

**Canon**



# **FOCUS**

**ANNUAL REPORT**  
**2007**

for the year ended December 31, 2007

**Canon Marketing Japan Inc.**

# MANAGING ALL ASPECTS OF THE MARKETING OF CANON PRODUCTS IN JAPAN

Exclusively focused on the Japanese market, Canon Marketing Japan Inc. (Canon MJ) and its 22 subsidiaries market products and services in three business segments—Business Solutions, Consumer Equipment and Industrial Equipment—with operations covering sales, service, support and software development.

The Company’s key strengths are its nationwide network and its exclusive right to sell products made by Canon, a global brand trusted by consumers for four decades, in Japan.

Canon MJ is now actively expanding its activities beyond sales of Canon products into fields where it can take advantage of its unique marketing capabilities, such as solutions and support services.

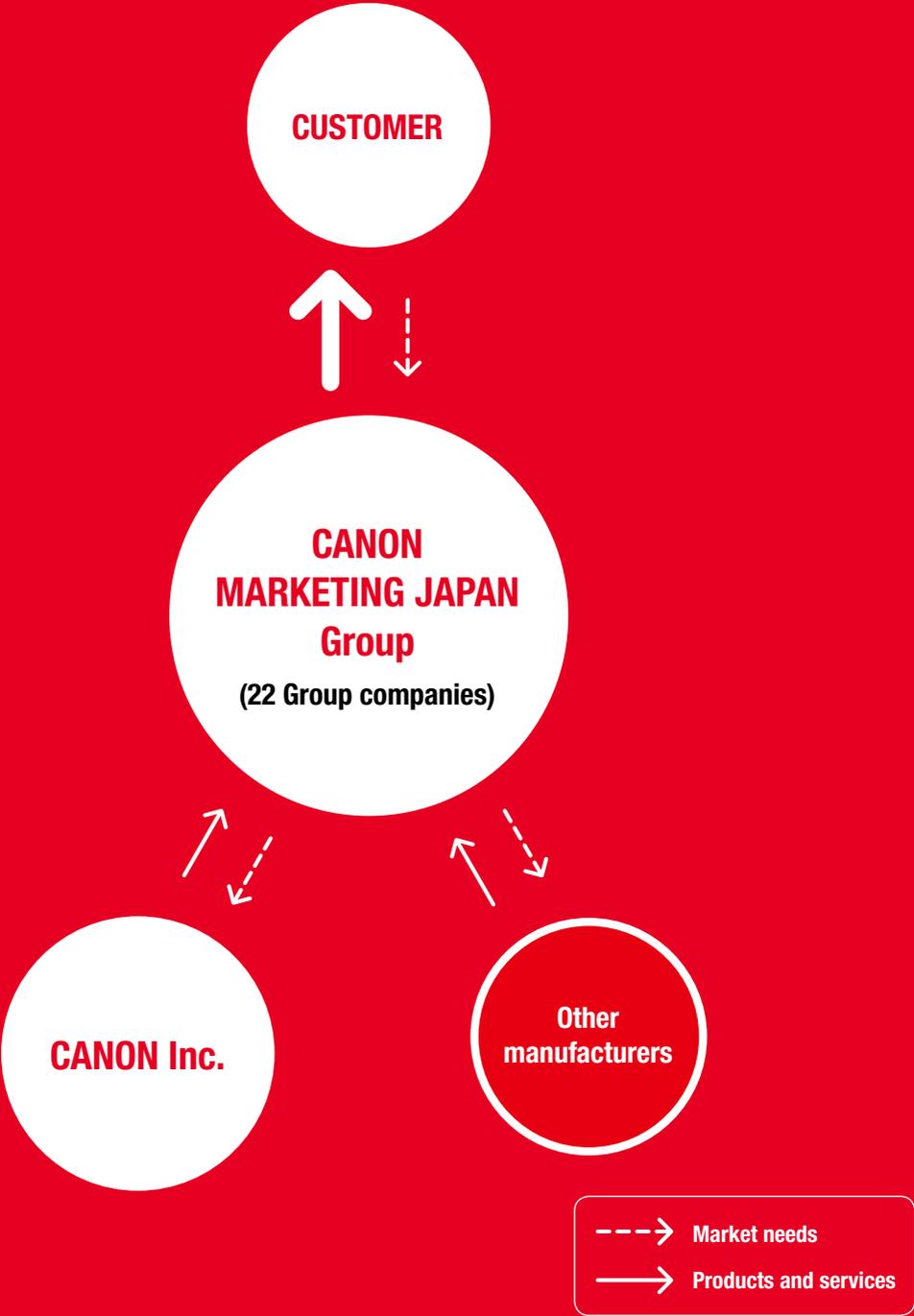
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### Disclaimer Regarding Forward-Looking Statements

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.

# BUSINESS MODEL



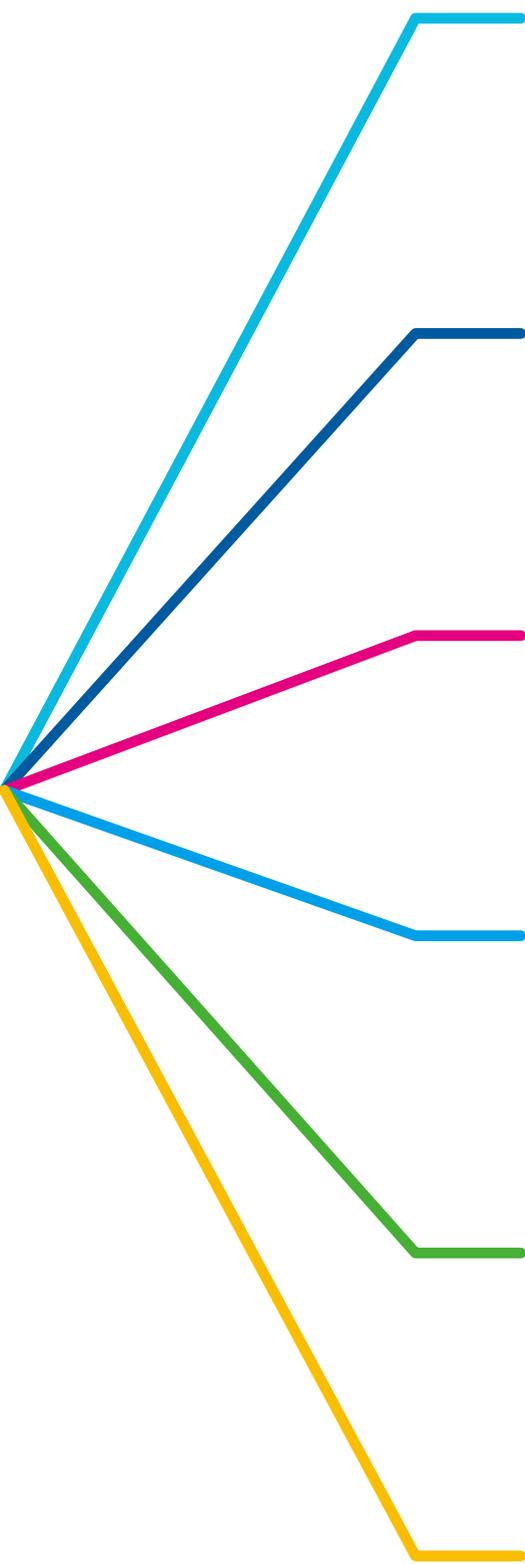
## AN INDEPENDENT LISTED COMPANY AND A CORE MEMBER OF THE GLOBAL CANON GROUP

As a Canon Inc. subsidiary positioned between Canon Inc. and the Japanese market, Canon MJ's role is to support product development by feeding back accurate information about market needs, while supplying consumers with products that meet those needs.

Canon Inc. is responsible for R&D and production, while Canon MJ handles the marketing in Japan. Canon-branded products account for most of Canon MJ's inventory acquisitions: 67.4% in fiscal 2007. Other products are sourced from partner companies.

**VISION**

**FOCUSED ON**



# THE CUSTOMER

Our basic approach to business is expressed in the phrase “customer focus.” The entire Canon MJ Group is dedicated to understanding customer needs from the customer’s perspective.

# VALUE

Our continuing mission is to supply products and services that bring innovative value to various facets of life, work and society.

# GROWTH

Sound corporate growth is vital to the continuation of our business activities. We see future growth as our most important management priority.

# COMPETITIVENESS

To achieve sustained growth, we must ensure that our products are highly competitive and can gain the largest shares in their markets. All of our energy is focused on this goal.

# RESPONSIBILITY

Harmonious coexistence, *kyosei*, is the Canon Group’s guiding corporate philosophy. We regard harmony with our stakeholders, society and the natural environment as a fundamental aspect of our corporate responsibilities.

# EXCELLENCE

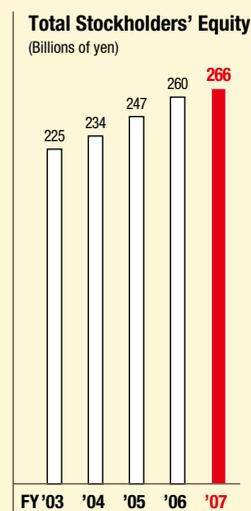
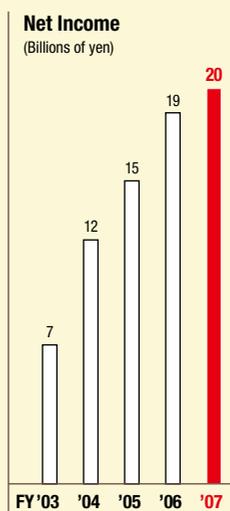
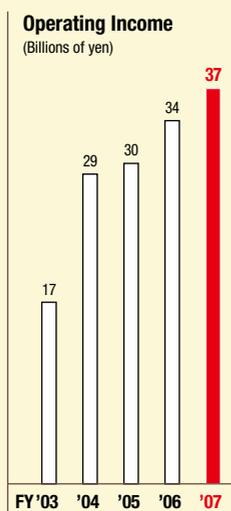
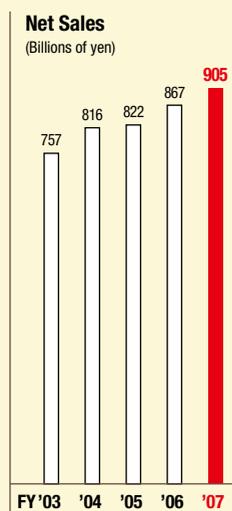
The Canon MJ Group sees marketing excellence as the path to realizing its “customer focus” philosophy from a global perspective.

# FINANCIAL HIGHLIGHTS

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
<b>FOR THE YEAR:</b>				
Net sales	¥ 905,137	¥ 867,172	¥ 821,948	\$ 7,939,798
Operating income	36,886	33,919	29,723	323,561
Income before income taxes and minority interests	35,452	32,967	27,086	310,982
Net income	20,033	18,807	15,358	175,728
<b>AT YEAR-END:</b>				
Total assets	526,125	526,578	513,335	4,615,132
Total stockholders' equity (Note 5)	266,086	260,367	247,244	2,334,088
	Yen			U.S. dollars (Note 1)
<b>PER SHARE OF COMMON STOCK:</b>				
Net income (Note 2)	¥ 134.84	¥ 125.64	¥ 101.78	\$ 1.18
Cash dividends (Notes 3 and 4)	40.00	36.00	28.00	0.35

- Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥114 to U.S.\$1, the prevailing exchange rate as of December 31, 2007.  
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.  
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.



# SEGMENT OVERVIEW FOR FISCAL 2007

(Consolidated)

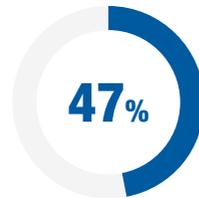
## BUSINESS SOLUTIONS

Business-use Multifunctional Products, Laser-beam Printers, Commercial Printing Systems, Maintenance Services and Other Products, IT Solutions

% OF NET SALES



% OF OPERATING INCOME



The Business Solutions segment consists of the Document Business, which encompasses sales and servicing of business-use multifunctional products (MFPs) and laser-beam printers (LBPs), and the IT Solutions Business, which includes the development of systems and solutions.

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## CONSUMER EQUIPMENT

Compact Digital Cameras, Digital Single-lens Reflex Cameras, Digital Video Cameras, Ink-jet Printers, Compact Photo Printers

% OF NET SALES



% OF OPERATING INCOME



The main products sold in this segment are digital cameras and personal-use printers. The former includes digital single-lens reflex cameras, compact digital cameras and digital video cameras; the latter includes ink-jet printers and compact photo printers.

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## INDUSTRIAL EQUIPMENT

Lithography Equipment for Semiconductor Manufacturers, Lithography Equipment for LCD Manufacturers, Other Semiconductor-related Equipment, Medical Equipment, TV Broadcasting Lenses

% OF NET SALES



% OF OPERATING INCOME



In the Industrial Equipment segment, Canon MJ sells semiconductor and LCD lithography systems, TV broadcasting lenses and medical equipment, including X-ray digital cameras.

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## TO OUR STOCKHOLDERS



**Haruo Murase**

President and CEO

# **FOCUSED ON** **SOUND GROWTH**

We believe that the defining characteristics of the Canon Group include self-reliance, independence, diversity and innovation. We move toward achieving our goals by continually meeting our challenges, while at the same time remaining clearly focused on existing conditions. Canon MJ has the drive and energy to maintain sound growth.

## STEADY GROWTH IN BOTH SALES AND INCOME

### Five Consecutive Years of Revenue and Income Growth

Dear stockholders, I am very pleased to report that your company, Canon MJ, in the year ended December 31, 2007 set new records for consolidated net sales and net income for the third consecutive year. This means that we have now grown continuously for five consecutive years.

Japan's economic performance in the year under review was characterized by firm trends in both business sector capital investment and consumer spending. Particularly in the second half, rising crude oil prices and other factors began to have a negative impact on business earnings. However, the economy remained on a gradual expansionary trend throughout the year.

