Fresh Wind

ANNUAL REPORT 2012

for the year ended December 31, 2012

Canon

Canon Marketing Japan Inc.

Profile

The Canon Group is active in a wide range of business areas in over 180 countries worldwide. As part of the Canon Group, the role of the Canon Marketing Japan Group includes marketing and the proposal of solutions, especially within Japan.

Under the "Beyond CANON, Beyond JAPAN" vision for the evolution of Canon Marketing Japan, we will diversify our business, while keeping Canon at the core of our activities. We will also expand beyond Japan, while remaining centered on the Japanese market.

The Canon Marketing Japan Group aims to achieve sustainable growth by providing optimal services and high-added-value solutions based on a customer-focused approach and global perspectives.

Flying Higher

on Diversified Strengths and a Clear Strategy for Growth

Canon Marketing Japan is established and begins developing and improving infrastructure for the sale of Canon products.

1968

In 1976, the Canon AE-1, a microprocessor equipped camera, launches.

Businesses throughout Japan begin to introduce office automation (OA) technology. This is reflected in expanding business performance led by the copier business.

1980

In 1982, the Mini-Copier PC-10 and PC-20, the world's first cartridge-type copiers.

Canon MJ develops the systems integration business to serve the digital technology age.

1990

The Color Laser Copier 800 (New Pixel DiO), the world's first automatic duplex color copier.

Customer Focus

Mission: To provide optimal value through marketing innovation that enhances security and peace of mind and supports creativity in all areas of life, work and society.

Better Communication

Vision: To be a group of service creation companies that practices the principle of customer focus with a global perspective.

Canon MJ begins its evolution into a service creation group dedicated to providing customers with optimal value.

2000

The Color imageRUNNER iR C3200 and C3200N color multifunction printers launch.

Diversification and evolution as a service creation group

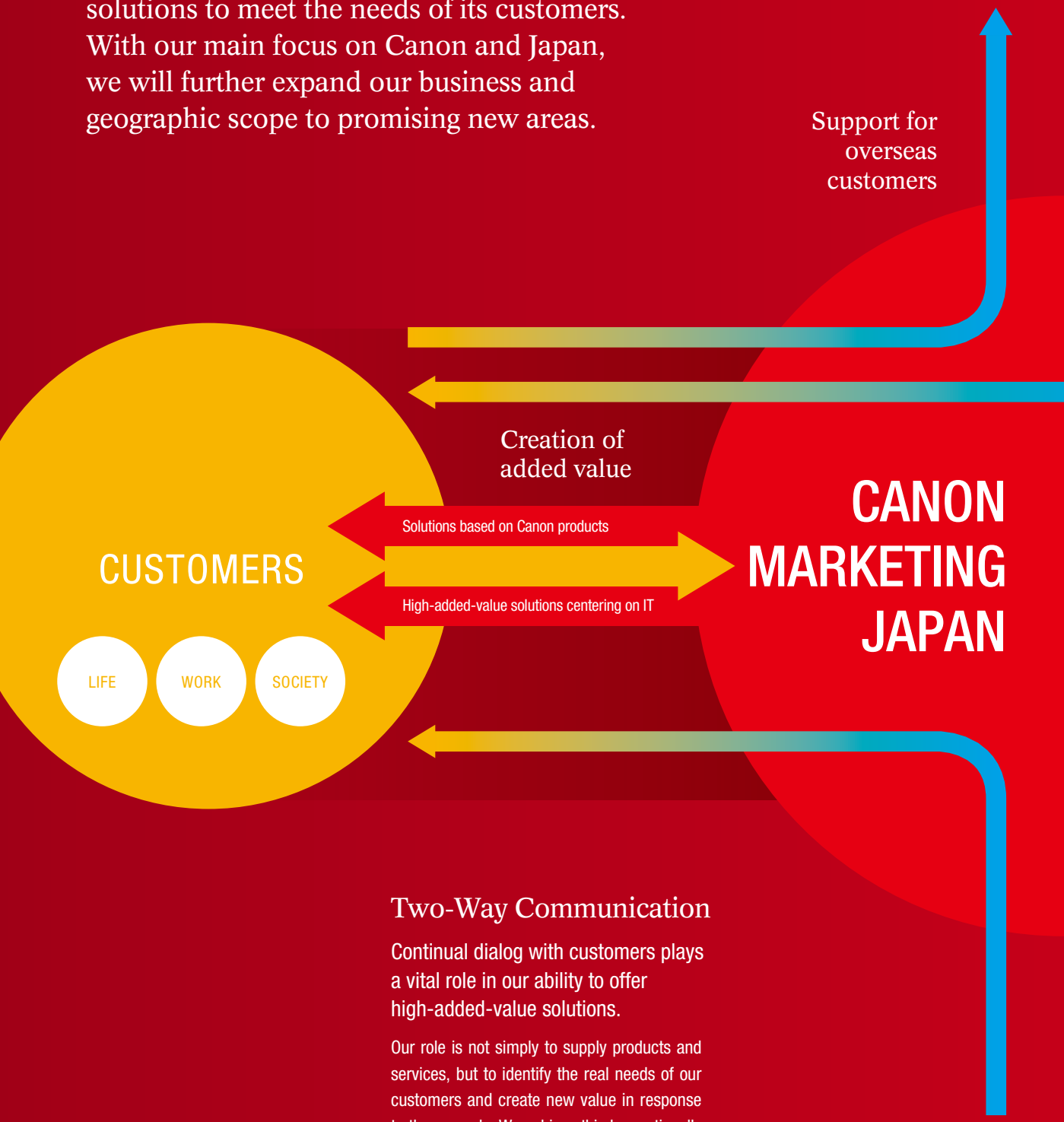
TODAY

For the Canon MJ Group, business diversification literally means the expansion of business areas, while evolution as a service creation group means not only the expansion of maintenance service sales, but also the development of a role as a creator of services based on IT solutions. At the same time, we will expand our overseas business activities. These strategies are summarized as

"Beyond CANON, Beyond JAPAN."

Our Role

As a member of the Canon Group, the Canon MJ Group provides high-added-value solutions to meet the needs of its customers. With our main focus on Canon and Japan, we will further expand our business and geographic scope to promising new areas.



Two-Way Communication

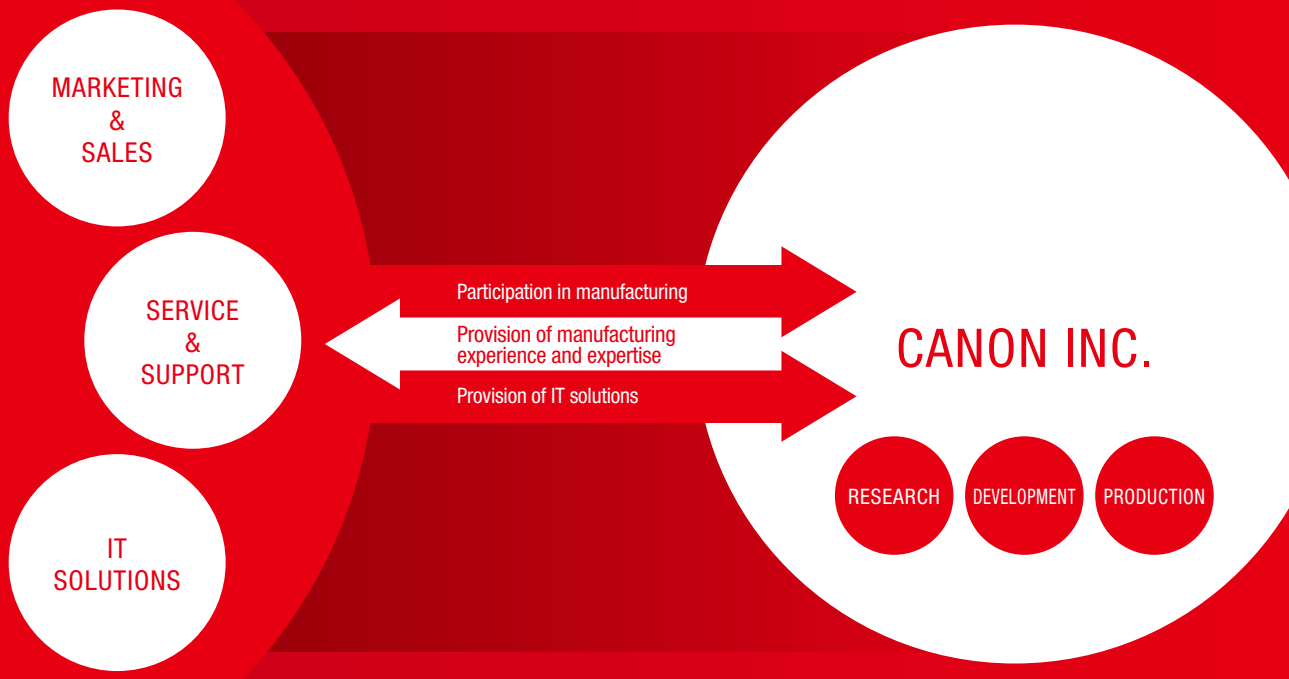
Continual dialog with customers plays a vital role in our ability to offer high-added-value solutions.

Our role is not simply to supply products and services, but to identify the real needs of our customers and create new value in response to those needs. We achieve this by continually talking to our customers and maintaining high-quality communication.

Canon products have earned the confidence of countless users. By linking products backed by the advanced technology of this global business group with IT technology, the Canon MJ Group is able to provide solutions that truly meet the needs of its customers. We are also strengthening our collaboration with business partners and alliance partners throughout Japan to enhance our ability to respond to the needs of customers by targeting new growth opportunities within and beyond Japan.

Under our customer-focused business philosophy, all Canon MJ Group employees strive to optimize two-way communication and participate in manufacturing. Our aim is to help customers to achieve optimal value across all facets of life, work and society.

Procurement of high-quality foreign products



Participation in Manufacturing

We work with Canon to ensure that customer feedback is reflected in research, development and production operations.

We place a high value on customer feedback as the starting point for future manufacturing initiatives. Our marketing activities provide a wide range of contact points through which we carefully gather direct customer input for use as feedback for the research, development and production operations of Canon Inc. Through this role, we are key participants in product development and evolution.

We respond to the changing needs of our customers in collaboration with a wide variety of partners.

Our Presence

We provide customers with added value through contact points spanning many aspects of life, work and society. Our 25 group companies and 18,500 employees work to grow the Canon MJ Group into a service creation group providing solutions that exceed customer expectations.

BUSINESS SOLUTIONS

We help to improve office productivity by providing a wide range of products and services centering on Canon products.

Major Products

- Business-use multifunctional products
- Commercial printing systems
- Laser printers
- Large-format inkjet printers
- Maintenance services

Major companies / organizations

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

IT SOLUTIONS

We help customers to enhance the competitiveness and corporate value of their businesses through the optimized integration of IT into their business activities.

Major Products

- System integration business
- IT infrastructure & service business
- Embedded system business
- Products business

Major companies / organizations

- Canon MJ IT Group Holdings Inc.
- Canon IT Solutions Inc.
- Canon Software Inc.
- Edifist Learning Inc.
- Nine other companies

IMAGING SYSTEMS

By informing users about new ways to enjoy photography and images, we help them to discover new fun and excitement.

Major Products

- Interchangeable lens digital cameras
- Compact digital cameras
- Inkjet printers
- Commercial imaging equipment

Major companies / organizations

- Canon Marketing Japan Inc. Imaging Systems Company
- Canon Customer Support Inc.
- withPhoto Inc.

INDUSTRIAL EQUIPMENT

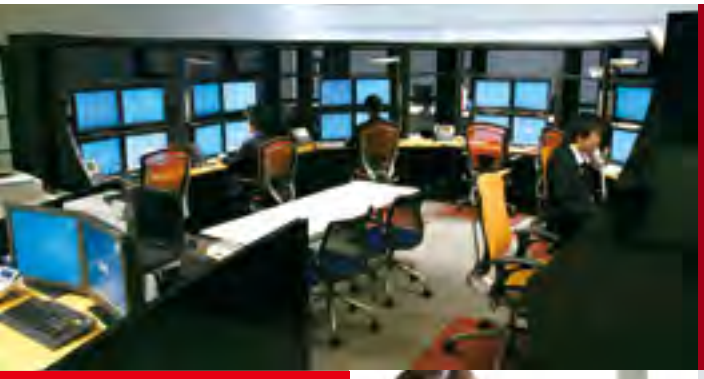
We help the semiconductor and healthcare industries to fulfill their vital roles in our lives by providing the world's most advanced equipment and solutions.

Major Products

- Industrial equipment
- Medical equipment

Major companies / organizations

- Canon Marketing Japan Inc. Industrial Equipment Sales Headquarters
- Canon Marketing Japan Inc. Medical Equipment Sales Headquarters
- Canon Lifecare Solutions Inc.
- ELQUEST CORPORATION
- Canon Advanced Technologies Taiwan Inc.

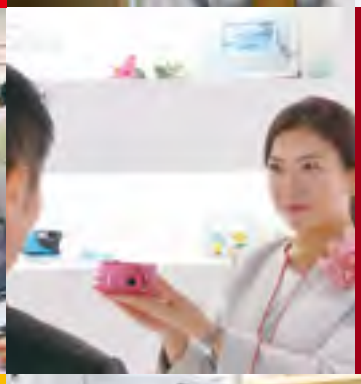


4,400

sales personnel identifying and understanding problems from the customer's perspective.

4,200

systems engineers carrying out marketing activities in the customer's best interests.



Customer-Focused Approach

We always think and act from the customer's perspective. By consistently applying this focused approach, we are able to solve each customer's problems and provide optimal value. We work always to provide solutions that truly reflect customer needs.

2,800

customer engineers seeking to provide value that exceeds expectations.

350

sales and service centers, an extensive nationwide network.

