

# Raising, Delivering, Expanding

ANNUAL  
REPORT | 2013

for the year ended December 31, 2013

**Canon**

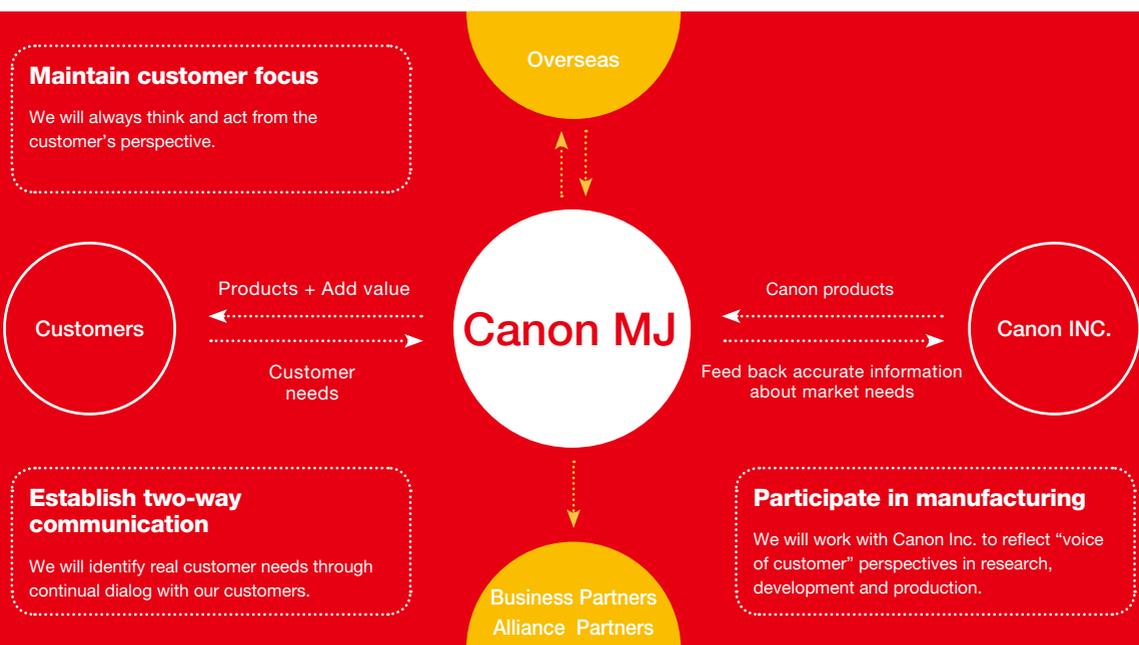
Canon Marketing Japan Inc.

## Profile

The globally respected Canon Group participates across a broad spectrum of business activities in over 180 countries worldwide. The role of the Canon Marketing Japan (Canon MJ) Group within the Canon Group includes marketing and the proposal of solutions, primarily within Japan.

We create new value for our customers through interactions in a wide range of business areas—life, work and society. Each of the 18,400 people employed by our 29 group companies is dedicated to customer needs and working to build our future as a service creation group providing value that exceeds customer expectations.

## Canon Marketing Japan Group's Role



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### 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.

# Under Way

with growing momentum  
from new markets

Market paradigms have changed radically in recent years because of the rapid pace of technological innovation. For Canon MJ, it is not enough simply to keep pace with these dramatic changes. We must play a role in helping to shape this new era.

Our return to a consistent growth track depends on our ability to develop new markets and provide new products and services. That is why we are already sowing the seeds of future growth under our Three-Year Management Plan and Long-Term Management Objectives Phase II.

The preliminary results of our recent efforts point to a robust growth scenario.

Growth  
Scenario

# 01

# Raising

the Canon Brand

Our customer contact points are vital to our ability to consider every aspect of our activities from a customer-focused perspective. We help to raise the value of the Canon brand by applying that perspective to our role in informing the development of attractive Canon products.

In our existing Canon Group-related business domains, we aim to maintain stable growth averaging 3% annually. We are working toward this goal by building a robust income structure, including further improvement in the productivity and income potential of the document business, and continuing efforts to increase sales of Canon interchangeable lens cameras and consolidate our leadership in terms of market share.

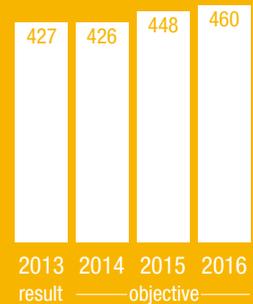


Average  
growth rate

# 3%

Growth scenario:  
Canon's existing  
domains

(Billions of yen)





## Improving the Productivity and Income Potential of the Document Business

We aim to expand the number of machines in field (MIF) and document volumes by actively developing new customers. We will achieve this goal by further enhancing our iR-ADV range of office multifunctional products (MFPs), and by using our document solutions to strengthen customer contact points.

We are also working to maintain income streams from contracted maintenance services by improving service efficiency and reducing costs. At the same time, we are improving productivity by decisively implementing reforms across all business processes, including marketing and back-end processes. In addition, we have begun to aggressively roll out managed document services.



## Maintaining and Strengthening our Number-One Share of the Interchangeable Lens Camera Market

The Japanese market for interchangeable lens cameras is expanding. In this expanding market, we will use our unique marketing methods to target all consumers, from entry-level users to professionals, by making optimal use of our accumulated knowledge of the relationships between customers and their photos. Our continuing strategy will be to encourage compact camera and smartphone camera users to step up to entry-level EOS Kiss range and the EOS M mirrorless cameras, and from those to middle-range models. Canon's extensive range of interchangeable lenses is a key strategic asset as we work to expand and improve our stable earnings base, while maintaining our number-one position in terms of market share.



Growth  
Scenario

02

# Delivering

high customer value

Canon products evolve to meet changing user needs. We provide our customers with enhanced value by offering solutions centering on those products.

We are determined to strengthen our earning performance in areas with growth potential that comprise Canon Group's new priority business domains, and we aim to achieve annual sales growth averaging 18%. One of our goals is the expansion of the production printing business, which is a new priority field for Canon. We also aim to expand our line-up of commercial imaging equipment, build a major presence in the network camera business, and strengthen our mixed reality system imaging technology business.

## Integrated Service Structure for the Production Printing Business

The size of the Japanese digital printing market is expected to double over the next five years. In April 2014, we established a new company, Canon Production Printing Systems Inc., to strengthen our organization in the emerging growth area of commercial printing and digital printing services. As a result of this move, we have established an integrated structure encompassing all stages from the supply of a wide range of products and system development to marketing, maintenance support and printing services.



## Becoming a Major Player in the Network Camera Business

Factors driving the growth of the network camera market include the trend toward digitization and high pixel counts, as well as the expansion of marketing applications. Our advantages in this area include high-resolution products embodying Canon's expertise as a camera manufacturer, and the solutions development capabilities of the Canon MJ Group. We aim to expand our business activities in the network visual solutions business.

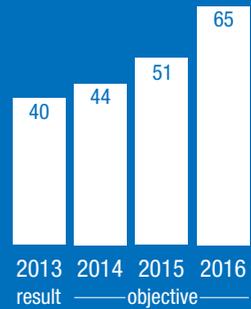


Average growth rate

# 18%

Growth scenario:  
Canon's new priority domains

(Billions of yen)



## Expanding Our Line-up of Commercial Imaging Equipment

The commercial imaging equipment market is trending toward 4K and even higher resolutions. In January 2014, Canon MJ responded to this trend by strengthening its system structure for 4K workflows, including the introduction of a new 4K image production display. We will continue to expand our business in this area by offering high-quality Canon products with 4K input and output capabilities to support high-resolution imaging solutions for users in fields requiring high-end video production.



Growth  
Scenario

03

# Expanding

our horizons and services

In addition to our role in marketing Canon products, we will also continue to expand our activities in other business domains. We are enhancing our IT service capabilities even as we strengthen our trading company role, including the importation of advanced products from overseas manufacturers, and the provision of technical and maintenance support for those products.

We also continue to strengthen Canon MJ's independent business activities, including the data center business. Another goal is the reinforcement of our cross-organizational IT solutions capabilities within the Canon MJ Group. In overseas markets, our focus is on developing our IT solutions business in Asia and accelerating the evolution of our independent business activities, such as the medical business. Our goal is to achieve sales growth averaging 13% per year.

## Expansion of the Data Center Business

Continuing growth is predicted for the data center service market. Contributing factors include an increased emphasis on disaster recovery after the Great East Japan Earthquake, as well as growing volumes of digital data.

Our Nishi-Tokyo Data Center, which became operational in October 2012, combines advanced security measures with an inland location on solid bedrock. Equipped with Tier 4 facilities, the Nishi-Tokyo Data Center has already established an excellent reputation with users and continues to attract a steady flow of new contracts. We will continue to expand this business aggressively by offering a diversified range of data center services.



Average growth rate

# 13%

## Growth scenario: Independent business

(Billions of yen)



## Expanding Our Overseas Activities in the Areas of Infection Control and Pharmaceutical Dispensing

We have unique technologies in the fields of sterilization equipment for infection management and packaging systems for pharmaceutical dispensing. We will continue to expand our product line-up in these areas while working with overseas Canon Group subsidiaries to build distributor networks and strengthen our presence in overseas markets. We have already signed distributorship contracts in Singapore and Russia.

### Material Automation (Thailand) Co., Ltd.

President: Hidesato Kodama  
Established: January 1992  
Capital: THB50 million  
No. of employees: 171 (As of December 31, 2013)  
Core business:  
The provision of IT solutions in Thailand

### Canon IT Solutions (Shanghai) Company Limited

President: Kazunori Asada  
Established: June 1997  
Capital: ¥150 million  
No. of employees: 101 (As of April 1, 2013)  
Core business:  
Product development and sales of Canon products, System Integration and Consulting for Canon Group companies and Japanese-affiliated companies

### Canon IT Solutions (Thailand)

President: Hidesato Kodama  
Established: August 2012  
Capital: THB8.9 million  
No. of employees: 3 (As of April 1, 2013)  
Core business:  
The provision of IT solutions in Thailand

### Canon IT Solutions (Philippines), Inc.

President: Yutaka Haraki  
Established: November 2012  
Capital: US\$200 thousand  
No. of employees: 3 (As of April 1, 2013)  
Core business:  
The provision of IT solutions in the Philippines

## Dynamic Development of IT Solutions Business in Asia

Investment by foreign-owned companies continues to expand in Southeast Asia, which is playing an increasingly prominent role as a driver for world economic growth.

The Canon MJ Group has strengthened its IT service business structure in Southeast Asia by acquiring Material Automation (Thailand) Co., Ltd. (MAT), which has built an excellent reputation as a provider of IT services to Japanese-owned companies in Thailand based on a track record spanning over 20 years. Southeast Asia, especially Thailand, has achieved remarkable economic growth in recent years. MAT, which also has a local subsidiary in Vietnam, will actively expand its IT business in the region in anticipation of opportunities arising from the establishment of the ASEAN Economic Community (AEC) in 2015.



# Adhering

## to an aggressive management agenda

Positive trends emerged in the Japanese economy in 2013. Expectations of an improvement in business earnings rose in step with progress toward the correction of the overvalued yen, and both consumption expenditure and production activity showed signs of recovery. The Canon MJ Group's financial indicators also began to improve conspicuously in the second half of the year, and we achieved growth at the operating income level for the fourth consecutive year. We see these trends as evidence that our structural reform measures and continuing efforts to improve productivity have started to drive a steady shift toward a robust income structure.

Our policy on shareholder returns calls for a consolidated dividend payout ratio of around 30%. We therefore set the dividend for the year ended December 31, 2013 at ¥24 per share, consisting of interim and final dividends of ¥12 each.

Our vision for 2016 under the new medium-term management plan announced in 2014 is to build the Canon MJ Group into a service creation group capable of continuously offering unique new added value. Our financial target for 2016, which will be the final year of the plan, is net income of ¥23 billion, which is higher than the ¥20 billion record set in 2007.

The Canon MJ Group is determined to meet the expectations of stockholders and stakeholders by working to achieve this target through further strengthening of its income structure in existing Canon Group-related business domains, and through the pursuit of proactive business strategies in growth areas.

We look forward to continuing support of our stockholders and stakeholders.

Chairman **Haruo Murase**



President **Masami Kawasaki**





## Financial Highlights

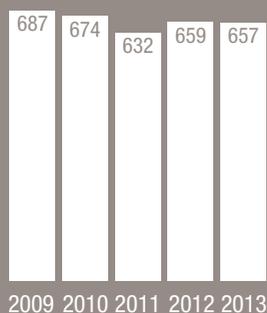
Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Years ended December 31

|  | Millions of yen     |            |                       | Thousands of<br>U.S. dollars (Note 1) |
|--|---------------------|------------|-----------------------|---------------------------------------|
|  | 2013                | 2012       | 2011                  | 2013                                  |
| <b>FOR THE YEAR:</b>                     |                     |            |                       |                                       |
| Net sales                                | ¥ 657,216           | ¥ 659,218  | ¥ 632,419             | \$ 6,259,200                          |
| Cost of sales                            | 437,006             | 438,333    | 409,527               | 4,161,962                             |
| Gross profit                             | 220,210             | 220,885    | 222,892               | 2,097,238                             |
| SG&A expenses                            | 203,197             | 204,083    | 214,450               | 1,935,209                             |
| Operating income                         | 17,013              | 16,802     | 8,442                 | 162,029                               |
| Net income                               | 10,168              | 10,579     | 6,764                 | 96,838                                |
| <b>AT YEAR-END:</b>                      |                     |            |                       |                                       |
| Total assets                             | 467,076             | 462,574    | 447,765               | 4,448,343                             |
| Total stockholders' equity               | 256,795             | 253,862    | 250,671               | 2,433,886                             |
|  |                     |            |                       |                                       |
|  | Yen                 |            | U.S. dollars (Note 1) |                                       |
| <b>PER SHARE OF COMMON STOCK:</b>        |                     |            |                       |                                       |
| Stockholders' equity                     | ¥ 1,980.22          | ¥ 1,907.50 | ¥ 1,827.25            | \$ 18.86                              |
| Net income (Note 2)                      | 76.67               | 77.45      | 49.30                 | 0.73                                  |
| Cash dividends (Note 3)                  | 24.00               | 24.00      | 20.00                 | 0.23                                  |
|  |                     |            |                       |                                       |
|  | %                   |            |                       |                                       |
| <b>KEY RATIOS:</b>                       |                     |            |                       |                                       |
| Total stockholders' equity ratio         | 55.0                | 54.9       | 56.0                  |                                       |
| ROE                                      | 4.0                 | 4.2        | 2.7                   |                                       |
|  |                     |            |                       |                                       |
|  | Thousands of shares |            |                       |                                       |
| <b>COMMON STOCK:</b>                     |                     |            |                       |                                       |
| Number of shares outstanding at year-end | 151,080             | 151,080    | 151,080               |                                       |

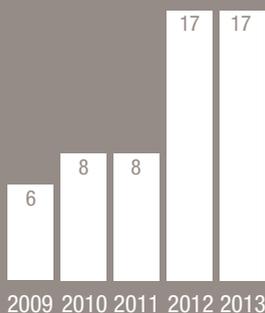
### NOTES:

- The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥105 to U.S.\$1, the prevailing exchange rate as of December 31, 2013.
- Net income per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
- Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.
- Effective fiscal 2013, we have changed to an accounting method that deducts a portion of sales incentives (which had previously been accounted for under selling, general and administrative expenses) from net sales; therefore, the amount of net sales for fiscal 2012 and relevant key management indicators have been adjusted retroactively.

**Net sales**  
(Billions of yen)



**Operating income**  
(Billions of yen)



**Net income per share**  
(Yen)



## A Message from the President



President **Masami Kawasaki**

*M. Kawasaki*

# Thriving in the digital world

We are determined to achieve success and growth in a challenging business environment by leveraging group synergies in the areas of business solutions, IT solutions, imaging systems, and industrial and medical systems to provide enhanced value to our customers.

## A Message from the President

### Five General Strategies Based on our Vision for the Future

|   |   |
|---|---|
| 1 | Establish Canon as undisputed market leader in Japan in each of its businesses                        |
| 2 | Enhance productivity and added value in existing business domains by maximizing group synergies       |
| 3 | Strengthen and expand growth areas in existing businesses   |
| 4 | Concentrate all group efforts on creating businesses and procuring new products with a sense of speed |
| 5 | Promote the “Beyond Japan” concept in all business domains  |

Despite negative factors, including concerns about instability in some overseas economies, the Japanese economy followed a recovery trend in 2013. Rising expectations toward the “Abenomics” policies introduced by the Abe administration that took office at the end of 2012 were reflected in signs of improving economic performance, including a sustained recovery in personal consumption expenditure, and a gradual improvement in business sector capital expenditure.

