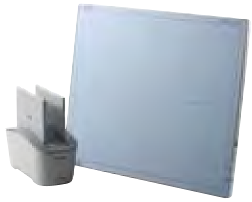
Industrial Equipment

Semiconductor manufacturers were generally hesitant about investment in facilities and equipment. However, firm trends in some areas of the industry helped to maintain strong sales of semiconductor fabrication equipment and wafer inspection systems, with the result that sales of industrial equipment were substantially higher year on year.

Medical Equipment

Shipments of digital X-ray systems increased, but unit prices continued to fall under pressure from escalating competition. In addition, shipments of ophthalmological equipment were lower year on year. Despite these trends, the total sales of medical equipment were dramatically higher year on year

"Three year planning identifies the industrial equipment segment as having the highest potential growth rate. To build a platform for steady growth, last year we added ELK CORPORATION to the group, and this year we will establish a subsidiary in Taiwan. We are determined to pursue sustained expansion of this business."



CXDI-70C Wireless

This is Canon's first wireless X-ray imaging device*. For enhanced usability, data can be transferred wirelessly to a computer.

* The battery and charger are shown at left.

ES-700

ELQUEST CORPORATION's high-speed, low-temperature hydrogen peroxide gas sterilizer can reliably sterilize complex shapes and cavities, even packaging, by gasifying hydrogen peroxide at the molecular level.

Mattson Helios

Manufactured by Mattson Technology, the Helios is a high-performance, low cost-of-ownership lamp annealing system that provides optimal solutions for advanced 300mm mass-production needs.

thanks to the conversion of ELK CORPORATION into a consolidated subsidiary in June.

Broadcasting and Imaging Equipment

There was a significant increase in sales, especially of security and other types of monitoring cameras. This resulted from a resurgence of capital investment by broadcasting companies.

As a result of these factors, net sales in the Industrial Equipment segment doubled year on year to ¥27.0 billion. However, the operating loss was similar to the previous year's result at ¥0.3 billion.

Measures and Developments

Acquisition of ELK CORPORATION

In June 2011, ELK CORPORATION became a consolidated subsidiary. We aim to achieve major sales growth by expanding sales of both Canon and ELK products, and by expanding new businesses made possible by collaboration between Canon and ELK.

Development and Reinforcement of Medical-Related Group Companies

We will move quickly to establish and develop a medical solutions business by strengthening our capacity to propose new concepts relating to medical systems.

Enhancing Marketing in the Semiconductor Equipment Market

The semiconductor and LED industries are promising markets for Canon. We aim to achieve sales growth in this area through increased transactions in fabrication, inspection and measurement systems.

In March 2012, we took a new step toward the development of our global business activities with the establishment of Canon Advanced Technologies Taiwan Inc. This Taiwan-based company will be involved in the marketing of semiconductor fabrication, inspection and measurement systems.

Outlook for FY2012

We expect sales of industrial equipment, including imported equipment, to exceed the previous year's result. This prediction reflects continuing firm trends in capital investment in some parts of the semiconductor industry, as well as strong demand for semiconductor fabrication, inspection and measurement systems.

Sales of medical equipment are expected to be significantly higher, not only because of increased sales of new and existing products thanks to collaboration with ELK CORPORATION , but also because of the expansion of ELK CORPORATION's healthcare-related activities, which include sales of compounding and sterilization equipment.

From FY2012 onwards, the commercial imaging equipment business will be part of the Consumer Imaging Segment.

Based on these factors, we expect this segment to yield a positive income result in FY2012. Our net sales target is ¥39.1 billion.

CSR Activities
Earning the Trust of People and Society

We see CSR as an integral part of our marketing activities. We believe that CSR consists of listening to the needs and wishes of a wide range of stakeholders, including customers, shareholders, investors, business partners, employees, communities and the global environment, and working in good faith to respond to those needs and wishes.

Kyosei—Translated as “living and working together for the common good,” this single Japanese word encapsulates the corporate philosophy of the global Canon Group. We aim to earn the trust of all people and of society through activities based on this philosophy and guided by our “Three Selfs” spirit, which calls for self-motivation, self-managment and self-awareness.

CSR Awareness

Our participatory approach to CSR is based on the sharing of the Canon MJ Group’s CSR philosophy and values by all employees, and on a commitment to accurate knowledge. Our efforts to foster CSR awareness in our employees are coordinated by the CSR Promotion Division.

The “Three Selfs” Spirit

Our “Three Selfs” spirit is a code of conduct that dates back to the founding of Canon and is part of our corporate DNA. The code states that employees should take an active approach to every situation (self-motivation), maintain self-control (self-management) and be fully aware of their position, role and situation (self-awareness). The Three Selfs spirit is the foundation for our CSR activities.

THE GLOBAL COMPACT

United Nations Global Compact

In December 2009, Canon MJ signed the UN Global Compact. Under this initiative, companies commit themselves to universal principles relating to human rights, labor standards, the environment and the prevention of corruption. The underlying principle is that companies should work to solve global problems through responsible corporate activities. By reflecting this principle in our business activities, we will contribute to the realization of a better and more sustainable society.

We are continually strengthening our environmental management infrastructure through improvements to our environmental vision and management systems. Our goal is to reduce environmental loads resulting from our own business activities and the activities of our customers and society.

Environmental Vision—Future Forest 2015

Based on the Canon Group's "Action for Green" environmental vision, the "Future Forest 2015" concept embodies the environmental vision for the Canon MJ Group. Our commitment to the Kyosei philosophy is reflected in our determination to contribute to the creation of a society capable of achieving affluence while living in harmony with the global environment, including respect for biodiversity and all life on the planet, and the preservation of forests and traditional communities for future generations.

We will achieve these goals by maximizing our resource efficiency to reduce the amount of resources used in our business activities, and by working with society and our customers to reduce environmental loads through the use of the products and IT solutions that we provide.

Green Ratio Target Achieved in 2010

In 2010, we achieved a dramatic reduction in the absolute quantity of CO_2 emissions resulting from our activities by further intensifying efforts to cut energy consumption in our office and logistics operations. We also significantly expanded our contribution to the reduction of CO_2 emissions by helping our customers to cut emissions. One of the ways in which we achieved this was through expanded sales of the new imageRUNNER ADVANCE. As a result of these efforts, our Green Ratio in 2010 was 1:2.9. Our Green Ratio target of 1:2 or higher for 2015 takes into account the opening of a new data center in 2012.

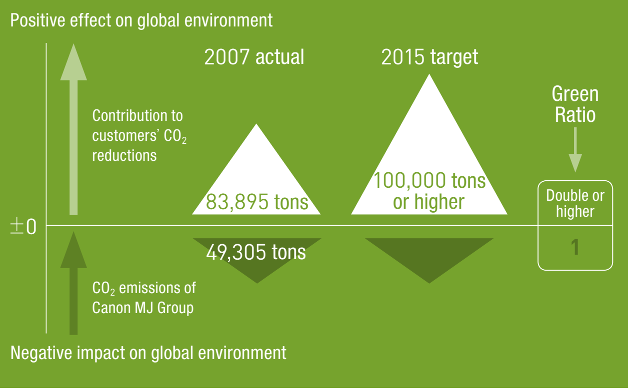
Green Ratio for 2010: 1:2.9

Setting the Green Ratio Target

In addition to the reduction of CO_2 emissions from the business sites and logistics activities of the Canon MJ Group, we also help our customers to reduce their CO_2 emissions. Our target for the Green Ratio, which we define as the ratio between our emissions and those of our customers, is that our contribution to the reduction of CO_2 emissions by our customers should be at least 100,000 tons and at least double our own CO_2 emissions.

Target for CO_2 Reduction

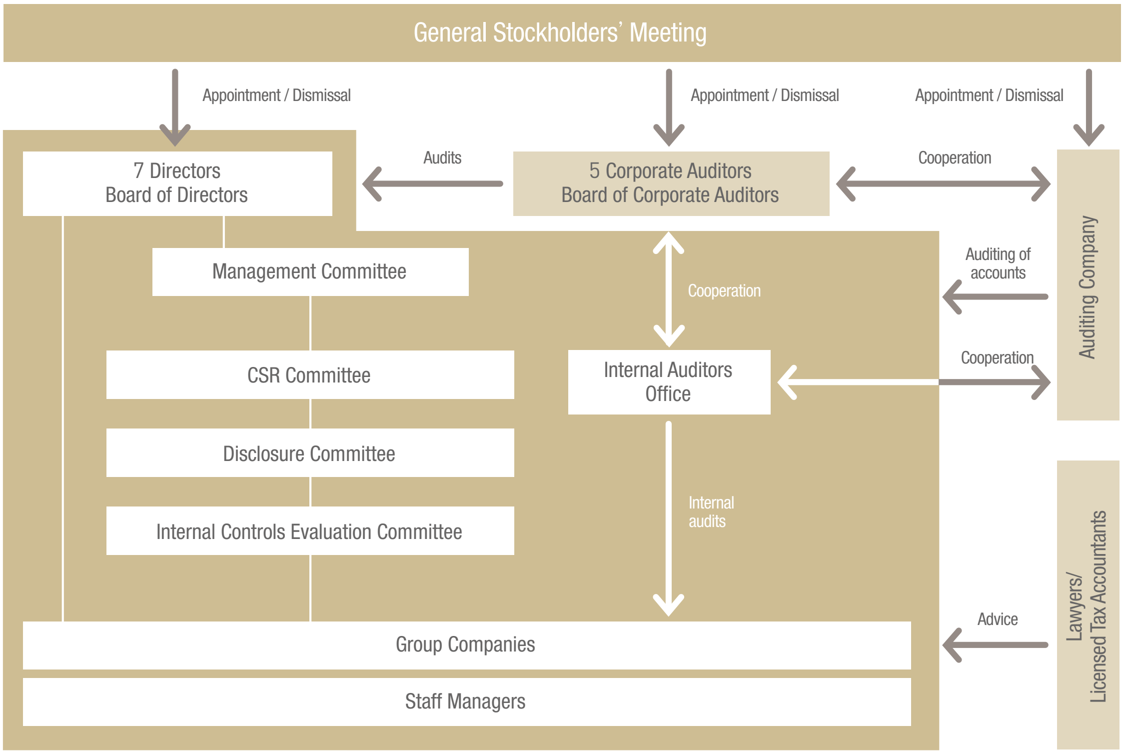
Our contribution to the reduction of CO_2 emissions at customers' business sites will be at least 100,000 tons per year and at least double the level of our own CO_2 emissions.



Corporate Governance

Corporate Governance Organization

(As of March 28, 2012)



Basic Stance on Corporate Governance

We recognize that sustainable growth in corporate value requires ongoing improvement in such areas as management transparency and the monitoring of progress toward management targets. This is reflected in our wide-ranging initiatives to strengthen corporate governance.

The Corporate Governance Structure

In addition to the Board of Directors and the Board of Corporate Auditors, our corporate governance structure also includes an internal auditing system. We have also established a range of committees, including the CSR Committee, the Disclosure Committee and the Internal Controls Evaluation Committee, to implement policies across the entire organization.

Board of Directors

There are now seven directors, including one outside director. By limiting the term of office for directors to one year, we have created a management structure capable of adapting quickly to changes in the business environment. Important decisions are made by the Board of Directors, which normally meets once a month, and at Management Committee meetings attended by the directors of Canon MJ and the presidents of key subsidiaries.

On March 29, 2011, we introduced an executive officer system. The purpose of the new system is to speed up management decision-making in the Canon MJ Group by separating management decision-making from executive functions and reducing the number of directors. It also clarifies responsibility for the performance of business operations and strengthens executive systems.

Board of Directors and Corporate Auditors

Board of Directors


Chairman
Haruo Murase


President
Masami Kawasaki


Director
Koji Ashizawa


Director
Osamu Sasaki


Director
Yo Shibasaki


Director
Masahiro Sakata


Outside Director
Ikuo Soma

Board of Corporate Auditors


Corporate Auditor
Taiji Miyazaki


Corporate Auditor
Tetsuo Yoshida


Outside Corporate Auditor
Hiroshi Kawashimo


Outside Corporate Auditor
Kuniyoshi Kitamura


Outside Corporate Auditor
Kengo Uramoto

Board of Corporate Auditors

There are five corporate auditors, of whom three are appointed from outside of the Company. The Board of Corporate Auditors sets audit policies and allocates responsibilities to the auditors, who conduct stringent audits in accordance with those policies. Specific activities include attending Board meetings, interviewing directors and examining documents containing important Board resolutions. The corporate auditors also monitor the Company's operations and assets.

Internal Auditors Office

Internal audits are conducted by the Internal Auditors Office, an independent specialist unit that also assesses and advises Canon MJ and its subsidiaries on legal compliance, the effectiveness of processes, internal control systems and information security. The Internal Auditors Office works in coordination with similar units established in major subsidiaries. The Canon MJ Group has 52 audit staff members.