Financial Highlights

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	2012
FOR THE YEAR:				
Net sales	¥ 681,234	¥ 632,419	¥ 674,159	$ 7,830,276
Cost of sales	438,333	409,527	446,616	5,038,311
Gross profit	242,901	222,892	227,543	2,791,965
SG&A expenses	226,099	214,450	219,807	2,598,839
Operating income	16,802	8,442	7,736	193,126
Net income	10,579	6,764	3,724	121,598
AT YEAR-END:				
Total assets	462,574	447,765	448,592	5,316,943
Total stockholders' equity	253,862	250,671	246,680	2,917,954

		Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK:				
Stockholders' equity	¥ 1,907.50	¥ 1,827.25	¥ 1,798.16	$ 21.93
Net income (Note 2)	77.45	49.30	26.70	0.89
Cash dividends (Note 3)	24.00	20.00	20.00	0.28

		%		
KEY RATIOS:				
Total stockholders' equity ratio	54.9	56.0	55.0	
ROE	4.2	2.7	1.5	

		Thousands of shares		
COMMON STOCK:				
Number of shares outstanding at year-end	151,080	151,080	151,080	

NOTES:
1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥87 to U.S.$1, the prevailing exchange rate as of December 31, 2012.
2. Net income 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.

Contents

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements about the performance and management plans of Canon Marketing Japan Inc., based on management's assumptions in light of current information. The following factors may therefore influence actual results. These factors include consumer trends in Japan as well as other major global markets, private capital expenditures, currency fluctuations, notably against the U.S. dollar, materials prices and political turmoil in certain countries and regions.

Chairman **Haruo Murase** (on left)

President **Masami Kawasaki** (on right)

New Strengths for a New Age

Accelerating growth by developing new businesses and creating new markets

In 2012, there was a gradual improvement in the business environment, in part because of reconstruction work following the Great East Japan Earthquake. However, the recovery trend was held back by a combination of factors, including a prolonged global economic slump affecting Europe and other regions, as well as a slowdown in the Japanese economy in the fall of 2012.

The Canon Marketing Japan (Canon MJ) Group achieved year-on-year growth in both revenues and income in this environment. This reflects strong trends in key business areas, including the multifunctional product (MFP) business in the Business Solutions segment and the system integration (SI) service in the IT Solutions segment, and the interchangeable lens digital camera business in the Consumer Imaging segment.

We also laid foundations for a new phase of growth. SHOWA INFORMATION SYSTEMS, CO., LTD. and OCE JAPAN CORPORATION, which both joined the Canon MJ Group in 2011, led the development of our business base in the commercial printing field, while the Nishi-Tokyo Data Center went on stream and began providing services. In addition, we strengthened our business base by restructuring our activities serving the medical field. Other important moves included the establishment of overseas subsidiaries in the areas of industrial equipment and IT solutions.

At the heart of our management policy for the Canon MJ Group is our customer-focused approach to marketing. "Customer" is the most important word for the Canon MJ Group, and our commitment to customers is the principle that guides our thoughts and actions in response to each challenge.

This customer-focused philosophy will remain a constant guiding principle for our continuing efforts in 2013 to achieve our goals by creating new businesses and markets under Phase II of our Long-Term Management Objectives covering the period to FY2015 and the Three-Year Management Plan (FY2013–2015), which is our action plan for this vision. These plans are predicated on our determination to accelerate our growth.

Balancing Our Approach

In FY2012, our consolidated net income increased by 56.4% year on year. This substantial increase is attributable both to cost-cutting efforts and sales growth resulting from our dynamic approach to income growth—balancing new product marketing and the proposal of wide-ranging solutions with sustained restructuring.

In the first half of 2012, the Japanese economy followed a recovery trend driven by post-earthquake reconstruction demand and an improvement in capital investment. However, the Japanese economy stalled in the second half under the impact of economic stagnation in Europe and North America, combined with faltering growth in emerging economies. These and other factors weakened Japan's recovery momentum over the whole of 2012.

The key concepts behind the Canon MJ Group's strategy in this business environment were growth and transition. We worked to achieve sales growth by effectively marketing new products and dynamically offering a wide range of solutions.

Full-year contributions from consolidated subsidiaries that joined in 2011, Canon Lifecare Solutions Inc. (formerly ELK CORPORATION), OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD., helped to lift consolidated net sales by 7.7% over the previous year's level to ¥681.2 billion.

By combining this result with an improvement in the ratio of gross profit to sales, structural reforms, and sustained efforts to minimize costs, we were able to achieve substantial income growth. Consolidated operating income increased by 99.0% to ¥16.8 billion, while consolidated net income was 56.4% higher at ¥10.6 billion.

Progress under Long-Term Management Objectives Phase II

In 2011, the Canon MJ Group launched the Long-

Term Management Objectives Phase II, a five-year program covering the period from 2011 to 2015. The most important aim under the Long-Term Management Objectives Phase II is to move toward a new growth phase through the further expansion of our business domains. Our four basic strategies for this purpose are to expand the market shares of Canon products, to diversify our business activities, to evolve into a service company, and to innovate group management. By moving forward with these priority strategies, we aim to drive our growth into a service creation group capable of providing optimal value to customers.

> "Our goal is to drive growth as a service creation group capable of providing optimal value to customers."

The following is an outline report on our progress under these four priority strategies in FY2012.

Market Share Expansion

Sales volumes increased by 18%, and there was sustained improvement in market shares, reflecting the launch of a large number of second-generation models in the imageRUNNER ADVANCE series of multifunction printers (MFPs). We also reached the number-one position in the laser printer market for the 21st consecutive year and maintained our number-one status in the large-format inkjet printer market.

We also held our top market share in the interchangeable lens digital camera category. Among the new products launched were the EOS 6D mid-entry level model and the EOS M mirrorless camera.

Business Diversification

We strengthened our business structure by integrating marketing and maintenance services for medical equipment under Canon Lifecare Solutions Inc.

We also created an environment for further sales expansion in the commercial printing market. We enhanced our business structure in this area by acquiring SHOWA INFORMATION SYSTEMS CO., LTD. as a wholly owned subsidiary. In addition, the products of Océ N.V. began to make a significant contribution to sales.

There were further improvements to our Cinema EOS System lineup, including the launch of the EOS C500 system, which is capable of capturing 4K images. This resulted in a substantial increase in sales of commercial imaging equipment.

Evolution into a Service Company

In October 2012, we completed preparations for the

Long-Term Management Objectives Phase II (2011–2015)

Evolution into a service creation group through "growth and transition"

Beyond CANON, Beyond JAPAN

Priority Strategies

01 Strengthen market shares of Canon products	03 Evolve into a service company
02 Diversify business	04 Further group management innovation

expansion of our business process outsourcing business with the start of operations at the Nishi-Tokyo Data Center. In the IT solutions area, we established subsidiaries in Thailand and the Philippines in August and November 2012 in preparation for the accelerated expansion of our overseas activities. There was also evidence of sustained progress in the area of medical solutions, including strong financial results for Canon ITS Medical. In the document business field, evidence of sustained growth in demand for our services for small and medium offices included an increase in the number of subscribers to our HOME cloud service, and strong sales of unified threat management security products.

Group Management Innovation

We enhanced our ability to respond to customer needs while also improving operational efficiency by shifting to a work-style based on the use of mobile equipment. For example, we issued approximately 12,000 thin, lightweight ultrabooks to employees and allocated approximately 5,000 smartphones to marketing personnel.

Our targets under the Long-Term Management Objectives Phase II are net sales of ¥850 billion or higher, operating income of ¥42.5 billion or higher, and net income per share of ¥185 or higher in FY2015. Some of these targets deviate from the Three-Year Management Plan (2013–2015) announced in 2013 (table below), but our commitment to the performance targets set down in the Long-Term Management Objectives Phase II remains unchanged. One of the reasons for the deviation in targets is a change in the way results are presented. Starting in the current fiscal year, results will be stated as net amounts rather than gross amounts. Also, the 2015 performance targets under the Long-Term Management Objectives take into account the completion of M&A deals and the establishment of new businesses. We therefore believe that the targets are not unattainable, depending on the progress of our M&A activities and the establishment of new businesses over the next three years.

We will focus in particular on two of our four priority strategies: business diversification and evolution into a service company. Under our "Beyond CANON, Beyond JAPAN" concept, we will expand the range of products handled and accelerate the global expansion of our business activities. The entire Canon MJ organization is united in our determination to make progress toward the achievement of our performance targets for FY2015 through approaches that will include both the start-up of new businesses and mergers and acquisitions.

Indicators and Targets

Indicators

(Billions of yen)

Area	2012 Actual	2015 Target	Remarks
Net sales increase from diversification	¥43 billion	¥100 billion plus	Net sales increase versus 2010, from diversification
Service Business Ratio	39%	45%	Non-hardware (excluding consumables) net sales percentage
Beyond CANON Ratio	29%	30%	Percent of net sales contributed by products procured from outside and Canon MJ services
Beyond JAPAN Ratio	2.2%	10%	Percent of net sales contributed by overseas activities and imported products

Three-Year Management Plan (2013–2015)—Performance Targets

	2012 Actual		2015 Target	
	(Billions of yen)	Ratio	(Billions of yen)	Ratio
Net sales	659.2		780.0	
Operating income	16.8	2.5%	30.0	3.8%
Net income	10.6	1.6%	18.5	2.4%
Net income/share	¥77		¥139	

* Due to the change in accounting policy since 2013, the 2012 actual net sales was reclassified by deducting certain deductible items.
* Net income per share in 2013 and later is calculated based on the number of shares as of the end of FY2012.

2015 Performance Objectives by Segment

(Billions of yen)

Area		2012 Actual	2015 Target
Business Solutions	Net sales	330.9	370.0
	Operating income	6.3	11.0
IT Solutions	Net sales	131.0	168.0
	Operating income	0.2	5.0
Imaging Systems	Net sales	199.2	210.5
	Operating income	9.7	11.0
Industrial Equipment	Net sales	30.7	62.0
	Operating income	(1.2)	2.5

Basic Policies and Priority Strategies under the Three-Year Management Plan

We have adopted a Three-Year Management Plan covering the period from 2013 to 2015 as a framework for our efforts to realize our goals for the Canon MJ Group under the Long-Term Management Objectives Phase II. Our basic management policies under this plan are to contribute to the achievement of overwhelming leadership for Canon products in world markets, to create original, high-added-value solutions, and to strengthen our trading capabilities and achieve radical business model innovation under the "Beyond CANON, Beyond JAPAN" concept.

Based on these policies, we aim to evolve into a service creation group capable of consistently providing unique added value in a global business environment by combining Canon products with the capabilities of the Canon MJ Group as a solutions provider. We will approach this goal through the following priority strategies in each business segment.

> " We aim to achieve radical business model innovation under the 'Beyond CANON, Beyond JAPAN' concept."

Business Solutions

1. We aim to improve the earning potential of the document business, including office MFPs and laser printers.
2. We will use synergies among OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD., which are now members of the Canon MJ Group, to expand the commercial printing business.

IT Solutions

1. We aim to improve our earning performance by maintaining growth potential and modifying business structures in existing business areas.
2. We aim to strengthen and expand our IT outsourcing business and create new businesses based on the use of our own data centers and the provision of cloud-based services.
3. We aim to provide IT services to the overseas business sites of Japanese companies, including Canon Group companies.

Imaging Systems (formerly Consumer Imaging)

1. We aim to achieve No. 1 market shares for key products while maintaining profitability.
2. We aim to expand sales of commercial imaging equipment.
3. We aim to raise customer satisfaction levels and expand new businesses by strengthening the photography lifestyle support business and service and support structures.

Industrial Equipment

1. We aim to expand our range of products for the semiconductor and non-semiconductor markets.
2. We aim to restore and expand the earning performance of the medical solutions business by achieving business synergies in the activities of Canon Lifecare Solutions Inc.

We will work to expand our business activities and improve the financial performance of the Canon MJ Group through these strategies. Canon MJ's Three-Year Management Plans are formulated annually on a rolling basis. Segment targets under the plan for the period through FY2015 are presented on the page opposite.

Outlook for FY2013

We expect our financial results for FY2013 to include consolidated net sales of ¥684.8 billion, a year-on-year increase of 0.5%. Consolidated operating income is expected to increase by 7.1% to ¥18.0 billion, and consolidated net income by 0.2% to ¥10.6 billion.

Our dividend policy emphasizes dividend stability, and we aim to achieve a consolidated payout ratio of around 30%. In FY2013, we expect to pay a total annual dividend of ¥24.

We would like to emphasize that the management of the Canon MJ Group is focused on the delivery of sustainable growth over the long term, and that our business policies are based on the view that there is substantial potential for growth through strategies that include diversification and evolution as a service creation group. We thank you for your continuing support.

Diversifying

Under our Long-Term Management Objectives Phase II, a five-year plan started in 2011, we aim to achieve a sales increase of at least ¥100 billion from FY2010, by implementing diversification strategies in a variety of business areas. These include expansion of the commercial printing business, reinforcement of the healthcare-related business, and sales expansion in the commercial imaging equipment category.

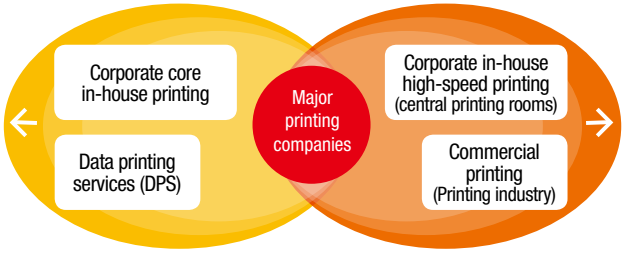
Expanding the Commercial Printing Business

Synergy

We aim to expand the commercial printing business by taking maximum advantage of synergy benefits with other Canon Group companies.

We aim to expand the commercial printing business through the benefits of synergies among Canon Group company Océ N.V. (Netherlands), and Canon MJ Group companies OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD.

Specifically, by taking advantage of not only the customer base and know-how of Canon MJ, but also of SHOWA INFORMATION SYSTEMS CO., LTD., we will expand sales of Océ printing products including the ColorStream series of high-speed continuous form models and the VarioPrint series of high-speed cut-sheet models. We will also aggressively strive to develop markets for commercial printing and corporate in-house high-speed printing for the Canon imagePRESS series, and for the imagePROGRAF series of large-format inkjet printers. In the retail photo market, we will also strive to expand market share with the industrial photo printer DreamLabo. Additionally, by integrating technologies from Canon and Océ, we will develop and introduce products better suited to the needs of the Japanese market. We aim to achieve sales of ¥50 billion from the commercial printing business in FY2015.