The Canon MJ Group worked dynamically to expand sales of new products and offer a variety of solutions in this economic environment. Despite slower growth in our performance indicators in the first half of fiscal 2013 (January 1–December 31, 2013), our net sales rose year on year in the second half, and the total for the year was close to the previous year’s level with a 0.3% decline to ¥657.2 billion.

Income trends followed a similar pattern, with slow growth in the first giving way to a recovery in the second. Also, as a result of continual cost reduction, consolidated operating income was 1.3% higher year on year at ¥17.0 billion.

There were extraordinary losses, including retirement losses on rental assets and other losses on sales of fixed assets. As a result, consolidated net income declined by 3.9% year on year to ¥10.1 billion.

### Launch of New Medium-Term Management Plan (FY2014–16)

The Canon MJ Group formulates a three-year management plan each year on a rolling basis. Our focus under the new medium-term management plan, which has FY2016 as its target year, is on extending and refining the objectives of recent plans to build the Canon MJ Group into a service creation business group.

Specifically, we aim to evolve beyond product sales into a value-creating trading company and provider of enhanced solutions. We will also build the Canon MJ Group into a company dedicated to the improvement and training of in-house talent capable of leading growth strategies and driving business activities. Our future vision also calls for further reinforcement of the income potential of existing business domains through continual reform of our income structure.

We aim to realize our vision for the Canon MJ Group in FY2016 through five overall strategies. First, we will strive to establish an overwhelming position of leadership for Canon businesses in the Japanese market. Second, we will improve productivity and added value in existing business domains by maximizing group synergies. Third, we will strengthen and expand growth areas in conjunction with existing Canon Group-related business domains. Fourth, we will focus the total energies of the Canon MJ Group toward the rapid creation of new businesses and the

**Financial Targets under the Medium-Term Management Plan (FY2014–16)**

|                                  | Results for FY2013 | Target for FY2016   |
|----------------------------------|--------------------|---|
| Net sales                        | ¥657.2 billion     | <b>¥800.0 billion</b><br>Average annual growth rate: 6.8% |
| Operating income                 | ¥17.0 billion      | <b>¥36.0 billion</b>                                      |
| Operating income-net sales ratio | 2.6%               | <b>4.5%</b>   |
| Net income                       | ¥10.2 billion      | <b>¥23.0 billion</b>                                      |

procurement of new goods. Fifth, we will develop activities based on the “Beyond Japan” concept in all business domains.

By putting these five strategies into effect, we aim to achieve sales and income growth in each of the next three years, and to achieve net sales of ¥800 billion and operating income of ¥36.0 billion in FY2016. Our target for net income is ¥23.0 billion, which is higher than the previous record of ¥20.0 billion set in FY2007.

Our target for the Business Solutions segment, which is the biggest segment in terms of net sales, is operating income of ¥12.3 billion. This is a mature market, and we aim to maintain steady growth in net sales while improving our profit margins.

We are predicting operating income of ¥7.5 billion for the IT Solutions segment, based on net sales growth of 9.1% per year. The Imaging Systems segment centers on existing business domains, such as cameras and inkjet printers, and we anticipate a stable trend in earnings. Operating income is expected to remain close to the FY2013 level. The strong growth potential of the industrial and medical systems areas is reflected in a projected net sales growth rate of 31.2% per year. From an ¥1.8 billion loss in FY2013, the operating result is expected to move substantially into positive figures with operating income of ¥3.3 billion.

**Growth Scenario Driven by Independent Business Domains**

The markets in Japan for existing Canon Group-related business domains are maturing, and competition is intense. We expect moderate growth in these domains, but don’t anticipate significant growth.

Canon Group is therefore focusing on the development of products for new priority areas. In addition to marketing these new Canon products, Canon MJ is also strengthening its own independent business domains as a source of future growth.

We will improve human productivity in existing business domains through IT investment and other measures. At the same time, we will redeploy personnel into new priority domains and independent business domains.

In FY2013, net sales from new business domains amounted to ¥40.1 billion, while independent business areas contributed ¥190.3 billion. By FY2016, we aim to increase these totals to ¥65.0 billion and ¥274.5 billion respectively. This will require annual growth averaging 18% and 13% respectively.

**Business Solutions** While major growth is unlikely in the existing Canon Group-related business domains of office multifunction products (MFP) and laser printers, these products will continue to be core contributors to earnings in the business solutions segment. To expand sales in the mature MFP market, we will need to capitalize on the potential of our

## A Message from the President

### Financial Targets by Business Segment

|                    |                  | Results for FY2013 | Target for FY2016     |
|--------------------|------------------|--------------------|-----------------------|
| Business Solutions | Net Sales        | ¥327.3 billion     | <b>¥375.0 billion</b> |
|                    | Operating Income | ¥5.5 billion       | <b>¥12.3 billion</b>  |
| IT Solutions       | Net Sales        | ¥142.3 billion     | <b>¥185.0 billion</b> |
|                    | Operating Income | ¥0.4 billion       | <b>¥7.5 billion</b>   |
| Imaging Systems    | Net Sales        | ¥191.7 billion     | <b>¥215.0 billion</b> |
|                    | Operating Income | ¥12.5 billion      | <b>¥12.3 billion</b>  |
| Industrial/Medical | Net Sales        | ¥26.1 billion      | <b>¥59.0 billion</b>  |
|                    | Operating Income | -¥1.8 billion      | <b>¥3.3 billion</b>   |

products and solutions to expand our market share and increase the number of machines in field (MIF). The realization of these goals will also lead to increased document volumes, resulting in the growth of maintenance services and sustained income flows. We also aim to improve segment profitability by slowing the downward trend in maintenance unit prices and enhancing service efficiency. We will also target growth in laser printer sales by combining products with unique solutions for specific business needs offering future growth potential, such as healthcare, distribution and retailing. In the area of commercial printing, which is a new priority domain for Canon, we have established an expert marketing organization capable of appealing to highly specialized users by establishing Canon Production Printing Systems Inc. in April 2014. In the area of independent business activities, we are fully committed to the development of new businesses based on packages combining hardware with services, such as the SME IT solutions provided by Canon System & Support Inc.

**IT Solutions** Most of the IT solutions provided by Canon MJ are based on our independent business activities and offer significant growth potential.

Our Nishi-Tokyo Data Center has earned an excellent reputation with business users since it became operational in October 2012, thanks to its provision of total support at all levels from the creation of advanced security systems to the

administration of those systems. The business is now expanding steadily. We have plans for further expansion in the future, including the enhancement of contracting schemes to include system administration.

Our recently acquired IT solutions company in Thailand, Material Automation (Thailand) Co., Ltd. (MAT), is steadily expanding its customer base among Japanese companies with business operations in Thailand. It currently has business relationships with over 500 companies. We plan to make MAT the hub for the expansion of our IT solutions business into other in Southeast Asian countries, including the Philippines and Vietnam.

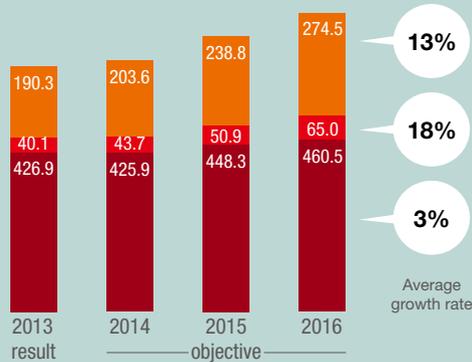
**Imaging Systems** In the digital camera category, we will continue to pursue marketing strategies designed to encourage people who now take photographs with their compact cameras and smartphones to move up to the entry-level EOS KISS and EOS M Series cameras, which provide a real photographic experience, and thence to mid-range models, such as the EOS70D and the EOS 5D Mark III. We also aim to enhance our earning potential in this area by achieving the top market share in all classes of interchangeable lens cameras, and by expanding sales of Canon's extensive range of interchangeable lenses.

Major international sporting events, including the Winter Olympics and Soccer World Cup in 2014, the Rio de Janeiro Olympics in 2016, and the

## Growth Scenario (changes in net sales)

(Billions of yen)

- Independent businesses
- Canon's new priority domains
- Canon's existing domains



Tokyo Olympics in 2020 are driving a shift to high-resolution technology, including 4K systems, in the fields of broadcasting and image production. We are determined to expand our business in this area by supplying high-quality Canon products with 4K input and output capabilities to support high-resolution imaging solutions. The Canon MJ Group will also expand its range of commercial imaging equipment solutions based on our extensive line-up of monitoring camera systems.

**Industrial/Medical** In the industrial equipment category, which includes semiconductor-related equipment, our goal is to increase our sales by adding more manufacturers and expanding our product line-up in order to strengthen our capacity to handle not only semiconductor-related applications, but also non-semiconductor applications.

In the medical systems field, we will dynamically expand our independent business activities relating to infection management and pharmaceutical dispensing systems, while also building a presence in overseas markets. We will also enhance our medical-related solutions, including medical imaging and electronic medical record systems.

### Investment Plan and Financial Forecasts for FY2014

One of the strengths of the Canon MJ Group is our stable financial structure. We face maturing markets

in existing business, and there is a limit to our ability to achieve sustainable growth solely by expanding our market shares. However, we have a robust financial structure, and over the next three years we aim to achieve our financial targets by investing a cumulative total of ¥50.0 billion, including investment in new business domains and investment in IT systems to improve productivity.

We will also expand our business domains through mergers and acquisitions. We will provide a ¥40.0 billion reserve for strategic M&A activities.

According to our forecasts for the Canon MJ Group in FY2014, consolidated sales will increase by 2.4% year on year to ¥673.2 billion, consolidated operating income by 10.5% to ¥18.8 billion, and consolidated net income by 18.0% to ¥12.0 billion. As in FY2013, we again plan to pay a yearly dividend of ¥24.

I will conclude this message by expressing our determination to ensure that the Canon MJ Group offers the highest possible value to all stakeholders, including our stockholders, by achieving sustainable income expansion while fulfilling our corporate social responsibilities. We will continue our efforts to enhance our reputation with all people and society in general by reflecting the wishes and expectations of our many stakeholders in the materiality thresholds set up in 2013 for the Canon MJ Group.

## At a Glance

Close cooperation among the 29 companies in the Canon MJ Group and the combined abilities of our 18,400 employees enable us to provide customers in Japan and overseas with unique new added value in all areas of life, work and society.

\*Under a new accounting policy introduced in the year ended December 2013, some items that were included in sales promotion expenses in the results for the year ended December 2012 have been restructured as net amounts deducted from net sales. This change has no effect on operating income.

## Business Solutions



Through our Business Solutions segment, we help customers to improve their competitiveness and operating efficiency by providing solutions that combine a wide range of business equipment, especially Canon products with software and operating services.

### Growth Scenario

| Category                    | Annual average growth rate (between 2013 and 2016) | Included businesses   |
|-----------------------------|--|---|
| Independent business        | 10%  | IT Solutions, Document Solutions, Support Business  |
| Canon's new priority domain | 13%  | Production Printing Business, Network Cameras   |
| Canon's existing domain     | 2%   | MFP (including maintenance business), LBP (including cartridges and maintenance business) |

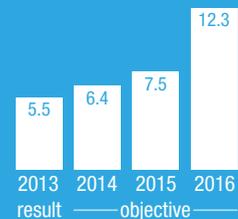
### Sales target

(Billions of yen)



### Operating income target

(Billions of yen)



## IT Solutions



The goal of the IT Solutions Business is to help customers to improve their business competitiveness and corporate value by using the total resources of the Canon MJ Group to create advanced IT environments based on optimal combinations of IT.

### Growth Scenario

| Category                    | Annual average growth rate (between 2013 and 2016) | Included businesses                  |
|-----------------------------|--|--------------------------------------|
| Independent business        | 12%  | System Integration Business          |
|                             | 13%  | IT Infrastructure & Service Business |
|                             | 16%  | Embedded System Business             |
|                             | -2%  | Products Business                    |
| Canon's new priority domain | 63%  | MR*                                  |

\* Mixed Reality

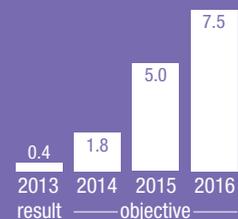
### Sales target

(Billions of yen)



### Operating income target

(Billions of yen)



## Composition of Net Sales



## Imaging Systems



In this business segment, we provide people at all levels from beginners to professionals with innovative ways to enjoy the fun and emotion of photography.

### Growth Scenario

| Category                    | Annual average growth rate (between 2013 and 2016) | Included businesses   |
|-----------------------------|--|---|
| Independent business        | 34%  | Framed photo rental (Shuttle Photo), Photo-related online services (withPhoto), IT products                                     |
| Canon's new priority domain | 29%  | Commercial imaging equipment, Commercial photo printers (DreamLabo)   |
| Canon's existing domain     | 3%   | Interchangeable lens digital cameras, Compact digital cameras, Digital video cameras, Inkjet printers, Other consumer equipment |

### Sales target

(Billions of yen)



### Operating income target

(Billions of yen)



## Industrial/Medical



We use the world's most advanced equipment and leading-edge technology to provide highly specialized solutions for industry, especially semiconductor manufacturing and healthcare applications, both of which play an essential role in modern life.

\*Effective from the year ending December 2014, the Industrial Equipment segment has been renamed as the Industrial/Medical Segment.

### Growth Scenario

|            | Category                    | Annual average growth rate (between 2013 and 2016) | Included businesses  |
|------------|-----------------------------|--|--|
| Industrial | Independent business        | 64%  | Testing and measurement, Process equipment, Field engineers, ecoFab, New products  |
|            | Canon's new priority domain | —  | New products   |
|            | Canon's existing domain     | 3%   | Component business   |
| Medical    | Original businesses         | 14%  | Procurement modality/Ophthalmic products, PACS/Medical imaging solutions, Ophthalmic equipment, Infection management, Pharmaceutical dispensing, Healthcare products |
|            | Canon's existing domain     | 25%  | CXDI, Digital non-mydratric retinal cameras/OCT  |

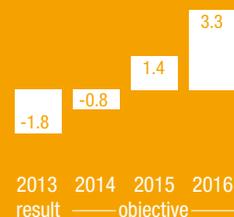
### Sales target

(Billions of yen)



### Operating income target

(Billions of yen)



# Business Solutions



The recovery trend in the Japanese BtoB business environment has intensified. We will seize this opportunity to expand sales by offering individual customers optimized hardware and IT solutions. In the area of maintenance services, which are our core source of earnings, we aim to secure income levels by halting the downtrend in unit prices while also improving productivity. With the establishment of a new company, we have created a structure to support the full-scale expansion of the production printing business as a key growth driver. Our goal now is to achieve the growth needed to meet the targets set down in the medium-term plan.

Senior Vice  
President

**Masahiro Sakata**



### 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.
- Canon Production Printing Systems Inc.  
(from April 2014)

## Performance and Key Trends

### Office Multifunction Products (MFPs)

The Canon MJ Group worked aggressively to expand sales of office MFPs by developing new customers, ranging from major corporations to small and medium enterprises. We focused in particular on the imageRUNNER ADVANCE Series, including the C5200 series of entry-level color MFPs, the C2200 series of compact models, and the C2218F-V series for small and medium-scale office environments. In the area of production MFPs for the commercial printing market, we actively sought orders for commercial printers, including the imagePRESS Series and the Océ VarioPrint 6000 Ultra Series. As a result of these efforts, the total quantity of MFPs shipped increased faster than the industry average, and sales exceeded the previous year's total.

### Laser Printers

In the domestic market for laser

## Growth strategies

1. Improve productivity and profitability of document business
2. Expand specific printing (LBP) and sector-specific solutions
3. Fully launch solutions for SMEs
4. Establish base for turning production printing business into growth engine, headed by new company
5. Fully launch network camera business

printers, there was a recovery trend in demand for printers for specialist applications, especially in the healthcare and distribution sectors. However, general office demand continued to stagnate, and the number of units shipped appears to have fallen below the previous year's level. The Canon MJ Group also recorded a year-on-year decline in sales in this market, in part because of a reactionary downswing after major orders in the previous year. However, we maintained our number one position in terms of units shipped.

### Large-Format Inkjet Printers

In this business category, there was sustained growth in sales of entry-level models for computer-aided design (CAD) use. Ink cartridge sales also increased steadily, and sales were higher year on year.

### Maintenance Services, Document Services

Despite strong trends in printing demand, sales of maintenance services were affected by falling unit prices, with the result that sales fell below the previous year's level.

Total net sales in the Business Solution segment increased by 1.1% year on year to ¥327.3 billion, but operating income was 12.1% lower at ¥5.5 billion.

## Measures and Developments

### Expansion of Market Share and MIF for Office MFPs

Aided by a recovery in business capital expenditure, we will continue to work proactively to develop new customers, while also working to build market share and increase the number of machines in field (MIF) through strategies that include the provision of industry-specific solutions, the introduction of new products, and sales promotion activities.