The Canon MJ Group continued to grow steadily through a range of policies based on priority strategies defined in the Long-Term Management Objectives (2006–2010) and the Three-Year Management Plan (2007–2009). We continued to work toward income-linked growth and the establishment of new revenue sources for Canon MJ's next stage of development.

These efforts were reflected in our results for the year. Consolidated net sales grew by 4.4% over the previous year to ¥905.1 billion (U.S.\$7,939.8 million), while consolidated operating income was 8.7% higher at ¥36.9 billion (U.S.\$323.6 million). Consolidated net income increased by 6.5% to ¥20.0 billion (U.S.\$175.7 million).

### Slow Performance in Industrial Equipment Segment Offset by Strong Results in Other Segments

Performance in the Industrial Equipment segment was adversely affected by delays in the introduction of new products. However, this was offset by growth in the Business Solutions and Consumer Equipment segments.

### Business Solutions

Businesses are increasingly seeking products that will help them to improve efficiency and maximize added value. In the year under review, this was reflected in the escalating competition in the market for corporate office equipment. In our core areas of business-use multifunctional products (MFPs) and laser-beam printers (LBPs), we pursued a dynamic strategy based on the proposal of total business equipment solutions. We also implemented growth-oriented strategies, including business expansion through M&A, in the area of IT Solutions, which we aim to build into a new core business.

These efforts brought significant growth in the Business Solutions segment. Net sales were 7.2% higher year on year at ¥516.7 billion (U.S.\$4,532.6 million), while operating income increased by 17.9% to ¥17.2 billion (U.S.\$151.1 million).

### Consumer Equipment

The consumer equipment market continued to benefit from strong demand for digital single-lens reflex cameras and digital compact cameras. In this market environment, our priorities were to expand sales of key products, and to develop new market needs by offering ideas designed to promote home printing under our “Enjoy Photo” catch phrase. Through these strategies, net sales in the Consumer Equipment segment increased by 5.0% over the previous year to ¥284.4 billion (U.S.\$2,494.5 million), while operating income was 6.4% higher at ¥14.4 billion (U.S.\$125.8 million).

### Industrial Equipment

One of our key market areas in this segment is lithography equipment for semiconductor manufacturers. While market trends remained firm, our marketing activities were adversely affected by delays in the development of new products.

Net sales in this segment were 8.9% below the previous year's level at ¥104.0 billion (U.S.\$912.7 million). Operating income also declined by 8.9% to ¥5.3 billion (U.S.\$46.7 million).

## TO OUR STOCKHOLDERS

### TARGETING SOUND GROWTH OVER THE MEDIUM AND LONG TERM

#### **Long-Term Management Objectives (2006–2010)**

The Canon MJ Group is currently following the course defined by our five-year Long-Term Management Objectives, under which we aim to grow as a world-class corporate group dedicated to marketing excellence. Our target is consolidated net sales of at least ¥1.02 trillion, which we are working to reach through continuing quality enhancements, expansion of sales and sales volume and overall improvements to our earning potential.

We have also formulated a Three-Year Management Plan to translate the Long-Term Management Objectives' key concepts into measures that can be implemented in a rapidly changing business environment. This plan is reviewed annually, and rolling adjustments are made to our targets and priority strategies for the subsequent three years.

#### **Good Progress under the Three-Year Management Plan (2007–2009)**

The table on page 9 shows the fiscal 2007 targets of the Three-Year Management Plan announced in January 2007, and our progress toward these goals. While consolidated net sales fell marginally short, consolidated operating income exceeded the target, and consolidated net income was on target. The progress made under priority strategies in fiscal 2007 is summarized below:

##### ***1. Development of IT Solutions into a Core Business***

In the year under review, Argo 21 Corp., a systems integration (SI) company specializing in the financial sector, became a consolidated subsidiary as a result of a share acquisition. In addition, Canon Software Inc., a consolidated subsidiary in the IT Solutions Business, acquired Canon Software Information Systems Inc. (formerly Chori Joho System Co., Ltd.) as a consolidated subsidiary. These moves helped to produce healthy growth in the IT Solutions Business, which expanded from ¥141.8 billion to ¥171.0 billion (U.S.\$1,499.8 million) year on year.

##### ***2. Income-Linked Growth and the Establishment of New Revenue Sources***

In fiscal 2007, we established the PPS Sales Division to market digital commercial printing equipment and large-format ink-jet printers. PPS, which stands for "Professional Printing Solutions," is expected to become a major business segment in the near future.

In the Consumer Equipment segment, we implemented a continuous promotion campaign for home photo printing through Canon MJ-operated showrooms and major retailers.

Maintenance services within the Canon MJ Group were consolidated under Canon System & Support Inc., a wholly owned subsidiary. This new structure will improve operating efficiency and allow us to raise customer satisfaction with our after-sales services.

##### ***3. Achieving No. 1 Status for Canon Products***

We continued our efforts to maintain No. 1 status in key product categories. In fiscal 2007, we lost that position in terms of sales of digital single-lens reflex cameras, but we are confident that we will be able to return to the No. 1 position in fiscal 2008.

##### ***4. Reinforcement of Consolidated Group Management***

We continued to improve efficiency by integrating administration across the Group through increased use of shared services. The operating income margin improved by 0.2 percentage points, from 3.9% to 4.1%.

In addition, we introduced a shared management system for companies in the IT Solutions Business, and created a method to identify unprofitable projects, which are an inherent risk factor in this industry.

##### ***5. Improving Management Quality***

In January 2007, we established the CSR Promotion Division to coordinate Group-level CSR activities. The entire Canon MJ Group continued its efforts to strengthen systems in related areas, including compliance, environmental responsibility and information security.

## OUTLINING OUR VISION:

### LONG-TERM MANAGEMENT OBJECTIVES (January 2006–December 2010)

- The numerical targets are consolidated net sales of ¥1.02 trillion and consolidated ordinary income margin\* of at least 4.2% by fiscal 2010.
- We will build a consolidated Group management structure optimized for expedited business operations.
- We will secure an overwhelming advantage for key Canon products in terms of customer satisfaction and shares of the domestic market.
- We will further enhance the value of the Canon brand and expand the corporate value of the Canon MJ Group.
- We will develop human resources with global perspectives and the qualities needed to work in a marketing organization with a reputation for excellence.
- We will foster a corporate culture and systems to support continuing innovation focused on customer needs.

\* Ordinary income margin is calculated as a ratio of ordinary income to net sales.

Ordinary income is calculated as operating profit minus the profit and loss generated in the course of normal operations, but excludes other income sources from the Company's main businesses, such as interest and dividend income, interest expense and loss on disposal and devaluation of inventories.

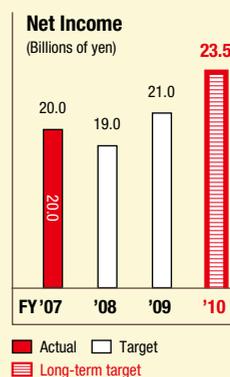
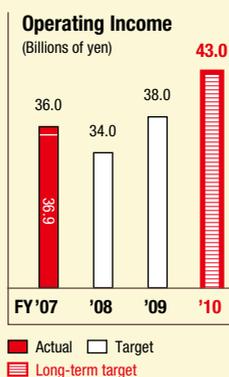
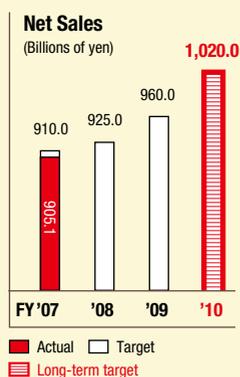
## TURNING THE VISION INTO REALITY:

### THREE-YEAR MANAGEMENT PLAN (January 2008–December 2010)

#### PRIORITY STRATEGIES

1. No. 1 in Customer Satisfaction
2. ITS 3000 Plan
3. Strengthening Earning Capacity
4. Achieving No. 1 Status for Key Canon Products

#### TARGETS



#### ACHIEVING NO. 1 STATUS IN KEY PRODUCT CATEGORIES



- <Business Solutions>
- Business-use multifunctional products
  - Large format ink-jet printers
- <Consumer Equipment>
- Digital single-lens reflex cameras



- <Business Solutions>
- Laser-beam printers
- <Consumer Equipment>
- Compact digital cameras
  - Ink-jet printers
- <Industrial Equipment>
- Lithography equipment for semiconductor manufacturers
  - TV broadcasting lenses

## TO OUR STOCKHOLDERS

### **AN AGGRESSIVE LONG-TERM GROWTH STRATEGY GUIDED BY THOROUGH ANALYSIS OF BUSINESS CONDITIONS**

#### **Growing Uncertainty in the Business Environment**

In January 2008, we adopted a new Three-Year Management Plan covering the period from 2008 to 2010, the final year of which will also be the final year of our current Long-Term Management Objectives. Its content is comparatively conservative.

When formulating the new plan, we made specific forecasts regarding the business environment. First, we assumed that there would be more aftershocks from the subprime mortgage crisis in the United States, and that there would be continuing uncertainty about the outlook for the U.S. economy and the impact on the Japanese economy.

Our analyses of markets in our business areas indicate that there will be a marginal decline in the numbers of MFPs and LBPs sold, and that the downward trend in maintenance prices will continue. In the IT Solutions Business, we anticipate gradual growth in the market as a whole. However, there is some concern about a slower trend in IT investment by small- and medium-sized enterprises. In the market for consumer equipment, we expect demand for digital single-lens reflex cameras to remain strong, but we are more cautious about the outlook for compact digital cameras because of expanding distribution inventories. In the Industrial Equipment segment, we are predicting a downward trend in the sales volume of semiconductor and LCD lithographic systems.

These forecasts required us to take a more conservative approach to the formulation of the new Three-Year Business Plan. However, we are confident that the Canon MJ Group will be able to grow faster than the market average, and the plan is based on this assumption.

#### **New Three-Year Management Plan (2008–2010)—Emphasis on Decisive Action**

In the new Three-Year Management Plan, we have revised downward the numerical targets for the period from fiscal 2008 to fiscal 2010; the table on page 9 shows the new targets. This adjustment is based on our forecasts of future trends in the business environment, and on our long-term view that fiscal 2010 is simply a transit point, not a final destination.

Our segment performance forecasts include 2–4% sales growth for the Document Business and sales growth of around 10% for the IT Solutions Business. We expect performance levels in the Consumer Equipment segment to remain static. In the Industrial Equipment segment, we predict that challenging conditions will continue in fiscal 2008, but that a recovery will start to emerge in the second half of fiscal 2009.

#### **New Three-Year Management Plan (2008–2010)—Priority Strategies**

Our priority strategies, shown in the table on page 9, are basically unchanged under the new Three-Year Management Plan. Key aspects of those strategies are outlined below:

##### **1. No. 1 in Customer Satisfaction**

The concept of “customer focus” will always be a fundamental principle for the Canon MJ Group. This is not a three-year or long-term concept. It is a permanent part of our corporate culture and mindset. To achieve customer satisfaction, we need to combine product quality with excellent service capabilities. We plan to strengthen the systems under which we provide maintenance and respond to customer inquiries.

##### **2. ITS 3000 Plan**

Under the ITS 3000 Plan, we aim to expand sales from the IT Solutions Business to ¥300.0 billion. In preparation, we have split the Business Solutions segment into the Document Business and the IT Solutions Business. This change took effect in the year under review. Also, in the current year, we plan to create an integrated Group management structure. As part of these efforts, we will merge Argo 21 Corp. and Canon System Solutions Inc. in April to create a new company, Canon IT Solutions Inc.

Sales from the IT Solutions Business currently amount to ¥170.0 billion, and we expect the newly merged company to evolve rapidly into a business capable of earning ¥100.0 billion in sales annually. We will also use

M&A and alliances to build this business segment. Our goal is to expand Group sales in this area to ¥300.0 billion in the near-term future.

### **3. Strengthening Earning Capacity**

The Document Business is currently the core of our income structure. Here, we plan to expand MFP and LBP sales through solutions-based marketing, and rapidly develop the digital commercial printing business.

By increasing sales of digital single-lens reflex cameras and by expanding the home printing business, we aim to build the Consumer Equipment segment as rapidly as possible into a business capable of generating sales of ¥300.0 billion. In the Industrial Equipment segment, our priorities are to facilitate the introduction of new products onto the market, and to strengthen our marketing in growth areas outside of the semiconductor industry.

I envision a business structure in which the Document Business contributes ¥350.0–400.0 billion, the IT Solutions Business ¥300.0 billion and the Consumer Equipment segment ¥300.0 billion, with Industrial Equipment adding another ¥100.0 billion or more.

### **4. Achieving No. 1 Status for Key Canon Products**

Currently, Canon is No. 1 in the markets for LBPs, compact digital cameras, personal-use printers, lithography equipment for semiconductor manufacturers and TV broadcasting lenses. We are determined to achieve the No. 1 position in the digital single-lens reflex camera market in fiscal 2008, and in the markets for MFPs and large-format ink-jet printers in the near-term future. We define “No. 1” not only in terms of market share, but also in terms of customer satisfaction.



## **SUSTAINED IMPROVEMENT IN CORPORATE VALUE**

### **Building World-Class Management Systems**

As a member of the global Canon Group, the Canon MJ Group consistently approaches its business activities from a global perspective. The same is true of our CSR initiatives. We will work actively to implement specific management quality improvement programs, and to develop business continuity management systems.

I believe that the most important priorities for my management team and myself are to achieve continuing growth in corporate value, and to return profits to stockholders. In fiscal 2007, we bought approximately 4.6 million shares in two buy-back programs amounting to about ¥10.0 billion. The aim was to improve our capital efficiency and establish a flexible capital strategy.

An analysis of our financial position at the end of fiscal 2007 shows that we had net assets of ¥269.6 billion (U.S.\$2,364.0 million), a stockholders' equity ratio of 50.6%, and free cash flows amounting to ¥25.3 billion (U.S.\$221.9 million). We are determined to improve the efficiency of our investment activities, including M&A and capital investment.

Our goal is to maintain our consolidated dividend payout ratio at around 30%. In the year under review, we increased the cash dividend per share by ¥4.00 to ¥40.00 (U.S.\$0.35).