Strengthening the Healthcare-Related Business

Integration

The group will bolster earnings in the healthcare-related business by integrating medical equipment sales and service under Canon Lifecare Solutions Inc.

In November 2012, ELK CORPORATION was renamed Canon Lifecare Solutions Inc., and the sales and service functions of medical equipment service category of Canon MJ Group were transferred to Canon Lifecare Solutions Inc. with the aim of creating a core firm in the medical and healthcare-related business. By establishing an integrated system from sales through to service and support, we aim to strengthen sales capabilities and improve customer satisfaction.

We will further strengthen our healthcare-related business by promoting IT/network solutions for medical institutions, including the PACS:PRIMITUS series introduced in January 2013 that is capable of storing, browsing and managing medical image data via network.

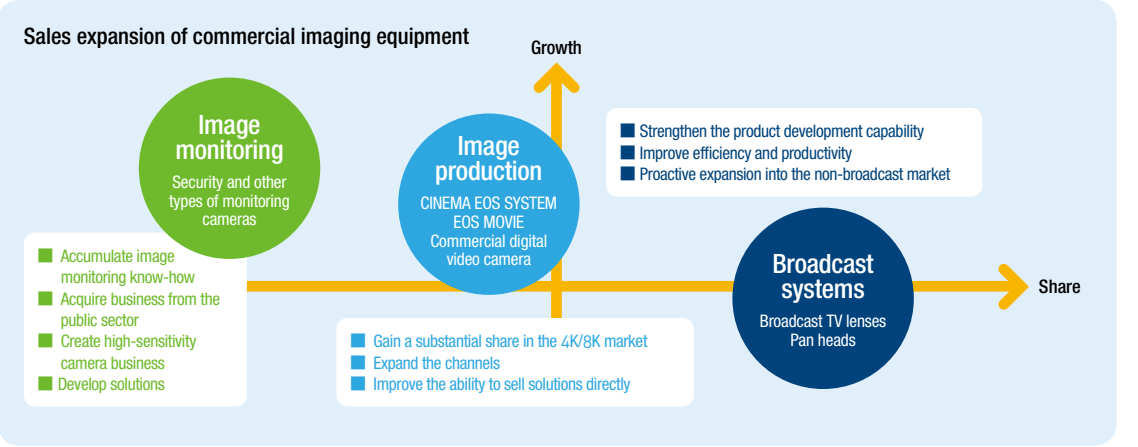
Canon ITS Medical Inc., which deals with medical information systems including receipt computers, electronic medical record systems and health checking systems, is also showing robust performance. Our sales target in FY2015 for the entire healthcare-related business including the above sectors is ¥40 billion.

Expanding Sales of Commercial Imaging Equipment

Share

We are working to increase market share in the areas of image monitoring, image production and broadcast systems.

In the area of image monitoring, we will work on responding to the need for higher image quality, accumulating image-monitoring know-how and acquiring public sector business. We will focus on expanding sales in the image production market in areas such as motion pictures and TV commercials by reinforcing the lineup of our CINEMA EOS SYSTEM, including EOS C500, capable of capturing 4K high-definition images. With regard to broadcast systems, remote-controlled platform cameras are being adopted by many broadcasters, and with demand expected to grow in areas beyond broadcasting, we will aggressively develop the market. Our sales target for the commercial imaging equipment business in FY2015 is ¥10 billion.



Evolving

Under our Long-Term Management Objectives Phase II, we will also implement strategies in various business areas, including reinforcement of the outsourcing business and expansion of IT solutions overseas, with the objective of evolving into a service creation group and raising the proportion of sales of non-hardware products (excluding consumables) to 45% of total sales.

Promoting Further Expansion of IT Solutions Overseas

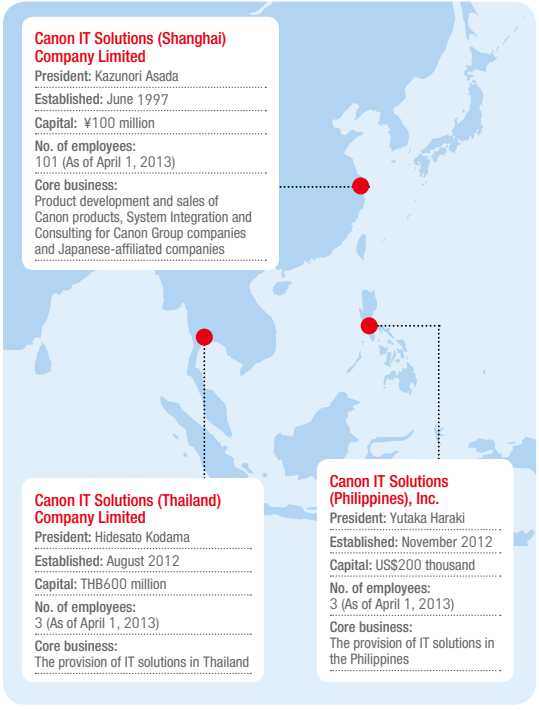
Global

We will expand the IT solutions business in China and other Asian countries, mainly focusing on Japanese companies.

For Japanese companies that expand their business in China and other Asian countries, we aim to become a true partner in the IT area, offering a variety of solutions extending to application development, service and support. In addition to our existing base in Shanghai, we established Canon IT Solutions (Thailand) Company Limited in the Kingdom of Thailand in August 2012, and Canon IT Solutions (Philippines), Inc. in the Republic of the Philippines in November 2012.

In the significantly growing IT markets in the Southeast Asian countries, demand for IT solutions is expected to increase further, especially from Japanese companies for their local bases. By establishing a system for conveniently providing services both from Japan and from Southeast Asian countries, we aim to obtain IT service business from Japanese companies that are expanding in this region.

In the future, we will aggressively pursue expansion of the IT business not only in Thailand and the Philippines but also in other Southeast Asian countries.



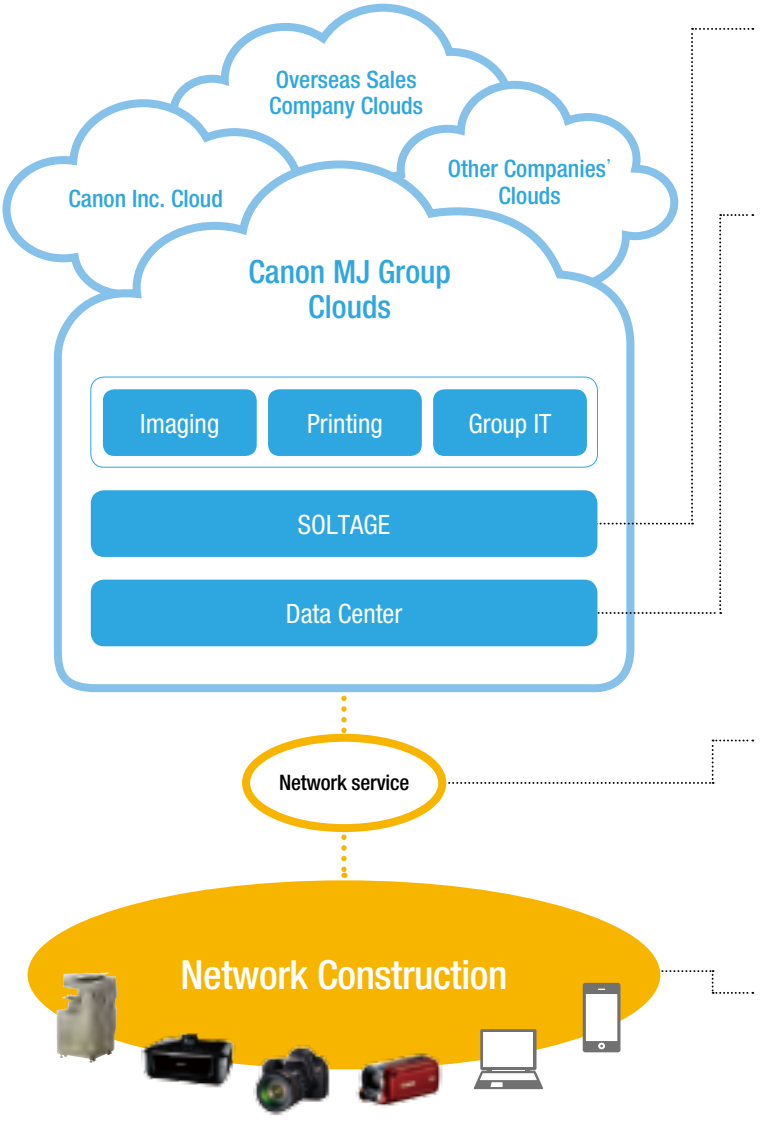
Reinforcement of Outsourcing Service Business

Canon MJ Group aims to strengthen our outsourcing service business by offering a variety of "one-stop" services.

Nishi-Tokyo Data Center (total area of 16,532m^2, about 2,300 racks), a next-generation data center with cutting-edge facilities and security, commenced operation in October 2012. By leveraging the know-how accumulated from many years of data center operation, we will offer more flexible high-reliability system operating services. Nishi-Tokyo Data Center will play a core role in strengthening both Canon MJ Group's SOLTAGE cloud service platform, in pursuit of convenience for customers, and our business process outsourcing (BPO) service that is to support customers in accelerating their business. Our target is to achieve sales of ¥50 billion by FY2015 from the entire stock-type IT service business* that consists of outsourcing and maintenance services.

* Stock-type IT service business consists of data center services, system operating services, cloud services, business process outsourcing services, and maintenance services.

Cloud Service provides strong support for customers' IT strategies



SOLTAGE

SOLTAGE, our independently-developed platform for cloud services, as well as the advanced IT services we continue to offer, will provide a solution for customers to optimize their usage of cloud services, and realize Inter-Cloud that connects different cloud services.

Data Center

We provide customers with safety and reassurance of world-class-strength security in storing their IT assets such as servers in our data center under our Facility Service; providing them with use of our networking equipment and servers under our Hosting Service; and monitoring and operating customers' systems for them under our MSP* Service.

* MSP (Management Service Pack) provides operation, monitoring and maintenance services on customers' servers and network equipment.

Nishi-Tokyo Data Center

Network Service

We offer suggestions tailored to customers' needs, principally in relation to cost-cutting and improvement of convenience with FMC* Service, and the secure interconnection of office devices through VPN network service.

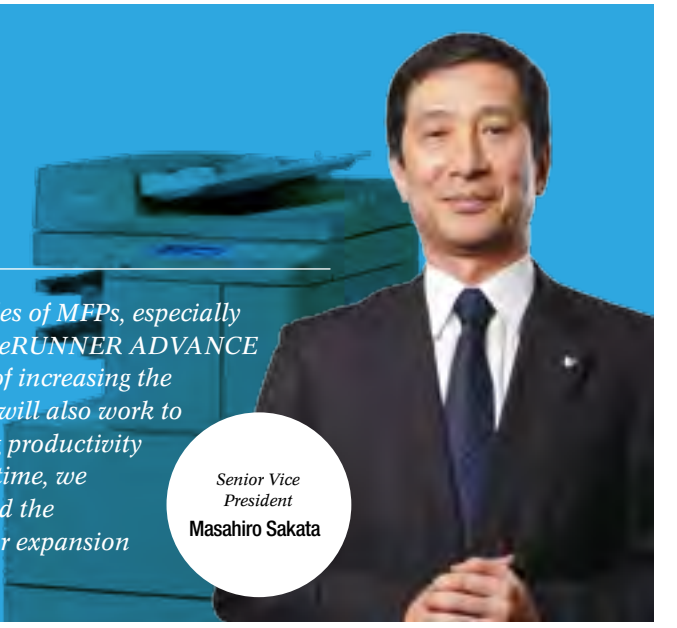
* FMC (Fixed-Mobile Convergence) is a service to integrate landline network and cell phone network.

Network Construction

We set up and provide support for networks for Canon products, including office multifunction products and printers, digital cameras and various mobile devices.

Business Solutions

We will aggressively target increased sales of MFPs, especially products in the second-generation imageRUNNER ADVANCE series launched last year, with the aim of increasing the number of machines in field (MIF). We will also work to improve earning performance by raising productivity in both sales and services. At the same time, we will work with group companies to build the infrastructure needed to support a major expansion of the commercial printing business.



Senior Vice President
Masahiro Sakata

Our Strategies

- We aim to expand both document volumes and MIF for office multifunction products and laser printers.
- As part of our productivity improvement efforts, we aim to reduce the number of service personnel by 10% from the FY2010 level (excluding new consolidated subsidiaries) by FY2015.
- We aim to achieve sales of ¥50 billion from the commercial printing business, which is our biggest growth driver, by FY2015, by maximizing synergies with SHOWA INFORMATION SYSTEMS CO., LTD. and OCE JAPAN CORPORATION.

Operating Review

Office Multifunction Products (MFPs)

In FY2011, we were affected more severely than our competitors by product supply problems resulting from the Great East Japan Earthquake, with the result that sales declined year on year. In FY2012, we worked to recover our lost share through determined efforts to expand sales of MFPs. This was reflected in excellent results, including a substantial 19% increase over the number of units sold in FY2011, and a 14% increase over the pre-earthquake level in FY2010.

Laser Printers

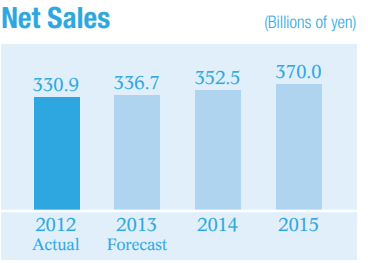
Evidence of our powerful sales base in Japan includes the fact that we were number one in the domestic market for the 21st consecutive year in FY2012 in terms of our total market share for both monochrome and color laser printers. Sales of monochrome printers were slower because of factors that included a reactionary downswing following major orders received in FY2011, as well as the expansion of the replacement cycle. However, we successfully completed major deals for color laser printers, and there was sustained growth in the number of units sold. Sales of toner cartridges were similar to the previous year's level.

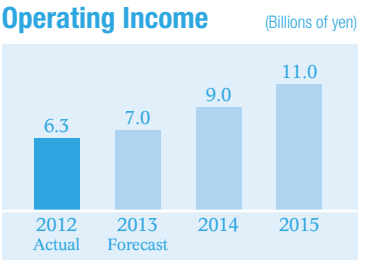
Large-Format Inkjet Printers

There was sustained sales growth led by products for computer aided design and poster production. Key growth drivers included the competitive imagePROGRAF iPF650 high-quality printer.