### Integration of Commercial Printing Business and Establishment of New Company

In April 2014 we integrated all Canon MJ Group companies and divisions involved in commercial printing under a newly established company, Canon Production

Printing Systems Inc. We are now working proactively to expand the commercial printing business, starting with the launch of a high-speed continuous feed printer manufactured by Océ in April.

## Outlook for FY2014

Energetic marketing of key products, especially MFPs, is expected to lift net sales by 1.6% year on year to ¥332.5 billion in FY2014. We aim to increase operating income by 15.6% to ¥6.4 billion by expanding the quantity of MFPs sold, and by stepping up our efforts to cut costs.

# IT Solutions



IT investment in Japan is expected to remain on an expansionary trend in the foreseeable future. Particularly significant is the focus on individual system development in the financial sector, which is an area in which the Canon MJ Group excels. This is likely to drive continuing expansion. We are determined to seize this excellent opportunity to expand the Canon MJ Group's income by working proactively to win new contracts. We are also winning large numbers of contracts for the data center business, which is expanding steadily, and we will continue to work actively to attract new orders in this area as well.



Executive Vice  
President

**Kazunori Asada**

### 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.
- 14 other companies

## Performance and Key Trends

We responded to a recovery trend in the domestic market for IT solutions by working proactively to win new orders. This strategy resulted in sustained growth in sales of systems integration (SI) services and products to financial institutions, and sales exceeded the previous year's level.

### SI Service Business

Sales increased year on year because of growth in the number of customized system development projects, especially for financial institutions.

### IT Infrastructure and Services Business

The Canon MJ Group provides outsourced services in this area. Sales were marginally higher year on year, thanks to growth in sales of cloud services and data center services.

### Embedded System Business

In this business category, the

## Growth strategies

1. Strengthen customer base and improve development productivity in SI services
2. Expand data center business
3. Start up new solutions business and promote commercialization of technologies held
4. Expand global business according to each region
5. Strengthen Group's IT solutions capabilities in other segments besides the IT Solutions segment

Canon MJ Group develops embedded software. Sales were lower year on year because of a downturn in projects for key customers in the manufacturing sector.

### Product Business

Replacement demand resulting from the termination of support for Windows XP helped to drive strong growth in sales of core products, including business PCs and memory-related products. Net sales were substantially above the previous year's level.

These trends were reflected in an 8.6% year on year increase in segment net sales, which reached ¥142.3 billion. Operating income doubled to ¥0.4 billion.

## Measures and Developments

### Reinforcement and Expansion of Outsourcing Business

We will further strengthen the outsourcing business, including data center services and system administration services based at

the Nishi-Tokyo Data Center, which became operational in October 2012. We will also expand our business activities in the area of business continuity planning (BCP).

### Proactive Development of Global Businesses

In late 2013 we acquired Material Automation (Thailand) Co., Ltd. as a consolidated subsidiary. That company will be the hub for our determined efforts to build our IT business activities in Southeast Asian markets, which have grown dramatically in recent years.

## Outlook for FY2014

The Japanese IT market is expected to expand gradually in FY2014, and we will implement dynamic marketing activities in step with that trend. Net sales are expected to increase by 2.7% year on year to ¥146.2 billion. We aim to increase our operating income by a factor of 4.6 times to ¥1.8 billion. Our strategies for achieving this target include the expansion of

sales in high-margin business areas, and the improvement of development productivity.

# Imaging Systems



Personal consumption expenditure expanded steadily, and the number of interchangeable lens cameras sold was substantially higher year on year. Reasons for this growth include a powerful product range backed by Canon's brand image, and the success of our marketing activities, especially user campaigns targeting high-demand periods. We anticipate further market growth in the current year, and we will work to stimulate market demand by encouraging users to step up to models with higher specifications, and by promoting photographic culture.

Senior Vice  
President

**Koichi Yagi**



### 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.

## Performance and Key Trends

### Digital Cameras

Our interchangeable lens cameras continued to perform well in all product categories, including entry-level models, such as the EOS Kiss X7, which was launched in April 2013 as the world's lightest and most compact single-lens reflex camera, our line-up of mirrorless camera models, which was expanded with the launch of the EOS M2, and the mid-range EOS-70D, which went on the market in August. Our dynamic marketing activities, including user campaigns, were also successful, resulting in record shipments of both camera bodies and interchangeable lenses, and sales were substantially higher year on year.

We secured the biggest share of the Japanese market for compact digital cameras by continuing our strategy of maintaining a well-balanced product line-up, ranging from premium models, such as the PowerShot S120, to the

## Growth strategies

1. Strengthen inkjet products and services for home, professional and business markets
2. Become No. 1 in all classes of interchangeable lens/mirrorless digital cameras through continued step-up strategy
3. Improve profitability of compact digital camera business by strengthening premium models
4. Expand and improve line-up of commercial imaging equipment and strengthen solutions
5. Expand and improve CRM (Customer Relationship Management) and promote digital marketing
6. Expand new businesses for photo-related content

entry-level IXY 620F. However, the market contracted significantly because of the spread of smartphones, and sales were lower year on year.

### Inkjet Printers

Strong sales of the PIXUS MG7130, which was launched in September 2013, and other products helped to lift performance in the second half of the year, and shipments rose above the previous year's level. However, slower progress in the first half was reflected in a year-on-year decline in sales.

### Commercial Imaging Equipment

In addition to healthy sales of monitoring cameras for broadcasting and surveillance applications, there was also strong demand for the Cinema EOS System video production cameras and lenses with support for 4K optical performance. The new XA20/25 range of HD handy video cameras also performed well, and sales were higher year on year.

Net sales in the Imaging Systems segment were similar to the previous year's level at

¥191.7 billion, while operating income increased by 14.4% to ¥12.5 billion.

## Measures and Developments

### Continuation of Step-up Strategy for Interchangeable Lens Cameras

In the area of interchangeable lens cameras and lenses, we will continue our strategy of encouraging users to step up from entry-level models, including mirrorless cameras, to mid-range models. We aim to maintain our solid position of leadership in terms of market share while expanding reliable income streams, including income from our extensive range of high-margin interchangeable lenses.

### Expansion of Solutions Development Capabilities for Commercial Imaging Equipment

We will continue to expand our solutions development capabilities in the area of commercial imaging equipment,

while also building an extensive product line-up, including television lenses for broadcasting use, monitoring cameras and video production equipment for the Cinema EOS System.

## Outlook for FY2014

We plan to launch new products and carry out proactive marketing activities. However, net sales will be affected by the consumption tax increase and other factors and are expected to increase only marginally year on year to ¥192.3 billion. Sales of interchangeable lens cameras in particular will be lower because of a reactionary downswing after a stock build-up in the previous year ahead of the consumption tax increase. We are therefore predicting operating income of ¥11.1 billion, a year-on-year decline of 11.1%.

# Industrial/ Medical



### Industrial Equipment:

Industrial equipment is an independent business domain for the Canon MJ Group and is an area in which we anticipate rapid growth in the future. Last year we faced a continuing uphill struggle in the semiconductor category, but we aim to expand both sales and income by moving into non-semiconductor categories that offer strong potential in both domestic and overseas markets, including 3D printers.

### Medical Equipment:

Last year, we recorded strong sales of promising new products in the field of digital radiography. In the current year we will market these products proactively with the aim of winning more contracts, including lot sales to major hospitals. We also anticipate growth in the healthcare field following the start of shipments of sterilization equipment to overseas markets.

President

**Masami Kawasaki**

#### 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.

## Performance and Key Trends

### Industrial Equipment (including Semiconductor Fabrication Equipment, etc.)

There were signs of a gradual recovery in the previous year, including a year-on-year increase in sales of testing and measurement equipment in the second half of the year. However, investment by Japanese manufacturers of semiconductor-related products stagnated in the first half of the year, with the result that sales were lower year on year.

### Medical Equipment

Medical equipment sales were higher because of strong demand for fully automated pharmaceutical dispensing systems and sterilization equipment in the healthcare area. In the medical imaging category, there was a substantial increase in shipments of digital radiography (X-ray imaging) systems, including the CXDI-401G COMPACT system, in the second half of the year.

## Growth strategies

### Industrial Equipment

1. Expand and improve line-up of new products handled and build into pillar of growth
2. Strengthen technology trading company function
3. Develop Taiwan market through Canon Advanced Technologies Taiwan Inc.

### Medical Equipment

1. Expand sales of modalities by strengthening sales force
2. Strengthen and expand medical imaging IT solutions
3. Bolster product line-up by developing new products
4. Rigorously expand independent business areas of infection management and pharmaceutical dispensing in Japan and overseas
5. Establish total Group presence in the medical market

However, the increasing shift toward digital technology resulted in lower sales of film and other consumables. There was a reactionary downswing after FY2012, when major orders were recorded, with the result that sales declined in FY2013. This was reflected in lower sales for the entire medical equipment category.

These factors were reflected in segment net sales, which were 14.9% lower year on year at ¥26.1 billion. There was an operating loss of ¥1.8 billion.

## Measures and Developments

### Enhancing Our Line-up of New Industrial Equipment Products

In the industrial equipment category, we are working to develop new markets by expanding our line-up of new products, including non-semiconductor equipment. We will

also target increased sales of semiconductor fabrication equipment in the Taiwanese market through Canon Advanced Technologies Taiwan Inc., which we established in March 2012.

### Expansion of Medical Equipment Business

Our FY2016 target for total group sales in the medical equipment category is ¥37.0 billion. We aim to achieve this goal by enhancing our line-up of medical imaging solutions, including the Picture Archiving and Communication System (PACS), operational system solutions, such as electronic medical record systems, and infection control solutions, including sterilization and cleaning systems.

## Outlook for FY2014

In addition to increased sales of existing industrial equipment

products, our performance in FY2014 will also benefit from the expansion of our line-up of new products sourced from outside manufacturers, such as 3D printers, as well as the development of the Taiwanese market for industrial equipment. We expect sales to be significantly higher year on year.

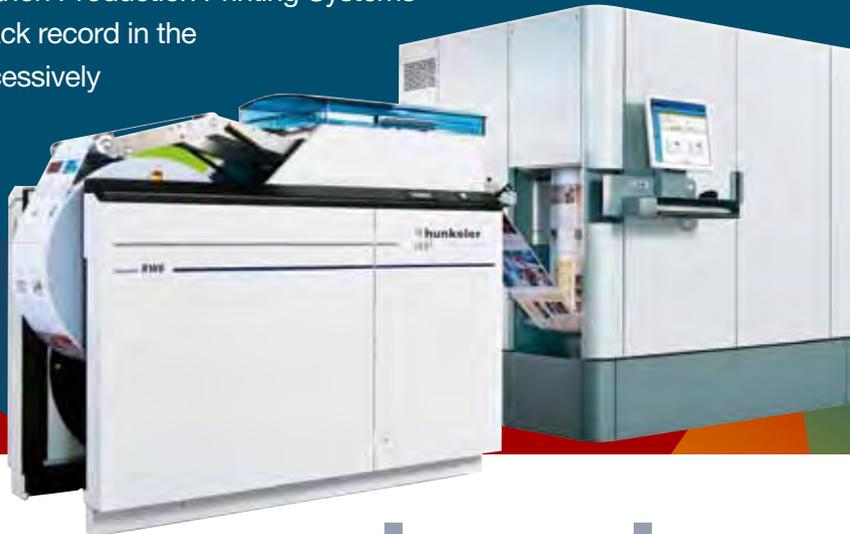
In the area of medical products, we are predicting strong sales of digital radiography systems, fully automated pharmaceutical dispensing systems and sterilization equipment. We will also target increased sales of the Picture Archiving and Communication System (PACS) and ophthalmic equipment. At the same time, we will work proactively to expand sales in Asia and other overseas markets, especially for ELK brand products.

We estimate that net sales for this segment will increase by 16.1% year on year to ¥30.3 billion, and that the operating loss will be reduced by ¥1.0 billion to ¥0.8 billion.

## Special Feature

Under the Long-Term Management Objectives Phase II, a five-year plan launched in 2011, the Canon MJ Group aims to expand its commercial printing operations into a business that will contribute ¥46 billion to consolidated net sales in 2016. Since Océ N.V. joined the Canon Group in March 2010, we have developed strong product complementation between Océ and Canon. The addition of SHOWA INFORMATION SYSTEMS CO., LTD. to the Canon MJ Group in May 2012 has resulted in closer collaboration in the areas of marketing and support.

In April 2014, we established Canon Production Printing Systems Inc. Its mission is to expand our track record in the production printing market by successively introducing new products, and to build a presence as a leading company in the market.



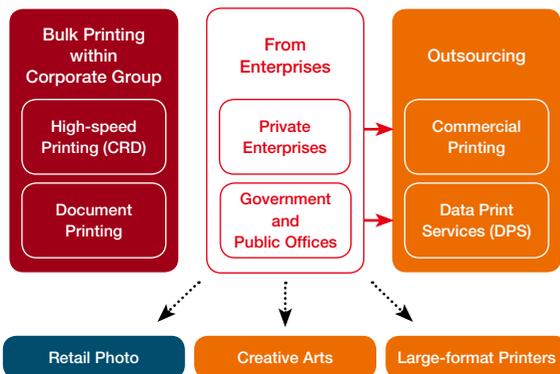
\*Our 2016 target for the production printing business is net sales of ¥46 billion after the elimination of inter-company transactions.

# New Approaches in

## Production Printing— A Growth Market

Currently worth around ¥400 billion, the Japanese market for production printing equipment, including high-end, mid-range and low-end systems, is expected to expand to around ¥1 trillion. The driving force for this growth, which could occur as early as within five years, is a rapid shift to digital printing. As shown in the diagram, the target markets for the Canon MJ Group can be divided into four classifications. On the left are large-scale in-house printing in central reprographics departments (CRDs), and document printing. On the right are outsourced commercial printing and data printing services (DPS).

### Market targets in production printing



Our analyses indicate that market is currently divided evenly between the corporate and outsourced printing segments. However, we expect the division of sales to shift toward outsourcing, because of growing demand for business process outsourcing, and a trend toward streamlining and cost-cutting within corporate groups. We also expect the trend toward digital printing to accelerate because of advantages that include high printing quality, color support, easier collaboration on post-processing, and added value opportunities. For these reasons, we are predicting substantial market growth in the range of 102%–110% per year in the area of outsourced commercial printing and DPS.

**Organizational  
Strengthening and  
Production Range  
Expansion through  
Establishment of  
the New Company**

In April 2014 we established Canon Production Printing Systems Inc. through the merger of SHOWA INFORMATION SYSTEMS CO., LTD., which manufactures commercial high-speed, continuous feed printers, OCÉ JAPAN CORPORATION, which is a manufacturer of commercial large-format printers, and Canon Print Square Inc., which provides printing services, including graphics and POD. Production printing units from Canon MJ and related marketing units from Canon System & Support Inc. were also transferred to the new company.

The establishment of a specialist company for the production printing market will enable us to offer a wide range of products and build an integrated structure spanning all stages from system development to sales, maintenance support and printing services. We will target customers with high levels of specialist knowledge through dynamic proposal marketing in the data printing service and commercial printing markets.

We are working to establish a full-scale presence in the continuous feed printer market following the launch of the Océ ColorStream 3000 Z Series of high-speed continuous feed inkjet printers in April 2014. These products were developed to meet market needs in Japan, including space-saving designs and support for fanfold forms and pressure-seal postcards.

We will progressively launch more Océ products onto the Japanese market. Our goal is to capture at least one-third of the domestic market for commercial high-speed continuous feed printers.



# Production Printing

**We will build a robust income base for the production printing business.**

Analog offset printing still accounts for over 95% of the printing market, and only a small minority of companies have adopted digital on-demand printers. We intend to challenge the printing market head-on by building a comprehensive and versatile line-up of digital production printers, ranging from continuous feed printers to cut paper and wide-format systems, that rival offset printing in terms of quality and running costs while offering a variety of additional functions that cannot be achieved with analog systems. I believe that we can consistently provide our customers with excellent products backed by excellent services. We are determined to realize the full potential of the Canon Group and become the leading company in this field by bringing together the customer bases, accumulated experience and technology of SHOWA INFORMATION SYSTEMS CO., LTD., OCÉ JAPAN CORPORATION and Canon Print Square Inc.



Canon Production Printing Systems Inc.  
President  
Kenji Minematsu

## Sustainable Management

Under the Canon corporate philosophy of kyosei\*, the Canon MJ Group aims to provide benefits to society through its business activities, and to contribute to the development of a sustainable society while also justifying its existence as an enterprise. By continuing to pursue sustainable synergies between the Canon MJ Group and society, we can ultimately enhance our corporate value and corporate brand.



\*Translated as: “living and working together for the common good.”

### 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 Selves” Spirit

Our “Three Selves” 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 Selves 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.