Auditing of Accounts

Canon MJ's accounts are audited under an audit agreement with Ernst & Young ShinNihon LLC. There are no special interests between Canon MJ and this audit corporation, nor are any operating officers of the audit corporation involved in the conduct of internal audits of Canon MJ. To ensure that involvement is limited to specific periods, the audit corporation rotates operating officers who have been involved in audits of any company for more than seven years.

Management Systems

Raising the value of the Canon MJ Group's corporate brand is an ongoing priority. We do this by maintaining high standards of corporate ethics group-wide, and by developing structures capable of responding to a variety of management risks.

Compliance

For the Canon MJ Group, compliance is not simply a matter of obeying laws and regulations. We define compliance as obedience to regulatory requirements and social rules, a commitment to social justice, and continuing efforts to meet the expectations of society. Our compliance activities are designed to encourage high ethical values and respect for the law in individual employees through awareness activities, employee education and organizational activities.

To raise awareness of the Canon Group Code of Conduct, all employees and officers of Canon Marketing Japan carry Compliance Cards. Printed on these cards are the Three Selfs spirit and compliance tests that can be used by individuals to check their own conduct.

Canon MJ Compliance Activities

Internal Controls

Chaired by the President, the Internal Controls Evaluation Committee consists of officials representing corporate departments and subsidiaries. Its task is to develop internal control systems for the entire Canon MJ Group.

Canon Inc., which is listed on the New York Stock Exchange, has adopted systems that comply with the Sarbanes-Oxley Act, a U.S. law designed to improve corporate governance. As a member of the global Canon Group, Canon MJ has also applied global perspectives by establishing systems based on the same standards.

Risk Management

The Canon MJ Group has taken steps to ensure the continuity of its business activities in the event of a major earthquake, an influenza outbreak or other contingencies that could impact on its activities. These initiatives are coordinated by the BCM[1] Expert Committee.

In July 2007, we established the BCP[2] Expert Committee as a subsidiary organization of the Management Committee tasked with developing, maintaining and managing business continuity management systems. Renamed the BCM Expert Committee in fiscal 2009, its activities include deliberations on BCP policies for the entire Canon MJ Group.

1 BCM: Business continuity management
2 BCP: Business continuity plan

Information Security

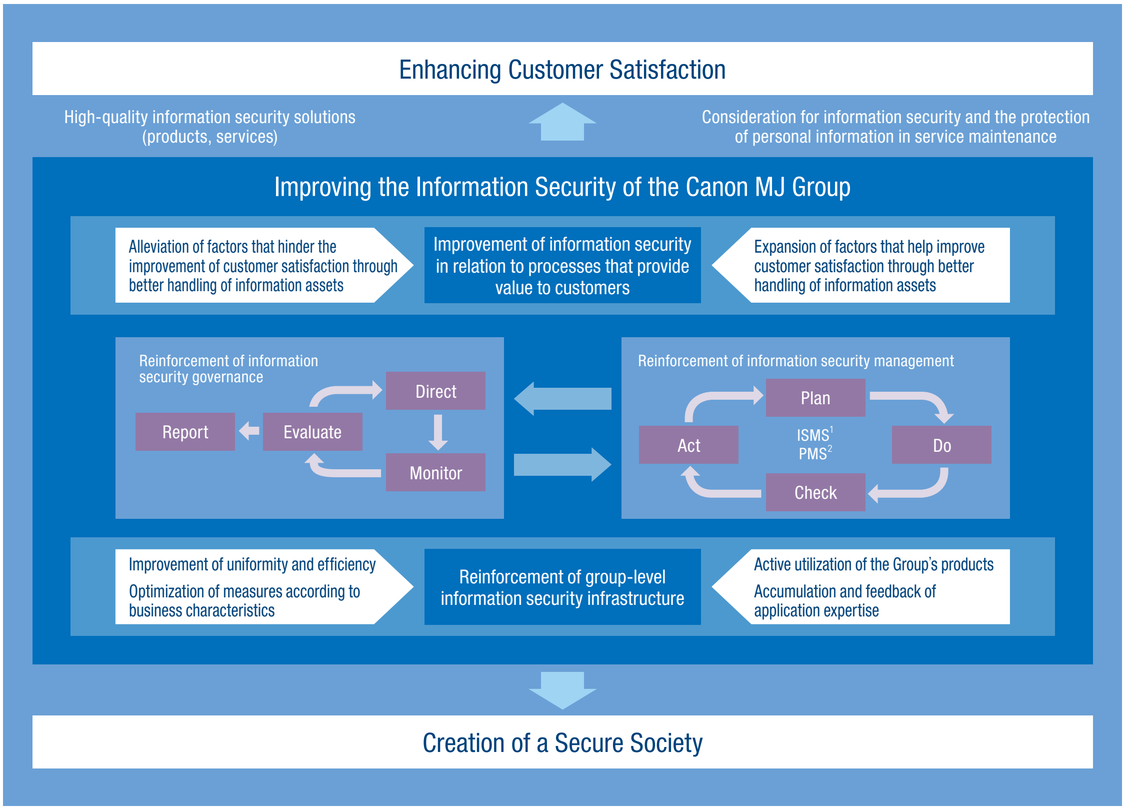
The Canon MJ Group regards the reinforcement of information security as part of its responsibilities toward the creation of a more secure society, and as essential to meeting customers' expectations in line with our Customer Focus philosophy.

Our efforts follow two central themes: Reinforcing the group-level information security infrastructure by improving uniformity and efficiency, and improving the security, reliability and efficiency of the processes through which we provide value to customers.

Through continuous monitoring and evaluation, we strive to identify factors that hinder or contribute to better information security, a process that we also use to upgrade our services to customers and our IT solutions.

Major Objectives

1. Implement uniform management systems group-wide, and improve efficiency
2. Optimization of common group measures and measures linked to business characteristics
3. Develop human resources in the area of information security
4. Active information disclosure about information security activities
5. Provide peace of mind and security to customers
   - Improve information security in processes that provide value to customers
   - Help resolve customers' information security issues



1 ISMS: Information security management systems
2 PMS: Personal information protection management systems

Quality Management

Under our basic product safety policy, we maintain quality management and quality- and risk-control systems designed to ensure that customers can use our high-quality products and services in safety and with confidence.

All products, services and support provided to customers are guaranteed to meet the same Canon Quality standards as Canon products. We are continually working to improve customer satisfaction through the development and implementation of our quality management system (QMS).

In addition to product safety, we also regard product and service quality as important targets for risk management. We have established a Quality and Product Liability Expert Committee under the jurisdiction of the Management Committee. Its task is to ensure an appropriate and timely response in the unlikely event of a contingency concerning products or services supplied to customers.

Disclosure Policy

The task of the Disclosure Committee is to make prompt decisions concerning important corporate information, including the identification of information for which timely disclosure is required, and decisions concerning the content and timing of disclosure. To ensure that information can be gathered promptly, disclosure officers have been appointed in each department and subsidiary. As part of our Investor Relations activities, Canon MJ holds briefings on medium-term planning, quarterly results briefings and business briefings. We also distribute timely, accurate information continually via websites and other channels.

Third-Party Evaluations

Canon MJ actively discloses information that is of particular interest to stockholders and investors. We also actively cooperate in surveys by SRI evaluation agencies and other organizations. The recognition we receive for our CSR initiatives includes our continuing inclusion in the FTSE4Good index.

Morningstar, Inc. has consistently included Canon MJ in the MS-SRI, the first socially responsible stock index in Japan, which consists of 150 Japanese companies selected for their superior CSR performance.

Canon MJ's strong commitment to CSR is reflected in our inclusion in FTSE4Good and MS-SRI.

Relationship with Canon Inc.

Canon MJ is a subsidiary of Canon Inc., which owns 55.3% of Canon MJ stock (as of December 31, 2011). This percentage figure excludes Canon MJ's treasury stock holdings. With these holdings, the ownership percentage for Canon Inc. would be 50.1%. Canon MJ has the near-exclusive right to sell products (excluding semiconductor and LCD lithography systems) manufactured by Canon Inc. under the Canon brand in Japan. In fiscal 2011, our purchases from Canon Inc. amounted to ¥235.3 billion (US$3,016.3 million*), or 66.7% of our total purchases.

Because of this relationship, a major shift in the management policies or business activities of Canon Inc. could have a significant impact on the business activities, performance and financial position of the Canon MJ Group.

*The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥78 to U.S.$1, the prevailing exchange rate as of December 31, 2011.

Financial Section

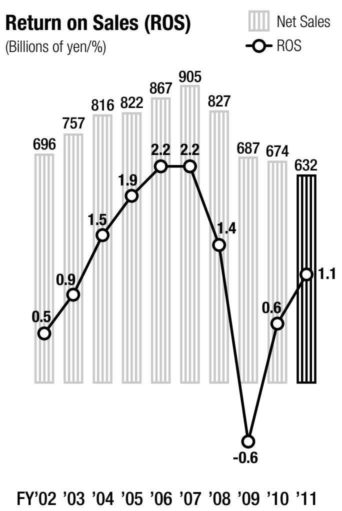
Contents

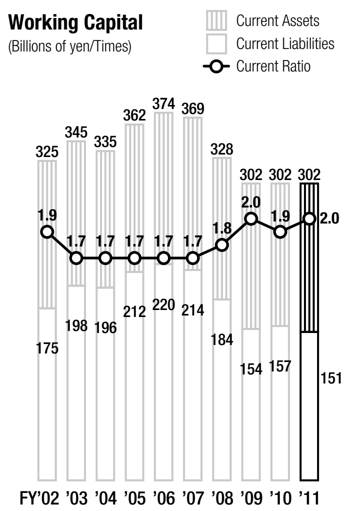
Ten-Year Consolidated Financial Summary

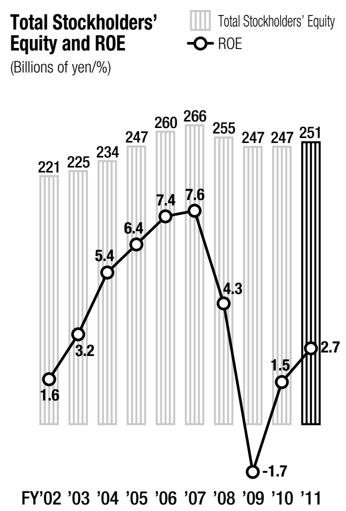
Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen			
	2011	2010	2009	2008
FOR THE YEAR:				
Net sales	**¥632,419**	¥674,159	¥686,615	¥827,487
Operating income	**8,442**	7,736	6,297	25,416
Income (loss) before income taxes and minority interests	**10,972**	8,584	(595)	22,229
Net income (loss)	**6,764**	3,724	(4,343)	11,186
AT YEAR-END:				
Total assets	**447,765**	448,592	449,607	484,937
Total stockholders' equity (Note 5)	**250,671**	246,680	246,829	255,220
CASH FLOWS:				
Cash flows from operating activities	**8,716**	35,186	18,144	41,122
Cash flows from investing activities	**(12,108)**	(13,012)	(25,834)	(28,967)
Cash flows from financing activities	**(3,811)**	(8,171)	(4,324)	(21,738)
Cash and cash equivalents	**102,373**	109,575	95,575	107,589
	Yen			
PER SHARE OF COMMON STOCK:				
Net income (loss) (Note 2)	**¥ 49.30**	¥ 26.70	¥ (31.62)	¥ 78.63
Cash dividends (Notes 3 and 4)	**20.00**	20.00	20.00	40.00
Stockholders' equity (Note 5)	**1,827.25**	1,798.16	1,797.31	1,858.39

Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥78 to U.S.$1, the prevailing exchange rate as of December 31, 2011.
2. Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.
4. Year-end cash dividends applicable to the year ended December 31, 2005 include a ¥2.00 bonus dividend reflecting record-high consolidated net sales, operating income and net income.





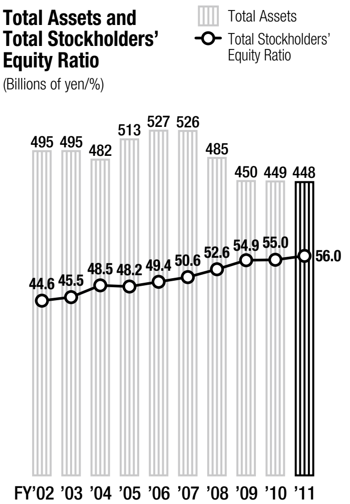


	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2002	**2011**
	¥ 905,137	¥ 867,172	¥ 821,948	¥ 815,511	¥ 757,033	¥ 695,585	**$ 8,107,936**
	36,886	33,919	29,723	29,274	16,987	10,885	**108,231**
	35,452	32,967	27,086	20,186	20,438	6,873	**140,667**
	20,033	18,807	15,358	12,364	7,043	3,436	**86,718**
	526,125	526,578	513,335	482,337	495,396	495,298	**5,740,577**
	266,086	260,367	247,244	234,158	225,317	220,797	**3,213,731**
	47,214	18,094	36,985	22,053	23,671	36,275	**111,743**
	(21,912)	(19,217)	(17,887)	(7,963)	(16,258)	(26,869)	**(155,231)**
	(16,345)	(6,126)	(4,311)	(39,045)	(20,305)	(13,889)	**(48,859)**
	117,206	108,248	115,504	98,844	123,815	136,448	**1,312,474**
	Yen						U.S. dollars (Note 1)
	¥ 134.84	¥ 125.64	¥ 101.78	¥ 81.78	¥ 46.24	¥ 22.96	**$ 0.63**
	40.00	36.00	28.00	22.00	18.00	18.00	**0.26**
	1,817.59	1,739.50	1,650.52	1,562.23	1,496.74	1,464.43	**23.43**

5. Total stockholders' equity in the above table represents the total of stockholders' equity and valuation and translation adjustments in the consolidated balance sheets. This is due to the adoption of an accounting standard for the presentation of net assets in the balance sheet effective the year ended December 31, 2006, which requires former stockholders' equity and minority interests to be presented as net assets, and net assets to be classified as stockholders' equity, valuation and translation adjustments and minority interests.