Canon MJ aims to achieve growth in partnership with all stakeholders as a high-value company, and as a company capable of providing returns to its stockholders. We look forward to your continued strong support as we move toward our goals.

A handwritten signature in black ink, appearing to read 'Haruo Murase'.

**Haruo Murase**  
President and CEO

REVIEW OF OPERATIONS

**FOCUSED ON  
THE CUSTOMER**



## INTEGRATION

In the Document Business, Canon MJ is focusing on total, integrated solutions for office equipment, from the supply of products to usage advice and after-sales service and support.

## SOLUTIONS

The fast-growing IT Solutions Business offers businesses of all sizes a rapidly expanding range of solutions ranging from information security applications to business process management.

## ENJOYMENT

The Consumer Equipment segment's wide range of digital cameras, home printers and digital video cameras lets customers enjoy and creatively explore digital photography.

## ADDED VALUE

In the Industrial Equipment segment, Canon MJ closely coordinates sales, technical and service expertise to supply high-added-value products that precisely match the needs of corporate customers.

# BUSINESS SOLUTIONS

[DOCUMENT BUSINESS]



## FOCUSED ON INTEGRATION

Businesses today want comprehensive, integrated service ranging from the initial purchase to after-sales service. We aim to provide them with just this.

In our dramatically changing and highly competitive market, the key to success is speed. As a management resource, this is as important as people, money and goods. Organizational momentum comes from chains of speedy decisions.

We do not need to be 100% perfect—as long as we are moving forward. While prioritizing speed, we continually make improvements while tackling any outstanding issues. In this way, we can come close to perfection.

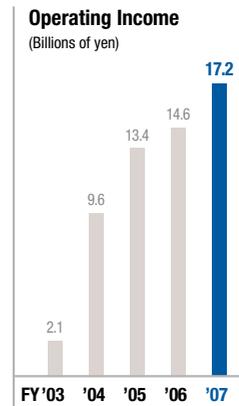
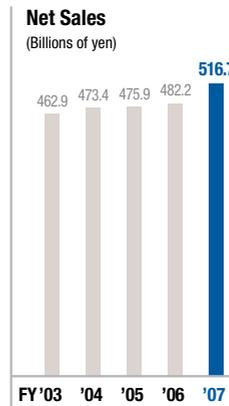
In fiscal 2008, we aim to strengthen our earning capacity while working to expand sales despite market shrinkage.

### Koji Ashizawa

Senior Managing Director of the Business Solutions segment

## SEGMENT PERFORMANCE REVIEW

The Business Solutions segment consists of the Document Business and the IT Solutions Business. In the year ended December 31, 2007, net sales from this segment increased by 7.2% over the previous year's level to ¥516.7 billion (U.S.\$4,532.6 million), and operating income by 17.9% to ¥17.2 billion (U.S.\$151.1 million). The segment contributed 57% of total net sales and 47% of total operating income.



## PERFORMANCE TRENDS, KEY PRODUCTS AND SERVICES

Net sales for the Document Business increased by 1.6% year on year to ¥345.7 billion (U.S.\$3,032.8 million).

A key product category in the Document Business is business-use multifunctional products (MFPs). Although the sales volume of color models expanded, the total number of MFPs sold fell marginally year on year. By proactively proposing solutions to customers, Canon MJ achieved a small increase in the overall value of office MFP sales.

In the digital commercial printing market, we launched the new high-resolution, high-speed printer imagePRESS C7000VP in May 2007. While the performance contribution from this business area was marginal in fiscal 2007, we anticipate growth in the future. We were able to build a new business model in partnership with customers.

### Keeping the top market share for laser-beam printers

Canon MJ is Japan's leading supplier of laser-beam printers (LBPs). In fiscal 2007, the total number of units sold in the domestic market is estimated to have fallen year on year due to the integration of office equipment functions into MFPs. Although Canon MJ's sales volume fell slightly year on year due

to this trend, we continued to hold the biggest market shares. We strengthened our proposal-based marketing, which advises about the optimal deployment of business equipment in offices.

In the consumables category, sales of toner cartridges grew steadily, especially for color printers. There was sustained growth in sales of the imagePROGRAF iPF large-format ink-jet printer and related consumables.

### Continued sales growth in other product categories

Although unit prices for office MFP maintenance services continued to decline, sales rose thanks to steady growth in printing volumes. Total sales of hardware maintenance services increased year on year due to strong demand for the Canon Service Pack range of maintenance service packages for LBPs and other equipment.

In the Document Business, Canon System & Support Inc., a core consolidated subsidiary mainly focused on small and medium-sized enterprises, saw continued sales growth. To improve operating efficiency, we integrated all maintenance services for the Canon MJ Group under this company.



#### Office MFPiR C5185N

This model offers both high-speed and high-quality continuous copying and printing of up to 51 sheets per minute in color and monochrome. Major companies buy this as their main model.



#### Color LBP Satera LBP 5910F

Although capable of high-speed A3 printing, this printer is still slim enough for small spaces. It is popular for its low energy use and quick start-up.



#### Digital commercial printer imagePRESS C7000VP

This is an advanced high-resolution, high-speed model aimed at the printing industry. With it, we will develop a new market.

## FUTURE OUTLOOK

We anticipate the sales volumes of MFPs and LBPs to increase marginally due to the growing need to optimize office equipment deployment and improve efficiency. Maintenance prices are also expected to continue to fall.

In this business environment, we aim to grow in excess of the market average. Because the market as a whole is unlikely to expand, we intend to achieve this goal by expanding MFP and LBP sales through marketing based on the proposal of solutions involving our existing key products across the entire business equipment range. Another priority will be to ensure that new

products contribute to earnings as quickly as possible. This will require increased efforts to build our digital commercial printing business. In the area of maintenance services, we need to offset declining prices by improving our earning capacity. Our goal is to ensure that we are No. 1 in customer satisfaction, and we aim to increase sales in the Document Business steadily at 2–3% annually.

# BUSINESS SOLUTIONS

[IT SOLUTIONS BUSINESS]



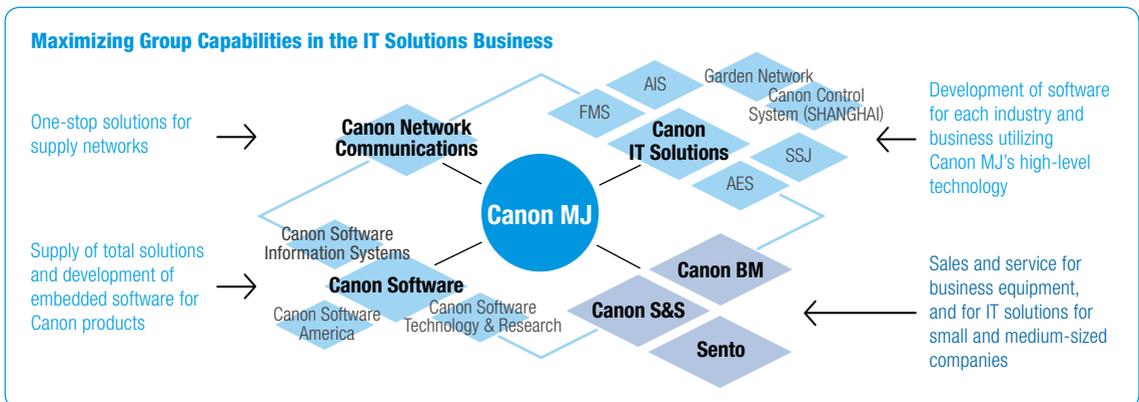
## FOCUSED ON SOLUTIONS

The IT Solutions Business is a unique business domain for the Canon MJ Group, and one that we aim to build into a growth driver by providing IT solutions that are a cut above the competition. In 2008, we aim to improve our performance by creating new synergies through integration, and by expanding the scale and scope of our activities to strengthen our market presence. This is very important from the viewpoint of attracting excellent human resources for the future. Another goal will be to reduce development costs through increased use of overseas development.

Growth in the IT Solutions Business will directly improve Canon MJ's brand value. By building awareness of the Canon MJ brand through close customer contact, we will help drive change and growth based on our long-term management concepts.

**Kazunori Asada**

Senior Managing Director of the IT Solutions Company



## PERFORMANCE TRENDS, KEY PRODUCTS AND SERVICES

The IT Solutions Business has the greatest potential to become a future growth driver for Canon MJ. In fiscal 2007, sales amounted to ¥171.0 billion (U.S.\$1,499.8 million), a substantial year-on-year increase of 20.6%. This sustained sales growth reflected expanding demand for support for the development of internal control environments, and an increased emphasis on information security.

In this area we achieved excellent results with consulting services and other services relating to business process management and documentation support. Sales of products and services for corporate reporting were lower year on year, mainly due to a decline in major deals for electronic form systems and other products.

### Changes in the consolidation structure

There were changes in the consolidation structure of the Canon MJ Group. In April 2007, Canon Software Inc., a consolidated subsidiary, acquired Canon Software Information Systems Inc. (formerly Chori Joho System Co., Ltd.) as a consolidated subsidiary. Argo 21 Corp., a systems integration (SI) company, was acquired by Canon MJ in June and became a wholly owned subsidiary in November.

### Core subsidiaries see steady sales growth

Canon Software Inc. saw a healthy increase in sales thanks to increased orders for embedded software for Canon products and strong demand for Web Performer, a web application development tool. The addition of Canon Software Information Systems Inc. to the consolidation also brought substantial sales growth.

## FUTURE OUTLOOK

Despite the decelerating growth of IT investment by small and medium-sized enterprises, the overall market for the IT Solutions Business is expected to remain on a gradual expansionary trend. This prediction is based on the continuing need for security and compliance measures.

### IT Solutions Business—a future growth driver

Canon MJ sees the IT Solutions Business as a future growth driver and is targeting annual growth of around 10%. We aim to develop the IT Solutions Business as a core business area alongside the Document Business and the digital photo business and build sales to the ¥300.0 billion level.

Sales of Canon System Solutions Inc. also grew strongly due to strong demand for its SI services, especially for the manufacturing and financial sectors, and the success of the new ESET Smart Security package. Introduced in November, this product has already gained an excellent reputation as a reliable, integrated security package.

Canon Network Communications Inc. maintained a firm performance trend in its network business, including network design, creation, maintenance and operation, with sales rising year on year. Argo 21 Corp., which became a consolidated subsidiary following M&A in fiscal 2007, also continued to see strong results, especially in the area of SI services.

The combined sales of the four main consolidated subsidiaries amounted to ¥102.4 billion (US\$897.9 million) before eliminations on consolidation.



### Total security software ESET Smart Security

This unified security package for Windows offers real-time virus protection, and fast and easy handling.

As part of these efforts, we will establish an IT Solutions Division and build a structure capable of providing integrated Group-level management in this area. In April 2008, Argo 21 Corp. and Canon System Solutions Inc. merged to create Canon IT Solutions Inc. Currently, the new company has combined sales of ¥76.5 billion (US\$670.7 million), but we aim to increase this to ¥100.0 billion in the near-term future. We also plan to take a flexible approach to M&A and alliances with other companies.

# CONSUMER EQUIPMENT



## FOCUSED ON ENJOYMENT

Our slogan “Enjoy Photo” expresses our wish to help people enjoy the possibilities of digital photography. To maximize customer satisfaction, we aim to develop new services through direct customer contact.

We will expand existing response centers and open new ones, and have also established a camera repair center in Oita together with Canon Inc. Moreover, we have introduced a new maintenance service for printers and other equipment, using courier services provided by Yamato Transport Co., Ltd. Alongside these initiatives, we will continue to promote digital photography.

We see digital single-lens reflex cameras as our income growth engine. Although we anticipate challenging conditions in the first quarter of 2008 due to the economic slowdown and the timing of new product launches, a gradual recovery is expected in the second and subsequent quarters.

### Osamu Sasaki

Managing Director of the Consumer Equipment segment



#### Digital SLR Camera EOS 40D

This popular camera is aimed at beginners up to advanced amateurs.



#### Compact Digital Camera IXY DIGITAL 910IS

Equipped with a 28 mm wide-angle lens, this camera holds the top market share among Canon's digital cameras.



#### Ink Jet Printer PIXUS MP610

This advanced successor to the MP 600, which was released in 2006, is popular for its ease of use.

## PERFORMANCE TRENDS, KEY PRODUCTS AND SERVICES

In fiscal 2007, demand for compact cameras and digital single-lens reflex cameras remained strong, as shown by the continuing strong performance of the Consumer Equipment segment.

Net sales increased by 5.0% year on year to ¥284.4 billion (US\$2,494.5 million), while operating income was 6.4% higher at ¥14.4 billion (US\$125.8 million). The segment accounted for 31% of total net sales and 39% of total operating income.

### Firm growth trends for digital cameras

A key product category in this segment is compact digital cameras. Here, the growth trend in the Japanese market appears to be driven by replacement demand, and by demand from users buying multiple units. Canon MJ launched ten new Powershot Series models and five new models in the IXY Digital Series, including the IXY Digital 910IS, which has a 28 mm wide-angle lens. Sales of compact digital cameras also grew strongly, again giving Canon MJ the No. 1 market share.

The market for cameras and exchangeable lenses appears to have expanded dramatically, as many manufacturers introduced new digital single-lens reflex cameras in fiscal 2007. The EOS Kiss Digital X, an economically priced model launched by Canon MJ in the fall of 2006, maintained the biggest market share for a single model. We also introduced a new mid-range model, the EOS 40D, targeted toward new users with a serious interest in photography.

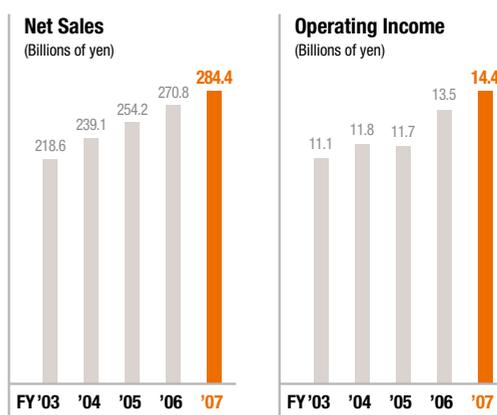
Sales of digital single-lens reflex cameras and exchangeable lenses continued to show healthy growth. However, we yielded our position as leader in terms of sales volume to a competitor.