Maintenance Services and Document Services

Despite year-on-year growth in printing demand, sales of maintenance services were marginally below the previous year's level because of falling unit prices.





Note:
Until 2012, a portion of sales promotion expenses was included in selling, general and administrative expenses. Starting in 2013, this amount will be deducted from net sales, which will be shown as a net amount. This change does not affect operating income.

Outlook

Expanding Market Share and MIF for Office MFPs

Because the Japanese MFP market has entered its mature phase, our efforts to gain market share now center on determined marketing of products with highly attractive characteristics, such as the second-generation imageRUNNER ADVANCE series launched last year. We are also targeting growth in the commercial printing area, which is the biggest growth driver in the Business Solutions segment. We aim to achieve this by maximizing synergies with OCE JAPAN CORPORATION and SHOWA INFORMATION SYSTEMS CO., LTD., which joined the Canon MJ Group in 2011. OCE JAPAN CORPORATION's high-speed continuous form printing models have gained a reputation for excellent productivity, and sales remain strong. In the future we aim to achieve further expansion in this area by working with Océ N.V. to develop products specifically designed for the Japanese market.

Improving the Earning Potential of the Maintenance Service Business

Document volumes fell temporarily immediately after the Lehman shock but have returned to a growth trend since 2010. In the future we expect document volumes to expand in step with growth in the amount of information handled by businesses. We therefore expect our earning performance in this area to improve, in part because of the additional impetus provided by cost reductions and other factors.

Outlook for FY2013

We expect sales to increase by 2% year on year to ¥336.7 billion (comparison based on same conditions) to ¥336.7 billion in FY2013 through growth of unit sales of major products, such as MFPs. We aim to increase operating income by 11% to ¥7 billion through continuing cost cutting efforts.

Topics // IT Solutions Driving a V-Shaped Recovery for Canon System & Support

Last year, Canon System & Support Inc. provided the impetus for growth in both revenues and income in the Business Solutions segment. One of the sources of that impetus was the IT Solutions Business. Canon System & Support Inc. achieved substantial revenue growth through efforts to expand sales in a number of areas, including HOME advanced cloud services for small and medium-size enterprises, and security solutions, such as unified threat management (UTM).

What is HOME?

HOME

HOME is an IT system outsourcing service provided by the Canon MJ Group. IT utilization and administration are important priorities for small and medium-size businesses. Through its HOME service, Canon MJ not only handles IT administration and management on behalf of businesses, but also provides IT-based marketing and security enhancements.

This business activity has helped us to gain an advantage over our competitors by building closer relationships with customers that use the service. As a stock business based on monthly charges, this business is also expected to contribute to sustained income flows in the future.

IT Solutions

The IT Solutions segment is playing a key role in the Canon MJ Group's globalization and evolution into a service company through initiatives that include the commencement of operations at a new data center, the establishment of overseas offices, and the development of new businesses and products. Last year brought substantial growth in both sales and income, and we aim to achieve further growth and earnings improvement in the future by accelerating this trend.

Executive Vice President
Kazunori Asada

Our Strategies

- Using the Nishi-Tokyo Data Center, which became operational in 2012, as a core facility, we aim to raise the contribution from stock-type IT services, such as the cloud services, systems operation services and data center services, to 29% or higher by FY2015.
- We aim to increase the overseas ratio for the IT Solutions business to 10% or higher by FY2015 by using our operations in Shanghai, Thailand and the Philippines to expand our business with Japanese companies in Asia, and by strengthening collaboration with the overseas Canon Group.

Operating Review

In FY2012, we combined sales growth achieved through determined efforts to win orders with significant cost savings made possible by restructuring and the consolidation of offices. As a result, operating income increased by ¥3.3 billion year on year to a positive result of ¥200 million for the year.

SI Service Business

There was an increase in the number of individual system development contracts, especially for financial institutions and manufacturers, and sales were higher year on year.

IT Infrastructure Service Business

Outsourcing services are provided through this segment. In FY2011, we won major earthquake-related contracts, and in FY2012 sales were marginally lower year on year because of a reactionary downswing following that growth.

Embedded Software Business

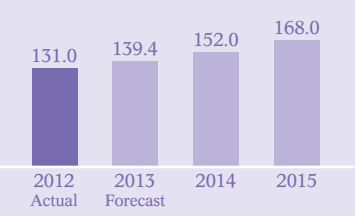
Sales from this segment exceeded the previous year's level, thanks to a sustained flow of projects for customers in the motor vehicle industry and other sectors.

IT Products

A downturn in the core PC business was offset by strong sales of security products and smart devices, such as tablets, and sales were higher year on year.

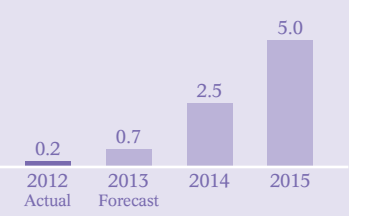
Net Sales

(Billions of yen)



Operating Income

(Billions of yen)



Note:
Until 2012, a portion of sales promotion expenses was included in selling, general and administrative expenses. Starting in 2013, this amount will be deducted from net sales, which will be shown as a net amount. This change does not affect operating income.

Outlook

Maintaining Growth Performance in Existing Business Segments, Restructuring Measures

We are developing and strengthening our business structures to maintain growth in existing segments. One of the ways in which we will achieve this goal is through the upskilling of our sales and development personnel to improve both productivity and our ability to meet customer needs. At the same time, we aim to enhance our earning potential by targeting productivity improvements, including the elimination of duplication, by continuing the structural reforms that we started last year.

Reinforcement and Expansion of Outsourcing Service Business

We aim to increase the percentage of stock-type IT service earnings from 24% in FY2012 to 29% or higher in FY2015, by not only providing SI services, but also by attracting subsequent related business, such as system operation and maintenance services. The new Nishi-Tokyo Data Center, which became operational in October 2012, will be the core facility for these activities.

Dynamic Global Business Development

We will use our offices in Shanghai, Thailand and the Philippines as bases to expand our IT Solutions business by serving Japanese companies in China and Asia. We aim to increase the beyond Japan ratio to 10% or higher through closer collaboration with the global business operations of the Canon Group.

Outlook for FY2013

We expect net sales to increase by 6.4% (comparison based on same conditions) to ¥139.4 billion. This forecast is based on a range of factors, including the expansion of existing business activities and the start-up of new ones. We aim to achieve operating income of ¥0.7 billion through ongoing cost reduction efforts.

Topics // MREAL Mixed Reality System Helping to Reduce Development Lead Times, Costs and Environmental Loads

In July 2012, we launched the MREAL mixed reality system. Designed to merge the real world with computer graphics, this system helps users to shorten development lead times at the product design stage while also reducing costs and environmental loads. MREAL is expected to be used not only in development activities in the manufacturing sector, but also in a wide range of other fields, including design, healthcare, housing and entertainment.

MREAL

Imaging Systems

Strong sales of interchangeable lens digital cameras helped to lift operating income substantially above target in 2012. In 2013 our efforts to expand sales will focus not only on consumer products, but also on business-to-business sales of commercial imaging products.

Senior Vice President
Osamu Sasaki

Note: In 2013 the Consumer Imaging segment became the Imaging Systems segment.

Our Strategies

- We aim to improve earning performance and achieve number-one market shares in the key production categories of interchangeable lens digital cameras, compact digital cameras and inkjet printers.
- By 2015 we aim to achieve sales of ¥10 billion in the commercial imaging equipment category, including video production cameras marketed under the CINEMA EOS SYSTEM, and security cameras.
- We aim to expand our content business, including the withPhoto web service, while also working to increase the Canon fan base and enhance customer satisfaction through the photo culture business and other initiatives.

Operating Review

Digital Cameras and Digital Video Cameras

We achieved overwhelming market shares with entry-level interchangeable lens digital cameras, including the EOS Kiss X5 and the EOS Kiss X6i. The launch of the EOS M mirrorless camera in September also allowed us to attract new users in a market segment that we have not previously been able to tap. Also popular were products with full-size sensors, such as the EOS 5D Mark III and the EOS 6D, which we launched in March and November respectively. Sales were substantially higher year on year.

In the compact digital camera category, we worked to expand sales of the IXY 430F, which has enhanced Wi-Fi functions, and the premium PowerShot G15 and PowerShot S110 models. While sales of the PowerShot A series were excellent, sales were lower year on year because of the increased weighting of the product mix toward entry-level models.

We sought to expand sales of digital video cameras by strengthening our product lineup. However, sales fell below the previous year's level, in part because of a shrinking market for products in the medium price range.

Inkjet Printers

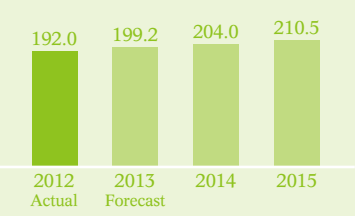
Sales expansion initiatives included the launch of the new PIXUS MG6330 in October 2012. Sales were higher than in the previous year, when results were affected by floods in Thailand.

Commercial Imaging Equipment

Commercial imaging products, including television lenses and security cameras and other types of monitoring cameras, previously formed part of the Industrial Equipment segment. These products were shifted to this segment in January 2012. Sales were substantially higher year on year, in part because of strong sales of video production cameras and lenses in the CINEMA EOS SYSTEM, which was launched in January.

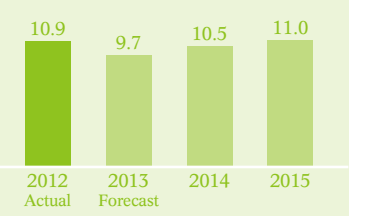
Net Sales

(Billions of yen)



Operating Income

(Billions of yen)



Note:
Until 2012, a portion of sales promotion expenses was included in selling, general and administrative expenses. Starting in 2013, this amount will be deducted from net sales, which will be shown as a net amount. This change does not affect operating income.

Outlook

Maintaining Our Number-One Position in the Interchangeable Lens Camera Market

We aim to maintain our number-one share of the market for interchangeable lens digital cameras by strengthening our lineup of products for all users from entry-level to professionals, including mirrorless cameras.

Strengthening Our Range of Inkjet Printers for Professional and Business Users

While consolidating our number-one position in the home printer market, we will also step up our marketing of printers for professional and business users. We expect sales of ink cartridges to exceed the previous year's level.

Expanding Sales of Commercial Video Equipment

We aim to achieve sales of ¥10 billion by 2015. This growth will be driven by strong sales of television lenses, security cameras and other types of monitoring cameras and video production equipment in the CINEMA EOS SYSTEM.

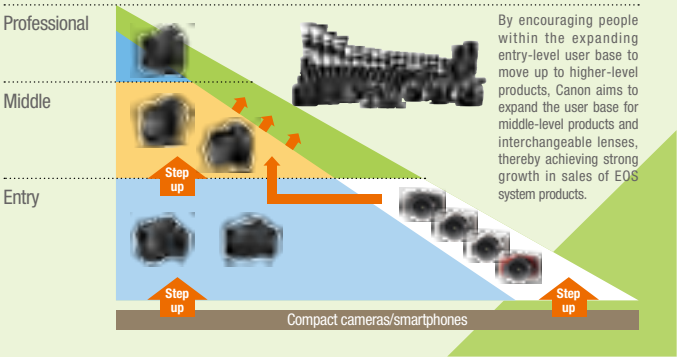
Outlook for FY2013

We expect Imaging Systems sales to increase by 3.8% over the previous year's level to ¥199.2 billion (comparison based on the same conditions), thanks to the launch of new products and aggressive marketing activities. Operating income is expected to be 11.0% lower year on year at ¥9.7 billion because of lower unit prices for key products and increased marketing expenses resulting from aggressive promotional activities.

Topics // Marketing the EOS M Mirrorless Camera to New Users

Canon's first mirrorless camera, the EOS M, went on sales in September 2012. Canon aims to use this camera, together with the EOS Kiss entry-level single-lens reflex camera, to expand the user profile. As the entry-level user base expands, more users are expected to take the next step up to more sophisticated cameras.

Canon's positioning of mirrorless cameras



Industrial Equipment

We regret to report that last year we were unable to reach our targets because of deteriorating trends in the industrial and healthcare markets and escalating competition in various product categories. This year, we aim to expand our range of industrial equipment, and to use the Taiwanese subsidiary that we established last year as a foothold for further growth in the Asian market. In the medical equipment category, Canon Lifecare Solutions will lead efforts to maximize synergies between the Canon and ELK brands.

President
Masami Kawasaki

Our Strategies

- In the Industrial Equipment segment, we will expand our range of products for the semiconductor and non-semiconductor markets and develop the Asian market through our Taiwanese subsidiary, Canon Advanced Technologies Taiwan Inc.
- We will expand our healthcare-related business by enhancing synergies with Canon Lifecare Solutions Inc., with the aim of achieving net sales of ¥40 billion from this business area, alone, in 2015.

Operating Review

Industrial Equipment
(semiconductor fabrication equipment, etc.)

In the non-memory category, there was steady demand for washing and etching systems and other products. However, the semiconductor category was significantly impacted by investment cutbacks, and demand was slower, with the result that sales were lower year on year.

Medical Equipment

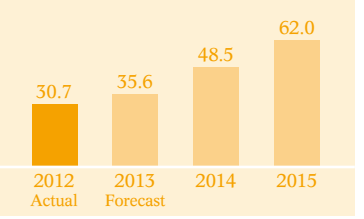
Shipments of digital radiography equipment increased, in part as a result of efforts to stimulate replacement demand and closer cooperation with system manufacturers. However, sales were marginally lower because of escalating price competition.

Sales of ophthalmic equipment were also below the previous year's level because of factors that included the shrinkage of the fundus camera market. However, sales of ultrasonic diagnostic equipment were higher.

In November 2012, the Canon MJ Group's medical equipment sales and maintenance service operations were integrated under ELK CORPORATION, which was renamed Canon Lifecare Solutions Inc.