## CSR Policies and Organization

The key concept guiding our CSR activities is that CSR is marketing. As a business group that has numerous points of contact with stakeholders, we approach CSR activities from a marketing perspective. We are creating structures that allow individual segments and companies within the Canon MJ Group to implement CSR activities on an organized basis with participation by all employees.

### CSR Activity Policy

The Canon MJ Group has published the Canon Marketing Japan Group CSR Activity Policy with the aim of enabling all employees to implement CSR activities in the context of their day-to-day work. We contribute to the development of the sustainable society by sharing and applying this policy throughout the entire Canon MJ Group.

### CSR Activity Policy

- We will contribute to the creation of an enriched social environment in which people can live in safety and with peace of mind.
- We will provide dependable quality through all of our business activities.
- We will contribute to the development of human resources capable of contributing to improvement of society.
- We will conduct our business activities fairly and in good faith, with particular emphasis on dialog with stakeholders.
- We will strive to develop safe, healthy working environments.
- We will contribute to the conservation of the environment and biodiversity.
- We will respect human rights.

### CSR Promotion Organization

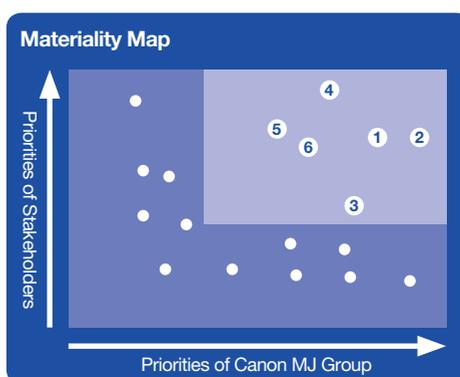
The role of the CSR Committee, which is chaired by the President, is to facilitate CSR activities throughout the Canon MJ Group. The CSR Committee makes decisions about group-level efforts to promote CSR activities. It drafts and adopts policies relating mainly to measures to ensure consistent compliance with business ethics and regulatory requirements, the improvement of information security and governance, and the reinforcement of environment-related measures. These policies are implemented through the CSR Promotion Subcommittee, which is comprised of CSR Promotion Officers from each of the divisions and companies that make up the Canon MJ Group.



### Establishment of Materiality

In August and September of 2013, the Canon MJ Group carried out a CSR survey of internal and external stakeholders. The purpose of this survey was to ensure that the wishes and expectations of our many stakeholders, including customers, stockholders, investors, business partners, employees, communities and the global environment, would be reflected in our CSR activities. We then conducted an analysis using a graph in which the priorities of stakeholders, as identified from the results of the survey, were placed on the vertical axis, and the priorities of the Canon MJ Group, which were extracted from our medium/long-term management strategies and business plans, on the horizontal axis. After discussions with independent experts and decision-making by management, we adopted six material themes for the Canon MJ Group.

These material themes will form the core of future CSR activity plans, under which we will redouble our efforts to ensure that the expectations of stakeholders are reflected in our CSR activities.



1. Value creation in the photography and imaging field
2. Creation of solutions in the environment and information security fields
3. Creation of solutions in the health and medical systems field
4. Quality improvement and reinforcement of quality management
5. Improvement of our ability to respond to customer needs
6. Reinforcement of resource and energy conservation measures

## Environmental Management

We have strengthened the environmental management infrastructure of the Canon MJ Group by developing an environmental vision and management systems. We are working to reduce environmental loads resulting from our own business activities and the activities of our customers and society.

### 2015 Environmental Vision—“Future Forest 2015”

Based on the Canon Group’s “Action for Green” environmental vision, the “Future Forest 2015” concept embodies the environmental vision for the Canon MJ Group. As a company with customer contact points in Japan, we are helping to achieve harmony between affluence and the global environment not only by reducing our own environmental loads, but also by working with society and our customers to cut CO<sub>2</sub> emissions. We aim to realize our “Future Forest 2015” vision through the following three activities.

#### Three Approaches to the Realization of “Future Forest 2015”

- Reduction of CO<sub>2</sub> emissions from business sites and logistics operations
- Significant contribution to the reduction of customers’ CO<sub>2</sub> emissions through products and IT solutions
- Environment-related contributions to society

### Establishment of a Green Ratio

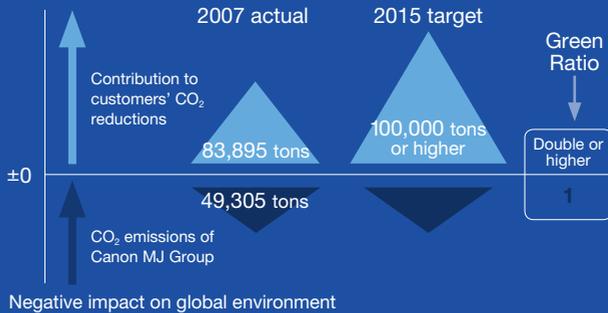
In addition to the reduction of CO<sub>2</sub> emissions from the business sites and logistics activities of the Canon MJ Group, we also help our customers to reduce their CO<sub>2</sub> emissions. Our target for the Green Ratio, which we define as the ratio between our emissions and those of our customers, is that our contribution to the reduction of CO<sub>2</sub> emissions by our customers should be at least 100,000 tons per year and at least double our own CO<sub>2</sub> emissions. In 2013, the Green Ratio was 1:3.18.

#### Target for CO<sub>2</sub> Reduction

Our contribution to the reduction of CO<sub>2</sub> emissions at customers’ business sites will be at least 100,000 tons per year and at least double the level of our own CO<sub>2</sub> emissions.

**2013 Green Ratio: 1: 3.18**

Positive effect on global environment



TOPICS 01

### Responding to the Conflict Minerals Problem

As a member of the Canon Group, the Canon MJ Group implements various initiatives in response to the problem of conflict minerals\*. In April 2013, we held a seminar about surveys concerning conflict minerals for Canon MJ Group suppliers. To ensure that our customers can use Canon products with confidence, we require our suppliers to cooperate in our efforts to trace the sources of all minerals used and ensure that no conflict minerals are used.

\* Conflict minerals are certain types of minerals from African countries, including the Democratic Republic of the Congo and its neighbors. Widely distributed through global supply chains, these minerals have become a source of funding for armed groups in the countries concerned. This problem has become the focus of increasing international concern. In the United States, for example, listed companies are now required by law to disclose information about any use of conflict minerals.



Seminar on Conflict Minerals

## Social Contribution

As a good corporate citizen, the Canon MJ Group contributes to society not only through its business activities, but also through activities that are helping to create a society in which all people can enjoy enriched lives.

### Promoting the Furusato Project

In May 2010 the Canon MJ started the “Furusato Project—Linking Our Dream to the Future,” a restoration project with the aim of bequeathing beautiful verdant *furusato* (rural hometowns) to the children of the future.

This nationwide effort involves forging links with local environmental NPOs to create beautiful *furusato* through such efforts as preserving terraced rice fields and planting forests, reviving arable land that is no longer under cultivation, and restoring tidal flats. Since 2013, we have expanded the scope of this program to involve the entire Canon Group. To date, over 800 volunteers have participated in 35 projects in 14 regions within Japan.

Other forms of support provided by Canon MJ include donations based on the number of used print cartridges collected from customers for recycling.



Tea-picking in Mie Prefecture



Rice-planting in Yamanashi Prefecture

### “Smile for the Future” Project

Since January 2012, the Canon MJ Group has supported community development through the “Smile for the Future” project, as part of its support for recovery efforts in areas affected by the Great East Japan Earthquake. The aim of the project is to foster communication and support the emotional development of children by encouraging people to enjoy nature through the fun of photography. Activities include photography programs and nature experience programs.



A photography class in the community of Minamisanriku

#### TOPICS

## 02

### Over 60,000 AED Seminar Participants

We believe that the Canon MJ Group can achieve growth and success by helping to solve social problems while also creating economic value. As a marketing company, we are constantly working to meet the needs of customers by supplying Canon brand products and services and other products and services. As a multi-vendor for a manufacturer of automated external defibrillators (AEDs), we supply AEDs to meet specific user requirements. In addition to selling the equipment, we also organize seminars and provide instructors to each participant how to carry out emergency first aid using AEDs. To date, over 60,000 people have attended our seminars. We will continue to help people to save lives through this activity.

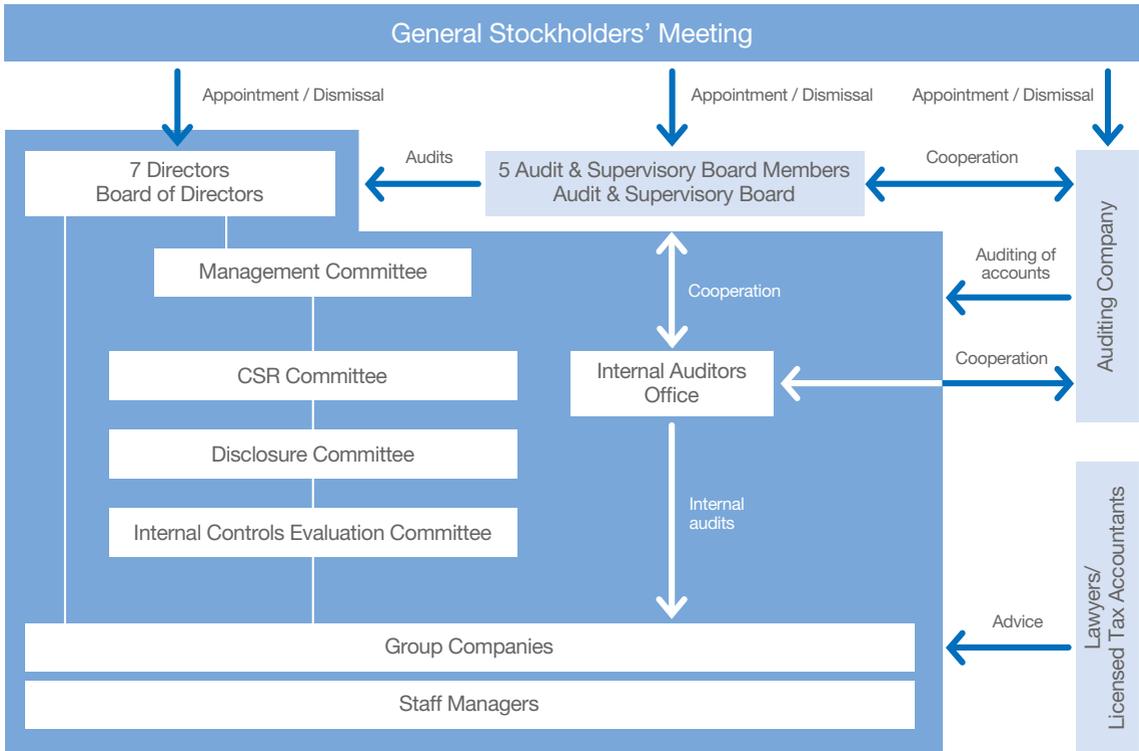


At an AED seminar

# Corporate Governance

## Corporate Governance Organization

(As of March 27, 2014)



### 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 Audit & Supervisory Board, 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.

### Audit & Supervisory Board

There are five Audit & Supervisory Board members, of whom two are standing members, and three are appointed from outside of the Company. The Audit & Supervisory Board sets audit policies and allocates responsibilities to the Audit & Supervisory Board members, who conduct stringent audits in accordance

## Board of Directors and Audit & Supervisory Board Members

|                                   |  |  |  |   |  |
|-----------------------------------|--|--|--|---|--|
| Board of Directors                |   |   |  |   |  |
|                                   | Chairman<br><b>Haruo Murase</b>  | President<br><b>Masami Kawasaki</b>  |  |   |  |
|                                   |   |   |   |   |   |
|                                   | Director<br><b>Yo Shibasaki</b>  | Director<br><b>Masahiro Sakata</b>   | Director<br><b>Yutaka Usui</b>   | Director<br><b>Koichi Yagi</b>  | Outside Director<br><b>Norihisa Doi</b>  |
| Audit & Supervisory Board Members |  |  |  |  |  |
|                                   | Standing<br><b>Masahiro Shimizu</b>  | Standing<br><b>Fumio Ogaki</b>   | Outside<br><b>Shigeo Hasegawa</b>  | Outside<br><b>Kuniyoshi Kitamura</b>  | Outside<br><b>Kengo Uramoto</b>  |

with those policies. Specific activities include attending Board meetings, interviewing directors and examining documents containing important Board resolutions. The Audit & Supervisory Board members 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.

### Outside Directors and Outside Audit & Supervisory Board Members

Canon MJ has one outside director and three outside Audit & Supervisory Board members. We have not adopted a policy or criteria concerning the selection of outside directors and outside Audit & Supervisory Board members, who are independent from Canon MJ. However, the people that we appoint to these positions have extensive knowledge and are able to provide effective monitoring and supervision of management. Our outside director, who has experience as a university professor and official of an academic organization, has no direct interest in Canon MJ.

## 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<sup>1</sup> Expert Committee.

In July 2007, we established the BCP<sup>2</sup> 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 Selves 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 58.4% of Canon MJ stock (as of December 31, 2013). 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 2013, our purchases from Canon Inc. amounted to ¥242.2 billion (US\$2,306.3 million\*), or 66.0% 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 ¥105 to U.S.\$1, the prevailing exchange rate as of December 31, 2013.

# Financial Section

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# Ten-Year Consolidated Financial Summary

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

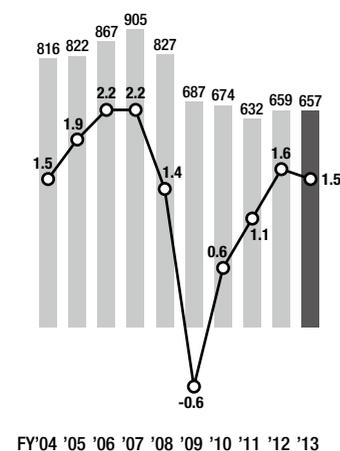
|  | Millions of yen |           |           |           |
|--|-----------------|-----------|-----------|-----------|
|  | 2013            | 2012      | 2011      | 2010      |
| <b>FOR THE YEAR:</b>                                     |                 |           |           |           |
| Net sales (Note 6)                                       | ¥ 657,216       | ¥ 659,218 | ¥ 632,419 | ¥ 674,159 |
| Operating income   | 17,013          | 16,802    | 8,442     | 7,736     |
| Income (loss) before income taxes and minority interests | 17,055          | 17,529    | 10,972    | 8,584     |
| Net income (loss)  | 10,168          | 10,579    | 6,764     | 3,724     |
| <b>AT YEAR-END:</b>                                      |                 |           |           |           |
| Total assets   | 467,076         | 462,574   | 447,765   | 448,592   |
| Total stockholders' equity (Note 5)                      | 256,795         | 253,862   | 250,671   | 246,680   |
| <b>CASH FLOWS:</b>                                       |                 |           |           |           |
| Cash flows from operating activities                     | 28,781          | 33,767    | 8,716     | 35,186    |
| Cash flows from investing activities                     | (25,757)        | (16,067)  | (12,108)  | (13,012)  |
| Cash flows from financing activities                     | (9,105)         | (11,813)  | (3,811)   | (8,171)   |
| Cash and cash equivalents                                | 102,183         | 108,260   | 102,373   | 109,575   |

Yen

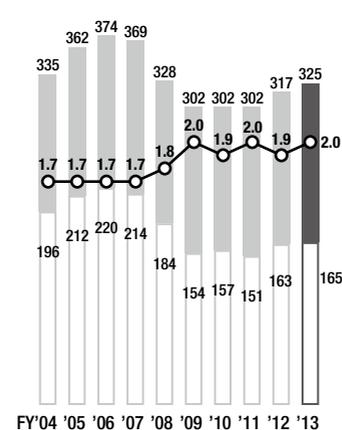
| <b>PER SHARE OF COMMON STOCK:</b> |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|
| Net income (loss) (Note 2)        | ¥ 76.67  | ¥ 77.45  | ¥ 49.30  | ¥ 26.70  |
| Cash dividends (Notes 3 and 4)    | 24.00    | 24.00    | 20.00    | 20.00    |
| Stockholders' equity (Note 5)     | 1,980.22 | 1,907.50 | 1,827.25 | 1,798.16 |

- Notes:** 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥105 to U.S.\$1, the prevailing exchange rate as of December 31, 2013.  
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.