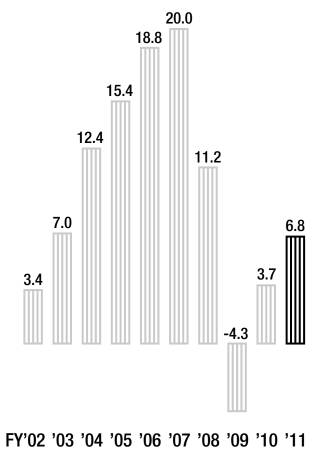
Total Assets and Total Stockholders' Equity Ratio

(Billions of yen/%)



Net Income (Loss)

(Billions of yen)



Business Performance

Net Sales

Product shortages and reduced demand resulting from the Great East Japan Earthquake and flooding in Thailand had a serious impact on business performance in the year ended December 31, 2011. Consolidated net sales were 6.2% lower year on year at ¥632,419 million.

Segment Information

In the Business Solutions segment, shipments of office multifunctional products (MFPs) were affected by earthquake-related product shortages in the first half of the year. However, the supply situation subsequently improved, and shipments in the second half exceeded the total for the same period in the previous fiscal year. In addition to Canon products, our marketing activities in the wide-format and production printing category also promoted commercial printers manufactured by Océ N.V. However, it was not possible to offset the sales decline in the first half, and total sales were lower year on year. Despite increased shipments, laser printer sales declined because of an increased percentage of low-end products in the sales mix. Sales of toner cartridges were also lower due to the effects of cost-cutting and electricity saving measures that reduced office equipment use. However, marketing initiatives were reflected in strong sales of large-format inkjet printers.

Despite strong demand for printing, sales of MFP maintenance services decreased year on year due to lower unit prices. The performance of Canon System & Support Inc., a member of the Canon MJ group, was affected in the first half by product shortages and reduced demand resulting from the earthquake. Dynamic marketing efforts brought a swift recovery, but this was not enough to compensate for the decline in revenues, and sales were lower year on year.

Total consolidated net sales in the Business Solutions segment were 5.1% lower year on year at ¥325,137 million.

The newly designated IT Solutions segment is composed of four business areas: systems integration service, solutions, infrastructure/outsourcing and IT products.

The sales contribution from the systems integration (SI) service business was lower year on year, despite results close to the previous fiscal year's level in the area of individual systems development. Reasons for the decline included continuing adverse conditions in the embedded software development market. However, net sales were marginally higher after adjustment for the effects of accounting changes, including a change in the accounting policy concerning earnings from order-made software.

In the solutions area, firm trends continued in a number of areas, including security solutions, but sales were lower year on year because of a downturn in solutions projects, including ERP and migration.

Sales in the infrastructure/outsourcing area were higher year on year. This reflects firm trends in sales of infrastructure development services, including network storage, and maintenance services.

In the IT products category, sales were lower year on year because of challenging conditions in the business PC market, and major changes to the way unprofitable products are handled.

These trends were reflected in total consolidated net sales for the IT Solutions segment, which were 6.6% below the previous fiscal year's level at ¥124,472 million.

In the Consumer Imaging segment, sales of digital single-lens reflex (SLR) cameras began to recover in July after product supply problems stemming from the March earthquake were resolved. However, sales were also affected by flooding in Thailand, and sales were lower year on year. Despite this, Canon MJ maintained a leadership in position terms of market share. Reduced shipments of camera bodies also resulted in lower sales of exchangeable lenses. Sales of compact digital cameras declined year on year due to the effects of the earthquake in Japan and floods in Thailand, and sales of digital video cameras were also lower. There was a substantial decline in sales of inkjet printers due to product supply problems caused by the Thailand flooding, but trends in sales of consumables remained firm because of a surge of shipments driven by high seasonal demand in the year-end period.

Total consolidated net sales in the Consumer Imaging segment amounted to ¥179,504 million, a year-on-year decline of 16.1%.

In the Industrial Equipment segment, sales of imported equipment and other items were substantially higher year on year because of strong demand for inspection and measuring equipment. In the medical equipment category, shipments of digital radiography systems increased, but sales were lower because of a continual decline in unit prices driven by competition from other suppliers. While shipments of ophthalmological equipment were lower year on year, net sales rose because of the contribution from ELK

CORPORATION, which became a consolidated subsidiary on June 15, 2011.

In the broadcast and imaging equipment category, there was substantial year-on-year sales growth resulting from buoyant investment in security and other types of monitoring cameras.

Total consolidated net sales in the Industrial Equipment segment were 121.7% higher year on year at ¥29,610 million.

Income

Operating income was 9.1% higher year on year at ¥8,442 million. This increase was attributable to an improvement in the ratio of gross profit to sales resulting from increased sales of high-added-value products, and to the reduction of selling, general and administrative expenses, including advertising and sales promotion costs. Despite the application of the accounting standard for asset retirement obligations and the inclusion of disaster-related losses, consolidated net income was 81.6% higher year on year at ¥6,764 million because of other income items, including negative goodwill resulting from the acquisition of ELK CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD. as consolidated subsidiaries. Net income per share was ¥49.30, compared with ¥26.70 in the previous fiscal year. The annual dividend per share was ¥20.00.

Financial Position

Current assets increased by ¥185 million year on year to ¥301,878 million. The main changes were a ¥7,202 million reduction in cash and cash equivalents, a ¥4,140 million increase in notes and accounts receivable, and a ¥5,801 million increase in inventories.

Fixed assets declined by ¥1,012 million year on year to ¥145,887 million. This resulted mainly from a ¥2,599 million reduction in software, a ¥1,854 million reduction in deferred tax assets, and a ¥2,295 million increase in construction in progress.

Current liabilities were reduced by ¥6,156 million year on year to ¥151,091 million. The main reasons for this change were a ¥3,370 million reduction in accrued income taxes, and a ¥2,919 million reduction in accrued expenses.

Despite a ¥1,383 million reduction in deferred tax liabilities, long-term liabilities increased by ¥869 million year on year to ¥45,367 million, mainly because of a ¥753 million increase in the allowance for employees′ retirement benefits, and a ¥565 million increase in long-term debt resulting from an increase in the number of consolidated subsidiaries.

Net assets increased by ¥4,460 million year on year to ¥251,307 million, mainly because of a ¥4,019 million increase in retained earnings, reflecting a ¥6,764 million increase in net income and a ¥2,744 million decrease in dividend payments.

On this basis, total assets declined by ¥827 million year on year to ¥447,765 million. Return on equity (ROE) was 2.7%, compared with 1.5% in the previous fiscal year, and the stockholders′ equity ratio increased from 55.0% to 56.0%. Net assets per share reached ¥1,827.25, compared with ¥1,798.16 in the previous fiscal year.

Cash Flows

Cash and cash equivalents as of December 31, 2011 amounted to ¥102,373 million, a reduction of ¥7,202 million from the position at the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥8,716 million, compared with ¥35,186 million in the previous fiscal year. In addition to income before income taxes and minority interests of ¥10,972 million, the main factors were a ¥15,332 million in depreciation and amortization, a ¥9,781 million decrease in accounts payable, ¥6,592 million in income taxes paid, and a ¥2,164 million increase in inventories.

Net cash used in investing activities amounted to ¥12,108 million, compared with ¥13,012 million in the previous fiscal year. The main component was expenditures of ¥11,977 million for the acquisition of property, plant and equipment.

Net cash used in financing activities amounted to ¥3,811 million, compared with ¥8,171 million in the previous fiscal year. The main items were dividend payments of ¥2,810 million, and ¥603 million for the repayment of finance lease obligations.

Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2011**	2010	**2011**
CURRENT ASSETS:			
Cash and cash equivalents (Notes 9 and 10)	**¥ 102,373**	¥ 109,575	**$ 1,312,474**
Notes and accounts receivable (Note 9)	**123,027**	118,887	**1,577,269**
Short-term investments in securities (Notes 9 and 10)	**20**	1,000	**256**
Inventories (Note 5)	**26,333**	20,532	**337,603**
Deferred tax assets (Note 13)	**4,410**	4,930	**56,538**
Short-term loans receivable (Note 9)	**40,028**	40,001	**513,180**
Other current assets	**5,902**	7,278	**75,667**
Allowance for doubtful receivables	**(215)**	(510)	**(2,756)**
Total current assets	**301,878**	301,693	**3,870,231**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 3)	**36,833**	35,084	**472,218**
Buildings and structures (Note 3)	**73,858**	70,167	**946,897**
Machinery and vehicles (Note 8)	**166**	13	**2,128**
Furniture and fixtures (Note 8)	**19,632**	16,604	**251,692**
Rental assets	**23,402**	22,669	**300,026**
Lease assets	**2,180**	1,710	**27,949**
Construction in progress	**2,799**	504	**35,885**
Total	**158,870**	146,751	**2,036,795**
Accumulated depreciation	**(66,942)**	(60,624)	**(858,231)**
Net property, plant and equipment	**91,928**	86,127	**1,178,564**
INTANGIBLE ASSETS:			
Goodwill (Note 2)	**524**	1,430	**6,718**
Software (Note 8)	**19,258**	21,857	**246,897**
Lease assets	**253**	56	**3,244**
Utilization rights	**317**	288	**4,064**
Other intangible assets	**83**	106	**1,064**
Total intangible assets	**20,435**	23,737	**261,987**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 3, 9 and 10)	**4,084**	4,134	**52,359**
Long-term loans receivable	**30**	15	**385**
Lease deposits (Note 17)	**7,858**	8,624	**100,743**
Deferred tax assets (Note 13)	**19,021**	20,875	**243,859**
Other investments	**2,977**	3,716	**38,167**
Allowance for doubtful receivables	**(446)**	(329)	**(5,718)**
Total investments and other assets	**33,524**	37,035	**429,795**
Total assets	**¥ 447,765**	¥ 448,592	**$ 5,740,577**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2011**	2010	**2011**
CURRENT LIABILITIES:			
Notes and accounts payable (Notes 3 and 9)	**¥ 100,047**	¥ 102,850	**$ 1,282,654**
Lease obligations (Note 18)	**605**	432	**7,756**
Short-term loans payable (Notes 3 and 18)	**1,616**	—	**20,718**
Current portion of bonds payable (Note 19)	**1,115**	—	**14,295**
Accrued income taxes (Note 13)	**1,685**	5,055	**21,602**
Consumption taxes payable	**2,208**	2,607	**28,308**
Accrued expenses	**21,470**	24,389	**275,256**
Reserves	**4,386**	4,273	**56,231**
Other current liabilities	**17,959**	17,641	**230,244**
Total current liabilities	**151,091**	157,247	**1,937,064**
LONG-TERM LIABILITIES:			
Bonds payable (Note 19)	**60**	—	**769**
Long-term loans payable (Notes 3 and 18)	**565**	—	**7,244**
Lease obligations (Note 18)	**1,153**	1,069	**14,781**
Deferred tax liabilities (Note 13)	**639**	2,022	**8,192**
Deferred tax liabilities for land revaluation (Note 13)	**31**	—	**398**
Allowance for employees' retirement benefits (Notes 2 and 11)	**37,259**	36,506	**477,680**
Allowance for long-term continuous service rewards (Note 2)	**918**	916	**11,769**
Allowance for directors' and corporate auditors' retirement benefits (Note 2)	**907**	801	**11,628**
Other long-term liabilities	**3,835**	3,184	**49,167**
Total long-term liabilities	**45,367**	44,498	**581,628**
CONTINGENT LIABILITIES (Note 4)			
NET ASSETS (Note 2)**:**			
STOCKHOLDERS' EQUITY (Note 20)**:**			
Common stock:			
Authorized — 299,500,000 shares;			
Issued — 151,079,972 shares in 2011 and 2010	**73,303**	73,303	**939,782**
Capital surplus	**82,820**	82,820	**1,061,795**
Retained earnings	**116,933**	112,914	**1,499,141**
Treasury stock	**(22,190)**	(22,192)	**(284,487)**
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Net unrealized loss on available-for-sale securities	**(62)**	(47)	**(795)**
Foreign currency translation adjustments	**(133)**	(118)	**(1,705)**
Total accumulated other comprehensive income	**(195)**	(165)	**(2,500)**
MINORITY INTERESTS	**636**	167	**8,154**
Total net assets	**251,307**	246,847	**3,221,885**
Total liabilities and net assets	**¥ 447,765**	¥ 448,592	**$ 5,740,577**