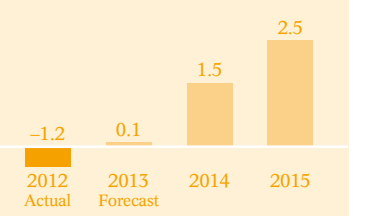
Net Sales

(Billions of yen)



Operating Income

(Billions of yen)



Note:
Until 2012, a portion of sales promotion expenses was included in selling, general and administrative expenses. Starting in 2013, this amount will be deducted from net sales, which will be shown as a net amount. This change does not affect operating income.

Outlook

An Expanding Lineup of Industrial Equipment Products

In the area of industrial equipment, we are working to develop new markets, in part through the expansion of our lineup of new products. Despite forecasts that conditions in the Japanese semiconductor market will remain difficult until mid-2013, we anticipate that sales will exceed the previous year's level.

We will also work through Canon Advanced Technologies Taiwan Inc., which we established in March 2012, to use the Taiwanese market as a foothold for the expansion of sales of semiconductor fabrication equipment in Asian markets.

Expansion of Healthcare-Related Business

We aim to expand the sales in this area to ¥40 billion by 2015 by achieving synergies through the efforts of Canon Lifecare Solutions to expand sales of Canon and ELK brand products, and through the launch of a medical imaging solutions business centering on the Picture Archiving and Communication System (PACS)*.

* PACS is a medical imaging system designed to support integrated management of data from diagnostic imaging equipment. Integrated management of the vast amounts of image data generated in hospitals will improve efficiency in medical facilities by speeding up processing operations, including storage, retrieval and transmission.

Outlook for FY2013

Sales of industrial equipment are expected to increase by 16.0% year on year to ¥35.6 billion (comparison based on the same conditions), reflecting the recovery of semiconductor-related investment in Japan and the development of new industrial and medical markets. Operating income is expected to improve from a loss of ¥1.2 billion in the previous year to a positive result of ¥0.1 billion, in part because of the benefits from the integration of the medical equipment business under Canon Lifecare Solutions Inc.

Topics // Canon Moves into the PACS Market with Primitus

Picture archiving and communication systems (PACS) are network-based storage, retrieval and management systems for medical imaging data obtained using diagnostic imaging equipment, such as digital X-ray systems and CT and MRI scanners.

Launched in January 2013, the Primitus series consists of new PACS products developed by the Canon MJ Group. These products will be marketed primarily by Canon Lifecare Solutions, which is the Canon MJ Group's core company for business activities relating to medicine and healthcare. They will help to improve the quality of healthcare and the efficiency of diagnostic processes.

Primitus

CSR is Marketing

The Canon MJ Group aims to create new markets by pursuing marketing innovation, by sensitively and accurately monitoring the rapidly changing needs and values of society, and by proposing new value in partnership with society. The essence of CSR is to earn trust and support by responding effectively to the evolving needs and expectations of society. That is why "CSR is marketing" is a key concept for our CSR activities.

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 central guiding principle that dates back to the founding of Canon and is part of our corporate DNA. The code states that employees should proactively take the initiative (self-motivation), conduct oneself responsibly and with accountability (self-management) and know one's position, roles and circumstances (self-awareness). The Three Selfs spirit is the foundation for our CSR activities.

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.

Environmental Activities

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. We define the Green Ratio as the ratio between our emissions and our contribution to the reduction of customers' emissions. Our target for this ratio is that CO_2 emission reductions at our customers should be at least 100,000 tons and at least double our own CO_2 emissions.

GREEN RATIO TARGET ACHIEVED IN 2011

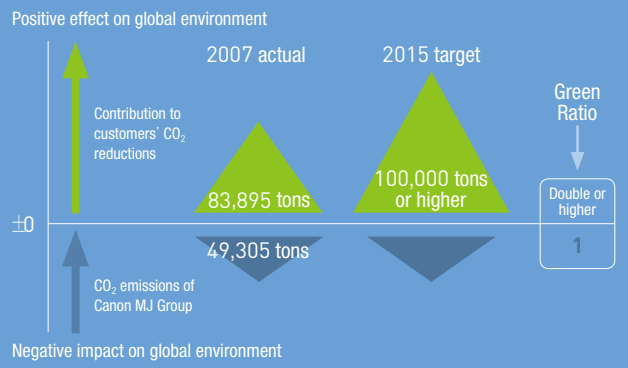
Green Ratio for 2011: 1:2.9

- Reduction of CO_2 emissions from the business sites and logistics activities of the Canon MJ Group.
- Also, reduction of CO_2 emissions at customer sites through expanded sales of the new imageRuNNER ADVANCE.

* Our Green Ratio target of 1:2 or higher for 2015 takes into account the opening of a new data center in 2012.

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.



Social Contribution Activities

Contributing to Community Safety

In recent years, elevated security camera systems have been installed in a growing number of locations, especially by local governments, to allow immediate monitoring of areas affected by earthquakes, tsunami, fires and other emergencies. Canon Marketing Japan is helping to build safer and more secure social infrastructure by supplying elevated security camera systems, such as this system installed by Kawasaki City* as part of a facility-based disaster-preparedness program.

* Located near Tokyo, Kawasaki City has a population of approximately 1.43 million.

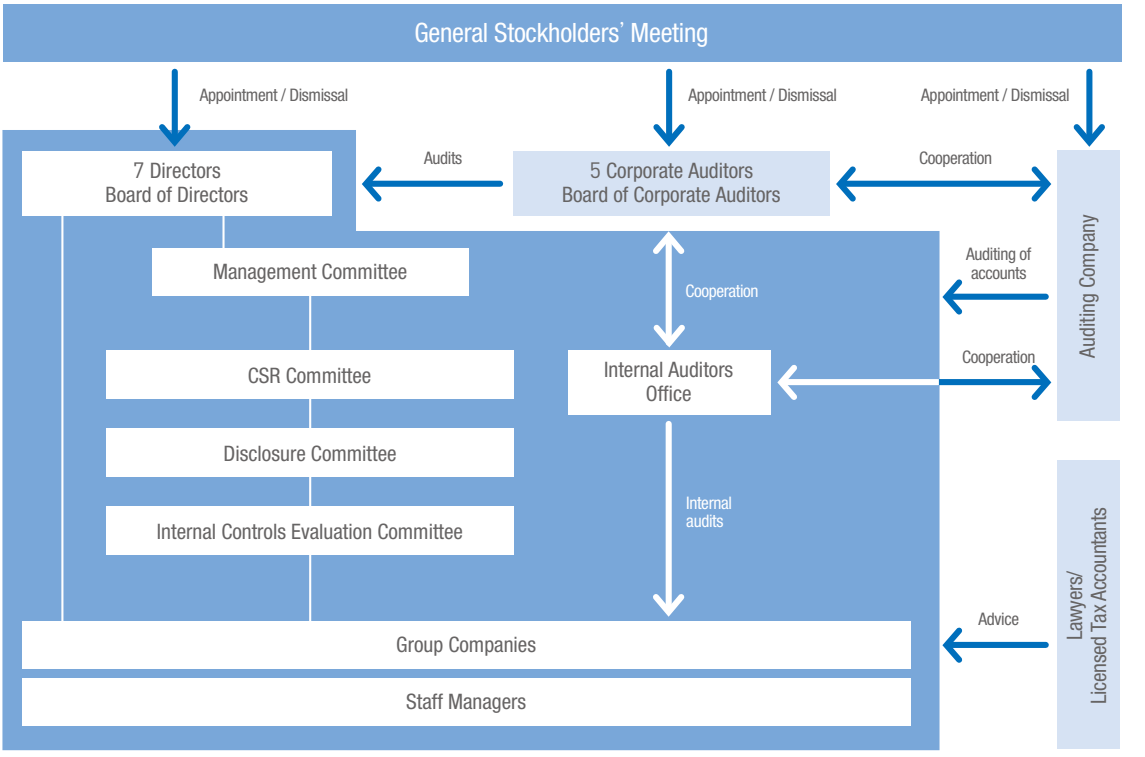
An elevated monitoring camera

Interior view of a disaster response coordination center in Kawasaki City's administration building

Corporate Governance

Corporate Governance Organization

(As of March 27, 2013)



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 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
Osamu Sasaki

Director
Yo Shibasaki

Director
Masahiro Sakata

Director
Masaki Sawabe

Outside Director
Ikuo Soma

Board of Corporate Auditors

Corporate Auditor
Tetsuo Yoshida

Corporate Auditor
Masahiro Shimizu

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 50 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.

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 2010, its activities include deliberations on BCP policies for the entire Canon MJ Group.

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

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.

Compliance

See here for details

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.

Information Security

See here for details

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.

Relationship with Canon Inc.

Canon MJ is a subsidiary of Canon Inc., which owns 57.0% of Canon MJ stock (as of December 31, 2012). 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 2012, our purchases from Canon Inc. amounted to ¥250.2 billion (US$2,876.3 million*), or 68.5% 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 ¥87 to U.S.$1, the prevailing exchange rate as of December 31, 2012.

Financial Section

Contents

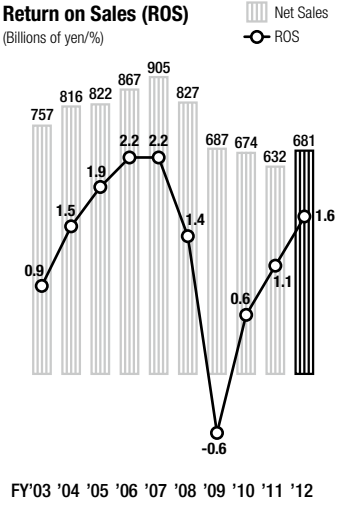
Ten-Year Consolidated Financial Summary

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

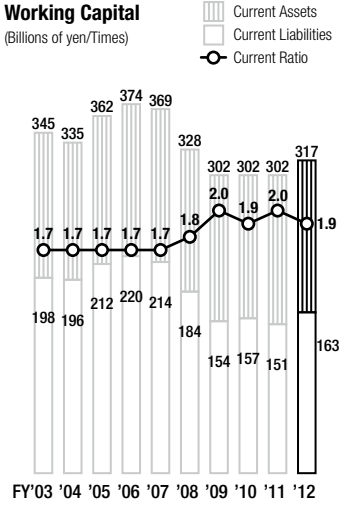
	Millions of yen			
	2012	2011	2010	2009
FOR THE YEAR:				
Net sales	**¥ 681,234**	¥ 632,419	¥ 674,159	¥ 686,615
Operating income	**16,802**	8,442	7,736	6,297
Income (loss) before income taxes and minority interests	**17,529**	10,972	8,584	(595)
Net income (loss)	**10,579**	6,764	3,724	(4,343)
AT YEAR-END:				
Total assets	**462,574**	447,765	448,592	449,607
Total stockholders' equity (Note 5)	**253,862**	250,671	246,680	246,829
CASH FLOWS:				
Cash flows from operating activities	**33,767**	8,716	35,186	18,144
Cash flows from investing activities	**(16,067)**	(12,108)	(13,012)	(25,834)
Cash flows from financing activities	**(11,813)**	(3,811)	(8,171)	(4,324)
Cash and cash equivalents	**108,260**	102,373	109,575	95,575
	Yen			
PER SHARE OF COMMON STOCK:				
Net income (loss) (Note 2)	**¥ 77.45**	¥ 49.30	¥ 26.70	¥ (31.62)
Cash dividends (Notes 3 and 4)	**24.00**	20.00	20.00	20.00
Stockholders' equity (Note 5)	**1,907.50**	1,827.25	1,798.16	1,797.31

Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥87 to U.S.$1, the prevailing exchange rate as of December 31, 2012.
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.

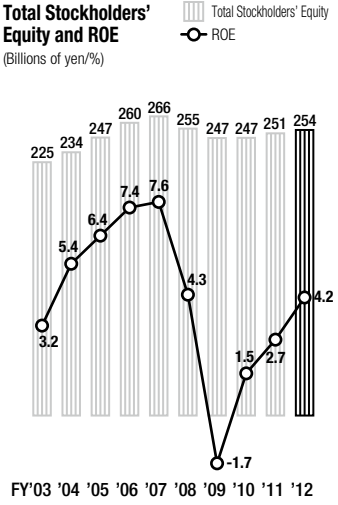
Return on Sales (ROS)
(Billions of yen/%)



Working Capital
(Billions of yen/Times)

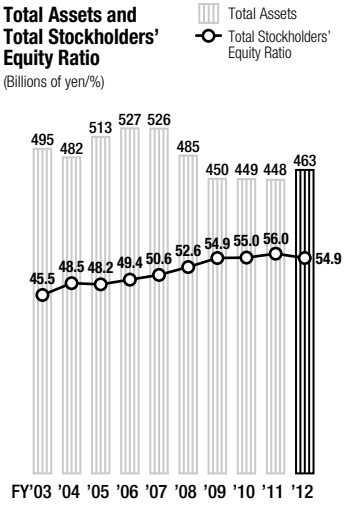


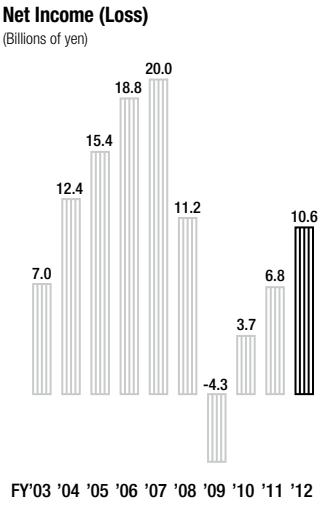
Total Stockholders' Equity and ROE
(Billions of yen/%)



Millions of yen						Thousands of U.S. dollars (Note 1)
2008	2007	2006	2005	2004	2003	**2012**
¥ 827,487	¥ 905,137	¥ 867,172	¥ 821,948	¥ 815,511	¥ 757,033	**$ 7,830,276**
25,416	36,886	33,919	29,723	29,274	16,987	**193,126**
22,229	35,452	32,967	27,086	20,186	20,438	**201,483**
11,186	20,033	18,807	15,358	12,364	7,043	**121,598**
484,937	526,125	526,578	513,335	482,337	495,396	**5,316,943**
255,220	266,086	260,367	247,244	234,158	225,317	**2,917,954**
41,122	47,214	18,094	36,985	22,053	23,671	**388,127**
(28,967)	(21,912)	(19,217)	(17,887)	(7,963)	(16,258)	**(184,678)**
(21,738)	(16,345)	(6,126)	(4,311)	(39,045)	(20,305)	**(135,782)**
107,589	117,206	108,248	115,504	98,844	123,815	**1,244,368**
Yen						U.S. dollars (Note 1)
¥ 78.63	¥ 134.84	¥ 125.64	¥ 101.78	¥ 81.78	¥ 46.24	**$ 0.89**
40.00	40.00	36.00	28.00	22.00	18.00	**0.28**
1,858.39	1,817.59	1,739.50	1,650.52	1,562.23	1,496.74	**21.93**

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.





