

Canon

FOCUS

ON A STEADY RECOVERY

ANNUAL REPORT
2009

for the year ended December 31, 2009

Canon Marketing Japan Inc.

PROFILE

... AND LONG-TERM GROWTH DEVELOPMENT

Canon Marketing Japan Inc. (Canon MJ) is the global Canon Group's independent marketing arm for the Japanese market. Together with our 21 consolidated subsidiaries (as of April 1, 2010), we manage all aspects of the marketing of Canon products in Japan. We connect Canon Inc. with Japanese customers, and support product development by feeding back information about their diverse and sophisticated needs.

With our three business segments—Business Solutions, Consumer Equipment and Industrial Equipment—we serve corporations and general consumers, providing office equipment, IT solutions, digital cameras and home-use printers, as well as industrial, medical and broadcasting equipment.

In-depth market knowledge, a powerful nationwide sales network, and the exclusive right to sell products of the globally trusted Canon brand in Japan, are all important strengths of Canon MJ. But we also like to cite our ability to build long-term customer relationships by delivering truly excellent customer service at all stages from initial purchase to after-sales support.

When the global recession struck, we could not avoid being affected. But, as we now take decisive steps to reinforce our financial structure and revenue base, these distinct strengths position us well for a steady recovery and sound long-term growth.

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RAISING BUSINESS PERFORMANCE IN 2009

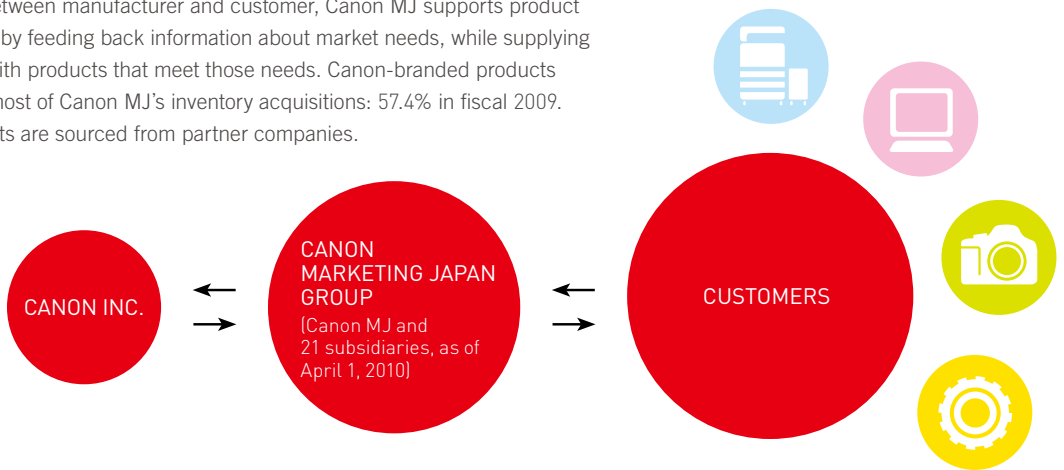
- ➔ Maintained No. 1 market shares in the key areas of digital SLR cameras, compact digital cameras, laser printers and home-use printers.
 - ➔ Moved to replace non-cost effective properties as part of an initiative to reduce rental costs by building new facilities for Group subsidiaries. This resulted in a one-time impairment loss of ¥10.8 billion (US\$117.1 million).
 - ➔ Drastically reduced operating expenses by ¥20.8 billion (US\$226.6 million) year on year.
 - ➔ Increased efficiency of service and support with new organizational structures and IT system architecture.
 - ➔ Increased the stockholders' equity ratio to 54.9%.
 - ➔ Released imageRUNNER ADVANCE, a new multifunctional product series that will enhance earnings in the Document Business and IT Solutions Business.
 - ➔ Updated the Three-Year Management Plan as per our annual rolling review to include in-depth forecasts for the current situation. The decisive measures of the new plan will drive a return to consolidated operating income at the ¥30 billion (US\$326.1 million) level by fiscal 2012.
-

Canon MJ is moving decisively to strengthen its financial structure and revenue base, and position the company for a steady recovery.

OUR ROLES AND GOALS

CANON MJ—A CORE COMPANY IN THE GLOBAL CANON GROUP

Positioned between manufacturer and customer, Canon MJ supports product development by feeding back information about market needs, while supplying consumers with products that meet those needs. Canon-branded products account for most of Canon MJ’s inventory acquisitions: 57.4% in fiscal 2009. Other products are sourced from partner companies.



OUR BASIC BUSINESS APPROACH—UNWAVERING CUSTOMER FOCUS

Our guiding principle—Customer Focus—expresses our dedication to deliver service excellence at all stages from the customer’s initial approach through to after-sales support. Put simply, we aim to become every customer’s No. 1 choice for top-quality office technology and imaging technology for consumer and industrial use.

AN INDEPENDENT LISTED COMPANY COMMITTED TO SUSTAINED VALUE GROWTH

Our foremost priority is to bring value to our stockholders through the execution of business operations, as well as to the communities around us via proactive CSR initiatives.

BUSINESS SOLUTIONS

61%
of Net Sales

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

CONSUMER EQUIPMENT

35%
of Net Sales

The main products sold in this segment are digital cameras and home-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.

INDUSTRIAL EQUIPMENT

4%
of Net Sales

In the Industrial Equipment segment, Canon MJ sells imported industrial equipment, medical equipment, including X-ray digital cameras, and TV broadcasting lenses. The Semiconductor and LCD Lithography Systems Business was transferred to Canon Inc. in January 2010.