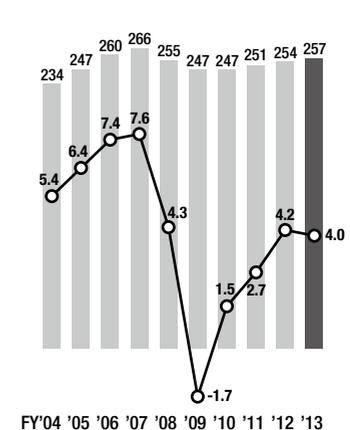
**Return on Sales (ROS)** ■ Net Sales  
(Billions of yen/%) ○ ROS



**Working Capital** ■ Current Assets  
(Billions of yen/Times) □ Current Liabilities  
○ Current Ratio



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



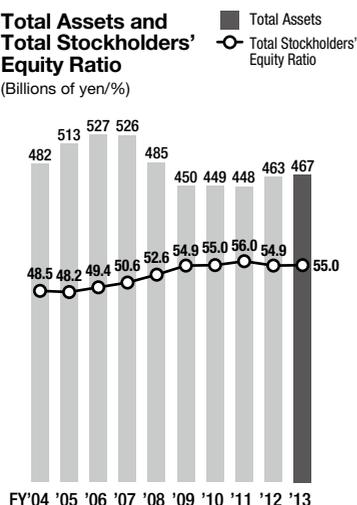
| Millions of yen |           |           |           |           |           | Thousands of U.S. dollars (Note 1) |
|-----------------|-----------|-----------|-----------|-----------|-----------|------------------------------------|
| 2009            | 2008      | 2007      | 2006      | 2005      | 2004      | 2013                               |
| ¥ 686,615       | ¥ 827,487 | ¥ 905,137 | ¥ 867,172 | ¥ 821,948 | ¥ 815,511 | <b>\$ 6,259,200</b>                |
| 6,297           | 25,416    | 36,886    | 33,919    | 29,723    | 29,274    | <b>162,029</b>                     |
| (595)           | 22,229    | 35,452    | 32,967    | 27,086    | 20,186    | <b>162,429</b>                     |
| (4,343)         | 11,186    | 20,033    | 18,807    | 15,358    | 12,364    | <b>96,838</b>                      |
| 449,607         | 484,937   | 526,125   | 526,578   | 513,335   | 482,337   | <b>4,448,343</b>                   |
| 246,829         | 255,220   | 266,086   | 260,367   | 247,244   | 234,158   | <b>2,433,886</b>                   |
| 18,144          | 41,122    | 47,214    | 18,094    | 36,985    | 22,053    | <b>274,105</b>                     |
| (25,834)        | (28,967)  | (21,912)  | (19,217)  | (17,887)  | (7,963)   | <b>(245,305)</b>                   |
| (4,324)         | (21,738)  | (16,345)  | (6,126)   | (4,311)   | (39,045)  | <b>(86,714)</b>                    |
| 95,575          | 107,589   | 117,206   | 108,248   | 115,504   | 98,844    | <b>973,171</b>                     |
| Yen             |           |           |           |           |           | U.S. dollars (Note 1)              |
| ¥ (31.62)       | ¥ 78.63   | ¥ 134.84  | ¥ 125.64  | ¥ 101.78  | ¥ 81.78   | <b>\$ 0.73</b>                     |
| 20.00           | 40.00     | 40.00     | 36.00     | 28.00     | 22.00     | <b>0.23</b>                        |
| 1,797.31        | 1,858.39  | 1,817.59  | 1,739.50  | 1,650.52  | 1,562.23  | <b>18.86</b>                       |

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.

6. Effective fiscal 2013, we have changed to an accounting method that deducts a portion of sales incentives (which had previously been accounted for under selling, general and administrative expenses) from net sales; therefore, the amount of net sales for fiscal 2012 and relevant key management indicators have been adjusted retroactively.

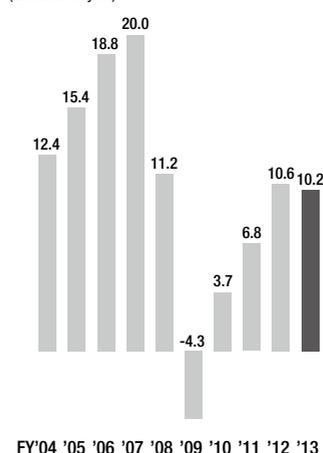
### Total Assets and Total Stockholders' Equity Ratio

(Billions of yen/%)



### Net Income (Loss)

(Billions of yen)



# Financial Review

## Business Performance

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### Net Sales

In the year ended December 31, 2013, consolidated net sales were mostly unchanged from the previous year, decreasing 0.3% to ¥657,216 million. Following a slow start in the first half, sales developed favorably and increased year on year in the second half.

### Segment Information

In the Business Solutions segment, overall shipments of multifunctional products (MFPs) showed growth above the industry average, and sales increased year on year. This is the result of aggressive efforts to increase sales of office MFPs, including the development of new customers, as well as efforts to promote orders for Canon and Océ commercial printers in the production MFP category. In the laser printer category, despite measures to increase sales focused primarily on A3 monochrome printers, sales decreased as a result of factors including major orders booked in the previous year. Nevertheless, we maintained our number-one share in units shipped. In addition, sales of toner cartridges decreased year on year for reasons including the non-recurrence of large purchases accompanying the major orders booked in the previous year.

Although demand for printing continued to rise, sales of maintenance services for office MFPs decreased due to falling unit prices. Sales at Canon System & Support Inc., a member of the Canon MJ group, exceeded the prior-year level on growth in units shipped, in part through the development of new customers, and favorable development of the IT Solutions business. Sales at SHOWA INFORMATION SYSTEMS, CO., LTD. also increased on a healthy increase in sales of mainstay production printers and strong sales of POP advertising production printers.

As a result, net sales in this segment decreased by 1.1% year on year to ¥327,264 million.

In the IT Solutions segment, sales from the SI service business increased year on year, boosted by higher orders for individual system development, especially from financial institutions. Sales from the IT infrastructure service business increased slightly on higher sales of cloud services, data center services, and other services. Sales of embedded software were lower, reflecting a decrease in orders from key

customers in the manufacturing industry. Sales in the IT products category increased substantially thanks to favorable performance of products for business PCs and strong sales of memory-related products.

Net sales in this segment increased by 8.6% year on year to ¥142,299 million.

In the Imaging Systems segment, sales of interchangeable-lens digital cameras increased substantially thanks to strong sales of entry-level models, mid-range models, and mirrorless cameras alike. In addition, we captured the top market share in all three categories: professional, mid-range, and entry-level. In the compact digital camera category, sales of premium models and entry-level models were strong. As a result, we captured the top market share by offering a balanced product line ranging from premium to entry-level products. Nevertheless, sales decreased from the previous year due to factors including market contraction. Full-year sales of inkjet printers decreased as a result of a slow start in the first half, despite strong second-half unit shipments that exceeded the first-half result. Sales of ink cartridges decreased, partly as a result of retailer inventory adjustments in the first half. Sales from the commercial imaging equipment category increased on solid performance of lenses for broadcasting and monitoring applications, the CINEMA EOS SYSTEM, and high-definition camcorders.

Net sales in this segment decreased by 0.1% year on year to ¥191,730 million.

In the Industrial Equipment segment, industrial equipment (semiconductor fabrication equipment, etc.) showed signs of a gradual recovery, such as second-half year-on-year sales increases for some products, such as inspection and measuring systems. Nevertheless, sales decreased due to the impact of stagnant semiconductor-related capital investment in Japan in the first half. Overall sales of medical equipment decreased. Sales from the healthcare category increased on strong performance from fully automatic packing machines and sterilizers. Sales from the medical imaging category decreased on lower sales of film and other consumables and the non-recurrence of large orders booked in the previous year, despite a substantial second-half increase in unit shipments of digital radiography systems.

As a result, net sales in this segment decreased by 14.9% year on year to ¥26,106 million.

## Income Analysis

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Consolidated net sales decreased by 0.3% year on year to ¥657,216 million. This reflects lower sales in the Business Solutions, Imaging Systems, and Industrial Equipment segments, despite being offset by higher sales in the IT Solutions segment.

Cost of sales decreased by ¥1,327 million, accompanying the sales decrease. Gross profit decreased by 0.3% to ¥220,210 million. Selling, general and administrative expenses decreased by 0.4% to ¥203,197 million as a result of factors including lower advertising expenses and sales promotion expenses. As a result, operating income increased by 1.3% year on year to ¥17,013 million.

In fiscal 2013, we recorded net other income of ¥42 million, compared with net other income of ¥727 million in the previous year. The difference was mainly due to special extra retirement payments of ¥597 million in fiscal 2013.

As a result, net income decreased by 3.9% year on year to ¥10,168 million. Net income per share decreased by ¥0.78 to ¥76.67.

## Financial Position

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Current assets increased by ¥8,330 million from the end of the previous year to ¥324,939 million. Increases of ¥5,048 million in notes and accounts receivable and ¥9,997 million in short-term loans receivable offset decreases of ¥6,077 million in cash and cash equivalents.

Fixed assets decreased by ¥3,828 million from the end of the previous year to ¥142,137 million. Decreases of ¥3,369 million in software and ¥1,511 million in deferred tax assets and decreases in other items offset an increase of ¥1,195 million in investments in securities.

Current liabilities increased by ¥1,517 million from the end of the previous year to ¥164,914 million. An increase of ¥4,337 million in notes and accounts payable and increases in other items offset a decrease of ¥2,125 million in accrued income taxes.

Long-term liabilities decreased by ¥3 million from the end of the previous year to ¥45,086 million due to decreases of ¥405 million in lease obligations and other items, which offset an increase of ¥433 million in the allowance for employees' retirement benefits.

Net assets increased by ¥2,988 million from the end of the previous year to ¥257,076 million as a result of factors including net income of ¥10,168 million, treasury stock acquisitions of ¥5,006 million, and dividend payments of ¥3,460 million. Total stockholders' equity ratio was 55.0%, an increase of 0.1 percentage point from the end of the previous year, while stockholders' equity per share increased by ¥72.72 to ¥1,980.22.

As a result, total assets increased by ¥4,502 million from the end of the previous year to ¥467,076 million.

## Cash Flows

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Cash and cash equivalents ("net cash") amounted to ¥102,183 million as of December 31, 2013, a decrease of ¥6,077 million from the end of the previous year.

Net cash provided by operating activities amounted to ¥28,781 million, compared with ¥33,767 million in the previous year. The change is mainly attributable to income before income taxes and minority interests of ¥17,055 million, depreciation of ¥17,448 million, and an increase of ¥4,192 million in accounts payable, partially offset by an increase of ¥4,730 million in accounts receivable and ¥8,417 million in income tax payments.

Net cash used in investing activities amounted to ¥25,757 million, compared with ¥16,067 million in the previous year. The change is mainly attributable to expenditure of ¥13,691 million for the acquisition of property, plant and equipment and a net increase of ¥9,998 million in short-term loans receivable.

Net cash used in financing activities amounted to ¥9,105 million, compared with ¥11,813 million in the previous year. The change is mainly attributable to payments of ¥5,006 million for the acquisition of treasury stock and dividend payments of ¥3,468 million.

## Consolidated Balance Sheets

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
December 31, 2013 and 2012

| ASSETS  | Millions of yen |           | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|-----------|---------------------------------------|
|   | 2013            | 2012      | 2013                                  |
| <b>CURRENT ASSETS:</b>                                |                 |           |                                       |
| Cash and cash equivalents (Notes 9 and 10)            | ¥ 102,183       | ¥ 108,260 | \$ 973,171                            |
| Notes and accounts receivable (Note 9)                | 132,697         | 127,649   | 1,263,781                             |
| Short-term investments in securities (Notes 9 and 10) | —               | 30        | —                                     |
| Inventories (Note 5)                                  | 28,234          | 28,827    | 268,895                               |
| Deferred tax assets (Note 12)                         | 5,089           | 4,709     | 48,467                                |
| Short-term loans receivable (Note 9)                  | 50,000          | 40,003    | 476,190                               |
| Other current assets                                  | 6,924           | 7,361     | 65,943                                |
| Allowance for doubtful receivables                    | (188)           | (230)     | (1,790)                               |
| Total current assets                                  | 324,939         | 316,609   | 3,094,657                             |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                 |                 |           |                                       |
| Land (Note 3)   | 36,013          | 36,342    | 342,981                               |
| Buildings and structures (Note 3)                     | 85,973          | 84,276    | 818,790                               |
| Machinery and vehicles (Note 8)                       | 160             | 167       | 1,524                                 |
| Furniture and fixtures (Note 8)                       | 19,917          | 19,641    | 189,686                               |
| Rental assets   | 27,601          | 25,302    | 262,867                               |
| Lease assets  | 1,852           | 2,308     | 17,638                                |
| Total   | 171,516         | 168,036   | 1,633,486                             |
| Accumulated depreciation                              | (71,832)        | (68,472)  | (684,114)                             |
| Net property, plant and equipment                     | 99,684          | 99,564    | 949,372                               |
| <b>INTANGIBLE ASSETS:</b>                             |                 |           |                                       |
| Goodwill (Note 2)                                     | 448             | 62        | 4,267                                 |
| Software (Note 8)                                     | 12,007          | 15,376    | 114,352                               |
| Lease assets  | 93              | 177       | 886                                   |
| Utilization rights                                    | 316             | 317       | 3,009                                 |
| Other intangible assets                               | 30              | 54        | 286                                   |
| Total intangible assets                               | 12,894          | 15,986    | 122,800                               |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                  |                 |           |                                       |
| Investments in securities (Notes 3, 9 and 10)         | 5,304           | 4,109     | 50,514                                |
| Long-term loans receivable                            | 12              | 24        | 114                                   |
| Lease deposits (Note 15)                              | 5,571           | 6,202     | 53,057                                |
| Deferred tax assets (Note 12)                         | 16,085          | 17,596    | 153,190                               |
| Other investments                                     | 2,981           | 2,985     | 28,391                                |
| Allowance for doubtful receivables                    | (394)           | (501)     | (3,752)                               |
| Total investments and other assets                    | 29,559          | 30,415    | 281,514                               |
| Total assets  | ¥ 467,076       | ¥ 462,574 | \$ 4,448,343                          |

|   | Millions of yen |             | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|-------------|---------------------------------------|
| <b>LIABILITIES AND NET ASSETS</b>                             | <b>2013</b>     | <b>2012</b> | <b>2013</b>                           |
| <b>CURRENT LIABILITIES:</b>                                   |                 |             |                                       |
| Notes and accounts payable (Notes 3 and 9)                    | ¥ 108,499       | ¥ 104,162   | \$ 1,033,324                          |
| Lease obligations (Note 16)                                   | 447             | 586         | 4,257                                 |
| Accrued income taxes (Note 12)                                | 2,997           | 5,122       | 28,543                                |
| Consumption taxes payable                                     | 2,965           | 2,680       | 28,238                                |
| Accrued expenses  | 24,976          | 25,029      | 237,867                               |
| Reserves  | 4,311           | 3,838       | 41,057                                |
| Other current liabilities                                     | 20,719          | 21,980      | 197,324                               |
| Total current liabilities                                     | 164,914         | 163,397     | 1,570,610                             |
| <b>LONG-TERM LIABILITIES:</b>                                 |                 |             |                                       |
| Long-term loans payable (Notes 3 and 16)                      | 74              | —           | 705                                   |
| Lease obligations (Note 16)                                   | 455             | 860         | 4,333                                 |
| Deferred tax liabilities (Note 12)                            | 579             | 570         | 5,514                                 |
| Deferred tax liabilities for land revaluation (Note 12)       | 31              | 31          | 295                                   |
| Allowance for employees' retirement benefits (Notes 2 and 11) | 38,234          | 37,801      | 364,133                               |
| Allowance for long-term continuous service rewards (Note 2)   | 933             | 901         | 8,886                                 |
| Allowance for directors' retirement benefits                  | —               | 1,046       | —                                     |
| Other long-term liabilities                                   | 4,780           | 3,880       | 45,524                                |
| Total long-term liabilities                                   | 45,086          | 45,089      | 429,390                               |
| <b>CONTINGENT LIABILITIES (Note 4)</b>                        |                 |             |                                       |
| <b>NET ASSETS (Note 2):</b>                                   |                 |             |                                       |
| <b>STOCKHOLDERS' EQUITY (Note 17):</b>                        |                 |             |                                       |
| Common stock:   |                 |             |                                       |
| Authorized—299,500,000 shares;                                |                 |             |                                       |
| Issued—151,079,972 shares in 2013 and 2012                    | 73,303          | 73,303      | 698,124                               |
| Capital surplus   | 82,820          | 82,820      | 788,762                               |
| Retained earnings   | 131,332         | 124,624     | 1,250,781                             |
| Treasury stock  | (31,897)        | (26,892)    | (303,781)                             |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>                 |                 |             |                                       |
| Net unrealized gain on available-for-sale securities          | 1,139           | 61          | 10,848                                |
| Foreign currency translation adjustments                      | 98              | (54)        | 933                                   |
| Total accumulated other comprehensive income                  | 1,237           | 7           | 11,781                                |
| <b>MINORITY INTERESTS</b>                                     |                 |             |                                       |
| Total net assets  | 257,076         | 254,088     | 2,448,343                             |
| Total liabilities and net assets                              | ¥ 467,076       | ¥ 462,574   | \$ 4,448,343                          |