Business Performance

Net Sales

In addition to the contributions from Canon Lifecare Solutions Inc. (formerly ELK CORPORATION), SHOWA INFORMATION SYSTEMS, CO., LTD. and OCE-JAPAN CORPORATION, which became consolidated subsidiaries in fiscal 2011, business performance in the year ended December 31, 2012 also benefited from our efforts to expand sales through strategies focused on growth and evolution. Net sales increased by 7.7% year on year to ¥681,234 million.

Segment Information

In the Business Solutions segment, shipments of office multifunctional products (MFPs) were higher year on year. This reflects aggressive marketing efforts, including the development of new customers, as well as strong sales of new products. Shipments of production MFPs also increased year on year thanks to our efforts to promote orders for both Canon and Océ commercial printers. In the laser printer category, there was a healthy increase in shipments, despite slow sales of monochrome printers due to a lengthening replacement cycle, and sales were moderately higher year on year. This result was partly attributable to the negotiation of major orders, especially for color printers, which helped to boost shipment volumes. Sales of toner cartridges were similar to the previous year's level.

Despite strong demand for printing, sales of maintenance services for office MFPs were marginally lower year on year because of cuts in unit prices. Canon System & Support Inc., a member of the Canon MJ group, achieved significant growth in the number of units shipped, in part through the development of new customers. Healthy trends were also recorded in the IT solutions area, with the result that net sales exceeded the previous year's result. SHOWA INFORMATION SYSTEMS, CO., LTD., which became a consolidated subsidiary in the previous fiscal year, recorded healthy results, especially in its core areas of kanji printing systems and advertising production printers.

Net sales in this segment increased by 5.8% year on year to ¥344,000 million.

In the IT Solutions segment, results for the SI service business benefited from increased orders for individual system development, especially from financial institutions and manufacturers. Orders in other categories, including medical solutions, manufacturing solutions and mixed reality (MR) systems, also helped to lift sales over the previous year's level. Despite healthy trends in BPO services and other areas, sales from the IT infrastructure service business were moderately lower compared with the result for the previous year, when there were orders relating to earthquake damage. Sales of embedded software were also higher year on year thanks to a healthy trend in orders from customers in the motor vehicle industry and other areas. In the IT products category, reduced sales in the core area of business PCs were offset by strong sales of security-related products, tablets and other smart devices, and new memory-related products.

Net sales in this segment were 5.5% higher year on year at ¥131,303 million.

In the Consumer Imaging segment, sales of interchangeable-lens digital cameras remained strong, allowing us to gain an overwhelming share of the market for entry-level models. We also enjoyed sustained success with our efforts to attract new users for mid-range models, and mirrorless cameras also brought sustained growth. On a yearly basis, we gained the biggest market share and achieved a substantial year-on-year increase in sales. As with camera bodies, sales of exchangeable lenses were also dramatically above the previous year's level. In the compact digital camera category, we worked to expand sales of premium models. Entry-level products were also popular, and shipments exceeded the previous year's total in volume terms. However, a percentage increase in sales of entry-level products meant that sales were lower year on year. Despite our efforts to strengthen our product line-up and expand sales, our sales of digital video cameras were below the previous year's result, in part because of a shrinking market for products in the medium price range. Our efforts to boost sales of ink-jet printers included the introduction of new products with improved designs. Sales exceeded the figure for the previous year, when there was a decline resulting from the floods in Thailand. Sales of ink cartridges were similar to previous year's total, despite the impact of reduced printer shipments in the previous year due to the floods in Thailand.

The commercial imaging equipment category, which includes television lenses for broadcasting stations and security and other types of monitoring cameras, which previously belonged to the Industrial Equipment segment, was shifted to this segment in January. A recovery in capital investment by broadcast stations was reflected in strong sales of television lenses, and sales of security and other types of monitoring cameras were also strong. There was a strong demand for cameras and lenses in the CINEMA EOS SYSTEM, which went on sale in January, and sales were substantially higher year on year.

Net sales in this segment amounted to ¥200,618 million,

an increase of 10.2% over the previous year's level.

In the Industrial Equipment Segment, we recorded strong sales of some products, such as inspection and measuring systems. However, demand for other manufacturing systems was significantly reduced by a decline in semiconductor-related capital investment in Japan, and stagnation in this area resulted in a year-on-year decline in sales of industrial equipment. In the medical equipment category, we increased the number of digital radiography systems shipped by strengthening our collaboration with equipment manufacturers and stimulating replacement demand. However, sales were marginally lower because of intense price competition. Sales of ophthalmic equipment were also below the previous year's level, in part because of the shrinking market for fundus cameras. Demand for ultrasound equipment remained strong. There was also a substantial increase in sales resulting from the addition of new businesses, including the medical systems and healthcare businesses, following the conversion of ELK CORPORATION into a consolidated subsidiary in June 2011. Total sales were substantially higher year on year.

Net sales in this segment amounted to ¥30,690 million, a year-on-year increase of 13.7%.

Income

Operating income increased by 99.0% year on year to ¥16,802 million, and net income by 56.4% to ¥10,579 million. This growth reflects an improved ratio of gross profit to sales, as well as structural reforms and sustained efforts to reduce costs.

Financial Position

Current assets increased by ¥14,731 million year on year to ¥316,609 million. The main changes were a ¥5,887 million increase in cash and cash equivalents, a ¥4,622 million increase in notes and accounts receivable, and a ¥2,494 million increase in inventories.

Fixed assets increased by ¥78 million year on year to ¥145,965 million. The main factors were a ¥10,418 million increase in buildings and structures, a ¥3,882 million reduction in software, a ¥2,799 million reduction in construction in progress, a ¥1,656 million reduction in lease deposits, and a ¥1,425 million reduction in deferred tax assets.

Current liabilities increased by ¥12,306 million year on year to ¥163,397 million. The main changes were a ¥4,115 million increase in notes and accounts payable, a ¥3,437 million increase in accrued income taxes, and a ¥3,559 million increase in accrued expenses.

Long-term liabilities were reduced by ¥278 million year on year to ¥45,089 million. The main factors were a ¥542 million increase in the allowance for employees' retirement benefits, a ¥565 million reduction in long-term loans payable, and a ¥293 million reduction in lease obligations.

Net assets increased by ¥2,781 million year on year to ¥254,088 million. The main factors were an increase in retained earnings which were ¥7,691 million higher after taking into account ¥10,579 million in net income less ¥2,745 million due to dividend payments and other factors, offset by ¥4,702 million net increase in treasury stock due to ¥5,105 million acquisition of treasury stock through market purchases offset by ¥402 million due to a share exchange.

Total assets increased by ¥14,809 million year on year to ¥462,574 million. ROE rose to 4.2% from 2.7% in the previous year. Total stockholders' equity ratio was 54.9%, compared with 56.0% in the previous year, while stockholders' equity per share increased from ¥1,827.25 to ¥1,907.50.

Cash Flows

Cash and cash equivalents amounted to ¥108,260 million as of December 31, 2012, an increase of ¥5,887 million compared with the position at the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥33,767 million, compared with ¥8,716 million in the previous fiscal year. In addition to income before income taxes and minority interests of ¥17,529 million, this total was also impacted by depreciation of ¥16,318 million and an increase in accounts payable of ¥4,115 million, offset by an increase in accounts receivable of ¥4,689 million and income tax payments of ¥2,504 million.

Net cash used in investing activities amounted to ¥16,067 million, compared with ¥12,108 million in the previous year. This resulted mainly from expenditure of ¥15,753 million for the acquisition of property, plant and equipment.

Net cash used in financing activities amounted to ¥11,813 million, compared with ¥3,811 million in the previous year. The main items were payments of ¥5,105 million for the acquisition of treasury stock, dividend payments of ¥2,755 million, and a ¥2,180 million net decrease in short-term loans payable.

Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2012**	2011	**2012**
CURRENT ASSETS:			
Cash and cash equivalents (Notes 9 and 10)	**¥ 108,260**	¥ 102,373	**$ 1,244,368**
Notes and accounts receivable (Note 9)	**127,649**	123,027	**1,467,230**
Short-term investments in securities (Notes 9 and 10)	**30**	20	**345**
Inventories (Note 5)	**28,827**	26,333	**331,345**
Deferred tax assets (Note 13)	**4,709**	4,410	**54,126**
Short-term loans receivable (Note 9)	**40,003**	40,028	**459,805**
Other current assets	**7,361**	5,902	**84,609**
Allowance for doubtful receivables	**(230)**	(215)	**(2,644)**
Total current assets	**316,609**	301,878	**3,639,184**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 3)	**36,342**	36,833	**417,724**
Buildings and structures (Note 3)	**84,276**	73,858	**968,690**
Machinery and vehicles (Note 8)	**167**	166	**1,919**
Furniture and fixtures (Note 8)	**19,641**	19,632	**225,759**
Rental assets	**25,302**	23,402	**290,827**
Lease assets	**2,308**	2,180	**26,529**
Construction in progress	**—**	2,799	**—**
Total	**168,036**	158,870	**1,931,448**
Accumulated depreciation	**(68,472)**	(66,942)	**(787,034)**
Net property, plant and equipment	**99,564**	91,928	**1,144,414**
INTANGIBLE ASSETS:			
Goodwill (Note 2)	**62**	524	**713**
Software (Note 8)	**15,376**	19,258	**176,735**
Lease assets	**177**	253	**2,034**
Utilization rights	**317**	317	**3,644**
Other intangible assets	**54**	83	**621**
Total intangible assets	**15,986**	20,435	**183,747**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 3, 9 and 10)	**4,109**	4,084	**47,230**
Long-term loans receivable	**24**	30	**276**
Lease deposits (Note 17)	**6,202**	7,858	**71,287**
Deferred tax assets (Note 13)	**17,596**	19,021	**202,253**
Other investments	**2,985**	2,977	**34,310**
Allowance for doubtful receivables	**(501)**	(446)	**(5,758)**
Total investments and other assets	**30,415**	33,524	**349,598**
Total assets	**¥ 462,574**	¥ 447,765	**$ 5,316,943**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2012**	2011	**2012**
CURRENT LIABILITIES:			
Notes and accounts payable (Notes 3 and 9)	**¥ 104,162**	¥ 100,047	**$ 1,197,264**
Lease obligations (Note 18)	**586**	605	**6,736**
Short-term loans payable (Notes 3 and 18)	**—**	1,616	**—**
Current portion of bonds payable (Note 19)	**—**	1,115	**—**
Accrued income taxes (Note 13)	**5,122**	1,685	**58,873**
Consumption taxes payable	**2,680**	2,208	**30,805**
Accrued expenses	**25,029**	21,470	**287,690**
Reserves	**3,838**	4,386	**44,115**
Other current liabilities	**21,980**	17,959	**252,644**
Total current liabilities	**163,397**	151,091	**1,878,127**
LONG-TERM LIABILITIES:			
Bonds payable (Note 19)	**—**	60	**—**
Long-term loans payable (Notes 3 and 18)	**—**	565	**—**
Lease obligations (Note 18)	**860**	1,153	**9,885**
Deferred tax liabilities (Note 13)	**570**	639	**6,552**
Deferred tax liabilities for land revaluation (Note 13)	**31**	31	**356**
Allowance for employees' retirement benefits (Notes 2 and 11)	**37,801**	37,259	**434,494**
Allowance for long-term continuous service rewards (Note 2)	**901**	918	**10,356**
Allowance for directors' and corporate auditors' retirement benefits (Note 2)	**1,046**	907	**12,023**
Other long-term liabilities	**3,880**	3,835	**44,598**
Total long-term liabilities	**45,089**	45,367	**518,264**
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 2012 and 2011	**73,303**	73,303	**842,563**
Capital surplus	**82,820**	82,820	**951,954**
Retained earnings	**124,624**	116,933	**1,432,460**
Treasury stock	**(26,892)**	(22,190)	**(309,103)**
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Net unrealized gain (loss) on available-for-sale securities	**61**	(62)	**701**
Foreign currency translation adjustments	**(54)**	(133)	**(621)**
Total accumulated other comprehensive income	**7**	(195)	**80**
MINORITY INTERESTS	**226**	636	**2,598**
Total net assets	**254,088**	251,307	**2,920,552**
Total liabilities and net assets	**¥ 462,574**	¥ 447,765	**$ 5,316,943**

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
NET SALES	**¥ 681,234**	¥ 632,419	**$ 7,830,276**
COST OF SALES	**438,333**	409,527	**5,038,311**
Gross profit	**242,901**	222,892	**2,791,965**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**226,099**	214,450	**2,598,839**
Operating income	**16,802**	8,442	**193,126**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**382**	421	**4,391**
Interest expense	**(76)**	(89)	**(873)**
Insurance income	**640**	622	**7,356**
Gain on sales of fixed assets	**116**	1	**1,333**
Gain on negative goodwill	**132**	4,492	**1,517**
Loss on impairment of fixed assets	**(0)**	(484)	**(0)**
Gain on sales of investments in securities	**116**	12	**1,333**
Loss on sales and disposal of fixed assets	**(518)**	(426)	**(5,954)**
Loss on devaluation of investments in securities	**(39)**	(286)	**(448)**
Expenses related to change of business name	**(149)**	—	**(1,712)**
Loss on cancellation of lease contracts	**(0)**	(36)	**(0)**
Office transfer expenses	**(142)**	(503)	**(1,632)**
Gain on bad debts recovered	**—**	475	**—**
Loss on disaster	**—**	(992)	**—**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**—**	(1,173)	**—**
Other, net	**265**	496	**3,046**
	727	2,530	**8,357**
Income before income taxes and minority interests	**17,529**	10,972	**201,483**
INCOME TAXES (Note 13)**:**			
Current	**5,890**	3,234	**67,701**
Deferred	**1,035**	971	**11,897**
	6,925	4,205	**79,598**
Income before minority interests	**10,604**	6,767	**121,885**
MINORITY INTERESTS	**25**	3	**287**
Net income	**¥ 10,579**	¥ 6,764	**$ 121,598**