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
NET SALES	**¥ 632,419**	¥ 674,159	**$ 8,107,936**
COST OF SALES	**409,527**	446,616	**5,250,346**
Gross profit	**222,892**	227,543	**2,857,590**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**214,450**	219,807	**2,749,359**
Operating income	**8,442**	7,736	**108,231**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**421**	466	**5,397**
Interest expense	**(89)**	(36)	**(1,141)**
Insurance income	**622**	597	**7,974**
Gain on sales of noncurrent assets	**1**	4	**13**
Gain on negative goodwill	**4,492**	—	**57,590**
Loss on impairment of fixed assets	**(484)**	(493)	**(6,205)**
Gain on sales of investments in securities	**12**	212	**154**
Loss on sales and disposal of property and equipment	**(426)**	(313)	**(5,461)**
Loss on devaluation of investments in securities	**(286)**	(45)	**(3,667)**
Loss on cancellation of lease contracts	**(36)**	(207)	**(462)**
Office transfer expenses	**(503)**	(70)	**(6,449)**
Gain on bad debts recovered	**475**	—	**6,090**
Loss on disaster	**(992)**	—	**(12,718)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**(1,173)**	—	**(15,038)**
Gain on transfer of business	—	400	—
Other, net	**496**	333	**6,359**
	2,530	848	**32,436**
Income before income taxes and minority interests	**10,972**	8,584	**140,667**
INCOME TAXES (Note 13)**:**			
Current	**3,234**	5,097	**41,461**
Deferred	**971**	(326)	**12,449**
	4,205	4,771	**53,910**
Income before minority interests	**6,767**	3,813	**86,757**
MINORITY INTERESTS	**3**	89	**39**
Net income	**¥ 6,764**	¥ 3,724	**$ 86,718**
	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2)**:**			
Net income	**¥ 49.30**	¥ 26.70	**$ 0.63**
Cash dividends applicable to the year	**¥ 20.00**	¥ 20.00	**$ 0.26**

• See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year ended December 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	**2011**
INCOME BEFORE MINORITY INTERESTS	¥ 6,767	$ 86,757
OTHER COMPREHENSIVE INCOME		
Net unrealized loss on available-for-sale-securities	(17)	(218)
Deferred loss on hedges	(0)	(0)
Foreign currency translation adjustments	(17)	(218)
Total other comprehensive income	(34)	(436)
Comprehensive income	¥ 6,733	$ 86,321
Comprehensive income attributable to		
Owners of the parent	¥ 6,734	$ 86,334
Minority interests	(1)	(13)

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2011 and 2010

		Millions of yen							
		Stockholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized loss on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
BALANCE AT DECEMBER 31, 2009	151,079,972	¥ 73,303	¥ 83,289	¥ 115,153	¥ (24,759)	¥ (117)	¥ (40)	¥ 4,046	¥ 250,875
Net income				3,724					3,724
Cash dividends				(2,789)					(2,789)
Purchase of treasury stock					(5,003)				(5,003)
Disposition of treasury stock			0	(1)	3				2
Changes due to share exchange			(469)	(3,173)	7,567			(3,925)	—
Contributions to employee welfare pension fund				(0)					(0)
Other, net						70	(78)	45	37
BALANCE AT DECEMBER 31, 2010	151,079,972	¥ 73,303	¥ 82,820	¥ 112,914	¥ (22,192)	¥ (47)	¥ (118)	¥ 167	¥ 246,847
Net income				6,764					6,764
Cash dividends				(2,744)					(2,744)
Purchase of treasury stock					(1)				(1)
Disposition of treasury stock				(1)	3				2
Other, net						(15)	(15)	469	439
BALANCE AT DECEMBER 31, 2011	151,079,972	¥ 73,303	¥ 82,820	¥ 116,933	¥ (22,190)	¥ (62)	¥ (133)	¥ 636	¥ 251,307

	Thousands of U.S. dollars (Note 1)							
	Stockholders' equity				Accumulated other comprehensive income			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized loss on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
BALANCE AT DECEMBER 31, 2010	$ 939,782	$ 1,061,795	$ 1,447,615	$ (284,513)	$ (603)	$ (1,513)	$ 2,141	$ 3,164,704
Net income			86,718					86,718
Cash dividends			(35,179)					(35,179)
Purchase of treasury stock				(13)				(13)
Disposition of treasury stock			(13)	39				26
Other, net					(192)	(192)	6,013	5,629
BALANCE AT DECEMBER 31, 2011	$ 939,782	$ 1,061,795	$ 1,499,141	$ (284,487)	$ (795)	$ (1,705)	$ 8,154	$ 3,221,885

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 10,972	¥ 8,584	$ 140,667
Adjustments for:			
Depreciation and amortization	15,332	13,739	196,564
Loss on impairment of fixed assets	484	493	6,205
Loss on disaster	992	—	12,718
Amortization of goodwill	906	905	11,615
Increase (decrease) in allowance for doubtful receivables	(335)	(222)	(4,295)
Gain on negative goodwill	(4,492)	—	(57,590)
Increase (decrease) in allowance for employees' retirement benefits	(652)	(326)	(8,359)
Allowance for directors' and corporate auditors' retirement benefits, net	(64)	(43)	(821)
Interest and dividend income	(421)	(466)	(5,397)
Interest expense	89	36	1,141
Loss (gain) on sales and retirement of property, plant and equipment, net	293	309	3,756
Loss (gain) on transfer of business	—	(400)	—
Loss (gain) on sales of investment securities	182	(212)	2,333
Decrease (increase) in notes and accounts receivable-trade	4,983	6,901	63,885
Decrease (increase) in inventories	(2,164)	3,927	(27,744)
Increase (decrease) in notes and accounts payable-trade	(9,781)	(3,594)	(125,397)
Other, net	(1,357)	2,639	(17,397)
Sub-total	14,967	32,270	191,884
Interest and dividends received	430	478	5,513
Interest paid	(89)	(36)	(1,141)
Income taxes received (paid)	(6,592)	2,474	(84,513)
Net cash provided by operating activities	8,716	35,186	111,743
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities	1,000	386	12,820
Payments for purchases of property, plant and equipment	(11,977)	(11,489)	(153,551)
Proceeds from sales of property, plant and equipment	1,600	646	20,513
Payments for purchases of intangible assets	(3,625)	(5,238)	(46,474)
Payments for purchases of investments in securities	(19)	(232)	(244)
Proceeds from sales of investments in securities	317	520	4,064
Payments for purchases of investments in subsidiaries resulting in changes in scope of consolidation	(418)	—	(5,359)
Net decrease (increase) in short-term loans receivable	13	0	167
Decrease (increase) in time deposits	1,000	—	12,820
Proceeds from transfer of business	—	1,777	—
Other	1	618	13
Net cash used in investing activities	(12,108)	(13,012)	(155,231)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (decrease) in short-term loans payable	(350)	—	(4,486)
Repayments of finance lease obligations	(603)	(313)	(7,731)
Payments for purchases of treasury stock	(2)	(5,003)	(26)
Dividends paid	(2,810)	(2,857)	(36,026)
Other	(46)	2	(590)
Net cash used in financing activities	(3,811)	(8,171)	(48,859)
Effect of exchange rate changes on cash and cash equivalents	1	(3)	13
Net (decrease) increase in cash and cash equivalents	(7,202)	14,000	(92,334)
Cash and cash equivalents at beginning of year	109,575	95,575	1,404,808
Cash and cash equivalents at end of year	¥ 102,373	¥ 109,575	$ 1,312,474

• See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Marketing Japan Inc. (the "Company") and its consolidated subsidiaries (the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The U.S. dollar amounts are included solely for convenience of the reader and are stated, as a matter of arithmetical computation only, at the exchange rate of ¥78=U.S.$1, the rate prevailing at December 31, 2011. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2011 include the accounts of the Company and all of its 27 (21 in 2010) subsidiaries. Investments in nonconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation.

The excess of acquisition costs over net assets acquired is amortized generally over five years.

(b) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments, including securities, time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition, to be cash equivalents.

(c) Securities

The held-to-maturity debt securities are stated at amortized cost.

Available-for-sale marketable securities are stated at fair market value, with unrealized gain or loss, net of the applicable taxes, reported as a separate component of net assets. Available-for-sale marketable securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

(d) Inventories

Merchandise and service parts are valued at cost determined by the monthly moving-average method. The carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability.

Work in process is valued at cost determined by the specific identification method.

Supplies are valued at cost determined by the last-purchase price method. The carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method for property and equipment, with the exception of items that are depreciated by the straight-line method at rates based on the estimated useful lives of the respective assets. These items are buildings purchased on or after April 1, 1998 (exclusive of furniture and fixtures), all buildings and structures of the Company's Makuhari office, all property and equipment of certain consolidated subsidiaries, and rental assets in the Business Solutions segment. The useful lives are as follows: buildings, mainly 50 years; furniture and fixtures, mainly five years; and rental assets, mainly three years. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

In accordance with the amendment to the Corporation Tax Law, from the first accounting period after the fiscal year in which fixed assets acquired on or before March 31, 2007 reach 5% of their acquisition value under the application of methods of depreciation based on the preamendment Corporation Tax Law, the Company shall apply straight-line depreciation over a period of five years to the difference between the amount equivalent to 5% of the acquisition value of the fixed assets acquired on or before March 31, 2007 and the memorandum value (1 yen) of those assets. The resulting amount will be recorded under depreciation and amortization in the accounts.

(f) Allowance for Employees' Retirement Benefits

In order to provide for employees' retirement benefits, the Company and its consolidated subsidiaries provide liability for employees' retirement benefits in an amount calculated based on the estimated projected benefit obligation and plan assets at the end of the fiscal year.

Unrecognized prior service cost is amortized by the straight-line method over the average service period of the eligible employees remaining at the time when it arose. Unrecognized actuarial gain or loss is amortized from the fiscal year following the year in which it arose, by the straight-line method over the average service period of the eligible employees remaining.

(g) Leases

Leased assets under finance lease contracts are depreciated by the straight-line method over their respective lease contract term with zero residual value.

Leased assets under finance lease contracts that do not deem to transfer ownership to the lessee and were entered into before January 1, 2009 when the latest accounting standards for lease transactions were adopted are accounted for as operating leases.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided in the amount required to cover possible losses on collection. It is determined by adding individually estimated uncollectible amounts for specific items to an amount based on the actual rate of uncollected receivables of the Group in prior years.

(i) Income Taxes

Deferred tax assets and liabilities are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying the normal statutory rate of income taxes to the temporary differences.

(j) Translation of Foreign Currency Accounts

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at the balance sheet date. The foreign exchange gains and losses on translation are recognized in the accompanying consolidated statements of income.

(k) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates except for the components of net assets excluding minority interests which are translated at their historical exchange rates.

(l) Per Share Amounts of Common Stock

Net income per share is calculated using net income available to holders of common stock, and the weighted average number of shares of common stock outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the respective fiscal years.

(m) Bonuses to Directors

The estimated amount payable for the next round of directors' bonuses, which are classed as expenses for the current year, has been included in the accounts for the current fiscal year.

(n) Allowance for Directors' and Corporate Auditors' Retirement Benefits

The Company and its consolidated subsidiaries pay lump-sum retirement benefits to directors and corporate auditors, the amounts of which are determined in accordance with the Company's and its consolidated subsidiaries' internal regulations. Also, in accordance with the Company's and its consolidated subsidiaries' internal regulations, a reserve is provided for such benefits at the amount that would be required to be paid if all directors and corporate auditors retired at the end of the fiscal year.

(o) Allowance for Long-Term Continuous Service Rewards

In order to set aside money for payment of rewards to employees who have given long-term continuous service determined in accordance with the Company's internal regulations, we book allowance for long-term continuous service rewards based on the amount we expect to pay in the future.

The Company and some of its subsidiaries have established internal regulations related to the Refresh and Vacation System for employees who have been very diligent and have given long-term and continuous service. The system grants vacations and pays rewards at fixed intervals in order to refresh the minds and bodies of these employees and enable them to work with new vigor in the future.

(p) Recognition of Revenues and Expenses and Recognition of Revenue from Customized Software Development

For software development contracts in progress as of December 31, 2011, the percentage-of-completion method is applied in cases where the outcomes of such contracts can be estimated reliably. When the percentage-of-completion method is applied, the percentage of completion at the end of the fiscal year is determined based on actual costs incurred and estimated total contract costs. For all other contracts, the completed-contract method is applied.

(q) Additional Information

<Reclassification of cost of sales and selling, general and administrative expenses>

Until the previous fiscal year, expenses incurred for the call center business and the service center business operated by a consolidated subsidiary were accounted for as cost of sales. Effective the year ended December 31, 2011, these expenses are included in selling, general and administrative expenses due to their increased materiality.