• See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Years ended December 31, 2013 and 2012

|   | Millions of yen  |           | Thousands of<br>U.S. dollars (Note 1) |
|---|------------------|-----------|---------------------------------------|
|   | 2013             | 2012      | 2013                                  |
| <b>NET SALES</b>                                    | <b>¥ 657,216</b> | ¥ 659,218 | <b>\$ 6,259,200</b>                   |
| <b>COST OF SALES</b>                                | <b>437,006</b>   | 438,333   | <b>4,161,962</b>                      |
| Gross profit  | <b>220,210</b>   | 220,885   | <b>2,097,238</b>                      |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> | <b>203,197</b>   | 204,083   | <b>1,935,209</b>                      |
| Operating income                                    | <b>17,013</b>    | 16,802    | <b>162,029</b>                        |
| <b>OTHER INCOME (EXPENSES):</b>                     |                  |           |                                       |
| Interest and dividend income                        | <b>347</b>       | 382       | <b>3,305</b>                          |
| Interest expense                                    | <b>(31)</b>      | (76)      | <b>(295)</b>                          |
| Insurance income                                    | <b>648</b>       | 640       | <b>6,171</b>                          |
| Gain on sales of fixed assets                       | <b>26</b>        | 116       | <b>248</b>                            |
| Gain on negative goodwill                           | —                | 132       | —                                     |
| Loss on impairment of fixed assets                  | <b>(5)</b>       | (0)       | <b>(48)</b>                           |
| Gain on sales of investments in securities          | <b>603</b>       | 116       | <b>5,743</b>                          |
| Loss on sales and disposal of fixed assets          | <b>(639)</b>     | (518)     | <b>(6,086)</b>                        |
| Loss on devaluation of investments in securities    | —                | (39)      | —                                     |
| Expenses related to change of business name         | <b>(3)</b>       | (149)     | <b>(28)</b>                           |
| Loss on cancellation of lease contracts             | —                | (0)       | —                                     |
| Office transfer expenses                            | <b>(204)</b>     | (142)     | <b>(1,943)</b>                        |
| Special extra retirement payments                   | <b>(597)</b>     | —         | <b>(5,686)</b>                        |
| Other, net  | <b>(103)</b>     | 265       | <b>(981)</b>                          |
|   | <b>42</b>        | 727       | <b>400</b>                            |
| Income before income taxes and minority interests   | <b>17,055</b>    | 17,529    | <b>162,429</b>                        |
| <b>INCOME TAXES (Note 12):</b>                      |                  |           |                                       |
| Current   | <b>6,331</b>     | 5,890     | <b>60,295</b>                         |
| Deferred  | <b>518</b>       | 1,035     | <b>4,934</b>                          |
|   | <b>6,849</b>     | 6,925     | <b>65,229</b>                         |
| Income before minority interests                    | <b>10,206</b>    | 10,604    | <b>97,200</b>                         |
| <b>MINORITY INTERESTS</b>                           | <b>38</b>        | 25        | <b>362</b>                            |
| Net income  | <b>¥ 10,168</b>  | ¥ 10,579  | <b>\$ 96,838</b>                      |
|   |                  | Yen       | U.S. dollars (Note 1)                 |
| <b>PER SHARE OF COMMON STOCK (Note 2):</b>          |                  |           |                                       |
| Net income  | <b>¥ 76.67</b>   | ¥ 77.45   | <b>\$ 0.73</b>                        |
| Cash dividends applicable to the year               | <b>¥ 24.00</b>   | ¥ 24.00   | <b>\$ 0.23</b>                        |

• See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
 Years ended December 31, 2013 and 2012

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 2013            | 2012     | 2013                                  |
| <b>INCOME BEFORE MINORITY INTERESTS</b>              | <b>¥ 10,206</b> | ¥ 10,604 | <b>\$ 97,200</b>                      |
| <b>OTHER COMPREHENSIVE INCOME</b> (Note 6)           |                 |          |                                       |
| Net unrealized gain on available-for-sale securities | 1,078           | 126      | 10,267                                |
| Deferred gain on hedges                              | —               | 0        | —                                     |
| Foreign currency translation adjustments             | 168             | 85       | 1,600                                 |
| Total other comprehensive income                     | 1,246           | 211      | 11,867                                |
| <b>Comprehensive income</b>                          | <b>¥ 11,452</b> | ¥ 10,815 | <b>\$ 109,067</b>                     |
| <b>Comprehensive income attributable to</b>          |                 |          |                                       |
| Shareholders of Canon Marketing Japan Inc.           | ¥ 11,398        | ¥ 10,781 | \$ 108,552                            |
| Minority interests                                   | 54              | 34       | 515                                   |

• 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, 2013 and 2012

|                                     | Number of shares of common stock | Millions of yen      |                 |                   |                |   |  |                    |                  |
|-------------------------------------|----------------------------------|----------------------|-----------------|-------------------|----------------|---|--|--------------------|------------------|
|                                     |                                  | 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 |                    |                  |
| <b>BALANCE AT JANUARY 1, 2012</b>   | 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              |
| <b>BALANCE AT JANUARY 1, 2013</b>   | 151,079,972                      | ¥ 73,303             | ¥ 82,820        | ¥ 124,624         | ¥ (26,892)     | ¥ 61  | ¥ (54)                                   | ¥ 226              | ¥ 254,088        |
| Net income                          |                                  |                      |                 | 10,168            |                |   |  |                    | 10,168           |
| Cash dividends                      |                                  |                      |                 | (3,460)           |                |   |  |                    | (3,460)          |
| Purchase of treasury stock          |                                  |                      |                 |                   | (5,006)        |   |  |                    | (5,006)          |
| Disposition of treasury stock       |                                  |                      |                 | (0)               | 1              |   |  |                    | 1                |
| Other, net                          |                                  |                      |                 |                   |                | 1,078   | 152                                      | 55                 | 1,285            |
| <b>BALANCE AT DECEMBER 31, 2013</b> | 151,079,972                      | ¥ 73,303             | ¥ 82,820        | ¥ 131,332         | ¥ (31,897)     | ¥ 1,139   | ¥ 98                                     | ¥ 281              | ¥ 257,076        |

|                                     | 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 on available-for-sale securities | Foreign currency translation adjustment |                    |                  |
| <b>BALANCE AT JANUARY 1, 2013</b>   | \$ 698,124                         | \$ 788,762      | \$ 1,186,895      | \$ (256,114)   | \$ 581   | \$ (514)                                | \$ 2,152           | \$ 2,419,886     |
| Net income                          |                                    |                 | 96,838            |                |  |   |                    | 96,838           |
| Cash dividends                      |                                    |                 | (32,952)          |                |  |   |                    | (32,952)         |
| Purchase of treasury stock          |                                    |                 |                   | (47,676)       |  |   |                    | (47,676)         |
| Disposition of treasury stock       |                                    |                 |                   | (0)            | 9  |   |                    | 9                |
| Other, net                          |                                    |                 |                   |                | 10,267   | 1,447                                   | 524                | 12,238           |
| <b>BALANCE AT DECEMBER 31, 2013</b> | \$ 698,124                         | \$ 788,762      | \$ 1,250,781      | \$ (303,781)   | \$ 10,848  | \$ 933                                  | \$ 2,676           | \$ 2,448,343     |

• See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Years ended December 31, 2013 and 2012

|   | Millions of yen |           | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|-----------|---------------------------------------|
|   | 2013            | 2012      | 2013                                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                 |           |                                       |
| Income before income taxes and minority interests   | ¥ 17,055        | ¥ 17,529  | \$ 162,429                            |
| Adjustments for:  |                 |           |                                       |
| Depreciation and amortization   | 17,448          | 16,318    | 166,171                               |
| Loss on impairment of fixed assets  | 5               | 0         | 48                                    |
| Amortization of goodwill  | 53              | 462       | 505                                   |
| Increase (decrease) in allowance for doubtful receivables   | (150)           | 70        | (1,428)                               |
| Gain on negative goodwill   | —               | (132)     | —                                     |
| Increase in allowance for employees' retirement benefits  | 483             | 630       | 4,600                                 |
| Increase (decrease) in allowance for directors' retirement benefits, net                            | (1,046)         | 140       | (9,962)                               |
| Interest and dividend income  | (347)           | (382)     | (3,305)                               |
| Interest expense  | 31              | 76        | 295                                   |
| Loss on sales and retirement of property, plant and equipment, net                                  | 510             | 279       | 4,857                                 |
| Gain on sales of investments in securities  | (599)           | (110)     | (5,705)                               |
| Increase in notes and accounts receivable-trade   | (4,730)         | (4,689)   | (45,048)                              |
| Decrease (increase) in inventories  | 433             | (2,301)   | 4,124                                 |
| Increase in notes and accounts payable-trade  | 4,192           | 4,115     | 39,924                                |
| Other, net  | 3,541           | 3,963     | 33,724                                |
| Sub-total   | 36,879          | 35,968    | 351,229                               |
| Interest and dividends received   | 350             | 380       | 3,333                                 |
| Interest paid   | (31)            | (77)      | (295)                                 |
| Income taxes paid   | (8,417)         | (2,504)   | (80,162)                              |
| Net cash provided by operating activities   | 28,781          | 33,767    | 274,105                               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                 |           |                                       |
| Proceeds from sales of securities   | 30              | 20        | 285                                   |
| Payments for purchases of property, plant and equipment   | (13,691)        | (15,753)  | (130,391)                             |
| Proceeds from sales of property, plant and equipment  | 327             | 666       | 3,114                                 |
| Payments for purchases of intangible assets   | (3,513)         | (2,768)   | (33,457)                              |
| Payments for purchases of investments in securities   | (194)           | (15)      | (1,848)                               |
| Proceeds from sales of investments in securities  | 1,307           | 219       | 12,448                                |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation | 45              | —         | 429                                   |
| Decrease (increase) in short-term loans receivable, net   | (9,998)         | 28        | (95,219)                              |
| Decrease (increase) in time deposits, net   | 47              | (16)      | 448                                   |
| Other   | (117)           | 1,552     | (1,114)                               |
| Net cash used in investing activities   | (25,757)        | (16,067)  | (245,305)                             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                 |           |                                       |
| Decrease in short-term loans payable, net   | —               | (2,180)   | —                                     |
| Repayments of finance lease obligations   | (631)           | (618)     | (6,010)                               |
| Payments for purchases of treasury stock  | (5,006)         | (5,105)   | (47,676)                              |
| Dividends paid  | (3,468)         | (2,755)   | (33,028)                              |
| Other   | 0               | (1,155)   | 0                                     |
| Net cash used in financing activities   | (9,105)         | (11,813)  | (86,714)                              |
| Effect of exchange rate changes on cash and cash equivalents  | 4               | 0         | 38                                    |
| Net increase (decrease) in cash and cash equivalents  | (6,077)         | 5,887     | (57,876)                              |
| Cash and cash equivalents at beginning of year  | 108,260         | 102,373   | 1,031,047                             |
| Cash and cash equivalents at end of year  | ¥ 102,183       | ¥ 108,260 | \$ 973,171                            |

• See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## 01 | 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 ¥105=U.S.\$1, the rate prevailing at December 31, 2013. 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.

## 02 | Summary of Significant Accounting Policies

### (a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2013 include the accounts of the Company and all of its 30 (30 in 2012) 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 statutory income tax rate 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 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 subsidiaries 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.

**(o) 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.

**(p) Application of Consolidated Taxation System**

The Company and certain consolidated subsidiaries have adopted the consolidated taxation system.

**(q) 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.

**(r) Changes in Accounting Policies**

**<Change in Accounting Policies for Net Sales>**

In 2012 and previous years, the Company and its subsidiaries included a certain portion of sales promotion expenses in selling, general and administrative expenses, but starting in 2013 this amount is deducted from net sales, which will be presented as a net amount.

For the purpose of increasing its competitive position in the face of intensifying price competition in recent years, thereby leading to greater sales, the Company and its subsidiaries have implemented a new pricing policy for business partners and introduced a new incentive system starting in 2013. In light of this situation, the Company and its subsidiaries conducted a comprehensive review of trading activities, and as a result now consider sales promotion expenses, which are increasingly factored in when trading conditions are determined, as a component of the sales price. For these reasons, the Company and its subsidiaries changed the accounting policy and introduced a new accounting policy so that these transactions are more properly reflected in consolidated statements of income.

The change in accounting policy is applied retroactively, and the prior fiscal year consolidated financial statements are presented after retrospective application. As a result of this change, net sales and the selling, general and administrative expenses for the prior fiscal year are each ¥22,016 million less than before the retrospective application. For the year ended December 31, 2013, there is no effect on operating income and income before income taxes and minority interests.

**<Change in Depreciation Method>**

In conjunction with the revisions to the Corporation Tax Act of Japan, the Company and its domestic subsidiaries have changed their method of depreciation accounting applicable to property, plant and equipment acquired on or after January 1, 2013, in accordance with the revised provisions of the Act.

The effect of this change on operating income and income before income taxes and minority interests is minimal.

## 03 | Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2013 and 2012 were as follows:

(1) Pledged assets

|           | Millions of yen |         | Thousands of U.S. dollars (Note 1) |
|-----------|-----------------|---------|------------------------------------|
|           | 2013            | 2012    | 2013                               |
| Land      | ¥ 647           | ¥ 647   | \$ 6,162                           |
| Buildings | 435             | 451     | 4,143                              |
|           | ¥ 1,082         | ¥ 1,098 | \$ 10,305                          |

(2) Liabilities secured by the above assets

|                  | Millions of yen |       | Thousands of U.S. dollars (Note 1) |
|------------------|-----------------|-------|------------------------------------|
|                  | 2013            | 2012  | 2013                               |
| Accounts payable | ¥ 315           | ¥ 402 | \$ 3,000                           |
|                  | ¥ 315           | ¥ 402 | \$ 3,000                           |

## 04 | Contingent Liabilities

Contingent liabilities at December 31, 2013 and 2012 were as follows:

|   | Millions of yen |      | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------|------------------------------------|
|   | 2013            | 2012 | 2013                               |
| Joint and several guarantee on lease payment of two customers | ¥ 38            | ¥ 83 | \$ 362                             |
| Guarantees for employees' housing loans                       | ¥ 54            | ¥ 67 | \$ 514                             |

## 05 | Inventories

Inventories at December 31, 2013 and 2012 were composed of the following:

|                  | Millions of yen |          | Thousands of U.S. dollars (Note 1) |
|------------------|-----------------|----------|------------------------------------|
|                  | 2013            | 2012     | 2013                               |
| Merchandise      | ¥ 24,414        | ¥ 24,618 | \$ 232,514                         |
| Service parts    | 2,427           | 2,710    | 23,114                             |
| Work in progress | 578             | 575      | 5,505                              |
| Supplies         | 669             | 723      | 6,371                              |
| Other            | 146             | 201      | 1,391                              |
|                  | ¥ 28,234        | ¥ 28,827 | \$ 268,895                         |

**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, ¥24 million (\$229 thousand) for work in progress relates to software development contracts from which losses are expected and corresponds to the reserve for contract losses.

## 06 | Other Comprehensive Income

The following table shows reclassification adjustments for each component of other comprehensive income for the years ended December 31, 2013 and 2012

|  | Millions of yen |         |       |       | Thousands of U.S. dollars (Note 1) |           |
|--|-----------------|---------|-------|-------|------------------------------------|-----------|
|  | 2013            |         | 2012  |       | 2013                               |           |
| Net unrealized gain on available-for-sale securities |                 |         |       |       |                                    |           |
| Amount arising during the year                       | ¥ 2,217         |         | ¥ 179 |       | \$ 21,114                          |           |
| Reclassification adjustments                         | (564)           | 1,653   | (16)  | 163   | (5,371)                            | 15,743    |
| Deferred gain on hedges                              |                 |         |       |       |                                    |           |
| Amount arising during the year                       | —               |         | 0     |       | —                                  |           |
| Reclassification adjustments                         | —               | —       | —     | 0     | —                                  | —         |
| Foreign currency translation adjustments             |                 |         |       |       |                                    |           |
| Amount arising during the year                       | 168             | 168     | 85    | 85    | 1,600                              | 1,600     |
| Total other comprehensive income before tax effect   |                 | 1,821   |       | 248   |                                    | 17,343    |
| Tax effect   |                 | (575)   |       | (37)  |                                    | (5,476)   |
| Total other comprehensive income                     |                 | ¥ 1,246 |       | ¥ 211 |                                    | \$ 11,867 |

The following table shows tax effects for each component of other comprehensive income for the years ended December 31, 2013 and 2012

|  | Millions of yen |            |                   |                |            |                   |
|--|-----------------|------------|-------------------|----------------|------------|-------------------|
|  | 2013            |            |                   | 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 | ¥ 1,653         | ¥ (575)    | ¥ 1,078           | ¥ 163          | ¥ (37)     | ¥ 126             |
| Deferred gain on hedges                              | —               | —          | —                 | 0              | (0)        | 0                 |
| Foreign currency translation adjustments             | 168             | —          | 168               | 85             | —          | 85                |
| Total other comprehensive income                     | ¥ 1,821         | ¥ (575)    | ¥ 1,246           | ¥ 248          | ¥ (37)     | ¥ 211             |

|  | Thousands of U.S. dollars (Note 1) |            |                   |
|--|------------------------------------|------------|-------------------|
|  | 2013                               |            |                   |
|  | Pre-tax amount                     | Tax effect | Net-of-tax amount |
| Net unrealized gain on available-for-sale securities | \$ 15,743                          | \$ (5,476) | \$ 10,267         |
| Deferred gain on hedges                              | —                                  | —          | —                 |
| Foreign currency translation adjustments             | 1,600                              | —          | 1,600             |
| Total other comprehensive income                     | \$ 17,343                          | \$ (5,476) | \$ 11,867         |

# 07 | Consolidated Statements of Changes in Net Assets

## Current Fiscal Year (from January 1, 2013 to December 31, 2013)

### 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<br>(Thousands of shares) | Increase<br>(Thousands of shares) | Decrease<br>(Thousands of shares) | End of the current fiscal year<br>(Thousands of shares) |
|----------------|--|-----------------------------------|-----------------------------------|---|
| Issued stock   |  |                                   |                                   |   |
| Common stock   | 151,080  | —                                 | —                                 | 151,080   |
| Total          | 151,080  | —                                 | —                                 | 151,080   |
| Treasury stock |  |                                   |                                   |   |
| Common stock   | 17,993   | 3,407                             | 0                                 | 21,400  |
| Total          | 17,993   | 3,407                             | 0                                 | 21,400  |

**Notes:** 1. The increase of 3,407 thousand shares of treasury stock consists of an increase of 3,403 thousand shares due to the purchase through the market, and 4 thousand shares due to the purchase of fractional stock.