	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2)**:**			
Net income	**¥ 77.45**	¥ 49.30	**$ 0.89**
Cash dividends applicable to the year	**¥ 24.00**	¥ 20.00	**$ 0.28**

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
INCOME BEFORE MINORITY INTERESTS	**¥ 10,604**	¥ 6,767	**$ 121,885**
OTHER COMPREHENSIVE INCOME (Note 6)			
Net unrealized gain (loss) on available-for-sale-securities	**126**	(17)	**1,448**
Deferred gain (loss) on hedges	**0**	(0)	**0**
Foreign currency translation adjustments	**85**	(17)	**977**
Total other comprehensive income	**211**	(34)	**2,425**
Comprehensive income	**¥ 10,815**	¥ 6,733	**$ 124,310**
Comprehensive income attributable to			
The company's shareholders	**¥ 10,781**	¥ 6,734	**$ 123,919**
Minority interests	**34**	(1)	**391**

• 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, 2012 and 2011

		Millions of yen							
	Number of shares of common stock	Stockholders' equity				Accumulated other comprehensive income		Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments		
BALANCE AT JANUARY 1, 2011	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 JANUARY 1, 2012	151,079,972	¥ 73,303	¥ 82,820	¥ 116,933	¥ (22,190)	¥ (62)	¥ (133)	¥ 636	¥ 251,307
Net income				10,579					10,579
Cash dividends				(2,745)					(2,745)
Purchase of treasury stock					(5,105)				(5,105)
Disposition of treasury stock				(1)	1				0
Changes due to share exchange				(142)	402			(441)	(181)
Other, net						123	79	31	233
BALANCE AT DECEMBER 31, 2012	151,079,972	¥ 73,303	¥ 82,820	¥ 124,624	¥ (26,892)	¥ 61	¥ (54)	¥ 226	¥ 254,088

	Thousands of U.S. dollars (Note 1)							
	Stockholders' equity				Accumulated other comprehensive income		Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments		
BALANCE AT JANUARY 1, 2012	$ 842,563	$ 951,954	$ 1,344,058	$ (255,057)	$ (713)	$ (1,529)	$ 7,310	$2,888,586
Net income			121,598					121,598
Cash dividends			(31,552)					(31,552)
Purchase of treasury stock				(58,678)				(58,678)
Disposition of treasury stock			(12)	12				0
Changes due to share exchange			(1,632)	4,620			(5,069)	(2,081)
Other, net					1,414	908	357	2,679
BALANCE AT DECEMBER 31, 2012	$ 842,563	$ 951,954	$ 1,432,460	$ (309,103)	$ 701	$ (621)	$ 2,598	$2,920,552

• See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 17,529**	¥ 10,972	**$ 201,483**
Adjustments for:			
Depreciation and amortization	**16,318**	15,332	**187,563**
Loss on impairment of fixed assets	**0**	484	**0**
Loss on disaster	**—**	992	**—**
Amortization of goodwill	**462**	906	**5,310**
Increase (decrease) in allowance for doubtful receivables	**70**	(335)	**805**
Gain on negative goodwill	**(132)**	(4,492)	**(1,517)**
Increase (decrease) in allowance for employees' retirement benefits	**630**	(652)	**7,241**
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits, net	**140**	(64)	**1,609**
Interest and dividend income	**(382)**	(421)	**(4,391)**
Interest expense	**76**	89	**873**
Loss on sales and retirement of property, plant and equipment, net	**279**	293	**3,207**
Loss (gain) on sales of investment securities	**(110)**	182	**(1,264)**
Decrease (increase) in notes and accounts receivable-trade	**(4,689)**	4,983	**(53,897)**
Increase in inventories	**(2,301)**	(2,164)	**(26,448)**
Increase (decrease) in notes and accounts payable-trade	**4,115**	(9,781)	**47,299**
Other, net	**3,963**	(1,357)	**45,552**
Sub-total	**35,968**	14,967	**413,425**
Interest and dividends received	**380**	430	**4,368**
Interest paid	**(77)**	(89)	**(885)**
Income taxes paid	**(2,504)**	(6,592)	**(28,781)**
Net cash provided by operating activities	**33,767**	8,716	**388,127**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities	**20**	1,000	**230**
Payments for purchases of property, plant and equipment	**(15,753)**	(11,977)	**(181,069)**
Proceeds from sales of property, plant and equipment	**666**	1,600	**7,655**
Payments for purchases of intangible assets	**(2,768)**	(3,625)	**(31,816)**
Payments for purchases of investments in securities	**(15)**	(19)	**(172)**
Proceeds from sales of investments in securities	**219**	317	**2,517**
Payments for purchases of investments in subsidiaries resulting in changes in scope of consolidation	**—**	(418)	**—**
Decrease in short-term loans receivable, net	**28**	13	**322**
Decrease (increase) in time deposits, net	**(16)**	1,000	**(184)**
Other	**1,552**	1	**17,839**
Net cash used in investing activities	**(16,067)**	(12,108)	**(184,678)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term loans payable, net	**(2,180)**	(350)	**(25,058)**
Repayments of finance lease obligations	**(618)**	(603)	**(7,103)**
Payments for purchases of treasury stock	**(5,105)**	(2)	**(58,678)**
Dividends paid	**(2,755)**	(2,810)	**(31,667)**
Other	**(1,155)**	(46)	**(13,276)**
Net cash used in financing activities	**(11,813)**	(3,811)	**(135,782)**
Effect of exchange rate changes on cash and cash equivalents	**0**	1	**0**
Net increase (decrease) in cash and cash equivalents	**5,887**	(7,202)	**67,667**
Cash and cash equivalents at beginning of year	**102,373**	109,575	**1,176,701**
Cash and cash equivalents at end of year	**¥ 108,260**	¥ 102,373	**$ 1,244,368**

• 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 ¥87=U.S.$1, the rate prevailing at December 31, 2012. 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, 2012 include the accounts of the Company and all of its 30 (27 in 2011) subsidiaries.

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 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, property and equipment of certain consolidated subsidiaries, and rental assets in the Business Solutions segment. The useful lives are as follows: buildings, mainly fifty 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.

(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 of the foreign subsidiaries are translated into Japanese yen at the current exchange rates in effect at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates.

Revenue and expense accounts are translated at the average exchange rates prevailing during the year.

(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, an allowance for long-term continuous service rewards is recorded based on the amount the Company and certain consolidated subsidialies 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, the percentage-of-completion method is applied in cases where the outcomes of such software development 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) Application of Consolidated Taxation System

Effective from the fiscal year ended December 31, 2012, the Company and certain consolidated subsidiaries have adopted the consolidated taxation system.

(r) Accounting Standards Not Yet Applied

Effective from the fiscal year beginning January 1, 2014, the Company will apply "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012).

The effects of applying these accounting standards are currently under examination.

(s) Additional Information

＜Application of Accounting Standard for Accounting Changes and Error Corrections＞

Effective January 1, 2012, the Group adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009).

3 Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2012 and 2011 were as follows:
(1) Pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Land	¥ 647	¥ 2,136	$ 7,437
Buildings	451	513	5,184
Investments in securities	—	164	—
	¥ 1,098	¥ 2,813	$ 12,621

(2) Liabilities secured by the above assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Accounts payable	¥ 402	¥ 620	$ 4,621
Short-term loans payable	—	555	—
Long-term loans payable	—	326	—
	¥ 402	¥ 1,501	$ 4,621

4 Contingent Liabilities

Contingent liabilities at December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Joint and several guarantee on lease payment of two customers	¥ 83	¥ 129	$ 954
Guarantees for employees' housing loans	67	85	770

5 Inventories

Inventories at December 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Merchandise	¥ 24,618	¥ 22,012	$ 282,966
Service parts	2,710	2,690	31,150
Work in progress	575	438	6,609
Supplies	723	1,023	8,310
Other	201	170	2,310
	¥ 28,827	¥ 26,333	$ 331,345

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, ¥2 million ($23 thousand) for work in progress relates to software development contracts from which losses are expected and corresponds to the reserve for contract losses.

6 Other Comprehensive Income

The following table shows reclassification adjustments for each component of other comprehensive income for the year ended December 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2012		2012	
Net unrealized gain on available-for-sale securities				
Amount arising during the year	¥ 179		$ 2,058	
Reclassification adjustment	(16)	¥ 163	(184)	$ 1,873
Deferred gain on hedges				
Amount arising during the year	0		0	
Reclassification adjustment	—	0	—	0
Foreign currency translation adjustments				
Amount arising during the year	85	85	977	977
Total other comprehensive income before tax effect		248		2,850
Tax effect		(37)		(425)
Total other comprehensive income		¥ 211		$ 2,425

The following table shows tax effects for each component of other comprehensive income for the year ended December 31, 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2012			2012		
	Pre-tax amount	Tax effect	Net-of-tax amount	Pre-tax amount	Tax effect	Net-of-tax amount
Net unrealized gain on available-for-sale securities	¥ 163	¥ (37)	¥ 126	$ 1,873	$ 425	$ 1,448
Deferred gain on hedges	0	(0)	0	0	(0)	0
Foreign currency translation adjustments	85	—	85	977	—	977
Total other comprehensive income	¥ 248	¥ (37)	¥ 211	$ 2,850	$ 425	$ 2,425

7 Consolidated Statements of Changes in Net Assets

Current Fiscal Year (from January 1, 2012 to December 31, 2012)

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	13,895	4,350	252	17,993
Total	13,895	4,350	252	17,993

Notes: 1. The increase of 4,350 thousand shares of treasury stock consists of an increase of 4,248 thousand shares due to the purchase through the market, 100 thousand shares due to the purchase from stockholders dissenting against the share-for-share exchange resulting in making the acquired company a wholly owned subsidiary, and 2 thousand shares due to the purchase of fractional stock.

2. The decrease of 252 thousand shares of treasury stock consists of a decrease of 251 thousand shares due to a share-for-share exchange, and 1 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 28, 2012					
General stockholders' meeting	Common stock	¥ 1,372	¥ 10	December 31, 2011	March 29, 2012
July 24, 2012					
Board of Directors' meeting	Common stock	¥ 1,373	¥ 10	June 30, 2012	August 27, 2012

(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 27, 2013						
General stockholders' meeting	Common stock	Retained earnings	¥ 1,863	¥ 14	December 31, 2012	March 28, 2013

Previous 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

8 Leases

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 ¥448 million ($5,149 thousand) and ¥2,009 million for the years ended December 31, 2012 and 2011, respectively.

(As Lessee)

Future minimum lease payments subsequent to December 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Future minimum lease payments:			
Within one year	¥ 84	¥ 478	$ 966
Thereafter	17	121	195
	¥ 101	¥ 599	$ 1,161

Future minimum lease payments included the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Future minimum lease payments:			
Within one year	¥ 3	¥ 19	$ 46
Thereafter	—	3	—
	¥ 3	¥ 22	$ 46

The following pro forma amounts represent acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2012 and 2011, excluding subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Acquisition cost:			
Machinery and vehicles	¥ 35	¥ 67	$ 402
Furniture and fixtures	814	6,298	9,356
Software	58	206	667
	¥ 907	¥ 6,571	$ 10,425
Accumulated depreciation and amortization:			
Machinery and vehicles	¥ 32	¥ 55	$ 368
Furniture and fixtures	723	5,767	8,310
Software	51	172	586
	¥ 806	¥ 5,994	$ 9,264
Net book value:			
Machinery and vehicles	¥ 3	¥ 12	$ 34
Furniture and fixtures	91	531	1,046
Software	7	34	81
	¥ 101	¥ 577	$ 1,161

(As Lessor)
Future minimum lease payments, which consist of subleases subsequent to December 31, 2012 and 2011, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Future minimum lease payments:			
Within one year	¥ 3	¥ 19	$ 46
Thereafter	—	3	—
	¥ 3	¥ 22	$ 46

9 Financial Instruments

Current Fiscal Year (from January 1, 2012 to December 31, 2012) and Previous Fiscal Year (from January 1, 2011 to December 31, 2011)
1. Informations on financial instruments
(1) Policies for financial instruments
The Group invests surplus funds only in highly secure financial instruments, and mostly takes 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, 2012 and 2011, 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		
	2012		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 23,407	¥ 23,407	—
(2) Notes and accounts receivable	127,649	127,649	—
(3) Short-term investments in securities and investments in securities	88,619	88,617	¥ (2)
(4) Short-term loans receivable	40,003	40,003	—
Total assets	¥ 279,678	¥ 279,676	¥ (2)
(5) Notes and accounts payable	104,162	104,162	—
Total liabilities	¥ 104,162	¥ 104,162	—

	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.