As a result of this reclassification, cost of sales for the year ended December 31, 2011 decreased by ¥5,030 million ($64,487 thousand) compared to with the amount that would have been recognized under the previous classification. However, since selling, general and administrative expenses increased by the same amount, this reclassification had no impact on operating income or income before income taxes and minority interests for the year ended December 31, 2011.

<Adoption of consolidated taxation system>

In September 2011, the Company and certain consolidated subsidiaries submitted the application for approval of consolidated taxation. The application was subsequently approved and a consolidated taxation system will be adopted starting from the fiscal year ended December 31, 2012. Accordingly, effective the year ended December 31, 2011, the Company and certain of its consolidated subsidiaries have adopted the tax effect accounting on the premise of consolidated taxation, in compliance with "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 1)" (Accounting Standards Board of Japan (ASBJ) Practical Issues Tax Force (PITF) No. 5, revised March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 2)" (ASBJ PITF No. 7, revised June 30, 2010).

<Presentation of Comprehensive Income>

Effective the year ended December 31, 2011, the Company has adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued June 30, 2010). The amounts of "accumulated other comprehensive income" and "total accumulated other comprehensive income" for the previous fiscal year represent "valuation and translation adjustments" and "total valuation and translation adjustments," respectively.

3 Assets Pledged as Collateral

Assets pledged as collateral for deferred payments of customs duties as of December 31, 2011 and 2010 were as follows:
(1) Pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Land	¥ 2,136	—	$ 27,385
Buildings	513	—	6,577
Investments in securities	164	—	2,102
	¥ 2,813	—	$ 36,064

(2) Liabilities secured by the above assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Accounts payable	¥ 620	—	$ 7,949
Short-term loans payable	555	—	7,115
Long-term loans payable	326	—	4,180
	¥ 1,501	—	$ 19,244

4 Contingent Liabilities

Contingent liabilities at December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Joint and several guarantee on lease payment of two customers	¥ 129	—	$ 1,654
Guarantees for employees' housing loans	¥ 85	¥ 97	1,090

5 Inventories

Inventories at December 31, 2011 and 2010 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Merchandise	¥ 22,012	¥ 16,448	$ 282,205
Service parts	2,690	2,557	34,487
Work in progress	438	1,116	5,615
Supplies	1,023	411	13,116
Other	170	—	2,180
	¥ 26,333	¥ 20,532	$ 337,603

Note: For the software development contracts from which contract losses are expected, the inventory relating to such contracts and relevant reserves for contract losses do not offset each other and have been recorded in gross amounts in current assets and current liabilities, respectively. Out of inventories, ¥59 million ($756 thousand) for work in progress relates to software development contracts for which losses are expected and corresponds to the reserve for contract losses.

6 Other Comprehensive Income

The following table presents components of other comprehensive income for the year ended December 31, 2010:

	Millions of yen
	2010
Net unrealized loss on available-for-sale-securities	¥ 70
Foreign currency translation adjustments	(84)
Total other comprehensive loss	¥ (14)
Total comprehensive income attributable to:	
Comprehensive income attributable to owners of the parent	¥ 3,716
Comprehensive income attributable to minority interests	84
Total	¥ 3,800

7 Consolidated Statements of Changes in Net Assets

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

1. Matters pertaining to the types and total number of shares issued and the types and number of shares of treasury stock

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	13,896	1	2	13,895
Total	13,896	1	2	13,895

Notes: 1. The increase of 1 thousand shares of treasury stock was due to the purchase of fractional stock.
2. The decrease of 2 thousand shares of treasury stock was due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 29, 2011					
General stockholders' meeting	Common stock	¥ 1,372	¥ 10	December 31, 2010	March 30, 2011
July 21, 2011					
Board of Directors' meeting	Common stock	¥ 1,372	¥ 10	June 30, 2011	August 26, 2011

(2) Dividends for which the base date falls within the current fiscal year and the date effective is in the following fiscal year

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 28, 2012						
General stockholders' meeting	Common stock	Retained earnings	¥ 1,372	¥ 10	December 31, 2011	March 29, 2012

Previous Fiscal Year (from January 1, 2010 to December 31, 2010)

1. Matters pertaining to the types and total number of shares issued and the types and number of shares of treasury stock

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	13,748	4,351	4,203	13,896
Total	13,748	4,351	4,203	13,896

Notes: 1. The increase of 4,351 thousand shares of treasury stock consists of an increase of 4,349 thousand shares due to the purchase through the market, and 2 thousand shares due to the purchase of fractional stock.
2. The decrease of 4,203 thousand shares of treasury stock consists of a decrease of 4,201 thousand shares due to a share-for-share exchange, and 2 thousand shares due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2010					
General stockholders' meeting	Common stock	¥ 1,373	¥ 10	December 31, 2009	March 29, 2010
July 26, 2010					
Board of Directors' meeting	Common stock	¥ 1,415	¥ 10	June 30, 2010	August 27, 2010

(2) Dividends for which the base date falls within the current fiscal year and the date effective is in the following fiscal year

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 29, 2011						
General stockholders' meeting	Common stock	Retained earnings	¥ 1,372	¥ 10	December 31, 2010	March 30, 2011

8 Leases

(a) Finance Leases

Lease payments for finance leases excluding subleases, except for the lease agreements which stipulate the transfer of ownership of the leased property to the Company and its consolidated subsidiaries, were ¥2,009 million ($25,756 thousand) and ¥2,495 million for the years ended December 31, 2011 and 2010, respectively.

(As Lessee)

Future minimum lease payments subsequent to December 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Future minimum lease payments:			
Within one year	**¥ 478**	¥ 2,063	**$ 6,128**
Thereafter	**121**	583	**1,551**
	¥ 599	¥ 2,646	**$ 7,679**

Future minimum lease payments included the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Future minimum lease payments:			
Within one year	**¥ 19**	¥ 38	**$ 244**
Thereafter	**3**	22	**38**
	¥ 22	¥ 60	**$ 282**

The following pro forma amounts represent acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2011 and 2010, excluding subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Acquisition cost:			
Machinery and vehicles	¥ 67	¥ 22	$ 859
Furniture and fixtures	6,298	8,662	80,744
Software	206	283	2,641
	¥ 6,571	¥ 8,967	$ 84,244
Accumulated depreciation and amortization:			
Machinery and vehicles	¥ 55	¥ 17	$ 705
Furniture and fixtures	5,767	6,161	73,936
Software	172	203	2,205
	¥ 5,994	¥ 6,381	$ 76,846
Net book value:			
Machinery and vehicles	¥ 12	¥ 5	$ 154
Furniture and fixtures	531	2,501	6,807
Software	34	80	436
	¥ 577	¥ 2,586	$ 7,397

(As Lessor)

Future minimum lease payments, which consist of subleases subsequent to December 31, 2011 and 2010, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Future minimum lease payments:			
Within one year	¥ 19	¥ 38	$ 244
Thereafter	3	23	38
	¥ 22	¥ 61	$ 282

(b) Operating Leases (Non-cancelable)

(As Lessee)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Future minimum lease payments:			
Within one year	—	¥ 16	—
Thereafter	—	—	—
	—	¥ 16	—

9 Financial Instruments

Current Fiscal Year (from January 1, 2011 to December 31, 2011) and Previous Fiscal Year (from January 1, 2010 to December 31, 2010)

1. Information on financial instruments

(1) Policies for financial instruments

The Group invest their surplus funds only in highly secure financial instruments, and mostly take advantage of the group finance system to procure funds. The Group also utilizes derivative transactions solely to hedge future risks of exchange rate and interest rate fluctuations, but not for speculative purposes.

(2) Types and risks of financial instruments and systems to control those risks

Operating receivables, consisting of notes and accounts receivable, are exposed to credit risks of customers. The Group strives to mitigate these risks by strict credit control utilizing credit information provided by external credit agencies, as well as by credit insurance and other risk-hedging means.

Short-term loans receivable are mainly the loans to the parent company by the Company, rendered in compliance with the internal regulations for investment and management of funds.

Short-term investments in securities and investments in securities consist primarily of held-to-maturity debt securities and equity securities issued by business counterparties of the Group, and are exposed to market price fluctuation risk. Regarding this risk, the Group periodically monitors the fair values of the securities and the financial condition of their issuers i.e., business counterparties. In addition, for securities other than held-to-maturity debt securities, the Group continuously reviews the status of security holdings, taking market conditions and relationships with business counterparties into consideration.

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

The counterparties of derivative transactions are domestic financial institutions with a high credit rating, and derivative transactions are believed to be exposed to very little default risk of the counterparties.

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments include not only values based on market quotations, but also values calculated on a theoretical basis in cases where market quotations are not available. Such values may vary depending on different assumptions, as variables are factored into the calculation of such values.

2. Fair values of financial instruments

The book values of financial instruments in the consolidated balance sheets as of December 31, 2011 and 2010, their fair values, and the differences between the two are as follows. The table below, however, excludes the financial instruments whose fair values are considered extremely difficult to assess (see Note 2).

	Millions of yen		
	2011		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 19,304	¥ 19,304	—
(2) Notes and accounts receivable	123,027	123,027	—
(3) Short-term investments in securities and investments in securities	86,792	86,792	¥ (0)
(4) Short-term loans receivable	40,028	40,028	—
Total assets	¥ 269,151	¥ 269,151	¥ (0)
(5) Notes and accounts payable	100,047	100,047	—
Total liabilities	¥ 100,047	¥ 100,047	—
Derivative transactions	¥ (2)	¥ (2)	—

Note: The amounts for derivative transactions shown above are the net of assets and liabilities. Liabilities are shown in parentheses.

	Millions of yen		
	2010		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 15,975	¥ 15,975	—
(2) Notes and accounts receivable	118,887	118,887	—
(3) Short-term investments in securities and investments in securities	97,921	97,922	¥ 1
(4) Short-term loans receivable	40,001	40,001	—
Total assets	¥ 272,784	¥ 272,785	¥ 1
(5) Notes and accounts payable	102,850	102,850	—
Total liabilities	¥ 102,850	¥ 102,850	—

	Thousands of U.S. dollars (Note 1)		
	2011		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 247,487	$ 247,487	—
(2) Notes and accounts receivable	1,577,269	1,577,269	—
(3) Short-term investments in securities and investments in securities	1,112,718	1,112,718	$ (0)
(4) Short-term loans receivable	513,180	513,180	—
Total assets	$ 3,450,654	$ 3,450,654	$ (0)
(5) Notes and accounts payable	1,282,654	1,282,654	—
Total liabilities	$ 1,282,654	$ 1,282,654	—
Derivative transactions	$ (26)	$ (26)	—

Notes: 1. Calculation methods of fair values of financial instruments and other matters relating to securities are as below;

Assets

(1) Cash and deposits, (2) notes and accounts receivable, and (4) short-term loans receivable

The book values of these assets are used as their fair values, since they are to be settled in the short term and accordingly their fair values approximate their book values.

(3) Short-term investments in securities and investments in securities

The fair values of equity securities are based on the prices at the security exchanges, and those of debt securities are based on the prices at the security exchanges or quotations obtained from counterparty financial institutions. Details of securities by holding objectives are described in Note 10 Securities.

Liabilities

(5) Notes and accounts payable

The book values of these liabilities are used as their fair values, since they are to be settled in the short term and accordingly their fair values approximate their book values.

Derivative transactions

The fair values of interest rate swap transactions are based on quotations obtained from counterparty financial institutions.

2. The book values of financial instruments whose fair values are considered extremely difficult to assess are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Category	Book value		
Unlisted equity securities	¥ 288	¥ 617	$ 3,692
Investments in partnerships	¥ 224	¥ 196	$ 2,872

These financial instruments are not included in (3) short-term investments in securities and investments in securities in the preceding table of fair values, since they do not have market prices and therefore assessment of their fair values is considered to be extremely difficult.