2. The decrease of 0 thousand shares of treasury stock mainly consists of 0 thousand shares due to the sale of fractional stock.

### 2. Matters regarding dividends

#### (1) Payment of dividends

| Resolution                    | Type of stock | Total dividends<br>(Millions of yen) | Dividend per share<br>(Yen) | Base date         | Date effective  |
|-------------------------------|---------------|--------------------------------------|-----------------------------|-------------------|-----------------|
| March 27, 2013                |               |                                      |                             |                   |                 |
| General stockholders' meeting | Common stock  | ¥ 1,863                              | ¥ 14                        | December 31, 2012 | March 28, 2013  |
| July 23, 2013                 |               |                                      |                             |                   |                 |
| Board of Directors' meeting   | Common stock  | ¥ 1,597                              | ¥ 12                        | June 30, 2013     | August 27, 2013 |

#### (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<br>the dividend | Total dividends<br>(Millions of yen) | Dividend per share<br>(Yen) | Base date         | Date effective |
|-------------------------------|---------------|-----------------------------------|--------------------------------------|-----------------------------|-------------------|----------------|
| March 27, 2014                |               |                                   |                                      |                             |                   |                |
| General stockholders' meeting | Common stock  | Retained earnings                 | ¥ 1,556                              | ¥ 12                        | December 31, 2013 | March 28, 2014 |

## Previous 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<br>(Thousands of shares) | Increase<br>(Thousands of shares) | Decrease<br>(Thousands of shares) | End of the current fiscal year<br>(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<br>(Millions of yen) | Dividend per share<br>(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<br>the dividend | Total dividends<br>(Millions of yen) | Dividend per share<br>(Yen) | Base date         | Date effective |
|-------------------------------|---------------|-----------------------------------|--------------------------------------|-----------------------------|-------------------|----------------|
| March 27, 2013                |               |                                   |                                      |                             |                   |                |
| General stockholders' meeting | Common stock  | Retained earnings                 | ¥ 1,863                              | ¥ 14                        | December 31, 2012 | March 28, 2013 |

## 08 | 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 ¥82 million (\$781 thousand) and ¥448 million for the years ended December 31, 2013 and 2012, respectively.

(As Lessee)

Future minimum lease payments subsequent to December 31, 2013 and 2012 are summarized as follows:

|                                | Millions of yen |       | Thousands of<br>U.S. dollars (Note 1) |
|--------------------------------|-----------------|-------|---------------------------------------|
|                                | 2013            | 2012  | 2013                                  |
| Future minimum lease payments: |                 |       |                                       |
| Within one year                | ¥ 15            | ¥ 84  | \$ 143                                |
| Thereafter                     | —               | 17    | —                                     |
|                                | ¥ 15            | ¥ 101 | \$ 143                                |

Future minimum lease payments included the following subleases:

|                                | Millions of yen |      | Thousands of<br>U.S. dollars (Note 1) |
|--------------------------------|-----------------|------|---------------------------------------|
|                                | 2013            | 2012 | 2013                                  |
| Future minimum lease payments: |                 |      |                                       |
| Within one year                | —               | ¥ 3  | —                                     |
| Thereafter                     | —               | —    | —                                     |
|                                | —               | ¥ 3  | —                                     |

The following pro forma amounts represent acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2013 and 2012, excluding subleases:

|  | Millions of yen |       | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|-------|---------------------------------------|
|  | 2013            | 2012  | 2013                                  |
| Acquisition cost:                          |                 |       |                                       |
| Machinery and vehicles                     | —               | ¥ 35  | —                                     |
| Furniture and fixtures                     | ¥ 210           | 814   | \$ 2,000                              |
| Software                                   | —               | 58    | —                                     |
|  | ¥ 210           | ¥ 907 | \$ 2,000                              |
| Accumulated depreciation and amortization: |                 |       |                                       |
| Machinery and vehicles                     | —               | ¥ 32  | —                                     |
| Furniture and fixtures                     | ¥ 195           | 723   | \$ 1,857                              |
| Software                                   | —               | 51    | —                                     |
|  | ¥ 195           | ¥ 806 | \$ 1,857                              |
| Net book value:                            |                 |       |                                       |
| Machinery and vehicles                     | —               | ¥ 3   | —                                     |
| Furniture and fixtures                     | ¥ 15            | 91    | \$ 143                                |
| Software                                   | —               | 7     | —                                     |
|  | ¥ 15            | ¥ 101 | \$ 143                                |

(As Lessor)

Future minimum lease payments, which consist of subleases subsequent to December 31, 2013 and 2012, are summarized as follows:

|                                | Millions of yen |      | Thousands of<br>U.S. dollars (Note 1) |
|--------------------------------|-----------------|------|---------------------------------------|
|                                | 2013            | 2012 | 2013                                  |
| Future minimum lease payments: |                 |      |                                       |
| Within one year                | —               | ¥ 3  | —                                     |
| Thereafter                     | —               | —    | —                                     |
|                                | —               | ¥ 3  | —                                     |

## 09 | Financial Instruments

### Current Fiscal Year (from January 1, 2013 to December 31, 2013) and Previous Fiscal Year (from January 1, 2012 to December 31, 2012)

#### 1. Information on financial instruments

##### (1) Policies for financial instruments

The Group limits its asset management to financial instruments characterized as very safe and believes that financing should mainly be conducted through the use of Group finances whenever necessary. Also, the Group does not enter into derivative transactions for trading 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.

##### (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, 2013 and 2012, 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 |            |            |
|--|-----------------|------------|------------|
|  | 2013            |            |            |
|  | Book value      | Fair value | Difference |
| (1) Cash and deposits  | ¥ 20,083        | ¥ 20,083   | —          |
| (2) Notes and accounts receivable                                      | 132,697         | 132,697    | —          |
| (3) Short-term investments in securities and investments in securities | 86,836          | 86,836     | —          |
| (4) Short-term loans receivable  | 50,000          | 50,000     | —          |
| Total assets   | ¥ 289,616       | ¥ 289,616  | —          |
| (5) Notes and accounts payable   | 108,499         | 108,499    | —          |
| Total liabilities  | ¥ 108,499       | ¥ 108,499  | —          |

|  | 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  | —          |

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) |              |            |
|--|------------------------------------|--------------|------------|
|  | 2013                               |              |            |
|  | Book value                         | Fair value   | Difference |
| (1) Cash and deposits  | \$ 191,267                         | \$ 191,267   | —          |
| (2) Notes and accounts receivable                                      | 1,263,781                          | 1,263,781    | —          |
| (3) Short-term investments in securities and investments in securities | 827,010                            | 827,010      | —          |
| (4) Short-term loans receivable  | 476,190                            | 476,190      | —          |
| Total assets   | \$ 2,758,248                       | \$ 2,758,248 | —          |
| (5) Notes and accounts payable   | 1,033,324                          | 1,033,324    | —          |
| Total liabilities  | \$ 1,033,324                       | \$ 1,033,324 | —          |

**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.

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

| Category                    | Millions of yen |       | Thousands of U.S. dollars (Note 1) |
|-----------------------------|-----------------|-------|------------------------------------|
|                             | 2013            | 2012  | 2013                               |
|                             | Book value      |       |                                    |
| Unlisted equity securities  | ¥ 327           | ¥ 289 | \$ 3,114                           |
| Investments in partnerships | ¥ 341           | ¥ 231 | \$ 3,248                           |

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, 2013 and 2012 is summarized as follows:

|  | Millions of yen   |                                     |                                       |                    |
|--|-------------------|-------------------------------------|---------------------------------------|--------------------|
|  | 2013              |                                     |                                       |                    |
|  | 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  | ¥ 20,083          | —                                   | —                                     | —                  |
| Notes and accounts receivable                                      | 132,697           | —                                   | —                                     | —                  |
| Short-term investments in securities and investments in securities |                   |                                     |                                       |                    |
| Held-to-maturity debt securities                                   |                   |                                     |                                       |                    |
| (1) Corporate bonds  | —                 | —                                   | —                                     | —                  |
| (2) Other  | 82,200            | —                                   | —                                     | —                  |
| Short-term loans receivable  | 50,000            | —                                   | —                                     | —                  |
| Total  | ¥ 284,980         | —                                   | —                                     | —                  |

|  | 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            | —                                   | —                                     | —                  |
| <b>Total</b>   | <b>¥ 276,089</b>  | <b>—</b>                            | <b>¥ 203</b>                          | <b>—</b>           |

|  | Thousands of U.S. dollars (Note 1) |                                     |                                       |                    |
|--|------------------------------------|-------------------------------------|---------------------------------------|--------------------|
|  | 2013                               |                                     |                                       |                    |
|  | 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  | \$ 191,267                         | —                                   | —                                     | —                  |
| Notes and accounts receivable                                      | 1,263,781                          | —                                   | —                                     | —                  |
| Short-term investments in securities and investments in securities |                                    |                                     |                                       |                    |
| Held-to-maturity debt securities                                   |                                    |                                     |                                       |                    |
| (1) Corporate bonds  | —                                  | —                                   | —                                     | —                  |
| (2) Other  | 782,857                            | —                                   | —                                     | —                  |
| Short-term loans receivable  | 476,190                            | —                                   | —                                     | —                  |
| <b>Total</b>   | <b>\$ 2,714,095</b>                | <b>—</b>                            | <b>—</b>                              | <b>—</b>           |

## 10 | Securities

Securities as of December 31, 2013 and 2012 were classified and included in the following accounts:

|                                      | Millions of yen |                 | Thousands of U.S. dollars (Note 1) |
|--------------------------------------|-----------------|-----------------|------------------------------------|
|                                      | 2013            | 2012            | 2013                               |
| Securities classified as:            |                 |                 |                                    |
| Available-for-sale:                  |                 |                 |                                    |
| Investments in securities            | ¥ 5,304         | ¥ 3,907         | \$ 50,514                          |
| Held-to-maturity:                    |                 |                 |                                    |
| Cash and cash equivalents            | 82,200          | 85,000          | 782,857                            |
| Short-term investments in securities | —               | 30              | —                                  |
| Investments in securities            | —               | 203             | —                                  |
|                                      | <b>82,200</b>   | <b>85,233</b>   | <b>782,857</b>                     |
|                                      | <b>¥ 87,504</b> | <b>¥ 89,140</b> | <b>\$ 833,371</b>                  |

The carrying amounts and aggregate fair values of investments in securities at December 31, 2013 and 2012 were as follows:

|                           | Millions of yen |                  |                   |            |
|---------------------------|-----------------|------------------|-------------------|------------|
|                           | 2013            |                  |                   |            |
|                           | Book value      | Unrealized gains | Unrealized losses | Fair value |
| Securities classified as: |                 |                  |                   |            |
| Held-to-maturity:         |                 |                  |                   |            |
| Corporate bonds           | —               | —                | —                 | —          |
| Other                     | —               | —                | —                 | —          |
|                           | <b>—</b>        | <b>—</b>         | <b>—</b>          | <b>—</b>   |

|                           | Millions of yen |                  |                   |            |
|---------------------------|-----------------|------------------|-------------------|------------|
|                           | 2013            |                  |                   |            |
|                           | Cost            | Unrealized gains | Unrealized losses | Fair value |
| Securities classified as: |                 |                  |                   |            |
| Available-for-sale:       |                 |                  |                   |            |
| Equity securities         | ¥ 3,030         | ¥ 1,712          | ¥ (117)           | ¥ 4,625    |
| Other                     | 11              | 0                | —                 | 11         |
|                           | ¥ 3,041         | ¥ 1,712          | ¥ (117)           | ¥ 4,636    |

|                           | 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    |

|                           | Thousands of U.S. dollars (Note 1) |                  |                   |            |
|---------------------------|------------------------------------|------------------|-------------------|------------|
|                           | 2013                               |                  |                   |            |
|                           | Book value                         | Unrealized gains | Unrealized losses | Fair value |
| Securities classified as: |                                    |                  |                   |            |
| Held-to-maturity:         |                                    |                  |                   |            |
| Corporate bonds           | —                                  | —                | —                 | —          |
| Other                     | —                                  | —                | —                 | —          |
|                           | —                                  | —                | —                 | —          |

|                           | Thousands of U.S. dollars (Note 1) |                  |                   |            |
|---------------------------|------------------------------------|------------------|-------------------|------------|
|                           | 2013                               |                  |                   |            |
|                           | Cost                               | Unrealized gains | Unrealized losses | Fair value |
| Securities classified as: |                                    |                  |                   |            |
| Available-for-sale:       |                                    |                  |                   |            |
| Equity securities         | \$ 28,857                          | \$ 16,304        | \$ (1,114)        | \$ 44,047  |
| Other                     | 105                                | 0                | —                 | 105        |
|                           | \$ 28,962                          | \$ 16,304        | \$ (1,114)        | \$ 44,152  |

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2013 and 2012 were as follows:

|  | Millions of yen     |          | Thousands of U.S. dollars (Note 1) |
|--|---------------------|----------|------------------------------------|
|  | 2013                | 2012     | 2013                               |
|  | Available-for-sale: |          |                                    |
| Equity securities                      | ¥ 327               | ¥ 289    | \$ 3,114                           |
| Investments in investment partnerships | 341                 | 231      | 3,248                              |
| Held-to-maturity:                      |                     |          |                                    |
| Certificates of deposit                | 82,200              | 85,000   | 782,857                            |
|  | ¥ 82,868            | ¥ 85,520 | \$ 789,219                         |

# 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 and lump-sum severance payment plans.

The liability for employees' retirement benefits as of December 31, 2013 and 2012 consisted of the following:

|  | Millions of yen |           | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-----------|------------------------------------|
|  | 2013            | 2012      | 2013                               |
| Projected benefit obligation                 | ¥ 187,143       | ¥ 179,479 | \$ 1,782,314                       |
| Fair value of plan assets                    | (154,829)       | (134,525) | (1,474,562)                        |
| Unrecognized actuarial loss                  | (10,941)        | (28,731)  | (104,200)                          |
| Unrecognized prior service cost              | 16,842          | 21,491    | 160,400                            |
| Prepaid pension cost                         | 19              | 87        | 181                                |
| Allowance for employees' retirement benefits | ¥ 38,234        | ¥ 37,801  | \$ 364,133                         |

The components of net periodic benefit costs for the years ended December 31, 2013 and 2012 were as follows:

|                                    | Millions of yen |         | Thousands of U.S. dollars (Note 1) |
|------------------------------------|-----------------|---------|------------------------------------|
|                                    | 2013            | 2012    | 2013                               |
| Service cost                       | ¥ 6,832         | ¥ 6,790 | \$ 65,067                          |
| Interest cost                      | 3,147           | 3,195   | 29,971                             |
| Expected return on plan assets     | (3,739)         | (3,411) | (35,610)                           |
| Amortization of prior service cost | (4,649)         | (3,784) | (44,276)                           |
| Amortization of actuarial loss     | 4,863           | 4,549   | 46,314                             |
| Other                              | 1,389           | 1,409   | 13,229                             |
| Net periodic benefit costs         | ¥ 7,843         | ¥ 8,748 | \$ 74,695                          |

Assumptions used in accounting for the above plans for the years ended December 31, 2013 and 2012 were principally as follows:

|   | 2013       | 2012       |
|---|------------|------------|
| Discount rate                             | 1.4 - 2.0% | 1.2 - 2.0% |
| Expected rates of return on plan assets   | 1.0 - 3.0% | 1.0 - 3.0% |
| Amortization period of prior service cost | 5-13 years | 5-13 years |
| Recognition period of actuarial loss      | 5-13 years | 5-13 years |

## 12 | Income Taxes

The statutory income tax rates were approximately 38.0% and 40.0% for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, the difference between the statutory income tax rate (38.0%) and the effective income tax rate following the adoption of tax-effect accounting (40.2%) was 2.2 percentage points. The effective income tax rate for the year ended December 31, 2013, differed from the statutory income tax rate following the adoption of tax-effect accounting for the reasons outlined in the table below.