### Developments in other markets

The digital video camera market appears to have contracted year on year in both volume and value. Reasons include customers postponing purchases due to the diversification of recording media and the transition to the Japanese High Definition TV format. Although Canon MJ expanded its product line-up with the new iVHS HG10 model, which records onto a hard disk, sales fell year on year.

The personal-use printer market appeared to have stagnated in fiscal 2007 due to a longer replacement cycle. Despite this, Canon MJ achieved strong sales growth thanks to the popularity of its PIXUS Series, including the flagship MP600 model and the new MP610. Sales of ink cartridges also increased.

Sales of compact photo printers expanded further in line with a continuing growth trend linked to buoyant demand for digital cameras. Canon MJ introduced three new models in the SELPHY Series and stepped up its sales promotion activities. The result was increased sales of both printers and consumables.



## FUTURE OUTLOOK

We expect the market for digital single-lens reflex cameras to remain buoyant. However, escalating price competition and excessive market inventories of compact digital cameras are of concern.

We are determined to achieve the top market share for digital single-lens reflex cameras in fiscal 2008, and will in the early part of the year launch a new model, the EOS Kiss X2. We also aim to keep our top share of the compact digital camera market while achieving reasonable profits. In the area of personal-use printers,

we will target increased sales of ink-jet printers, especially for home photo printing use.

Due to the uncertain business environment of this segment, our performance forecasts are conservative. We expect sales to remain at around the same level as in fiscal 2006, although operating income will decline.

# INDUSTRIAL EQUIPMENT



## FOCUSED ON ADDED VALUE

In 2008, we have had to adopt extremely conservative sales and income forecasts due to the serious delays we encountered in bringing new semiconductor lithography systems to market. However, we aim to set this segment on a growth trend by actively seeking out and introducing overseas resources, including superb products not yet known in Japan. We will also step up our efforts to attract highly skilled human resources.

A key business strategy will be to enhance customer satisfaction by focusing on the prevention, rather than the fixing, of problems—rather than firefighters putting out fires, we need to see ourselves as physicians dedicated to preventing ills. We will, for instance, monitor customers' operating rates so that we can offer support and advice before problems occur. By doing this, we can truly bring added value to our products and services.

### Hiroshi Shibuya

Senior Managing Director of the Industrial Equipment segment



#### Lithography equipment for semiconductor manufacturers

Canon MJ's No. 1 market share in this field is built on long-lasting and stable customer relationships.



#### Fundus camera CF-1

This compact, mydiatic fundus camera was released in 2007.



#### Broadcasting lens DIGISUPER 86AF

Released in the second half of 2007, this broadcasting lens is designed for use in High Definition TV.

## TRENDS IN KEY PRODUCT AND SERVICE CATEGORIES

Net sales in the Industrial Equipment segment fell 8.9% year on year to ¥104.0 billion (US\$912.7 million), while operating income reached ¥5.3 billion (US\$46.7 million), also 8.9% lower. The decline was mainly caused by delays in the development of lithography equipment for semiconductor manufacturers, a key product category for Canon MJ, which left us unable to bring new products to market at appropriate times. This segment accounted for 12% of total net sales and 14% of total operating income.

### Active marketing of lithography equipment for semiconductor manufacturers secures top market share

The Japanese market for semiconductor lithography systems appeared to expand in value terms in fiscal 2007, largely due to buoyant investment in the memory manufacturing industry. Although the number of systems sold was down year on year, Canon MJ was able to retain the biggest market share through customer-focused support and determined marketing efforts centered on our key product categories, i-line steppers and KrF step-and-scan systems.

A key market trend is the accelerating demand shift toward systems capable of producing ever more complex devices. We responded to this need by commencing shipment of the new FPA-7000 Series in the second half of the year. We also saw steady growth in sales of other semiconductor-related equipment, including ashing and ramp annealing systems manufactured by Mattson Technology, Inc. These products emerged as core contributors to sales in the area of process equipment.

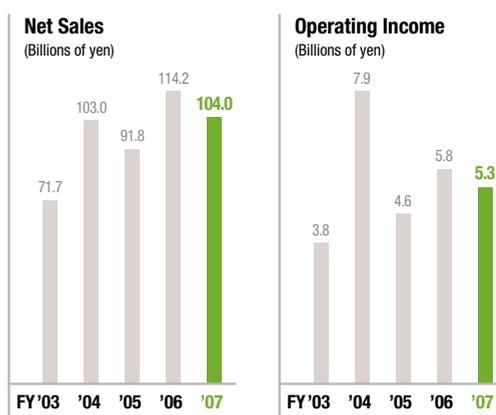
### Responding to market trends

In the market for LCD substrate lithography systems, Japanese manufacturers have become more cautious about investment in new plants and equipment despite growth in demand for

LCD panels. This reflects a rapid decline in the prices of LCD televisions. Canon MJ responded by intensifying its marketing activities, especially for the flagship MPA-8800 series. However, sales were lower year on year.

In the medical equipment market, hospitals and medical examination clinics are increasingly using digital equipment. Despite escalating price competition brought by government moves to reduce health expenditure, we maintained sales of ophthalmological equipment at the previous year's level thanks to the excellent market response to a mydriatic fundus camera introduced in the second half of fiscal 2007.

Canon MJ retained its leadership in the market for TV broadcasting lenses. Sales grew steadily, especially in the areas of relay broadcasting lenses and studio lenses. This was due to growing demand for High Definition lenses in the broadcasting industry, and increased demand for high-quality monitoring systems for use in disaster prevention.



## FUTURE OUTLOOK

We anticipate challenging conditions for the Industrial Equipment segment in fiscal 2008 and fiscal 2009. However, sales and operating income are expected to return to a growth trend in fiscal 2010 and beyond.

Our main market for industrial equipment is the Japanese semiconductor fabrication industry. While investment is currently strong, we anticipate a continuing shift in demand toward systems capable of producing ever more complex devices. In the area of LCD panels, Japanese manufacturers are expected to adopt increasingly cautious investment policies.

Canon MJ will continue to prepare for a smooth market launch of new ArF products. We will also work to expand sales of imported semiconductor fabrication equipment and step up our marketing of non-semiconductor growth products, such as micro-electromechanical systems (MEMS). In the area of medical equipment, we will strengthen our line-up of flagship products and expand our sales of imported products. We will prepare for future growth in sales of TV broadcasting lenses by steadily expanding into the market for lenses for Hi-Vision and digital systems.

**SUSTAINABLE MANAGEMENT**

**FOCUSED ON  
RESPONSIBILITY**



## **TRUST**

Building and maintaining close relationships with all stakeholders is crucial to successful business activities, and one of Canon MJ's central management principles.

## **SUSTAINABILITY**

Through a range of initiatives, Canon MJ is actively working to reduce CO<sub>2</sub> emissions and contribute to environmental sustainability in all its business activities.

## **COMMUNICATION**

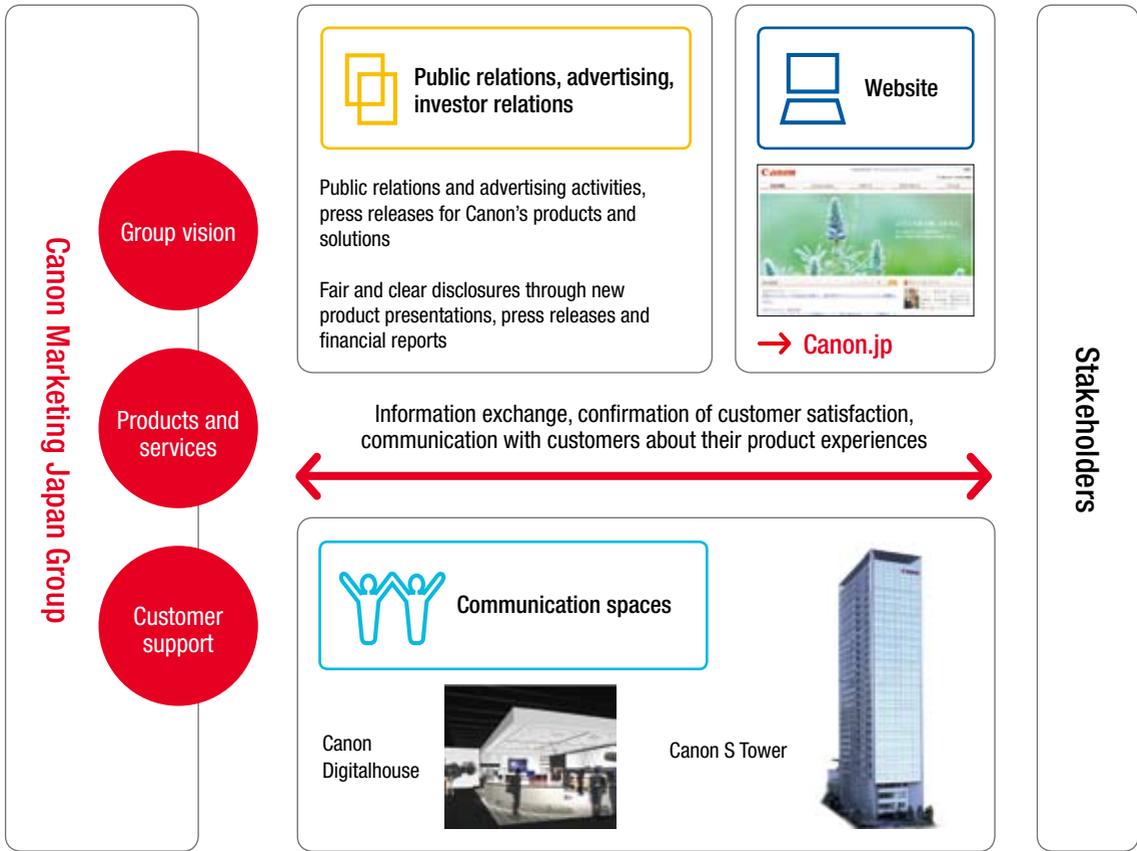
Canon MJ places great importance on clear communication in its interaction with customers, and in the timely and accurate disclosure of information to stockholders.

## **TRANSPARENCY**

Canon MJ is continuously strengthening its corporate governance structures to ensure management transparency and compliance.

# SUSTAINABLE MANAGEMENT

## OUR COMMITMENT TO STAKEHOLDERS



### Fundamental Philosophy on Social Responsibility

We believe that Canon MJ's primary corporate mission is to maintain sound growth by supporting human creativity in all facets of life, work and the community with products and services of the highest value. We also recognize that Canon MJ has obligations as a member of society, and have therefore made corporate social responsibility (CSR) a management priority.

The reinforcement of Group-level CSR activities is also identified as an important aspect of management quality improvement, one of the strategic priorities of the Three-Year Management Plan. In January 2007, we established the CSR Promotion Headquarters to strengthen Group-level CSR activities.

### Building Good Relationships with All Stakeholders

Canon MJ has an extremely wide range of stakeholders, including stockholders, consumers, corporate customers, business partners, employees and local communities. We are determined to work in good faith with all stakeholders at all times by ensuring that all our directors and employees act in accordance with the law and, of course, high ethical standards. As a marketing company, we are fundamentally aware that good communication and mutual understanding with people and communities are essential to developing good relationships with our stakeholders.

### Support for Imaging and Cultural Activities

The business activities of Canon MJ are closely intertwined with imaging, and we place great importance on creating new opportunities for the development of image culture. One of the ways in which we encourage photography is through our support for activities that help to expand the world of photography and imaging. For example, every year we support a nationwide photo championship for high school students in Japan.

Canon MJ also supports a wide range of sporting activities, including soccer, golf and tennis, as well as cultural activities, such as concerts in Japan by the Vienna Boys Choir, which has received special support from our company since 2005.

### Environmental Initiatives

Harmonious coexistence is a fundamental principle for the global Canon Group. As a company that interacts directly with its customers, Canon MJ has a special responsibility to support and strengthen environmental conservation in all its business activities. We led the industry in establishing a toner cartridge recycling program and promoting the reuse of copiers. To reduce CO<sub>2</sub> emissions, we use rail and sea transport in our product recovery systems, and are expanding our green procurement activities and actively introducing electric vehicles. Canon MJ is also leading the industry in the supply of environment-friendly products. For example, we are working to eliminate the use of hazardous substances by introducing products that comply with the European Union's RoHS Directive concerning six hazardous substances.



The seven Canon Galleries, located in Japan's major cities, offer both permanent and temporary exhibitions.



Canon MJ is a sponsor of J-League, Japan's professional soccer league.



As part of its cultural activities, Canon MJ supports concerts in Japan by the Vienna Boys Choir.



Professional tennis player Ayumi Morita is sponsored by Canon MJ.



Canon's photography classes for mothers or working women are taught by female photographers, and use EOS Kiss Digital X.



High schools from all over Japan take part in this annual photo competition. In 2007, 14 out of 242 schools made it to the final.