	Thousands of U.S. dollars (Note 1)		
	2012		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 269,046	$ 269,046	—
(2) Notes and accounts receivable	1,467,230	1,467,230	—
(3) Short-term investments in securities and investments in securities	1,018,609	1,018,586	$ (23)
(4) Short-term loans receivable	459,805	459,805	—
Total assets	$ 3,214,690	$ 3,214,667	$ (23)
(5) Notes and accounts payable	1,197,264	1,197,264	—
Total liabilities	$ 1,197,264	$ 1,197,264	—

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)
	2012	2011	2012
Category	Book value		
Unlisted equity securities	¥ 289	¥ 288	$ 3,322
Investments in partnerships	¥ 231	¥ 224	$ 2,655

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, 2012 and 2011 is summarized as follows:

	Millions of yen			
	2012			
	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	¥ 23,407	—	—	—
Notes and accounts receivable	127,649	—	—	—
Short-term investments in securities and investments in securities	—	—	—	—
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	¥ 100	—
(2) Other	85,030	—	103	—
Short-term loans receivable	40,003	—	—	—
Total	¥ 276,089	—	¥ 203	—

	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	—

	Thousands of U.S. dollars (Note 1)			
	2012			
	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	$ 269,046	—	—	—
Notes and accounts receivable	1,467,230	—	—	—
Short-term investments in securities and investments in securities	—	—	—	—
Held-to-maturity debt securities				
(1) Corporate bonds	—	—	$ 1,149	—
(2) Other	977,356	—	1,184	—
Short-term loans receivable	459,805	—	—	—
Total	$ 3,173,437	—	$ 2,333	—

10 Securities

Securities as of December 31, 2012 and 2011 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Securities classified as:			
Available-for-sale:			
Investments in securities	¥ 3,907	¥ 3,871	$ 44,908
Held-to-maturity:			
Cash and cash equivalents	85,000	83,200	977,011
Short-term investments in securities	30	20	345
Investments in securities	203	213	2,333
	85,233	83,433	979,689
	¥ 89,140	¥ 87,304	$ 1,024,597

The carrying amounts and aggregate fair values of investments in securities at December 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 203	—	¥ (2)	¥ 201
Other	30	—	—	30
	¥ 233	—	¥ (2)	¥ 231

	Millions of yen			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,287	¥ 397	¥ (456)	¥ 3,228
Other	152	8	(1)	159
	¥ 3,439	¥ 405	¥ (457)	¥ 3,387

	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

	Thousands of U.S. dollars (Note 1)			
	2012			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	$ 2,333	—	$ (23)	$ 2,310
Other	345	—	—	345
	$ 2,678	—	$ (23)	$ 2,655

	Thousands of U.S. dollars (Note 1)			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 37,782	$ 4,563	$ (5,242)	$ 37,103
Other	1,747	92	(11)	1,828
	$ 39,529	$ 4,655	$ (5,253)	$ 38,931

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Available-for-sale:			
Equity securities	¥ 289	¥ 288	$ 3,322
Investments in investment partnerships	231	224	2,655
Held-to-maturity:			
Certificates of deposit	85,000	83,200	977,011
	¥ 85,520	¥ 83,712	$ 982,988

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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Projected benefit obligation	¥ 179,479	¥ 173,070	$ 2,062,977
Fair value of plan assets	(134,525)	(122,048)	(1,546,264)
Unrecognized actuarial loss	(28,731)	(39,227)	(330,242)
Unrecognized prior service cost	21,491	25,288	247,023
Prepaid pension cost	87	176	1,000
Allowance for employees' retirement benefits	¥ 37,801	¥ 37,259	$ 434,494

The components of net periodic benefit costs for the years ended December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Service cost	¥ 6,790	¥ 6,584	$ 78,046
Interest cost	3,195	3,233	36,724
Expected return on plan assets	(3,411)	(3,829)	(39,207)
Amortization of prior service cost	(3,784)	(4,261)	(43,494)
Amortization of actuarial loss	4,549	4,014	52,287
Other	1,409	1,380	16,196
Net periodic benefit costs	¥ 8,748	¥ 7,121	$ 100,552

Assumptions used in accounting for the above plans for the years ended December 31, 2012 and 2011 were principally as follows:

	2012	2011
Discount rate	**1.2 - 2.0%**	1.3 - 2.1%
Expected rates of return on plan assets	**1.0 - 3.0%**	1.0 - 3.4%
Amortization period of prior service cost	**5 - 13 years**	5 - 14 years
Recognition period of actuarial loss	**5 - 13 years**	5 - 14 years

12 Stock Option Plans

Current Fiscal Year (from January 1, 2012 to December 31, 2012)

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, 2012.

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, 2011	—
Granted	—
Forfeited	—
Vested	—
As of December 31, 2012	—
Vested:	
As of December 31, 2011	219,000
Vested	—
Exercised	—
Forfeited	219,000
As of December 31, 2012	—

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 previous 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 effective statutory rate of income taxes was approximately 40.0% for the years ended December 31, 2012 and 2011.

Because the differences between the normal effective statutory tax rates and the actual effective tax rates for the years ended December 31, 2012 and 2011 are not material, the tax reconciliations are not disclosed.

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
DEFERRED TAX ASSETS:			
Loss on disposal and devaluation of inventories	¥ 641	¥ 535	$ 7,368
Accrued business tax and business office tax	660	403	7,586
Accrued bonuses to employees	1,252	1,468	14,391
Excess amortization of software	3,580	4,776	41,149
Loss on impairment of fixed assets	309	284	3,552
Excess depreciation of fixed assets	526	649	6,046
Allowance for doubtful receivables	64	29	736
Allowance for employees' retirement benefits	13,517	13,622	155,368
Loss on devaluation of investments in securities	702	831	8,069
Loss carried forward	3,129	3,564	35,965
Other	4,322	4,581	49,678
Gross deferred tax assets	28,702	30,742	329,908
Less: valuation allowance	(4,987)	(5,941)	(57,322)
Total deferred tax assets	¥ 23,715	¥ 24,801	$ 272,586
DEFERRED TAX LIABILITIES:			
Net unrealized gain on available-for-sale securities	¥ 98	¥ 122	$ 1,126
Deferred capital gain	1,691	1,876	19,437
Other	222	42	2,552
Total deferred tax liabilities	¥ 2,011	¥ 2,040	$ 23,115
Net deferred tax assets	¥ 21,704	¥ 22,792	$ 249,471
Deferred tax liabilities for land revaluation	¥ 31	¥ 31	$ 356

14 Segment Information

1. Segment Information

(1) Description of Reportable Segment

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.

The commercial imaging equipment category, which includes television lenses, and sales of security and other types of monitoring cameras, which previously belonged to the Industrial Equipment segment, was shifted to the Consumer Imaging segment.

The table shows the segment results for the year 2011 based on the segment structure introduced in 2012.

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 10 companies
Consumer Imaging	Canon Marketing Japan Inc. Imaging System Company
	Canon Customer Support Inc.
	Canon Field Assist Inc.
	withPhoto Inc.
Industrial Equipment	Canon Marketing Japan Inc. Industrial Equipment · Medical Equipment, Business
	Canon Lifecare Solutions Inc.
	Canon Advanced Technologies Taiwan Inc.
	other 2 companies

Major products and services 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 ink-jet 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, commercial imaging equipment
Industrial Equipment	Semiconductor manufacturing equipment, medical equipment (digital X-ray cameras, ophthalmic equipment), medical system, healthcare related products

(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, 2012 and 2011 was as follows:

	Millions of yen							
Year ended or as of December 31,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	¥ 344,000	¥ 105,722	¥ 200,618	¥ 30,690	¥ 204	¥ 681,234	—	¥ 681,234
Intersegment	—	25,581	—	—	—	25,581	¥ (25,581)	—
Total	¥ 344,000	¥ 131,303	¥ 200,618	¥ 30,690	¥ 204	¥ 706,815	¥ (25,581)	¥ 681,234
Segment income (loss)	¥ 6,299	¥ 196	¥ 10,917	¥ (1,202)	¥ 592	¥ 16,802	—	¥ 16,802
Segment assets	¥ 143,911	¥ 63,864	¥ 77,448	¥ 18,739	¥ 11,912	¥ 315,874	¥ 146,700	¥ 462,574
Other items:								
Depreciation and amortization	10,288	2,585	2,661	542	242	16,318	—	16,318
Amortization of goodwill	1	461	—	—	—	462	—	462
Changes in the amount of property, plant and equipment and intangible assets	8,504	11,303	1,629	491	34	21,961	—	21,961

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 ¥146,700 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,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	¥ 325,137	¥ 97,941	¥ 182,124	¥ 26,990	¥ 227	¥ 632,419	—	¥ 632,419
Intersegment	—	26,531	—	—	—	26,531	¥ (26,531)	—
Total	¥ 325,137	¥ 124,472	¥ 182,124	¥ 26,990	¥ 227	¥ 658,950	¥ (26,531)	¥ 632,419
Segment income (loss)	¥ 3,489	¥ (3,073)	¥ 8,462	¥ (320)	¥ (116)	¥ 8,442	—	¥ 8,442
Segment assets	¥ 147,928	¥ 55,294	¥ 64,149	¥ 21,952	¥ 12,300	¥ 301,623	¥ 146,142	¥ 447,765
Other items:								
Depreciation and amortization	9,842	2,627	2,155	524	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	1,627	429	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.

	Thousands of U.S. dollars (Note 1)							
Year ended or as of December 31,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Net sales:								
External customers	$ 3,954,023	$ 1,215,195	$ 2,305,954	$ 352,759	$ 2,345	$ 7,830,276	—	$ 7,830,276
Intersegment	—	294,034	—	—	—	294,034	$ (294,034)	—
Total	$ 3,954,023	$ 1,509,229	$ 2,305,954	$ 352,759	$ 2,345	$ 8,124,310	$ (294,034)	$ 7,830,276
Segment income (loss)	$ 72,402	$ 2,253	$ 125,483	$ (13,816)	$ 6,804	$ 193,126	—	$ 193,126
Segment assets	$ 1,654,149	$ 734,069	$ 890,207	$ 215,391	$ 136,920	$ 3,630,736	$ 1,686,207	$ 5,316,943
Other items:								
Depreciation and amortization	118,253	29,713	30,586	6,230	2,781	187,563	—	187,563
Amortization of goodwill	11	5,299	—	—	—	5,310	—	5,310
Changes in the amount of property, plant and equipment and intangible assets	97,747	129,919	18,724	5,644	391	252,425	—	252,425

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,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	—	¥0	—	—	—	¥0	—	¥0

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,	2011							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	¥156	¥140	¥44	¥144	—	¥484	—	¥484

	Thousands of U.S. dollars (Note 1)							
Year ended December 31,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Impairment loss	—	$0	—	—	—	$0	—	$0

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

	Millions of yen							
Year ended or as of December 31,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Amortization of goodwill	¥1	¥461	—	—	—	¥462	—	¥462
Goodwill at December 31, 2012	—	¥ 62	—	—	—	¥ 62	—	¥ 62

	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

	Thousands of U.S. dollars (Note 1)							
Year ended or as of December 31,	2012							
	Reportable Segments				Other	Total	Adjustments	Consolidated
	Business Solutions	IT Solutions	Consumer Imaging	Industrial Equipment				
Amortization of goodwill	$ 11	$ 5,299	—	—	—	$ 5,310	—	$ 5,310
Goodwill at December 31, 2012	—	$ 713	—	—	—	$ 713	—	$ 713

5. Information on gain on negative goodwill by reportable segment

Current Fiscal Year (from January 1, 2012 to December 31, 2012)

The Company acquired shares of SHOWA INFORMATION SYSTEMS CO., LTD. through a share-for-share exchange, making the acquired company a wholly owned subsidiary, and ¥132 million ($1,517 thousand) of negative goodwill was recognized. The negative goodwill was recorded as 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, 2011 to December 31, 2011)

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

15 Transactions with Affiliated Companies

Current Fiscal Year (from January 1, 2012 to December 31, 2012)

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 57.0% Indirect 0.0%	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 250,235	Accounts payable	¥ 75,191
									Sales of business equipment and consumables, etc.	¥ 4,314	Accounts receivable and others	¥ 2,730
								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, 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.

16 Business Combination

Current Fiscal Year (from January 1, 2012 to December 31, 2012)
Disclosure is omitted due to immateriality.

Previous 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
Expenses directly required for the acquisition	¥213 million
Acquisition cost	¥4,009 million

4. Amount and cause of gain on negative goodwill
(1) Amount of gain on negative goodwill incurred
¥2,482 million

(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
Non-current assets	¥5,976 million
Total assets	¥17,496 million
Current liabilities	¥6,528 million
Long-term liabilities	¥4,467 million
Total liabilities	¥10,995 million

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
Operating income	¥223 million
Net income	¥184 million

(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
Fair value of common stock of SHOWA INFORMATION SYSTEMS CO., LTD. acquired on the day of business combination	¥2,164 million
Expenses directly required for the acquisition	¥94 million
Acquisition cost	¥2,263 million

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

Gain on step acquisition ¥2 million

5. Amount and cause of gain on negative goodwill

(1) Amount of gain on negative goodwill incurred

¥1,980 million

(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
Non-current assets	¥1,816 million
Total assets	¥9,177 million
Current liabilities	¥3,202 million
Long-term liabilities	¥1,282 million
Total liabilities	¥4,484 million

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
Operating income	¥23 million
Net loss	¥247 million

(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.

17 Asset Retirement Obligations

Current Fiscal Year (from January 1, 2012 to December 31, 2012)

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, 2012 includes ¥1,929 million ($22,172 thousand) considered uncollectible.

Previous 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 considered uncollectible.

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, 2012 and 2011 consisted of the following:

	Average interest rate	Millions of yen		Thousands of U.S. dollars (Note 1)
		2012	2011	2012
Lease obligations		¥ 1,446	¥ 1,758	$ 16,621
Current portion of lease obligations		586	605	6,736
		¥ 860	¥ 1,153	$ 9,885
Short-term loans payable	—	—	1,616	—
Long-term loans payable	—	—	565	—
Deposits	0.0%	3,508	3,341	40,322
		¥ 4,368	¥ 6,675	$ 50,207

19 Bonds Payable

Bonds payable at December 31, 2012 and 2011 consisted of the following:

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

Note: Both bonds payable were issued by Canon Lifecare Solutions Inc.

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).

Independent Auditor's Report

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
Canon Marketing Japan Inc.

We have audited the accompanying consolidated financial statements of Canon Marketing Japan Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Marketing Japan Inc. and its consolidated subsidiaries as at December 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

March 26, 2013
Tokyo, Japan

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: 18,490
Non-consolidated: 4,892
(As of December 31, 2012)

Main Locations of Operations
Headquarters, Makuhari office and branches (Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)
(As of April 1, 2013)

Major Stockholders

Name of stockholder	Number of shares held (thousands)	Percentage of ownership (%)
Canon Inc.	75,708	50.11
Canon Marketing Japan Inc.	17,993	11.91
Canon Marketing Japan Group Employee Stock Ownership Association	7,286	4.82
The Master Trust Bank of Japan, Ltd.	2,789	1.85
Japan Trustee Services Bank, Ltd. (Trust Account)	2,299	1.52
The Bank Of New York, Treaty JASDEC Account	2,107	1.40
Canon Marketing Japan Group Business Partner Stock Ownership Association	1,271	0.84
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,128	0.75
State Street Bank and Trust Company	1,051	0.70
Mizuho Bank, Ltd.	1,001	0.66

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 2013–2015)
- Stock information
- Annual reports

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

Canon

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 C7010VP high-speed, high-resolution printer.