3. The redemption schedule of monetary claims and securities with maturities as of December 31, 2011 and 2010 is summarized as follows:

	Millions of yen			
	2011			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Cash and deposits	¥ 19,304	—	—	—
Notes and accounts receivable	123,027	—	—	—
Short-term investments in securities and investments in securities	—	—	—	—
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	100	—
(2) Other	83,220	10	103	—
Short-term loans receivable	40,028	—	—	—
Total	¥ 265,579	¥ 10	¥ 203	—

	Millions of yen			
	2010			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Cash and deposits	¥ 15,975	—	—	—
Notes and accounts receivable	118,887	—	—	—
Short-term investments in securities and investments in securities	—	—	—	—
Held-to-maturity debt securities				
(1) Corporate bonds	1,000	—	—	—
(2) Other	93,600	—	—	—
Short-term loans receivable	40,001	—	—	—
Total	¥ 269,463	—	—	—

	Thousands of U.S. dollars (Note 1)			
	2011			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Cash and deposits	$ 247,487	—	—	—
Notes and accounts receivable	1,577,269	—	—	—
Short-term investments in securities and investments in securities	—	—	—	—
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	1,282	—
(2) Other	1,066,923	128	1,321	—
Short-term loans receivable	513,180	—	—	—
Total	$ 3,404,859	$ 128	$ 2,603	—

10 Securities

Securities held by the Company and its consolidated subsidiaries as of December 31, 2011 and 2010 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Securities classified as:			
Available-for-sale:			
Investments in securities	**¥ 3,871**	¥ 4,134	**$ 49,628**
Held-to-maturity:			
Cash and cash equivalents	**83,200**	93,600	**1,066,667**
Short-term investments in securities	**20**	1,000	**256**
Investments in securities	**213**	—	**2,731**
	83,433	94,600	**1,069,654**
	¥ 87,304	¥ 98,734	**$ 1,119,282**

The carrying amounts and aggregate fair values of investments in securities at December 31, 2011 and 2010 were as follows:

	Millions of yen			
	2011			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	**¥ 203**	**¥ 1**	**¥ (1)**	**¥ 203**
Other	**30**	**—**	**—**	**30**
	¥ 233	**¥ 1**	**¥ (1)**	**¥ 233**

	Millions of yen			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 3,473**	**¥ 429**	**¥ (694)**	**¥ 3,208**
Other	**153**	**3**	**(5)**	**151**
	¥ 3,626	**¥ 432**	**¥ (699)**	**¥ 3,359**

	Millions of yen			
	2010			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 1,000	¥ 1	—	¥ 1,001
	¥ 1,000	¥ 1	—	¥ 1,001

	Millions of yen			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,573	¥ 523	¥ (785)	¥ 3,311
Other	11	—	(1)	10
	¥ 3,584	¥ 523	¥ (786)	¥ 3,321

	Thousands of U.S. dollars (Note 1)			
	2011			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	$ 2,603	$ 13	$ (13)	$ 2,603
Other	384	—	—	384
	$ 2,987	$ 13	$ (13)	$ 2,987

	Thousands of U.S. dollars (Note 1)			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 44,526	$ 5,500	$ (8,898)	$ 41,128
Other	1,961	38	(64)	1,936
	$ 46,487	$ 5,538	$ (8,962)	$ 43,064

Available-for-sale and held-to-maturity securities whose fair values are not readily determinable as of December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Available-for-sale:			
Equity securities	¥ 288	¥ 617	$ 3,692
Investments in investment partnerships	224	196	2,872
Held-to-maturity:			
Certificates of deposit	83,200	92,600	1,066,667
Commercial paper	—	1,000	—
	¥ 83,712	¥ 94,413	$ 1,073,231

11 Employees' Retirement and Severance Benefits

The Company has a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan), and a lump-sum severance payment plan, and its domestic consolidated subsidiaries have defined benefit corporate pension plans, tax-qualified retirement pension plans and lump-sum severance payment plans.

The liability for employees' retirement benefits as of December 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Projected benefit obligation	¥ 173,070	¥ 160,696	$ 2,218,846
Fair value of plan assets	(122,048)	(121,578)	(1,564,718)
Unrecognized actuarial loss	(39,227)	(32,412)	(502,910)
Unrecognized prior service cost	25,288	29,549	324,205
Prepaid pension cost	176	251	2,256
Allowance for employees' retirement benefits	¥ 37,259	¥ 36,506	$ (477,679)

The components of net periodic benefit costs for the years ended December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Service cost	¥ 6,584	¥ 6,173	$ 84,410
Interest cost	3,233	3,472	41,449
Expected return on plan assets	(3,829)	(3,802)	(49,090)
Amortization of prior service cost	(4,261)	(3,864)	(54,628)
Amortization of actuarial loss	4,014	2,849	51,462
Other	1,380	1,394	17,692
Net periodic benefit costs	¥ 7,121	¥ 6,222	$ 91,295

Assumptions used in accounting for the above plans for the years ended December 31, 2011 and 2010 were principally as follows:

	2011	2010
Discount rate	**1.3 - 2.1%**	1.4 - 2.1%
Expected rates of return on plan assets	**1.0 - 3.4%**	1.0 - 3.4%
Amortization period of prior service cost	**5-14 years**	10-14 years
Recognition period of actuarial loss	**5-14 years**	10-14 years

12 Stock Option Plans

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

1. Description of stock option plans, number of stock options and changes in number of stock options

(1) Description of stock option plans

SHOWA INFORMATION SYSTEMS CO., LTD.

	2003 Stock Option Plan
Type and number of recipients	Directors of the subsidiary 8 Employees of the subsidiary 133
Number of stock options by type of stock to be issued (Note)	Common stock 320,000
Grant date	September 29, 2003
Vesting requirements	Unspecified
Service period	Unspecified
Exercisable period	From April 1, 2005 to March 31, 2012

Note: The number of stock options is expressed based on the number of shares to be issued upon exercise.

(2) Number of stock options and changes in number of stock options

The following tables are based on the stock options which existed as of December 31, 2011. The number of stock options is expressed based on the number of shares to be issued upon exercise.

① Number of stock options

SHOWA INFORMATION SYSTEMS CO., LTD.

	2003 Stock Option Plan
Nonvested:	
As of December 31, 2010	—
Granted	—
Forfeited	—
Vested	—
As of December 31, 2011	—
Vested:	
As of December 31, 2010	—
Vested	—
Exercised	—
Forfeited	—
As of December 31, 2011	219,000

Note: The above table shows the outstanding number of stock options only, since SHOWA INFORMATION SYSTEMS CO., LTD. became a consolidated subsidiary of the Company as of the current fiscal year-end.

② Per unit information

SHOWA INFORMATION SYSTEMS CO., LTD.

	2003 Stock Option Plan
Exercise price (Yen)	412
Average stock price on exercise (Yen)	—
Fair value per unit (as of grant date) (Yen)	—

13 Income Taxes

The normal statutory rate of income taxes was approximately 40.0% for the years ended December 31, 2011 and 2010.

The effective tax rate for the year ended December 31, 2010, differed from the normal statutory tax rate following the adoption of tax-effect accounting for the reasons outlined in the table below. For the year ended December 31, 2011, the difference between the normal statutory tax rate (40.0%) and the effective tax rate following the adoption of tax-effect accounting (38.3%) was 1.7 percentage points. Since this difference falls within 5% of the normal statutory tax rate, a breakdown of related items has been omitted.

	2010
Normal statutory tax rate	40.0%
Change in valuation allowance	6.9%
Per-capita levy of inhabitants taxes	4.4%
Amortization of goodwill	4.1%
Entertainment and other expenses permanently not deductible for tax purposes	2.8%
Dividend income not taxable	(0.6)%
Other	(2.0)%
Effective tax rate following the adoption of tax-effect accounting	55.6%

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
DEFERRED TAX ASSETS:			
Loss on disposal and devaluation of inventories	¥ 535	¥ 334	$ 6,859
Accrued business tax and business office tax	403	658	5,166
Accrued bonuses to employees	1,468	1,256	18,821
Excess amortization of software	4,776	5,201	61,231
Loss on impairment of fixed assets	284	723	3,641
Excess depreciation of fixed assets	649	639	8,321
Allowance for doubtful receivables	29	66	372
Allowance for employees' retirement benefits	13,622	14,666	174,641
Loss on devaluation of investments in securities	831	1,524	10,654
Loss carried forward	3,564	1,871	45,692
Other	4,581	4,349	58,730
Gross deferred tax assets	30,742	31,287	394,128
Less: valuation allowance	(5,941)	(5,470)	(76,166)
Total deferred tax assets	¥ 24,801	¥ 25,817	$ 317,962
DEFERRED TAX LIABILITIES:			
Net unrealized loss on available-for-sale securities	¥ 122	¥ 69	$ 1,564
Deferred capital gain	1,876	1,933	24,051
Other	42	31	539
Total deferred tax liabilities	2,040	2,033	26,154
Net deferred tax assets	¥ 22,792	¥ 23,784	$ 292,205
Deferred tax liabilities for land revaluation	¥ 31	—	$ 398

(Additional Information)

The "Act to Partially Amend the Income Tax Act and Other Acts in Order to Promote the Construction of Tax Systems in Response to Changes in the Economic and Social Structure" (Act No. 114 of 2011) and the "Act on Special Measures for Assurance of Financial Resources Necessary to Implement Measures for Reconstruction after the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011. These acts will alter corporate income tax rates effective from fiscal years beginning on or after April 1, 2012.

Accordingly, the corporate tax rate imposed on the company shall be amended from the fiscal year beginning on or after April 1, 2012. Under the new amendments, the Japanese statutory corporate tax rate of 40%, which has been applied to the calculation of deferred tax assets and liabilities, shall be lowered to 38% for temporary differences expected to reverse during the period from the fiscal year starting January 1, 2013 to the fiscal year starting from January 1, 2015. Furthermore, as for temporary differences expected to reverse from fiscal years starting January 1, 2016, the Japanese statutory corporate tax rate of 35% shall be applied.

As a result of this change, net deferred tax assets (deferred tax assets minus deferred tax liabilities) as of December 31, 2011 decreased by ¥1,121 million ($14,372 thousand), and deferred income taxes and net unrealized loss on available-for-sale securities for the fiscal year ended December 31, 2011 increased by ¥1,115 million ($14,295 thousand) and ¥7 million ($90 thousand), respectively.

14 Segment Information

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

1. Segment information

(1) Description of reportable segments

Reportable segments are constituent units of the Group for which separate financial information is available and they are subject to periodic reviews by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

The Company has four reportable segments, Business Solutions, IT Solutions, Consumer Imaging and Industrial Equipment, all of which are determined based on the organizational structure of the Group and include companies of the Group.

Major companies and organizations in each segment

Reportable segments	Major companies / organizations
Business Solutions	Canon Marketing Japan Inc. Business Solutions Company Canon System & Support Inc. SHOWA INFORMATION SYSTEMS CO., LTD. OCE JAPAN CORPORATION Canon Print Square Inc.
IT Solutions	Canon Marketing Japan Inc. IT Product Promotion Headquarters Canon MJ IT Group Holdings Inc. Canon IT Solutions Inc. Canon Software Inc. Edifist Learning Inc. other 9 companies
Consumer Imaging	Canon Marketing Japan Inc. Consumer Imaging Company Canon Customer Support Inc. Canon Field Assist Inc. withPhoto Inc.
Industrial Equipment	Canon Marketing Japan Inc. Industrial Equipment Sales Headquarters ELK CORPORATION other 2 companies

Major companies and organizations in each segment

Reportable segments	Major products / services
Business Solutions	Business-use multifunctional products, print-on-demand (POD) digital presses, personal-use plain-paper copiers, laser printers, large format inkjet printers, office-use facsimiles, liquid crystal projectors, document scanners, color cardprinters, color label printers, teleconference system, network cameras, service and support
IT Solutions	System integration, embedded software, infrastructure & operation, solution & software products, computer devices, network devices
Consumer Imaging	Digital cameras, interchangeable lenses, digital video cameras, ink-jet printers, compact photo printers, personal-use scanners, electronic dictionaries, calculators
Industrial Equipment	Semiconductor manufacturing equipment, medical equipment (digital X-ray cameras, ophthalmic equipment), medical system, healthcare related product, broadcasting equipment

(2) Methods of measurement for sales, segment income (loss), assets, and other items for reportable segments

Accounting methods for reportable segments are the same as the accounting methods described in Note 2 Summary of significant accounting policies.

Segment income (loss) is measured based on the amount of operating income. Intersegment sales and transfers are based on market prices.

(3) Information by reportable segment for the years ended December 31, 2011 and 2010 was as follows:

	Millions of yen							
Year ended or as of December 31,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	¥325,137	¥ 97,941	¥179,504	¥29,610	¥ 227	¥632,419	—	¥632,419
Intersegment	—	26,531	—	—	—	26,531	¥ (26,531)	—
Total	¥325,137	¥124,472	¥179,504	¥29,610	¥ 227	¥658,950	(26,531)	¥632,419
Segment income (loss)	¥ 3,489	¥ (3,073)	¥ 8,388	¥ (246)	¥ (116)	¥ 8,442	—	¥ 8,442
Segment assets	¥147,928	¥ 55,294	¥ 62,556	¥23,545	¥12,300	¥301,623	¥146,142	¥447,765
Other items:								
Depreciation and amortization	9,842	2,627	2,104	575	184	15,332	—	15,332
Amortization of goodwill	7	899	—	—	—	906	—	906
Changes in the amount of property, plant and equipment and intangible assets	6,767	5,259	1,584	472	2,103	16,185	—	16,185

Notes: 1. "Other" represents operating segments which are not included in the reportable segments, and includes operations such as the shared-services business.
2. Major items of adjustments of segment assets are surplus operating funds (cash, cash equivalents and short-term investments in securities) of the Company and assets of administrative departments, totaling ¥146,142 million.
3. Segment income (loss) corresponds to operating income stated on the consolidated statement of income.