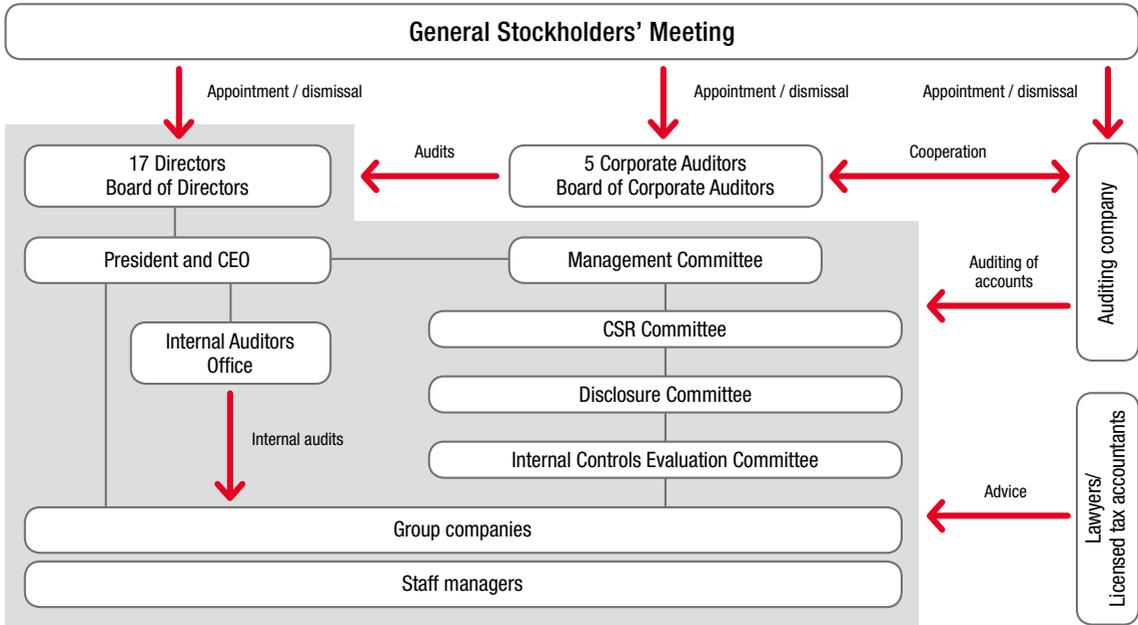
In 2007, Canon MJ employees joined a tree planting festival in Hachioji City, Tokyo, to help plant 178 hectares of forest.



After collection, the used cartridges are exchanged for Bel Mark points at schools.

**CORPORATE GOVERNANCE**

(As of March 27, 2008)



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

**Board of Directors**

As of March 27, 2008, there were 17 directors. 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. There are no outside directors.

**Board of Corporate Auditors**

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

## BOARD OF DIRECTORS AND CORPORATE AUDITORS

BOARD OF DIRECTORS						
	President and CEO Haruo Murase	Senior Managing Director Kazunori Asada	Senior Managing Director Koji Ashizawa	Senior Managing Director Hiroshi Shibuya	Senior Managing Director Masami Kawasaki	
						
	Managing Director Kenichiro Goto	Managing Director Motoo Fukui	Managing Director Osamu Sasaki	Director Tetsuo Yoshida	Director Yo Shibasaki	Director Masahiro Sakata
						
	Director Masaki Sawabe	Director Masanori Koyama	Director Yutaka Usui	Director Kunio Kurihara	Director Keizo Go	Director Shinichi Inoue
BOARD OF CORPORATE AUDITORS						
	Corporate Auditor Toshio Matsumoto	Corporate Auditor Taiji Miyazaki	Outside Corporate Auditor Nobuo Ishido	Outside Corporate Auditor Kunihiko Nagata	Outside Corporate Auditor Minoru Shishikura	

### 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 42 audit staff members.

### Auditing of Accounts

Canon MJ's accounts are audited under an audit agreement with Ernst & Young ShinNihon. 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.

# SUSTAINABLE MANAGEMENT

## Compliance

All employees of the Canon MJ Group are subject to the Canon Group Code of Conduct, which mandates compliance with laws and corporate rules. To raise awareness and ensure full implementation of the Code of Conduct, handbooks and pocket-sized Compliance Cards have been distributed to all employees. Every week, compliance case studies relating to business operations are issued and distributed to all Canon MJ Group employees. All departments hold compliance meetings twice each year. There are also continual corporate-level activities under the leadership of the Corporate Ethics and Compliance Committee.

Canon MJ has established an internal reporting system, known as the “Speak up” system, to facilitate the early discovery and rectification of compliance infringements and prevent recurrences. Employees can report problems within the Company or to a legal office outside of the organization.



To promote compliance, Canon MJ supplies all employees with pocket-sized Compliance Cards.

## Information Security and Privacy

Canon MJ has adopted a comprehensive approach to information security under the leadership of the Information Security Committee. The Company is currently in the process of obtaining company-wide information security certification under the ISMS scheme, a Japanese third-party assessment system. In the area of personal information protection, Canon MJ has obtained certification under the Privacy Mark system and will continue to tighten internal management systems and improve employee education.



Canon MJ is seeking company-wide certification under the ISMS information security system (certification currently held by some sections).

## Disclosure

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

## Internal Controls

Canon MJ has been assessing its internal control systems under the Internal Controls Evaluation Project, established in March 2005. In January 2006, we created the Internal Controls Evaluation Committee. Chaired by the President, this 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.

## Relationship with Canon Inc.

Canon MJ is a subsidiary of Canon Inc., which owns 51.8% of Canon MJ shares (as of December 31, 2007). Canon MJ has the exclusive right to sell all products manufactured by Canon Inc. under the Canon brand in Japan. In fiscal 2007, our purchases from Canon Inc. amounted to ¥369.0 billion (U.S.\$3,236.5 million), or 67.4% 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 Privacy Mark guarantees protection of personal information. Through its know-how of the Privacy Mark requirements, Canon MJ can assist customers seeking this certification.

# FINANCIAL SECTION

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# TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

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

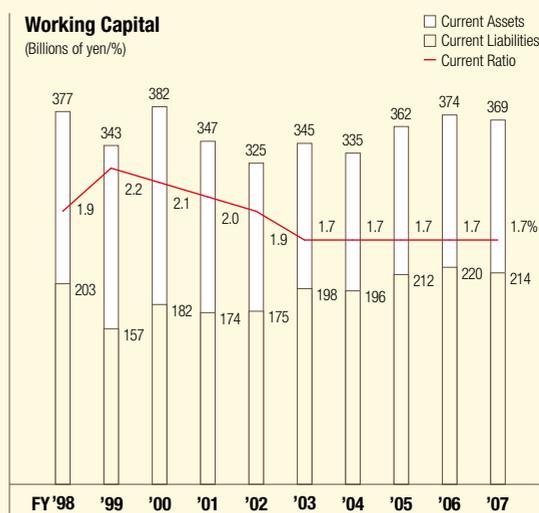
Millions of yen

	2007	2006	2005	2004
<b>FOR THE YEAR:</b>				
Net sales	¥ 905,137	¥ 867,172	¥ 821,948	¥ 815,511
Cost of sales	615,390	587,045	551,165	547,011
Gross profit	289,747	280,127	270,783	268,500
Selling, general and administrative expenses	252,861	246,208	241,060	239,226
Operating income	36,886	33,919	29,723	29,274
Income (loss) before income taxes and minority interests	35,452	32,967	27,086	20,186
Income taxes (credit)	14,748	13,768	11,366	7,666
Net income (loss)	20,033	18,807	15,358	12,364
<b>CASH FLOWS (Note 4):</b>				
Cash flows from operating activities	47,214	18,094	36,985	22,053
Cash flows from investing activities	(21,912)	(19,217)	(17,887)	(7,963)
Cash flows from financing activities	(16,345)	(6,126)	(4,311)	(39,045)
Cash and cash equivalents	117,206	108,248	115,504	98,844
<b>AT YEAR-END:</b>				
Total assets	526,125	526,578	513,335	482,337
Total stockholders' equity (Note 6)	266,086	260,367	247,244	234,158

Yen

<b>PER SHARE OF COMMON STOCK:</b>				
Net income (loss) (Note 2)	¥ 134.84	¥ 125.64	¥ 101.78	¥ 81.78
Cash dividends (Notes 3 and 5)	40.00	36.00	28.00	22.00
Stockholders' equity (Note 6)	1,817.59	1,739.50	1,650.52	1,562.23

- Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥114 to U.S.\$1, the prevailing exchange rate as of December 31, 2007.  
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. The "Accounting Standard for Consolidated Statements of Cash Flows" (Business Accounting Council, issued on March 13, 1998) has been adopted effective the year ended December 31, 2000.



Millions of yen

Thousands of U.S. dollars (Note 1)

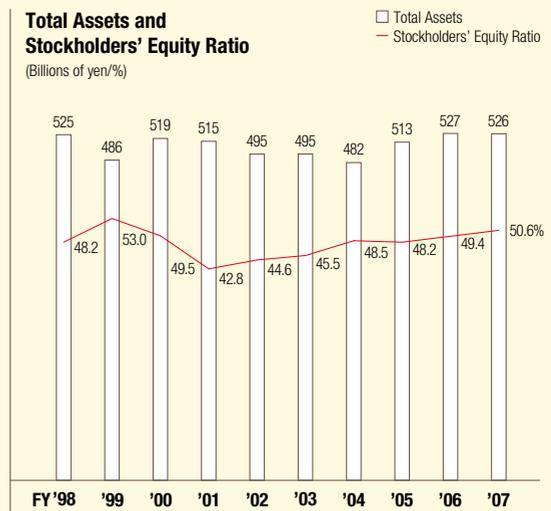
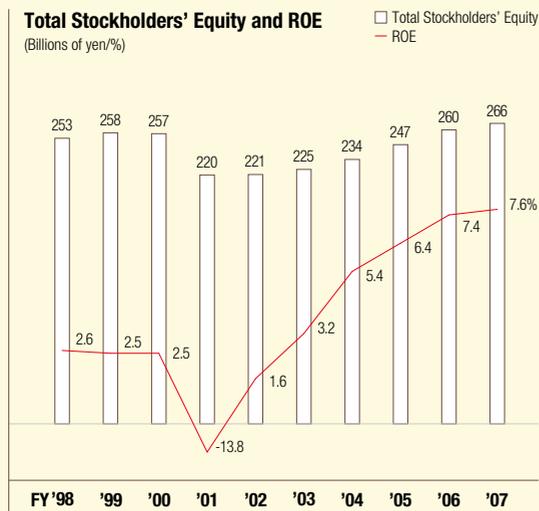
2003	2002	2001	2000	1999	1998	2007
¥ 757,033	¥ 695,585	¥ 786,828	¥ 794,917	¥ 720,259	¥ 730,803	\$ 7,939,798
507,491	467,044	542,732	541,199	504,370	510,880	5,398,158
249,542	228,541	244,096	253,718	215,889	219,923	2,541,640
232,555	217,656	224,699	233,206	197,711	200,780	2,218,079
16,987	10,885	19,397	20,512	18,178	19,143	323,561
20,438	6,873	(63,280)	15,313	13,770	12,526	310,982
13,219	3,361	(28,407)	7,966	7,257	6,088	129,368
7,043	3,436	(32,831)	6,460	6,345	6,512	175,728
23,671	36,275	(3,384)	12,324	N/A	N/A	414,158
(16,258)	(26,869)	(7,364)	(13,015)	N/A	N/A	(192,211)
(20,305)	(13,889)	(6,182)	(2,909)	N/A	N/A	(143,377)
123,815	136,448	141,045	157,921	N/A	N/A	1,028,123
495,396	495,298	514,698	518,958	486,176	524,704	4,615,132
225,317	220,797	220,418	256,959	257,740	252,925	2,334,088

Yen

U.S. dollars (Note 1)

¥ 46.24	¥ 22.96	¥ (217.39)	¥ 42.77	¥ 42.01	¥ 43.12	\$ 1.18
18.00	18.00	18.00	18.00	18.00	18.00	0.35
1,496.74	1,464.43	1,459.60	1,701.44	1,706.64	1,674.75	15.94

5. 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.
6. 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.



# FINANCIAL REVIEW

## ■ Business Performance

### Net Sales

Growth in sales of Business Solutions and Consumer Equipment offset a year-on-year decline in sales of Industrial Equipment in the year ended December 31, 2007, and net sales were 4.4% above the previous year's level at ¥905.1 billion.

In the Business Solutions segment, sales of monochrome multifunctional products (MFPs) were lower, reflecting market trends. However, total MFP sales were marginally higher because of sustained growth in sales of color products.

Sales of laser-beam printers (LBPs) declined in volume terms, but Canon Marketing Japan Inc. (Canon MJ) was still able to maintain its share of the domestic market thanks to effective marketing, including an increased emphasis on proposal-type marketing based on advice about the optimal deployment of business equipment in offices. Unit prices continued to fall in the area of office MFP maintenance services. However, sustained growth in printing volume was reflected in a firm sales trend. Canon System and Support Inc., a member of the Canon MJ Group, recorded strong sales of color MFPs, as well as continued strong sales for maintenance services.

Factors contributing to steady growth in sales of IT solutions included the need for improved information security and demand for support for the development of internal control systems. Canon Software Inc., a member of the Canon MJ Group, achieved substantial sales growth, resulting in part from the conversion of Canon Software Information Systems Inc. into a consolidated subsidiary in April 2007. Another Canon MJ Group company, Canon System Solutions Inc., recorded excellent sales of system integration (SI) services, especially to customers in the manufacturing and financial sectors. Argo 21 Corp., which became a consolidated subsidiary in June, also achieved strong sales in the areas of SI services and embedded software.

Net sales in the Business Solutions segment amounted to ¥516.7 billion, an increase of 7.2% over the previous year's result.

In the Consumer Equipment segment, Canon MJ worked to enhance its brand image through dynamic advertising, including television commercials and transit

advertising. This resulted in strong growth in sales of compact digital cameras, allowing Canon MJ to maintain the biggest market share for the fifth consecutive year. There was also buoyant growth in sales of digital single-lens reflex products, including both camera bodies and exchangeable lenses. Sales of ink-jet printers were affected by a trend towards longer replacement cycles. However, the volume of sales was above the previous year's level. Canon MJ's efforts to promote home printing helped to drive sustained growth in sales of ink cartridges.

Net sales in the Consumer Equipment segment increased by 5.0% over the previous year's level to ¥284.4 billion.

In the Industrial Equipment segment, Canon MJ continued to control the biggest share of the domestic market for lithography equipment for semiconductor manufacturers, even though the volume of sales was lower than in the previous year. This was the result of increased marketing efforts based on customer-centered support. Despite intense marketing of flagship products, the quantity of lithography equipment for LCD manufacturers sold was below the previous year's level.

Net sales in the Industrial Equipment segment were ¥104.0 billion, a year-on-year decline of 8.9%.