Because the difference between the statutory income tax rate and the effective income tax rate for the year ended December 31, 2012 is not material, the tax reconciliation for 2012 is not disclosed.

|  | 2013   |
|--|--------|
| Statutory income tax rate  | 38.0 % |
| Entertainment and other expenses permanently not deductible for tax purposes | 2.0 %  |
| Per-capita levy of inhabitant's taxes  | 2.1 %  |
| Valuation allowance  | (2.0)% |
| Dividend income not taxable  | (0.5)% |
| Other  | 0.6 %  |
| Effective income tax rate following the adoption of tax-effect accounting    | 40.2 % |

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2013 and 2012, were as follows:

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 2013            | 2012     | 2013                                  |
| <b>DEFERRED TAX ASSETS:</b>                          |                 |          |                                       |
| Loss on disposal and devaluation of inventories      | ¥ 642           | ¥ 641    | \$ 6,114                              |
| Accrued business tax and business office tax         | 504             | 660      | 4,800                                 |
| Accrued bonuses to employees                         | 1,491           | 1,252    | 14,200                                |
| Excess amortization of software                      | 2,563           | 3,580    | 24,410                                |
| Loss on impairment of fixed assets                   | 261             | 309      | 2,486                                 |
| Excess depreciation of fixed assets                  | 497             | 526      | 4,733                                 |
| Allowance for doubtful receivables                   | 46              | 64       | 438                                   |
| Allowance for employees' retirement benefits         | 13,653          | 13,517   | 130,029                               |
| Loss on devaluation of investments in securities     | 695             | 702      | 6,619                                 |
| Loss carried forward                                 | 2,129           | 3,129    | 20,276                                |
| Other  | 4,390           | 4,322    | 41,809                                |
| Gross deferred tax assets                            | 26,871          | 28,702   | 255,914                               |
| Less: valuation allowance                            | (3,872)         | (4,987)  | (36,876)                              |
| Total deferred tax assets                            | ¥ 22,999        | ¥ 23,715 | \$ 219,038                            |
| <b>DEFERRED TAX LIABILITIES:</b>                     |                 |          |                                       |
| Net unrealized gain on available-for-sale securities | ¥ 539           | ¥ 98     | \$ 5,124                              |
| Deferred capital gain                                | 1,684           | 1,691    | 16,038                                |
| Other  | 212             | 222      | 2,028                                 |
| Total deferred tax liabilities                       | ¥ 2,435         | ¥ 2,011  | \$ 23,190                             |
| Net deferred tax assets                              | ¥ 20,595        | ¥ 21,704 | \$ 196,143                            |
| Deferred tax liabilities for land revaluation        | ¥ 31            | ¥ 31     | \$ 295                                |

# 13 | Segment Information

## 1. Segment Information

### (1) Description of Reportable Segments

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

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

The “Consumer Imaging” segment has been renamed the “Imaging Systems” segment.

This change in segment description has no impact on any financial information of this segment.

### Major companies and organizations in each segment

| Reportable Segments  | Major companies / organizations   |
|----------------------|---|
| Business Solutions   | Canon Marketing Japan Inc.<br>Business Solutions Company<br>Canon System & Support Inc.<br>SHOWA INFORMATION SYSTEMS CO., LTD.<br>OCE-JAPAN CORPORATION<br>Canon Print Square Inc.                  |
| IT Solutions         | Canon Marketing Japan Inc.<br>IT Product Promotion Headquarters<br>Canon MJ IT Group Holdings Inc.<br>Canon IT Solutions Inc.<br>Canon Software Inc.<br>Edifist Learning Inc.<br>12 other companies |
| Imaging Systems      | Canon Marketing Japan Inc.<br>Imaging System Company<br>Canon Customer Support Inc.   |
| Industrial Equipment | Canon Marketing Japan Inc.<br>Industrial Equipment-Medical Equipment, Business<br>Canon Lifecare Solutions Inc.<br>Canon Advanced Technologies Taiwan Inc.<br>1 other company                       |

### 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  |
| Imaging Systems      | 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, 2013 and 2012 was as follows:

| Year ended or as of December 31,   | Millions of yen     |                 |                      |           |          |           |             |              |
|--|---------------------|-----------------|----------------------|-----------|----------|-----------|-------------|--------------|
|  | 2013                |                 |                      |           |          |           |             |              |
|  | Reportable Segments |                 |                      |           | Other    | Total     | Adjustments | Consolidated |
| Business Solutions   | IT Solutions        | Imaging Systems | Industrial Equipment |           |          |           |             |              |
| Net sales:   |                     |                 |                      |           |          |           |             |              |
| External customers   | ¥ 327,264           | ¥ 112,049       | ¥ 191,730            | ¥ 26,106  | ¥ 67     | ¥ 657,216 | —           | ¥ 657,216    |
| Intersegment   | —                   | 30,250          | —                    | —         | —        | 30,250    | ¥ (30,250)  | —            |
| Total  | ¥ 327,264           | ¥ 142,299       | ¥ 191,730            | ¥ 26,106  | ¥ 67     | ¥ 687,466 | ¥ (30,250)  | ¥ 657,216    |
| Segment income (loss)  | ¥ 5,535             | ¥ 387           | ¥ 12,491             | ¥ (1,765) | ¥ 365    | ¥ 17,013  | —           | ¥ 17,013     |
| Segment assets   | ¥ 135,459           | ¥ 66,660        | ¥ 81,881             | ¥ 19,075  | ¥ 11,089 | ¥ 314,164 | ¥ 152,912   | ¥ 467,076    |
| Other items:   |                     |                 |                      |           |          |           |             |              |
| Depreciation and amortization  | 10,812              | 3,186           | 2,811                | 461       | 178      | 17,448    | —           | 17,448       |
| Amortization of goodwill   | —                   | 53              | —                    | —         | —        | 53        | —           | 53           |
| Changes in the amount of property, plant and equipment and intangible assets | 9,285               | 2,926           | 1,654                | 540       | 12       | 14,417    | —           | 14,417       |

- 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 ¥152,912 million (\$1,456,305 thousand).  
3. Segment income (loss) corresponds to operating income stated on the consolidated statement of income.  
4. Starting in 2013, certain promotion expenses that were previously included in selling, general and administrative expenses are deducted from net sales in order to present them on a net basis. As a result of the retrospective reclassification for the year ended December 31, 2012, selling, general and administrative expenses decreased by ¥13,080 million in the Business Solutions segment, by ¥304 million in the IT Solutions segment, by ¥8,615 million in the Imaging Systems segment, by ¥17 million in the Industrial Equipment segment and ¥0 million in the other segment from the amounts before the reclassification. Nonetheless, such decreases do not have an effect on segment income (loss).

| Year ended or as of December 31,   | Millions of yen     |                 |                      |           |          |           |             |              |
|--|---------------------|-----------------|----------------------|-----------|----------|-----------|-------------|--------------|
|  | 2012                |                 |                      |           |          |           |             |              |
|  | Reportable Segments |                 |                      |           | Other    | Total     | Adjustments | Consolidated |
| Business Solutions   | IT Solutions        | Imaging Systems | Industrial Equipment |           |          |           |             |              |
| Net sales:   |                     |                 |                      |           |          |           |             |              |
| External customers   | ¥ 330,920           | ¥ 105,418       | ¥ 192,003            | ¥ 30,673  | ¥ 204    | ¥ 659,218 | —           | ¥ 659,218    |
| Intersegment   | —                   | 25,581          | —                    | —         | —        | 25,581    | ¥ (25,581)  | —            |
| Total  | ¥ 330,920           | ¥ 130,999       | ¥ 192,003            | ¥ 30,673  | ¥ 204    | ¥ 684,799 | ¥ (25,581)  | ¥ 659,218    |
| 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.

|  | Thousands of U.S. dollars (Note 1) |              |                |                      |            |              |              |              |
|--|------------------------------------|--------------|----------------|----------------------|------------|--------------|--------------|--------------|
| Year ended or as of December 31,   | 2013                               |              |                |                      |            |              |              |              |
|  | Reportable Segments                |              |                |                      | Other      | Total        | Adjustments  | Consolidated |
|  | Business Solutions                 | IT Solutions | Imaging System | Industrial Equipment |            |              |              |              |
| Net sales:   |                                    |              |                |                      |            |              |              |              |
| External customers   | \$ 3,116,800                       | \$ 1,067,133 | \$ 1,826,000   | \$ 248,629           | \$ 638     | \$ 6,259,200 | —            | \$ 6,259,200 |
| Intersegment   | —                                  | 288,095      | —              | —                    | —          | 288,095      | \$ (288,095) | —            |
| Total  | \$ 3,116,800                       | \$ 1,355,228 | \$ 1,826,000   | \$ 248,629           | \$ 638     | \$ 6,547,295 | \$ (288,095) | \$ 6,259,200 |
| Segment income (loss)  | \$ 52,714                          | \$ 3,686     | \$ 118,962     | \$ (16,809)          | \$ 3,476   | \$ 162,029   | —            | \$ 162,029   |
| Segment assets   | \$ 1,290,086                       | \$ 634,857   | \$ 779,819     | \$ 181,667           | \$ 105,609 | \$ 2,992,038 | \$ 1,456,305 | \$ 4,448,343 |
| Other items:   |                                    |              |                |                      |            |              |              |              |
| Depreciation and amortization  | 102,971                            | 30,343       | 26,771         | 4,390                | 1,695      | 16,617       | —            | 166,171      |
| Amortization of goodwill   | —                                  | 505          | —              | —                    | —          | 505          | —            | 505          |
| Changes in the amount of property, plant and equipment and intangible assets | 88,429                             | 27,867       | 15,752         | 5,143                | 114        | 137,305      | —            | 137,305      |

## 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, | 2013                |              |                |                      |       |       |             |              |
|                         | Reportable Segments |              |                |                      | Other | Total | Adjustments | Consolidated |
|                         | Business Solutions  | IT Solutions | Imaging System | Industrial Equipment |       |       |             |              |
| Impairment loss         | —                   | ¥ 0          | —              | ¥ 5                  | —     | ¥ 5   | —           | ¥ 5          |

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

|                         | Thousands of U.S. dollars (Note 1) |              |                |                      |       |       |             |              |
|-------------------------|------------------------------------|--------------|----------------|----------------------|-------|-------|-------------|--------------|
| Year ended December 31, | 2013                               |              |                |                      |       |       |             |              |
|                         | Reportable Segments                |              |                |                      | Other | Total | Adjustments | Consolidated |
|                         | Business Solutions                 | IT Solutions | Imaging System | Industrial Equipment |       |       |             |              |
| Impairment loss         | —                                  | \$ 0         | —              | \$ 48                | —     | \$ 48 | —           | \$ 48        |

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

| Year ended or as of December 31, | Millions of yen     |                |                      |   |       |       |             |              |
|----------------------------------|---------------------|----------------|----------------------|---|-------|-------|-------------|--------------|
|                                  | 2013                |                |                      |   |       |       |             |              |
|                                  | Reportable Segments |                |                      |   | Other | Total | Adjustments | Consolidated |
| Business Solutions               | IT Solutions        | Imaging System | Industrial Equipment |   |       |       |             |              |
| Amortization of goodwill         | —                   | ¥ 53           | —                    | — | —     | ¥ 53  | —           | ¥ 53         |
| Goodwill at December 31, 2013    | —                   | ¥ 448          | —                    | — | —     | ¥ 448 | —           | ¥ 448        |

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

| Year ended or as of December 31, | Thousands of U.S. dollars (Note 1) |                |                      |   |       |          |             |              |
|----------------------------------|------------------------------------|----------------|----------------------|---|-------|----------|-------------|--------------|
|                                  | 2013                               |                |                      |   |       |          |             |              |
|                                  | Reportable Segments                |                |                      |   | Other | Total    | Adjustments | Consolidated |
| Business Solutions               | IT Solutions                       | Imaging System | Industrial Equipment |   |       |          |             |              |
| Amortization of goodwill         | —                                  | \$ 505         | —                    | — | —     | \$ 505   | —           | \$ 505       |
| Goodwill at December 31, 2013    | —                                  | \$ 4,267       | —                    | — | —     | \$ 4,267 | —           | \$ 4,267     |

## 14 | Related Party Transactions

Current Fiscal Year (from January 1, 2013 to December 31, 2013)

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)            | Accounts  | 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 office equipment, imaging system equipment, and industrial equipment | (Ownership) Direct 58.5% Indirect 0.0%                 | Two hold concurrent positions              | Manufacture of products sold by Canon MJ | Operating transactions     | Purchases of products                           | ¥ 242,165 | Accounts payable                                | ¥ 76,241 |
|                |                       |                |   |  |  |  |  |                            | Sales of office equipment and consumables, etc. | ¥ 4,284   | Accounts receivable and others                  | ¥ 2,785  |
|                |                       |                |   |  |  |  |  | Non-operating transactions | Loans of capital                                | ¥ 50,000  | Short-term loans                                | ¥ 50,000 |

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.

- 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.
- Sales of office equipment and consumables, etc. are subject to similar conditions as general transactions.
- 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, 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) | Accounts                       | 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 | 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                                |

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.

- 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.
- Sales of business equipment and consumables, etc. are subject to similar conditions as general transactions.
- With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

## 15 | Asset Retirement Obligations

### Current Fiscal Year (from January 1, 2013 to December 31, 2013)

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, 2013 includes ¥1,900 million (\$18,095 thousand) considered uncollectible.

### Previous 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 considered uncollectible.

## 16 | Lease Obligations, Long-Term Loans Payable and Deposits

Lease obligations, long-term loans payable and deposits at December 31, 2013 and 2012 consisted of the following:

|   | Average interest rate | Millions of yen |         | Thousands of U.S. dollars (Note 1) |
|---|-----------------------|-----------------|---------|------------------------------------|
|   |                       | 2013            | 2012    | 2013                               |
| Lease obligations                                   |                       |                 |         |                                    |
| Current portion of lease obligations                |                       | ¥ 447           | ¥ 586   | \$ 4,257                           |
| Lease obligations (excluding current portion)       |                       | 455             | 860     | 4,333                              |
|   |                       | 902             | 1,446   | 8,590                              |
| Long-term loans payable (excluding current portion) | 6.2%                  | 74              | —       | 705                                |
| Deposits  | 0.0%                  | 3,603           | 3,508   | 34,314                             |
|   |                       | ¥ 4,579         | ¥ 4,954 | \$ 43,609                          |

## 17 | 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 ShinNihon LLC  
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2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo, Japan 100-0011

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Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2013, 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, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

We draw attention to Note 2 (r) to the consolidated financial statements, which states that the Company and its subsidiaries changed their accounting policy for certain sales promotion expenses from including them in selling, general and administrative expenses to deducting them from net sales effective the year ended December 31, 2013. Our opinion is not qualified in respect of this matter.

### *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, 2014  
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: 18,409  
Non-consolidated: 5,480  
(As of December 31, 2013)

## Main Locations of Operations

Headquarters, Makuhari office and branches (Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)  
(As of April 1, 2014)

## Major Stockholders

| Name of stockholder  | Number of shares held (thousands) | Percentage of ownership (%) |
|--|-----------------------------------|-----------------------------|
| Canon Inc.   | 75,708                            | 50.11                       |
| Canon Marketing Japan Inc.   | 21,400                            | 14.16                       |
| Canon Marketing Japan Group Employee Stock Ownership Association         | 7,161                             | 4.74                        |
| THE CHASE MANHATTAN BANK, N. A. LONDON SECS LENDING OMNIBUS ACCOUNT      | 1,775                             | 1.17                        |
| The Master Trust Bank of Japan, Ltd.                                     | 1,579                             | 1.05                        |
| Japan Trustee Services Bank, Ltd. (Trust Account)                        | 1,539                             | 1.02                        |
| The Bank of New York Mellon SA/NV 10                                     | 1,300                             | 0.86                        |
| Canon Marketing Japan Group Business Partner Stock Ownership Association | 1,288                             | 0.85                        |
| State Street Bank and Trust Company                                      | 1,183                             | 0.78                        |
| 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 2014–2016)
- 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/>



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