	Millions of yen							
Year ended or as of December 31,	2010							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	¥342,458	¥104,280	¥213,836	¥13,354	¥ 231	¥674,159	—	¥674,159
Intersegment	—	28,970	—	—	—	28,970	¥ (28,970)	—
Total	¥342,458	¥133,250	¥213,836	¥13,354	¥ 231	¥703,129	(28,970)	¥674,159
Segment income (loss)	¥ 2,281	¥ (3,697)	¥ 9,834	¥ (245)	¥ (437)	¥ 7,736	—	¥ 7,736
Segment assets	¥141,053	¥ 55,341	¥ 73,451	¥ 8,532	¥9,811	¥288,188	¥160,404	¥448,592
Other items:								
Depreciation and amortization	9,727	1,682	1,855	326	149	13,739	—	13,739
Amortization of goodwill	7	898	—	—	—	905	—	905
Changes in the amount of property, plant and equipment and intangible assets	8,620	7,203	1,335	201	637	17,996	—	17,996

Notes: 1. "Other" represents operating segments which are not included in the reportable segments, and includes operations such as the shared-services business.
2. Major items of adjustments of segment assets are surplus operating funds (cash, cash equivalents and short-term investments in securities) of the Company and assets of administrative departments, totaling ¥160,404 million.
3. Segment income (loss) corresponds to operating income stated on the consolidated statement of income.

	Thousands of U.S. dollars (Note 1)							
Year ended or as of December 31,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	$4,168,423	$1,255,654	$2,301,333	$379,616	$ 2,910	$8,107,936	—	$8,107,936
Intersegment	—	340,141	—	—	—	340,141	$ (340,141)	—
Total	$4,168,423	$1,595,795	$2,301,333	$379,616	$ 2,910	$8,448,077	(340,141)	$8,107,936
Segment income (loss)	$ 44,731	$ (39,397)	$ 107,538	$ (3,154)	$ (1,487)	$ 108,231	—	$ 108,231
Segment assets	$1,896,513	$ 708,898	$ 802,000	$301,859	$157,692	$3,866,962	$1,873,615	$5,740,577
Other items:								
Depreciation and amortization	126,180	33,679	26,974	7,372	2,359	196,564	—	196,564
Amortization of goodwill	90	11,525	—	—	—	11,615	—	11,615
Changes in the amount of property, plant and equipment and intangible assets	86,756	67,423	20,308	6,051	26,962	207,500	—	207,500

2. Related information

(1) Information by product and service

Disclosure of information by product and service is omitted since the segment information contains the same information.

(2) Information by geographical area

① Sales

Disclosure of information on sales by geographical area is omitted since sales to domestic external customers accounts for more than 90% of consolidated net sales.

② Property, plant and equipment

Disclosure of information on property, plant and equipment by geographical area is omitted since the amount of domestic property, plant and equipment accounts for more than 90% of total property, plant and equipment recorded on the consolidated balance sheet.

(3) Information by major customers

Disclosure of information by major customers is omitted since no customer accounts for 10% or more of consolidated net sales.

3. Information on impairment loss on property, plant and equipment by reportable segment

	Millions of yen							
Year ended December 31,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	¥156	¥140	¥44	¥144	—	¥484	—	¥484

Note: "Other" represents operating segments which are not included in the reportable segments and includes operations such as the shared-services business.

	Millions of yen							
Year ended December 31,	2010							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	—	¥0	—	—	¥493	¥493	—	¥493

	Thousands of U.S. dollars (Note 1)							
Year ended December 31,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	$2,000	$1,795	$564	$1,846	—	$6,205	—	$6,205

4. Information on amortization and balance of goodwill by reportable segment

	Millions of yen							
Year ended or as of December 31,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Amortization of goodwill	¥7	¥899	—	—	—	¥906	—	¥906
Goodwill at December 31, 2011	¥1	¥523	—	—	—	¥524	—	¥524

	Millions of yen							
Year ended or as of December 31,	2010							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Amortization of goodwill	¥7	¥ 898	—	—	—	¥ 905	—	¥ 905
Goodwill at December 31, 2010	¥8	¥1,422	—	—	—	¥1,430	—	¥1,430

Year ended or as of December 31,	Thousands of U.S. dollars (Note 1) 2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Amortization of goodwill	$ 90	$ 11,525	—	—	—	$ 11,615	—	$ 11,615
Goodwill at December 31, 2011	$ 13	$ 6,705	—	—	—	$ 6,718	—	$ 6,718

5. Information on gain on negative goodwill by reportable segment

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

The Company acquired shares of ELK CORPORATION, Océ-Japan Corporation and SHOWA INFORMATION SYSTEMS CO., LTD., resulting in these companies becoming consolidated subsidiaries, and ¥4,492 million ($57,590 thousand) of negative goodwill was recognized. The negative goodwill was recorded as an other income (gain on negative goodwill) for the current fiscal year, but was not allocated to individual reportable segments.

Previous Fiscal Year (from January 1, 2010 to December 31, 2010)

No relevant information to be reported.

(Additional Information)

Effective the year ended December 31, 2011, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17, revised March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No. 20, issued March 21, 2008).

Previous Fiscal Year (from January 1, 2010 to December 31, 2010)

(a) Business segment information

Year ended or as of December 31,	Millions of yen 2010					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
External customers	¥ 440,732	¥ 219,781	¥ 13,646	¥ 674,159	—	¥ 674,159
Intersegment	—	—	—	—	—	—
Total	440,732	219,781	13,646	674,159	—	674,159
Operating expenses	441,599	210,597	14,227	666,423	—	666,423
Operating income (loss)	¥ (867)	¥ 9,184	¥ (581)	¥ 7,736	—	¥ 7,736
Total assets	¥ 205,158	¥ 74,126	¥ 8,688	¥ 287,972	¥ 160,620	¥ 448,592
Depreciation and amortization	11,463	1,922	355	13,740	—	13,740
Loss on impairment of fixed assets	493	—	—	493	—	493
Capital expenditures	16,315	1,457	224	17,996	—	17,996

(b) Geographic segment information

As international sales of the Company and its consolidated subsidiaries for the year ended December 31, 2010 constituted less than 10% of consolidated net sales, geographic segment information has not been disclosed.

(c) Overseas sales

Overseas sales amounted to less than 10% of consolidated net sales for the year ended December 31, 2010. For this reason, overseas sales have not been disclosed.

15 Transactions with Affiliated Companies

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions		Transaction amount (Millions of yen)	Subject	Balance at end of fiscal year (Millions of yen)
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥ 174,762	Manufacture and sale of business equipment, consumer equipment, and industrial equipment	(Ownership) Direct 55.3% Indirect 0.0%	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 235,276	Accounts payable	¥ 69,824
									Sales of business equipment and consumables, etc.	¥ 4,697	Accounts receivable and others	¥ 1,959
								Non-operating transactions	Loans of capital	¥ 40,000	Short-term loans	¥ 40,000

Note: Transaction amounts do not include sales tax, etc., and the balance of credit and debt includes sales tax, etc.

Transaction conditions and policies for deciding transaction conditions, etc.

(1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.

(2) Sales of business equipment and consumables, etc. are subject to similar conditions as general transactions.

(3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Previous Fiscal Year (from January 1, 2010 to December 31, 2010)

Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions		Transaction amount (Millions of yen)	Subject	Balance at end of fiscal year (Millions of yen)
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥174,762	Manufacture and sale of business equipment, consumer equipment, and industrial equipment	(Ownership) Direct 55.3% Indirect 0.0%	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 267,952	Accounts payable	¥ 78,498
									Sales of business equipment and consumables, etc.	¥ 8,183	Accounts receivable and others	¥ 3,819
								Non-operating transactions	Loans of capital	¥ 40,000	Short-term loans	¥ 40,000

Note: Transaction amounts do not include sales tax, etc., and the balance of credit and debt includes sales tax, etc.

Transaction conditions and policies for deciding transaction conditions, etc.

(1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.

(2) Sales of business equipment and consumables, etc. are subject to similar conditions as general transactions.

(3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

16 Business Combinations

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

Business Combination through Acquisition
Acquisition of ELK CORPORATION

1. Name and business activities of the acquired company, principal reasons for business combination, date of business combination, legal form of business combination, name of company after business combination, percentage of voting rights acquired, and principal reasons for determining the acquiring company

(1) Name and business activities of the acquired company
Name: ELK CORPORATION
Business activities: Sales and production of medical supplies and medical equipment

(2) Principal reasons for business combination
ELK CORPORATION has fostered know-how in the medical field and developed its own sales channels. It also has its own sales methods based on the market-in approach, which considers needs of customers and users first, and reflects them in the development and market introduction of products, both in-house and with the cooperation of manufacturers. The Company concluded that both companies should aim at development and growth in a direction that will result in joint enhancement of corporate value, by organically harmonizing ELK CORPORATION's strengths as "a creative trading company" and the Group's resources, and strengthening functions of the medical imaging business, healthcare business, infection control business, overseas business, and customer support.

(3) Date of business combination
June 15, 2011

(4) Legal form of business combination
Acquisition of shares

(5) Name of company after business combination
Unchanged

(6) Percentage of voting rights acquired
100.00%

(7) Principal reasons for determining the acquiring company
Since the Company delivered the consideration of the acquired shares which consisted of cash only, the Company is determined as the acquiring company.

2. Period of the acquired company's financial results included in the consolidated financial statements
From April 1, 2011 to December 31, 2011

3. Acquisition cost of the acquired company and its breakdown

Consideration paid for the acquisition	¥3,796 million ($48,666 thousand)
Expenses directly required for the acquisition	¥213 million ($2,731 thousand)
Acquisition cost	¥4,009 million ($51,397 thousand)

4. Amount and cause of gain on negative goodwill

(1) Amount of gain on negative goodwill incurred
¥2,482 million ($31,821 thousand)

(2) Cause of gain on negative goodwill
The net amount of acquired assets and liabilities exceeded the acquisition cost of the acquired shares and was recognized as gain on negative goodwill.

5. Amounts of assets and liabilities acquired on the day of business combination

Current assets	¥11,520 million ($147,692 thousand)
Non-current assets	¥5,976 million ($76,616 thousand)
Total assets	¥17,496 million ($224,308 thousand)
Current liabilities	¥6,528 million ($83,693 thousand)
Long-term liabilities	¥4,467 million ($57,269 thousand)
Total liabilities	¥10,995 million ($140,962 thousand)

6. Estimated impact on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed on the commencement date of the fiscal year

Net sales	¥11,316 million ($145,077 thousand)
Operating income	¥223 million ($2,859 thousand)
Net income	¥184 million ($2,359 thousand)

(Calculation method of estimated amounts)

The above estimated amounts were calculated based on the amounts of consolidated net sales and income of ELK CORPORATION from January 1, 2011 to March 31, 2011.

The above estimated amounts have not been audited.

Business Combination through Acquisition

Acquisition of SHOWA INFORMATION SYSTEMS CO., LTD.

1. Name and business activities of the acquired company, principal reasons of business combination, date of business combination, legal form of business combination, name of company after business combination, percentage of voting rights acquired, and principal reasons for determining the acquiring company

(1) Name and business activities of the acquired company

Name: SHOWA INFORMATION SYSTEMS CO., LTD.

Business activities: Development and sales of high-speed kanji information processing and other systems

(2) Principal reasons of business combination

The Company concluded that the strengthened capital ties with SHOWA INFORMATION SYSTEMS CO., LTD., as well as early establishment of an operating structure based on a firm alliance to utilize management resources of both companies, will benefit business expansion in the production market, and eventually enhancement of corporate value and sustainable growth of both companies.

(3) Date of business combination

December 28, 2011

(4) Legal form of business combination

Acquisition of shares

(5) Name of company after business combination

Unchanged

(6) Percentage of voting rights acquired

Percentage share of voting rights owned before business combination	0.20%
Percentage share of voting rights additionally acquired	90.58%
Percentage share of voting rights after acquisition	90.78%

(7) Principal reasons for determining the acquiring company

Since the Company delivered the consideration of the acquired shares, which consisted of cash only, the Company is determined to be the acquiring company.

2. Period of the acquired company's financial results included in the consolidated financial statements

The consolidated statement of income for current fiscal year does not include the financial results of SHOWA INFORMATION SYSTEMS CO., LTD.

3. Acquisition cost of the acquired company and its breakdown

Consideration of the acquisition	
Fair value as of the day of business combination of common stock of SHOWA INFORMATION SYSTEMS CO., LTD. owned before the business combination	¥5 million ($64 thousand)
Fair value of common stock of SHOWA INFORMATION SYSTEMS CO., LTD. acquired on the day of business combination	¥2,164 million ($27,744 thousand)
Expenses directly required for the acquisition	¥94 million ($1,205 thousand)
Acquisition cost	¥2,263 million ($29,013 thousand)

4. Difference between the acquisition cost of the acquired company and the total of each acquisition transaction amount

Gain on step acquisition	¥2 million ($26 thousand)

5. Amount and cause of gain on negative goodwill

(1) Amount of gain on negative goodwill incurred

¥1,980 million ($25,385 thousand)

(2) Cause of gain on negative goodwill

The net amount of acquired assets and liabilities exceeded the acquisition cost of the acquired shares, and the exceeding amount was recognized as gain on negative goodwill.