### Income

Operating income increased by 8.7% over the previous year's level to a new record of ¥36.9 billion. This increase occurred despite expanded sales promotion expenditure targeted towards sales growth, and a rise in payroll costs resulting from the consolidation of Argo 21 Corp. and certain other companies. Contributing factors include cost reductions resulting from a change in retirement and severance benefit systems, and an increase in gross profit on sales.

Net income was affected by higher loss on devaluation of investments in securities, warehouse relocation costs and reduced amortization of negative goodwill. However, these factors were offset by increases in interest and dividend income, as well as by gain on sales of investments in securities and gain on sales of affiliated companies, allowing net income to rise by 6.5% over the previous year's level to a new record of ¥20.0 billion.

Net income per share was ¥134.84, compared with ¥125.64 in the previous year. The annual dividend per share was increased by ¥4.00 to ¥40.00.

## ■ Financial Position

Current assets amounted to ¥368.6 billion as of December 31, 2007, a decline of ¥5.2 billion from the previous year's level. The main changes were a ¥4.9 billion reduction in notes and accounts receivable resulting from a decline in sales in the Industrial Equipment segment, a ¥14.2 billion reduction in inventories and a ¥9.0 billion increase in cash and cash equivalents.

Fixed assets were ¥4.7 billion higher at ¥157.5 billion. Items showing significant changes included software, which increased by ¥4.3 billion because of the creation of software for in-house use. There was also a ¥3.8 billion increase in goodwill resulting from the acquisition of Argo 21 Corp. Investments in securities declined by ¥3.3 billion.

Current liabilities declined by ¥5.8 billion year on year to ¥213.9 billion. Significant changes included an ¥8.9 billion reduction in notes and accounts payable due to reduced procurement from Canon Inc., and a ¥1.8 billion reduction in accrued expenses.

Long-term liabilities were reduced by ¥0.8 billion from the previous year's level to ¥42.6 billion. The main changes were a ¥0.9 billion reduction in liability for employees' retirement benefits resulting from a change in related systems, and a ¥0.5 billion reduction in negative goodwill.

Net assets increased by ¥6.1 billion over the previous year's figure to ¥269.6 billion. Key movements included a ¥14.5 billion increase in retained earnings resulting from a ¥20.0 billion increase in net income and a ¥5.6 billion reduction in dividend payments. There was also an ¥8.5 billion increase in stockholders' equity due to purchases of treasury stock.

These changes were reflected in a ¥0.5 billion reduction in total assets, which amounted to ¥526.1 billion as of December 31, 2007.

Return on equity [ROE] rose from 7.4% in the previous year to 7.6%, while the stockholders' equity ratio rose from 49.4% to 50.6%. Stockholders' equity per share increased from ¥1,739.50 in the previous year to ¥1,817.59.

## ■ Cash Flows

Cash and cash equivalents as of December 31, 2007 amounted to ¥117.2 billion, an increase of ¥9.0 billion from the position at the end of the previous year. This reflects an excellent income before income taxes and minority interests result of ¥35.5 billion.

Net cash provided by operating activities amounted to ¥47.2 billion, compared with ¥18.1 billion in the previous year. This consisted mainly of ¥35.5 billion from income before income taxes and minority interests, ¥14.6 billion from the reduction of inventories, ¥12.0 billion from depreciation and amortization, ¥10.8 billion from the reduction of notes and accounts receivable and ¥14.0 billion from income tax payments.

Net cash used in investing activities amounted to ¥21.9 billion, compared with ¥19.2 billion in the previous year. This total consisted mainly of ¥9.4 billion in payments for purchases of investments in subsidiaries accompanying changes in scope of consolidation, and ¥7.3 billion in payments for purchases of property and equipment.

Net cash used in financing activities amounted to ¥16.3 billion, compared with ¥6.1 billion in the previous year. This amount consisted mainly of ¥10.0 billion in payments for purchases of treasury stock and ¥5.7 billion in dividend payments.

# CONSOLIDATED BALANCE SHEETS

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	<b>2007</b>	2006	<b>2007</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 3)	¥ 117,206	¥ 108,248	\$ 1,028,123
Notes and accounts receivable	189,552	194,468	1,662,737
Short-term investments in securities (Notes 3 and 13)	—	224	—
Inventories (Note 4)	37,692	51,911	330,631
Deferred tax assets (Note 8)	6,056	6,930	53,123
Other current assets	18,458	12,288	161,912
Allowance for doubtful receivables	(311)	(245)	(2,728)
Total current assets	<b>368,653</b>	373,824	<b>3,233,798</b>
<b>PROPERTY AND EQUIPMENT:</b>			
Land	41,866	41,245	367,246
Buildings and structures	75,375	73,999	661,184
Machinery and vehicles (Note 9)	504	543	4,421
Furniture and fixtures (Note 9)	20,832	20,006	182,737
Rental assets	20,234	18,764	177,491
Total	158,811	154,557	1,393,079
Accumulated depreciation	(59,151)	(52,748)	(518,868)
Net property and equipment	<b>99,660</b>	101,809	<b>874,211</b>
<b>INTANGIBLE ASSETS:</b>			
Goodwill (Note 2)	3,772	—	33,088
Software (Note 9)	9,396	5,122	82,421
Utilization rights	394	365	3,456
Other intangible assets	45	44	395
Total intangible assets	<b>13,607</b>	5,531	<b>119,360</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in securities (Notes 3 and 13)	12,370	15,717	108,509
Long-term loans receivable	30	13	263
Lease deposits	8,627	8,350	75,675
Deferred tax assets (Note 8)	19,262	18,989	168,965
Other investments	4,936	3,516	43,298
Allowance for doubtful receivables	(1,020)	(1,171)	(8,947)
Total investments and other assets	<b>44,205</b>	45,414	<b>387,763</b>
Total assets	<b>¥ 526,125</b>	¥ 526,578	<b>\$ 4,615,132</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	<b>2007</b>	2006	<b>2007</b>
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable	¥ 148,330	¥ 157,196	\$ 1,301,140
Short-term bank loans (Note 5)	343	—	3,009
Accrued income taxes (Note 8)	8,682	7,627	76,158
Accrued consumption taxes payable	3,361	2,750	29,483
Deferred tax liabilities (Note 8)	12	—	105
Accrued expenses	30,167	31,988	264,623
Reserves	5,387	5,018	47,254
Other current liabilities	17,678	15,086	155,070
Total current liabilities	213,960	219,665	1,876,842
<b>LONG-TERM LIABILITIES:</b>			
Long-term bank loans (Note 5)	131	—	1,149
Deferred tax liabilities (Note 8)	338	250	2,965
Liability for employees' retirement benefits (Notes 2 and 6)	38,577	39,461	338,395
Liability for directors' and corporate auditors' retirement benefits (Note 2)	739	704	6,482
Negative goodwill (Note 2)	—	479	—
Other long-term liabilities	2,812	2,551	24,667
Total long-term liabilities	42,597	43,445	373,658
<b>CONTINGENT LIABILITIES</b> (Note 14)			
<b>NET ASSETS</b> (Note 2):			
<b>STOCKHOLDERS' EQUITY</b> (Notes 7 and 15):			
Common stock:			
Authorized—299,500,000 shares; Issued—151,079,972 shares in 2007 and 150,523,896 shares in 2006	73,303	73,303	643,009
Capital surplus	83,296	82,530	730,667
Retained earnings	118,528	104,077	1,039,719
Treasury stock (Note 15)	(9,695)	(1,236)	(85,044)
<b>VALUATION AND TRANSLATION ADJUSTMENTS:</b>			
Net unrealized gain on available-for-sale securities	640	1,676	5,614
Foreign currency translation adjustments	14	17	123
<b>MINORITY INTERESTS</b>	3,482	3,101	30,544
Total net assets	269,568	263,468	2,364,632
Total liabilities and net assets	¥ 526,125	¥ 526,578	\$ 4,615,132

• See accompanying notes to consolidated financial statements.

• Effective the year ended December 31, 2006, the Company adopted an accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance.

# CONSOLIDATED STATEMENTS OF INCOME

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Years ended December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2007</b>	2006	<b>2007</b>
<b>NET SALES</b>	<b>¥ 905,137</b>	¥ 867,172	<b>\$ 7,939,798</b>
<b>COST OF SALES</b>	<b>615,390</b>	587,045	<b>5,398,158</b>
Gross profit	<b>289,747</b>	280,127	<b>2,541,640</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>252,861</b>	246,208	<b>2,218,079</b>
Operating income	<b>36,886</b>	33,919	<b>323,561</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	<b>911</b>	321	<b>7,991</b>
Interest expense	<b>(67)</b>	(33)	<b>(588)</b>
Loss on disposal and devaluation of inventories	<b>(1,901)</b>	(2,135)	<b>(16,675)</b>
Loss on impairment of fixed assets	<b>(95)</b>	(97)	<b>(833)</b>
Gain on sales of investments in securities	<b>806</b>	96	<b>7,070</b>
Loss on sales and disposal of property and equipment	<b>(440)</b>	(479)	<b>(3,860)</b>
Loss on devaluation of investments in securities	<b>(1,236)</b>	(115)	<b>(10,842)</b>
Other, net	<b>588</b>	1,490	<b>5,158</b>
	<b>(1,434)</b>	(952)	<b>(12,579)</b>
Income before income taxes and minority interests	<b>35,452</b>	32,967	<b>310,982</b>
<b>INCOME TAXES (Note 8):</b>			
Current	<b>14,470</b>	11,188	<b>126,930</b>
Deferred	<b>278</b>	2,580	<b>2,438</b>
	<b>14,748</b>	13,768	<b>129,368</b>
Income before minority interests	<b>20,704</b>	19,199	<b>181,614</b>
<b>MINORITY INTERESTS</b>	<b>671</b>	392	<b>5,886</b>
Net income	<b>¥ 20,033</b>	¥ 18,807	<b>\$ 175,728</b>

	Yen		U.S. dollars (Note 1)
<b>PER SHARE OF COMMON STOCK (Note 2):</b>			
Net income	<b>¥ 134.84</b>	¥ 125.64	<b>\$ 1.18</b>
Cash dividends applicable to the year	<b>¥ 40.00</b>	¥ 36.00	<b>\$ 0.35</b>

• 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, 2007 and 2006

	Number of shares of common stock	Millions of yen							
		Stockholders' equity				Valuation and translation adjustments		Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments		
<b>BALANCE AT DECEMBER 31, 2005</b>	150,523,896	¥ 73,303	¥ 82,525	¥ 90,324	¥ (1,123)	¥ 2,207	¥ 8	¥ 3,673	¥ 250,917
Net income				18,807					18,807
Cash dividends				(4,940)					(4,940)
Bonuses to directors				(113)					(113)
Purchases of treasury stock					(119)				(119)
Disposition of treasury stock			5		6				11
Contributions to employee welfare pension fund				(1)					(1)
Other, net						(531)	9	(572)	(1,094)
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>150,523,896</b>	<b>¥ 73,303</b>	<b>¥ 82,530</b>	<b>¥ 104,077</b>	<b>¥ (1,236)</b>	<b>¥ 1,676</b>	<b>¥ 17</b>	<b>¥ 3,101</b>	<b>¥ 263,468</b>
Net income				20,033					20,033
Cash dividends				(5,575)					(5,575)
Business combination by means of an exchange of stock	556,076		767		1,563				2,330
Purchases of treasury stock					(10,025)				(10,025)
Disposition of treasury stock			1		3				4
Acquisition by the parent company of parent company stock held by consolidated subsidiaries			(2)						(2)
Contributions to employee welfare pension fund				(7)					(7)
Other, net						(1,036)	(3)	381	(658)
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>151,079,972</b>	<b>¥ 73,303</b>	<b>¥ 83,296</b>	<b>¥ 118,528</b>	<b>¥ (9,695)</b>	<b>¥ 640</b>	<b>¥ 14</b>	<b>¥ 3,482</b>	<b>¥ 269,568</b>

	Thousands of U.S. dollars (Note 1)							
	Stockholders' equity				Valuation and translation adjustments		Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments		
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>\$ 643,009</b>	<b>\$ 723,947</b>	<b>\$ 912,956</b>	<b>\$ (10,842)</b>	<b>\$ 14,702</b>	<b>\$ 149</b>	<b>\$ 27,202</b>	<b>\$ 2,311,123</b>
Net income			175,728					175,728
Cash dividends			(48,904)					(48,904)
Business combination by means of an exchange of stock		6,728		13,711				20,439
Purchases of treasury stock				(87,939)				(87,939)
Disposition of treasury stock			9		26			35
Acquisition by the parent company of parent company stock held by consolidated subsidiaries		(17)						(17)
Contributions to employee welfare pension fund				(61)				(61)
Other, net					(9,088)	(26)	3,342	(5,772)
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>\$ 643,009</b>	<b>\$ 730,667</b>	<b>\$ 1,039,719</b>	<b>\$ (85,044)</b>	<b>\$ 5,614</b>	<b>\$ 123</b>	<b>\$ 30,544</b>	<b>\$ 2,364,632</b>