6. Amounts of assets and liabilities acquired on the day of business combination

Current assets	¥7,361 million ($94,372 thousand)
Non-current assets	¥1,816 million ($23,282 thousand)
Total assets	¥9,177 million ($117,654 thousand)
Current liabilities	¥3,202 million ($41,051 thousand)
Long-term liabilities	¥1,282 million ($16,436 thousand)
Total liabilities	¥4,484 million ($57,487 thousand)

7. Allocation of acquisition cost

Since the allocation of acquisition cost has not been completed as of the current fiscal year-end, the acquisition was temporarily accounted for based on the reasonable information available on that date.

8. Estimated impact on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed on January 1, 2011.

Net sales	¥10,428 million ($133,692 thousand)
Operating income	¥23 million ($295 thousand)
Net loss	¥247 million ($3,167 thousand)

(Calculation method of estimated amounts)

The above estimated amounts were calculated based on the amounts of net sales and income of SHOWA INFORMATION SYSTEMS CO., LTD. from January 1, 2011 to December 31, 2011.

The above estimated amounts have not been audited.

Previous Fiscal Year (from January 1, 2010 to December 31, 2010)
Business Transfer

1. Name of the company to which the business was transferred, content of transferred business, principal reasons, the date, and outline of the business transfer including its legal form

(1) Name of the company to which the business was transferred

Canon Inc.

(2) Content of transferred business

Semiconductor equipment business of the Company

(3) Principal reasons of business transfer

The Company's activities in the area of semiconductor equipment involved sales, service and support, primarily in relation to lithography equipment for semiconductors and LCD substrates. The business of the Company in this area was transferred to Canon Inc., the parent company, because of the need for the Canon Group to establish an integrated structure covering all stages from development and design through to manufacture, sales, service and support, in order to respond flexibly in the rapidly changing market for semiconductor equipment.

(4) Date of business transfer

January 1, 2010

(5) Outline of the business transfer including its legal form

Business transfer for which the consideration received consisted of cash only

2. Outline of accounting procedures applied

(1) Amount of transferred profit and loss

¥400 million

(2) Book values and principal assets and liabilities relating to the transferred business

	Millions of yen
Current assets	¥ 1,371
Fixed assets	713
Total assets	¥ 2,084
Current liabilities	¥ 42
Long-term liabilities	665
Total liabilities	¥ 707

(3) Business segment in which transferred business had been included
Industrial equipment

(4) Estimated amounts of profit and loss attributable to the transferred business recorded in the consolidated statement of income for the fiscal year ended December 31, 2010

Net sales	¥ —million
Operating income	¥ —million

Transaction under Common Control

1. Name and business activities of merger parties

(1) Merging company (sole parent company after share-for-share exchange)
Name: Canon Marketing Japan Inc.
Business activities: Marketing of business equipment, consumer equipment and industrial equipment, and provision of related solutions

(2) Merged company (wholly-owned subsidiary after share-for-share exchange)
Name: Canon Software Inc.
Business activities: Provision of information services, sales of information processing equipment and related software

2. Legal form of merger
Share-for-share exchange

3. Name of company after merger
Unchanged

4. Outline of the merger including its purpose
A share-for-share exchange was implemented as of May 1, 2010, resulting in the acquisition of Canon Software Inc. as a wholly-owned subsidiary of the Company. The purpose of the merger was to accelerate the development of the IT Solutions Business as a core business segment, and create the capacity to provide services of higher quality to customers by realizing optimal use of the technology and expertise accumulated by Canon Software Inc. within the Group.

5. Outline of accounting procedures applied
The merger was accounted for as a transaction under common control, generating no goodwill, under the provisions of the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on December 26, 2008) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, revised on December 26, 2008).

6. Details of additional acquisition of shares of the subsidiary

(1) Details of the acquisition cost

Common stock of the Company	¥3,925 million
Acquisition cost	¥3,925 million

(2) Share exchange ratio by type of shares, calculation method of share exchange ratio, number of shares granted, and valuation of the shares granted

1) Type of shares and share exchange ratio
Type of shares: Common stock

Name of company	Share exchange ratio
Canon Marketing Japan Inc.	1
Canon Software Inc.	0.43

2) Calculation method of share exchange ratio
Each company has been analyzed using the market share price method, comparisons with similar listed companies and the discounted cash flow method. The results of all three analyses were taken into account in the calculation of the share exchange ratio.

3) Number of shares granted
4,201,096 shares

4) Valuation of the shares granted
¥3,925 million

17 Asset Retirement Obligations

Current Fiscal Year (from January 1, 2011 to December 31, 2011)

The Group recognizes restoration obligations under real estate rental agreements of buildings and other real estates as asset retirement obligations.

Instead of recognizing liabilities, the Group reasonably estimates the uncollectible amount of lease deposits relating to the real estate rental agreements, and accounts for the portion of such estimated amount attributable to the current fiscal year as an expense.

The outstanding balance of lease deposits as of December 31, 2011 includes ¥2,045 million ($26,218 thousand) considered uncollectible.

<Change in Accounting Standards>

Effective the year ended December 31, 2011, the Company has adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued March 31, 2008).

As a result of this change, operating income and income before income taxes and minority interests for the fiscal year ended December 31, 2011 decreased by ¥288 million ($3,692 thousand) and ¥1,462 million ($18,744 thousand), respectively.

18 Lease Obligations, Short-Term Loans Payable, Long-Term Loans Payable and Deposits

Lease obligations, short-term loans payable, long-term loans payable and deposits at December 31, 2011 and 2010 consisted of the following:

	Average interest rate	Millions of yen		Thousands of U.S. dollars (Note 1)
		2011	2010	2011
Lease obligations		¥ 1,758	¥ 1,501	$ 22,538
Current portion of lease obligations		605	(432)	7,756
		¥ 1,153	¥ 1,069	$ 14,782
Short-Term loans payable	1.6%	1,616	—	20,718
Long-Term loans payable	1.5%	565	—	7,244
Deposits	0.0%	3,341	3,069	42,833
		¥ 6,675	¥ 4,138	$ 85,577

19 Bonds Payable

Bonds payable at December 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Unsecured 1.4% corporate bonds due through August 2012	¥ 1,019	—	$ 13,064
Unsecured 0.8% corporate bonds due through February 2013	156	—	2,000
Total	¥ 1,175	—	$ 15,064

Note: Both bonds payable were issued by ELK CORPORATION.

20 Stockholders' Equity

The Corporate Law of Japan went into effect on May 1, 2006, replacing the Commercial Code. It is applicable to events or transactions of companies in Japan occurring on or after May 1, 2006 and for fiscal years ending on or after May 1, 2006.

The Corporate Law stipulates that the amounts actually paid in or provided in consideration for newly issued stock shall be recorded as common stock. However, it also allows 50% or less of such amounts to be recorded as additional paid-in capital.

Under the Corporate Law, a company that meets certain criteria can establish its Articles of Incorporation so that dividends can be paid to its existing stockholders by resolution of the Board of Directors, without requiring the approval of a resolution at a general stockholders' meeting. The Company has met said criteria and amended its Articles of Incorporation at the annual general stockholders' meeting for fiscal 2006. The Corporate Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. However, such appropriation cannot be made if the aggregate amount of the legal reserve exceeds 25% of common stock (i.e. the aggregate amount of the Company's legal reserve has already reached 25% of its common stock).

21 Subsequent Events

(Subsequent to Current Fiscal Year, from January 1 to December 31, 2011)

Conclusion of Share for Exchange Agreement

At meetings held on January 26, 2012, the Boards of Directors of the Company and SHOWA INFORMATION SYSTEMS CO., LTD. resolved to implement a share exchange with a view to make SHOWA INFORMATION SYSTEMS CO., LTD. a wholly owned subsidiary of the Company. A share exchange agreement was concluded as of the same day.

(1) Name and business activities of merger parties

① Merging company (sole parent company after share exchange)
Name: Canon Marketing Japan Inc.
Business activities: Marketing of business equipment, consumer equipment and industrial equipment, and provision of related solutions

② Merged company (wholly owned subsidiary after share exchange)
Name: SHOWA INFORMATION SYSTEMS CO., LTD.
Business activities: Development and sales of high-speed kanji-character processing and other systems

(2) Legal form of business combination
Share exchange

(3) Name of company after business combination
Unchanged

(4) Outline of transaction including its purpose
A share exchange will be implemented, resulting in the acquisition of SHOWA INFORMATION SYSTEMS CO., LTD. as a wholly owned subsidiary of the Company. The purpose of this share exchange is to create and realize business synergies by integrating the business operations of the two companies.

(5) Date of share exchange
May 1, 2012 (effective date)

(6) Items relating to additional acquisition of shares of the subsidiary

① Acquisition cost
Acquisition cost of shares: To be determined

② Share exchange ratio by type of shares, calculation method of share exchange ratio, number of shares granted, and valuation of the shares granted

1. Type of shares and share exchange ratio
Type of shares: Common stock

Name of company	Share exchange ratio
Canon Marketing Japan Inc.	1
SHOWA INFORMATION SYSTEMS CO., LTD.	0.22

2. Calculation method of share exchange ratio
Each company has been analyzed using the market share price method, comparisons with similar listed companies and discounted cash flow method. The results of all three analyses were taken into account in the calculation of the share exchange ratio.

3. Number of shares granted
252,495 shares (tentative)

4. Valuation of the shares granted
To be determined

(7) Amounts, cause and amortization method of goodwill (or negative goodwill) to be incurred
The amount, cause and amortization method of goodwill (or negative goodwill) to be incurred due to the share exchange have not been determined as of the date of this report.

(Subsequent to Previous Fiscal Year, from January 1 to December 31, 2010)
Damage Resulting from the Great East Japan Earthquake

The Group suffered damage to inventories and equipment in some of its buildings as a result of the Great East Japan Earthquake that occurred on March 11, 2011.

(1) Level of damage

① Human impact

The safety of all Group employees has been confirmed, and there was no significant human impact.

② Status of business sites, etc.

Merchandise at distribution centers in Tohoku and Kanto suffered some damage including breakage as a result of falling. The buildings and other facilities also suffered some partial damage.

(2) Amount of losses

The amount of loss is currently being calculated, and the amount has not yet been determined.

(3) Significant effects of the disaster on business activities, etc.

In addition to the damage listed above, business activities could also be affected by the partial suspension of operations by Canon, Inc. and its production subsidiaries, as well as damage suffered by customers and business partners in the affected area.

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Report of Independent Auditors

The Board of Directors
Canon Marketing Japan Inc.

We have audited the accompanying consolidated balance sheets of Canon Marketing Japan Inc. and consolidated subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended December 31, 2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Marketing Japan Inc. and consolidated subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC

March 27, 2012

A member firm of Ernst & Young Global Limited

Corporate Data

Headquarters
Canon S Tower, 16-6, Konan 2-chome,
Minato-ku, Tokyo 108-8011, Japan

Date of Establishment
February 1, 1968

Capital Stock
¥73,303,082,757

Stock
151,079,972 shares

Stock Listing
Canon Marketing Japan Inc.'s common stock is traded on the First Section of the Tokyo Stock Exchange.

Number of Employees
Consolidated: 18,861
Non-consolidated: 5,244
(As of December 31, 2011)

Main Locations of Operations
Headquarters, Makuhari office and branches (Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)
(As of April 1, 2012)

Major Stockholders

Name of stockholder	Number of shares held (thousands)	Percentage of ownership (%)
Canon Inc.	75,708	50.11
Canon Marketing Japan Inc.	13,895	9.20
Canon Marketing Japan Group Employee Stock Ownership Association	6,766	4.48
Japan Trustee Services Bank, Ltd. (Trust Account)	2,812	1.86
The Master Trust Bank of Japan, Ltd.	2,735	1.81
The Bank Of New York, Treaty JASDEC Account	2,567	1.70
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,209	0.80
State Street Bank and Trust Company	1,183	0.79
Mizuho Bank, Ltd.	1,001	0.66
NORTHERN TRUST CO AVFC RE NORTHERN TRUST GUERNSEY NON TREATY CLIENTS	968	0.64

Canon MJ Investor Relations Website
Canon MJ maintains a comprehensive Investor Relations website to further facilitate communication with stockholders. The website contains:

- News for investors
- IR calendar
- Financial results and other financial information
- Information on the Three-Year Management Plan (fiscal year 2012–2014)
- Stock information
- Annual reports

http://cweb.canon.jp/eng/ir/

Canon Marketing Japan Inc.

Headquarters
Canon S Tower, 16-6, Konan 2-chome,
Minato-ku, Tokyo 108-8011, Japan

Canon Marketing Japan Website (Investor Relations)
http://cweb.canon.jp/eng/ir/

This annual report was printed on the Canon imagePRESS C7000VP high-speed, high-resolution printer.