• See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Years ended December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 35,452	¥ 32,967	\$ 310,982
Adjustments for:			
Depreciation and amortization	11,968	10,716	104,983
Loss on impairment of fixed assets	95	97	833
Amortization of negative goodwill	(62)	(775)	(544)
(Decrease) increase in allowance for doubtful receivables	(251)	18	(2,202)
Reversal of liability for employees' retirement benefits	(1,658)	(6,392)	(14,544)
(Reversal of) provision for liability for directors' and corporate auditors' retirement benefits	(10)	74	(88)
Interest and dividend income	(911)	(321)	(7,991)
Interest expense	67	33	588
Loss on sales and disposal of property and equipment, net	425	468	3,728
Gain on sales of investments in securities	(806)	(96)	(7,070)
Gain on sales of affiliated companies, net	(189)	—	(1,658)
Decrease (increase) in notes and accounts receivable	10,799	(22,818)	94,728
Decrease in inventories	14,607	5,452	128,132
(Decrease) increase in notes and accounts payable	(10,371)	4,379	(90,974)
Other	1,256	5,061	11,018
Cash generated from operations	60,411	28,863	529,921
Interest paid	(49)	(33)	(430)
Interest and dividends received	881	293	7,728
Income taxes paid	(14,029)	(11,029)	(123,061)
Net cash provided by operating activities	47,214	18,094	414,158
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of a marketable security	220	—	1,930
Payments for purchases of property and equipment	(7,271)	(8,384)	(63,781)
Payments for purchases of intangible assets	(5,771)	(2,682)	(50,623)
Payments for purchases of investments in securities	(964)	(7,594)	(8,456)
Proceeds from sales of investments in securities	3,189	3,121	27,974
Payments for purchases of investments in subsidiaries	(344)	(746)	(3,018)
Payments for purchases of investments in subsidiaries accompanying changes in scope of consolidation	(9,439)	(487)	(82,798)
Proceeds from sales of affiliated companies	4,167	—	36,553
Payments for deposit of long-term time deposits	(1,000)	—	(8,772)
Proceeds from withdrawal of long-term time deposits	100	—	877
Decrease in other investments	—	2,000	—
Increase in time deposits	(4,995)	(4,479)	(43,816)
Other	196	34	1,719
Net cash used in investing activities	(21,912)	(19,217)	(192,211)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans	(588)	(297)	(5,158)
Payments for purchases of treasury stock	(10,019)	(84)	(87,886)
Dividends paid	(5,715)	(5,189)	(50,131)
Other	(23)	(556)	(202)
Net cash used in financing activities	(16,345)	(6,126)	(143,377)
Effect of exchange rate changes on cash and cash equivalents	1	(7)	9
Net increase (decrease) in cash and cash equivalents	8,958	(7,256)	78,579
Cash and cash equivalents at beginning of year	108,248	115,504	949,544
Cash and cash equivalents at end of year	¥ 117,206	¥ 108,248	\$ 1,028,123

• See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Marketing Japan Inc. (the "Company") and its consolidated subsidiaries 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 ¥114=U.S.\$1, the rate prevailing at December 31, 2007. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

## 2 Summary of Significant Accounting Policies

### (a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2007 include the accounts of the Company and all of its 24 (17 in 2006) subsidiaries. Investments in non-consolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation.

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

### (b) Cash Equivalents

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

### (c) Securities

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

### (d) Inventories

Inventories are valued at cost. Cost is determined mainly by the moving-average method.

### (e) Property and Equipment

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

Effective the year ended December 31, 2007, the methods of depreciation applied to fixed assets acquired on or after April 1, 2007 were changed to the corresponding methods required under the amended Corporation Tax Law. These changes had a marginal effect on income.

### (f) Liability 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.

Effective the year ended December 31, 2007, the defined benefit corporate pension plan previously adopted by the Company was transferred to 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. In connection with said transfer, the prior service cost portion of the projected benefit obligation was reduced by ¥28,277 million (\$248,044 thousand), and this reduction is being amortized over 16 years. As a result, operating income for the year ended December 31, 2007 increased by ¥1,767 million (\$15,500 thousand).

### (g) Leases

Non-cancelable lease transactions are accounted for as operating leases regardless of whether such leases are classified as operating leases or capital leases, except in the case of lease agreements stipulating the transfer of ownership of the leased property to the lessee, which are accounted for as capital 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 Company in prior years.

#### (i) Income Taxes

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

#### (j) Translation of Foreign Currency Accounts

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

#### (k) Foreign Currency Financial Statements

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

#### (l) Per Share Amounts of Common Stock

Net income per share is calculated using net income available to holders of common stock which is computed more precisely than under previous standards, 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

Effective the year ended December 31, 2006, "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan (ASBJ) Statement No. 4, issued on November 29, 2005) was adopted. The estimated amount payable for the next round of directors' bonuses, which are classed as expenses for the year ended December 31, 2007, has been included in the accounts for the current fiscal year.

#### (n) Liability for Directors' and Corporate Auditors' Retirement Benefits

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

#### (o) Accounting Standard for Business Combinations

The following accounting standards and related guidance were adopted effective the year ended December 31, 2006: "Accounting Standard for Business Combinations" (Business Accounting Council, issued on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 27, 2005).

#### (p) Accounting Standard for Presentation of Net Assets in the Balance Sheet

"Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8, issued on December 9, 2005) were adopted effective the year ended December 31, 2006.

## 3 Securities

Securities held by the Company and its consolidated subsidiaries as of December 31, 2007 and 2006 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2007</b>	2006	<b>2007</b>
Securities classified as:			
Available-for-sale:			
Investments in securities	¥ 9,147	¥ 11,618	\$ 80,237
Held-to-maturity:			
Cash and cash equivalents	86,492	11,993	758,702
Short-term investments in securities	—	224	—
Investments in securities	3,223	4,000	28,272
	<b>89,715</b>	16,217	<b>786,974</b>
	<b>¥ 98,862</b>	¥ 27,835	<b>\$ 867,211</b>

The carrying amounts and aggregate fair values of investments in securities at December 31, 2007 and 2006 were as follows:

Millions of yen				
<b>2007</b>				
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 2,999	¥ 1	¥ (5)	¥ 2,995
Government bonds	224	1	—	225
	¥ 3,223	¥ 2	¥ (5)	¥ 3,220

Millions of yen				
<b>2007</b>				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,023	¥ 1,643	¥ (606)	¥ 5,060
Other	2,015	17	(0)	2,032
	¥ 6,038	¥ 1,660	¥ (606)	¥ 7,092

Millions of yen				
2006				
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 4,000	—	¥ (28)	¥ 3,972
Government bonds	224	—	(1)	223
	¥ 4,224	—	¥ (29)	¥ 4,195

Millions of yen				
2006				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,675	¥ 2,915	¥ (125)	¥ 6,465
Other	2,505	5	—	2,510
	¥ 6,180	¥ 2,920	¥ (125)	¥ 8,975

Thousands of U.S. dollars (Note 1)				
<b>2007</b>				
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	\$ 26,307	\$ 9	\$ (44)	\$ 26,272
Government bonds	1,965	9	—	1,974
	\$ 28,272	\$ 18	\$ (44)	\$ 28,246

Thousands of U.S. dollars (Note 1)				
<b>2007</b>				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 35,289	\$ 14,413	\$ (5,316)	\$ 44,386
Other	17,676	149	(0)	17,825
	\$ 52,965	\$ 14,562	\$ (5,316)	\$ 62,211

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2007 and 2006 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Available-for-sale:			
Equity securities	¥ 1,983	¥ 2,643	\$ 17,395
Investments in investment partnerships	72	—	631
Held-to-maturity:			
Certificates of deposit	80,500	—	706,140
Commercial paper	5,992	11,993	52,562
	¥ 88,547	¥ 14,636	\$ 776,728

Certificates of deposit, which had previously been classified as cash and cash equivalents, have been included in marketable securities effective the year ended December 31, 2007. This change reflects the application of the revised “Practical Guideline on Accounting Standard for Financial Instruments” (Statement No. 14 of the Accounting Practice Committee, revised on July 4, 2007).

Certificates of deposit, which had previously been classified as cash and cash equivalents, amounted to ¥63,300 million as of December 31, 2006.

#### 4 Inventories

Inventories at December 31, 2007 and 2006 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Merchandise	¥ 29,756	¥ 45,200	\$ 261,017
Service parts	5,086	4,130	44,614
Work in progress	2,041	1,613	17,903
Supplies	778	885	6,825
Other	31	83	272
	¥ 37,692	¥ 51,911	\$ 330,631

#### 5 Short-Term Bank Loans, Long-Term Bank Loans and Deposits

Short-term bank loans, long-term bank loans and deposits at December 31, 2007 and 2006 consisted of the following:

	Average interest rate	Millions of yen		Thousands of U.S. dollars (Note 1)
		2007	2006	2007
Short-term bank loans	1.8%	¥ 343	—	\$ 3,009
Long-term bank loans maturing in installments from March 31, 2009 to October 31, 2009	1.8%	131	—	1,149
Deposits	0.4%	2,572	¥ 2,334	22,561
		¥ 3,046	¥ 2,334	\$ 26,719

The repayment schedule of long-term bank loans within five years after December 31, 2007 is summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2008	—	—
2009	¥ 131	\$ 1,149
2010	—	—
2011	—	—
2012	—	—

## 6 Employees' Retirement and Severance Benefits

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

The liability for employees' retirement benefits as of December 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2007</b>	2006	<b>2007</b>
Projected benefit obligation	¥ 137,181	¥ 159,464	\$ 1,203,342
Fair value of plan assets	(131,465)	(127,248)	(1,153,202)
Unrecognized actuarial loss	(9,272)	(10,240)	(81,333)
Unrecognized prior service cost	41,886	17,298	367,421
Prepaid pension cost	247	187	2,167
Net liability	¥ 38,577	¥ 39,461	\$ 338,395

The components of net periodic benefit costs for the years ended December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2007</b>	2006	<b>2007</b>
Service cost	¥ 5,945	¥ 7,065	\$ 52,149
Interest cost	3,276	3,599	28,737
Expected return on plan assets	(4,182)	(4,137)	(36,684)
Amortization of prior service cost	(3,690)	(1,826)	(32,369)
Amortization of actuarial loss	1,181	919	10,360
Other	1,220	10	10,702
Net periodic benefit costs	¥ 3,750	¥ 5,630	\$ 32,895

Assumptions used in accounting for the above plans for the years ended December 31, 2007 and 2006 were principally as follows:

	<b>2007</b>	2006
Discount rate	2.5%	2.5%
Expected rates of return on plan assets	1.0% - 3.4%	1.0% - 4.0%
Amortization period of prior service cost	10-16 years	10-17 years
Recognition period of actuarial loss	10-16 years	10-17 years

## 7 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).

## 8 Income Taxes

The normal statutory income tax rate was approximately 40.0% for the years ended December 31, 2007 and 2006.

For the years ended December 31, 2007 and 2006, the differences between the normal statutory tax rate (40.0%) and the effective tax rates following the adoption of tax-effect

accounting (41.6% and 41.8%, respectively) were 1.6% and 1.8%, respectively. Since these differences fall within the range of 0%-5% of the normal statutory tax rate, breakdowns of the related items have been omitted.

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>DEFERRED TAX ASSETS:</b>			
Loss on disposal and devaluation of inventories	¥ 372	¥ 586	\$ 3,263
Accrued business tax and business office tax	1,012	877	8,877
Accrued bonuses to employees	1,465	1,328	12,851
Software amortization	2,629	1,895	23,061
Loss on impairment of fixed assets	905	711	7,939
Excess depreciation of fixed assets	815	595	7,149
Allowance for doubtful receivables	252	301	2,211
Liability for employees' retirement benefits	15,604	16,243	136,877
Other	5,316	5,495	46,632
Gross deferred tax assets	28,370	28,031	248,860
Less: valuation allowance	(2,313)	(877)	(20,290)
Total deferred tax assets	¥ 26,057	¥ 27,154	\$ 228,570
<b>DEFERRED TAX LIABILITIES:</b>			
Net unrealized gain on available-for-sale securities	¥ 533	¥ 1,153	\$ 4,675
Deferred capital gain	269	244	2,360
Special depreciation reserve	3	32	26
Other	284	56	2,491
Total deferred tax liabilities	1,089	1,485	9,552
Net deferred tax assets	¥ 24,968	¥ 25,669	\$ 219,018

## 9 Leases

### (a) Finance Leases

Lease payments for finance leases excluding subleases, except for the lease agreements which stipulate the transfer of ownership of the leased property to the Company and its consolidated subsidiaries, were ¥1,842 million (\$16,158 thousand) and ¥1,609 million for the years ended December 31, 2007 and 2006, respectively.

(For Lessee)

Future minimum lease payments subsequent to December 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Future minimum lease payments:</b>			
Within one year	¥ 1,738	¥ 1,583	\$ 15,246
Thereafter	2,634	2,026	23,105
	¥ 4,372	¥ 3,609	\$ 38,351

Future minimum lease payments included the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Future minimum lease payments:			
Within one year	¥ 93	¥ 111	\$ 816
Thereafter	133	138	1,167
	¥ 226	¥ 249	\$ 1,983

The following *pro forma* amounts represent acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2007 and 2006, excluding subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Acquisition cost:			
Machinery and vehicles	¥ 300	¥ 338	\$ 2,632
Furniture and fixtures	6,044	5,445	53,018
Software	791	870	6,938
	¥ 7,135	¥ 6,653	\$ 62,588
Accumulated depreciation and amortization:			
Machinery and vehicles	¥ 203	¥ 193	\$ 1,781
Furniture and fixtures	2,383	2,573	20,904
Software	403	527	3,535
	¥ 2,989	¥ 3,293	\$ 26,220
Net book value:			
Machinery and vehicles	¥ 97	¥ 145	\$ 851
Furniture and fixtures	3,661	2,872	32,114
Software	388	343	3,403
	¥ 4,146	¥ 3,360	\$ 36,368

(For Lessor)

Future minimum lease payments, which consist of subleases subsequent to December 31, 2007 and 2006, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Future minimum lease payments:			
Within one year	¥ 93	¥ 111	\$ 816
Thereafter	133	138	1,167
	¥ 226	¥ 249	\$ 1,983

(b) Operating Leases (Non-cancelable)

(For Lessee)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Future minimum lease payments:			
Within one year	¥ 155	¥ 33	\$ 1,359
Thereafter	10	4	88
	¥ 165	¥ 37	\$ 1,447

## 10 Stock Option Plans

(For the year ended December 31, 2007)

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

#### (1) Description of stock option plans

ARGO 21 Corp.

	2003 Stock Option Plan		2005 Stock Option Plan	
Type and number of recipients	Directors of the subsidiary	9	Directors of the subsidiary	9
	Corporate auditors of the subsidiary	4	Corporate officers of the subsidiary	8
	Employees of the subsidiary (Note 1)	1,211	Employees of the subsidiary	973
	Directors of subsidiaries of the subsidiary	17	Directors of subsidiaries of the subsidiary	11
Number of stock options by type of stock to be issued (Note 2)	Common stock	588,300	Common stock	492,300
Grant date	August 5, 2003		August 8, 2005	
Vesting requirements	Remain employed from the grant date (August 5, 2003) to the end of the vesting period (August 31, 2005)		Remain employed from the grant date (August 8, 2005) to the end of the vesting period (August 31, 2007)	
Service period	For two years (from September 1, 2003 to August 31, 2005)		For two years (from September 1, 2005 to August 31, 2007)	
Exercisable period	From September 1, 2005 to August 31, 2007		From September 1, 2007 to August 31, 2009	

Notes: 1. Employees include advisors and temporary (part-time) workers.

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

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

The following tables are based on the stock options which existed as of December 31, 2007. The number of stock options is expressed based on the number of shares to be issued upon exercise.

##### ① Number of stock options

ARGO 21 Corp.

	2003 Stock Option Plan	2005 Stock Option Plan
Unvested:		
As of December 31, 2006	—	343,100
Granted	—	—
Forfeited	—	8,300
Vested	—	334,800
As of December 31, 2007	—	—
Vested:		
As of December 31, 2006	356,200	—
Vested	—	334,800
Exercised	265,700	197,400
Forfeited	90,500	137,400
As of December 31, 2007	—	—

Notes: 1. The amounts as of December 31, 2006 have been newly disclosed as a result of the consolidation of Argo 21 Corp. during the year ended December 31, 2007.

2. The amount forfeited after the exercise of the 2005 stock options represents the reduction resulting from cancellations.

##### ② Per unit information

	2003 Stock Option Plan	2005 Stock Option Plan
Exercise price (yen)	1,099	1,092
Average stock price on exercise (yen)	1,393	1,325
Fair value per unit (as of grant date) (yen)	—	—

## 11 Derivatives

(For the year ended December 31, 2007)

### 1. Matters concerning derivative transactions

#### (1) Types of derivative transactions

A consolidated subsidiary uses interest rate swap transactions.

#### (2) Policies of derivative transactions

Derivatives are used only to avoid exposure to interest rate risk on loans, and speculative derivative transactions are prohibited.

#### (3) Purpose of derivative transactions

Derivatives are used only to avoid exposure to interest rate risk on loans, for the purpose of hedge accounting.

##### ① Hedging instruments

Interest rate swap agreements

##### ② Hedged items

Interest rates on borrowings

##### ③ Hedging policies

Interest rate swaps are used to hedge against future interest rate rises by fixing variable interest rates, and no speculative transactions are undertaken.

##### ④ Method of evaluation of hedge effectiveness

Because interest rate swaps qualify for "special accounting," an evaluation of hedge effectiveness has been omitted.

#### (4) Risk from derivative transactions

The Group believes that the related credit risk is minimal, since the counterparties are Japanese banks with high credit ratings.

#### (5) Risk management

The managers of the subsidiary concerned implement and manage interest rate swaps according to their predictions of fluctuations in loan interest rates.

### 2. Matters concerning fair value

There are no applicable items.

Interest rate swap transactions are implemented, but these are subject to hedge accounting and, therefore, have not been disclosed.

## 12 Business Combination

(For the year ended December 31, 2007)

Application of the purchase method

Purchase of ARGO 21 Corp.'s stock

### 1. Corporate name of the acquired entity

ARGO 21 Corp.

### 2. Business of the acquired entity

Supply of IT solutions (principally the supply of core system solutions to financial institutions and public corporations)

### 3. Purpose of business combination

To expand and strengthen the IT solutions business

### 4. Date of business combination

June 21, 2007

### 5. Legal form of business combination

Purchase of stock

### 6. Corporate name after business combination of the acquired entity

ARGO 21 Corp.

### 7. Percentage of total shares acquired

83.18%

### 8. Period of operations of the acquired company included in the consolidated statement of income. From April 1, 2007 to December 31, 2007

### 9. Acquisition cost and its breakdown

Acquisition cost of shares

¥12,460 million (\$109,298 thousand)

Expense directly incurred for acquisition (advisory fee)

¥315 million (\$2,763 thousand)

### 10. ① Amount of goodwill

¥4,316 million (\$37,860 thousand)

### ② Reason for the generation of goodwill

Expected increase in future profitability as a result of business development

### ③ Method of amortization of goodwill

Straight-line method

### ④ Period of amortization of goodwill

Over 5 years

### 11. Assets and liabilities of the acquired company as of the date of the business combination

	Millions of yen	Thousands of U.S. dollars (Note 1)
① Current assets	¥ 10,330	\$ 90,614
② Fixed assets	7,272	63,789
③ Total assets	¥ 17,602	\$ 154,403
④ Current liabilities	¥ 4,587	\$ 40,237
⑤ Long-term liabilities	2,818	24,719
⑥ Total liabilities	¥ 7,405	\$ 64,956

### 12. Estimated effect on the consolidated statement of income for the year ended December 31, 2007 if the business combination had been completed on January 1, 2007

	Millions of yen	Thousands of U.S. dollars (Note 1)
(Unaudited)		
① Sales	¥ 7,067	\$ 61,991
② Gross profit	¥ 1,983	\$ 17,395
③ Operating income	¥ 522	\$ 4,579
④ Income before income taxes and minority interests	¥ 218	\$ 1,912
⑤ Net income	¥ 19	\$ 167

(Method of calculation and main assumptions for estimates)

The above estimated amounts were calculated on the basis of the consolidated sales and income figures of Argo 21 Corp. for the period from January 1, 2007 to March 31, 2007. The estimated amount of amortization of goodwill during this three-month period has been deducted.

Transaction under common control

1. Names and businesses of parent and subsidiary companies after business combination

① Sole parent company through stock exchange

(1) Corporate name

Canon Marketing Japan Inc.

(2) Business

Marketing of Business Solutions, Consumer Equipment, Industrial Equipment and provision of solutions with respect to these businesses

② Wholly-owned subsidiary through an exchange of stock

(1) Corporate name

Argo 21 Corp.

(2) Business

Supply of IT solutions (principally the supply of core system solutions to financial institutions and public corporations)

2. Legal form of business combination

Exchange of stock

3. Corporate name of subsidiary after business combination

Argo 21 Corp.

4. Outline and purpose of the transaction

Based on the results of tender offers made up to June 2007, it was determined that Argo 21 Corp. should be converted into a wholly-owned subsidiary through an exchange of stock to be implemented on November 1, 2007. This was done in order to protect the interests of minority stockholders, and to facilitate the planned merger of Argo 21 Corp. and Canon System Solutions Inc. in fiscal year 2008.

5. Method of accounting

Accounting treatment for the transaction under common control was in accordance with the "Accounting Standard for Business Combinations." (No goodwill was recognized.)

6. Additional acquisition of subsidiary's shares

① Acquisition cost

Acquisition cost of shares

¥2,339 million (\$20,518 thousand)

② Stock exchange ratio and basis for determination of stock exchange ratio

(1) Type of shares and stock exchange ratio

Common stock

Canon Marketing Japan Inc. 1: Argo 21 Corp. 0.6

(2) Basis for determination of stock exchange ratio

The stock of the Company was valued at market.

The stock of Argo 21 Corp. was valued at market and on the basis of the market value of net assets, comparisons with similar companies, and discounted cash flows. The stock exchange ratio was based on the combined results of these calculations.

(3) Number of shares delivered

1,356,076 shares (including 800,000 shares of substitute treasury stock)

(4) Value

¥2,339 million (\$20,518 thousand)

### 13 Assets Pledged as Collateral

Assets pledged as collateral for deferred payments of customs duties as of December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Short-term investments in securities	—	¥ 224	—
Investments in securities	¥ 224	—	\$ 1,965
	¥ 224	¥ 224	\$ 1,965

### 14 Contingent Liabilities

Contingent liabilities at December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Guarantees for employees' housing loans	¥ 159	¥ 190	\$ 1,395
Contingent liabilities related to the reduction of corporate bonds by debt assumption	10,000	20,000	87,719
	¥ 10,159	¥ 20,190	\$ 89,114

### 15 Subsequent Events

#### (a) Distribution of Retained Earnings

On March 27, 2008, the following distribution of retained earnings was approved at the annual general stockholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	¥ 3,221	\$ 28,254

#### (b) Purchases of Treasury Stock

On February 13, 2008, the Board of Directors of the Company approved a resolution to repurchase up to 3.5 million shares of the Company's common stock at a cost of up to ¥5,000 million (\$43,860 thousand) during the period from February 14, 2008 to March 21, 2008. Such purchases are intended to improve capital efficiency and ensure a flexible capital strategy. The number of shares of common stock repurchased on the Tokyo Stock Exchange between February 14, 2008 and March 11, 2008 under the aforementioned plan was 2,764,700 at an aggregate cost of ¥5,000 million (\$43,860 thousand).

## 16 Segment Information

### (a) Business Segment Information

Millions of yen						
Year ended or as of December 31,	2007					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥ 516,720	¥ 284,376	¥ 104,041	¥ 905,137	—	¥ 905,137
Intersegment	—	—	—	—	—	—
Total	516,720	284,376	104,041	905,137	—	905,137
Operating expenses	499,496	270,042	98,713	868,251	—	868,251
Operating income	¥ 17,224	¥ 14,334	¥ 5,328	¥ 36,886	—	¥ 36,886
Total assets	¥ 217,682	¥ 92,508	¥ 80,209	¥ 390,399	¥ 135,726	¥ 526,125
Depreciation and amortization	10,126	1,118	724	11,968	—	11,968
Loss on impairment of fixed assets	95	—	—	95	—	95
Capital expenditures	9,750	1,939	1,074	12,763	—	12,763

Millions of yen						
Year ended or as of December 31,	2006					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥ 482,133	¥ 270,832	¥ 114,207	¥ 867,172	—	¥ 867,172
Intersegment	—	—	—	—	—	—
Total	482,133	270,832	114,207	867,172	—	867,172
Operating expenses	467,530	257,364	108,359	833,253	—	833,253
Operating income	¥ 14,603	¥ 13,468	¥ 5,848	¥ 33,919	—	¥ 33,919
Total assets	¥ 207,897	¥ 88,835	¥ 103,496	¥ 400,228	¥ 126,350	¥ 526,578
Depreciation and amortization	8,844	1,015	857	10,716	—	10,716
Loss on impairment of fixed assets	97	—	—	97	—	97
Capital expenditures	8,761	1,022	1,133	10,916	—	10,916

Thousands of U.S. dollars (Note 1)						
Year ended or as of December 31,	2007					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Unaffiliated customers	\$ 4,532,632	\$ 2,494,526	\$ 912,640	\$ 7,939,798	—	\$ 7,939,798
Intersegment	—	—	—	—	—	—
Total	4,532,632	2,494,526	912,640	7,939,798	—	7,939,798
Operating expenses	4,381,544	2,368,789	865,904	7,616,237	—	7,616,237
Operating income	\$ 151,088	\$ 125,737	\$ 46,736	\$ 323,561	—	\$ 323,561
Total assets	\$ 1,909,491	\$ 811,474	\$ 703,588	\$ 3,424,553	\$ 1,190,579	\$ 4,615,132
Depreciation and amortization	88,825	9,807	6,351	104,983	—	104,983
Loss on impairment of fixed assets	833	—	—	833	—	833
Capital expenditures	85,526	17,009	9,421	111,956	—	111,956

### (b) Geographic Segment Information

As international sales of the Company and its consolidated subsidiaries for the years ended December 31, 2007 and 2006 constituted less than 10% of consolidated net sales, geographic segment information has not been disclosed.

### (c) Overseas Sales

Overseas sales amounted to less than 10% of consolidated net sales for the years ended December 31, 2007 and 2006. For this reason, overseas sales have not been disclosed.

# REPORT OF INDEPENDENT AUDITORS



■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
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C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100  
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## Report of Independent Auditors

The Board of Directors  
Canon Marketing Japan Inc.

We have audited the accompanying consolidated balance sheets of Canon Marketing Japan Inc. and consolidated subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Marketing Japan Inc. and consolidated subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplementary Information*

As described in Note 15 to the consolidated financial statements, the Board of Directors of the Company approved a resolution to repurchase a certain number of shares of the Company's common stock in a meeting held on February 13, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan  
March 27, 2008

A MEMBER OF ERNST & YOUNG GLOBAL

# 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: 17,823

Non-consolidated: 5,849

(As of December 31, 2007)

## MAIN LOCATIONS OF OPERATIONS

Headquarters, Makuhari office and branches

(Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)

(As of April 1, 2008)

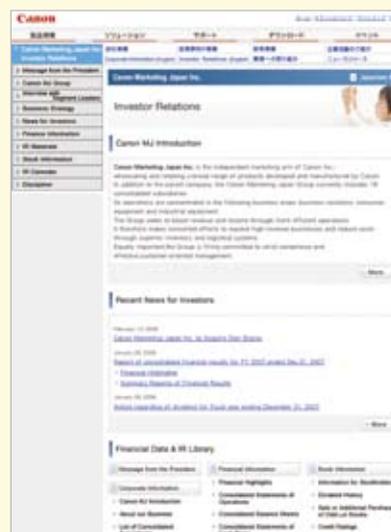
## MAJOR STOCKHOLDERS

Name of Stockholder	Number of shares held (Thousands)	Percentage of ownership (%)
Canon Inc.	75,709	50.11
CB New York Orbis SI CAV	6,736	4.46
Canon Marketing Japan Inc.	4,685	3.10
Canon Marketing Japan Inc. Employee Stockholding Plan	3,180	2.10
Japan Trustee Services Bank, Ltd.	3,051	2.02
The Master Trust Bank of Japan, Ltd.	2,512	1.66
Northern Trust Company AVFC re Fidelity Funds	2,297	1.52
CB New York Orbis Funds	1,994	1.32
The Bank of New York Treaty Jastec Account	1,579	1.05
Danske Bank Clients Holdings	1,460	0.97

## 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 2008–2010)
- Stock information
- Annual reports



# 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/co-profile/ir-e>



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