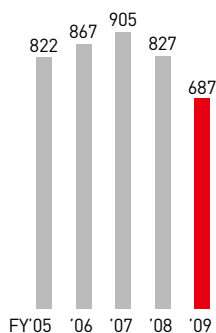
FINANCIAL HIGHLIGHTS

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

FOR THE YEAR:

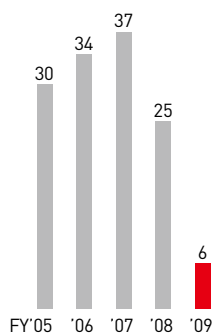
Net Sales

(Billions of yen)



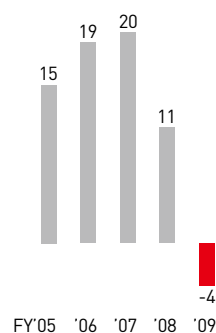
Operating Income

(Billions of yen)



Net Income

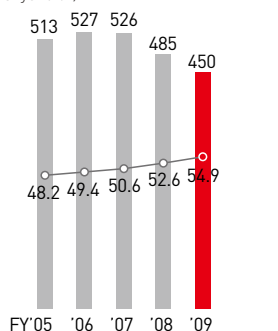
(Billions of yen)



AT YEAR-END:

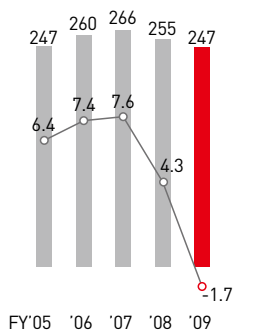
Total Assets and Total Stockholders' Equity Ratio

(Billions of yen / %)



Total Stockholders' Equity and ROE

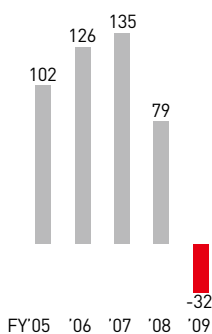
(Billions of yen / %)



PER SHARE OF COMMON STOCK:

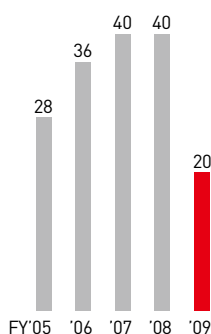
Net Income (Note 2)

(Yen)



Cash Dividends (Note 3)

(Yen)



NOTES:

- The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥92 to U.S.\$1, the prevailing exchange rate as of December 31, 2009.
- Net income per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
- Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.
- 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.

TO OUR STOCKHOLDERS



Chairman
Haruo Murase

President
Masami Kawasaki

OUR FOCUS: RETURNING CANON MJ TO THE GROWTH TRACK

A grave challenge requires a forceful response. After an extraordinarily difficult year, we have launched a comprehensive plan to fortify our financial structure and revenue base. Leveraging the Canon brand's reputation for quality, we are moving to achieve a steady recovery and sound long-term growth.

PRIORITY STRATEGIES

- ⊖ Rebuild the income structure of the Document Business
- ⊖ Enhance the IT Solutions Business and expand service businesses
- ⊖ Maintain No. 1 position in digital photography by focusing on total solutions
- ⊖ Strengthen the Industrial Equipment segment with a focus on new markets and new product development
- ⊖ Optimize sales, maintenance and logistics systems for greater earning power and management efficiency

“The slowdown seen in the market environment was even worse than anticipated.”

The main activity of the Canon MJ Group is sales of Canon products in the Japanese market. We handle all aspects of marketing, including sales and after-sales service, as well as the provision of related solutions.

In fiscal 2009 (ended December 31, 2009) we experienced an unprecedented slump in sales to corporate customers. This was reflected in a substantial decline in consolidated net sales, which were 17% lower year on year at ¥686.6 billion (US\$7,463.2 million). Consolidated operating income declined by 75% to ¥6.3 billion (US\$68.4 million).

We also posted an impairment loss of ¥10.8 billion (US\$117.1 million) in fiscal 2009. This resulted from a group-wide review of company-owned properties aimed at identifying non-cost effective properties and reducing rental costs by building new facilities for companies related to the Group.

As a result of the above factors, there was a consolidated net loss of ¥4.3 billion (US\$47.2 million).

“This is not simply a cyclical recession. There are signs of a fundamental shift in the needs of corporate customers.”

A major recession affected the Japanese economy in the year under review. However, the slump in our business with corporate customers went beyond the effects of a traditional cyclical downturn. We believe

that sales were affected not only by the recession, but also by a fundamental change in customer needs.

The Document Business within the Business Solutions segment is a key source of both sales and profit for Canon MJ. We earn income by selling office equipment, especially multifunctional products (MFPs) designed to improve office efficiency, and by providing maintenance services, including document services. However, it is no longer enough to just speed up individual office tasks—customers now expect added functionality, such as IT connectivity and security features, that enables comprehensive workflows.

Furthermore, a continuing decline in document output volumes has put pressure on sales of maintenance services. It is becoming increasingly apparent that we will need to provide a different kind of value and expand earnings with new business models.

“We have proved the strength of the Canon brand in consumer markets.”

Consumers have become increasingly reluctant to spend, and demand has also been affected by a continuing deflationary trend. These factors were reflected in a generalized slump in Japanese consumer markets.

In the Consumer Equipment segment, net sales declined year on year to ¥241.7 billion (US\$2,627.7 million), but operating income was marginally higher at ¥10.7 billion (US\$116.1 million). In terms of sales volumes, Canon MJ recorded the biggest shares of

TO OUR STOCKHOLDERS

the markets for digital SLR cameras, compact digital cameras and home-use printers, all of which are flagship product categories. We attribute our sales and profit results in this segment to our success in reading customer needs and reflecting these in our marketing and the superior performance of our products.

“We expect the Japanese economy to remain in recession. However, we anticipate a return to positive net income in fiscal 2010.”

We forecast that trends in corporate demand in Japan will remain challenging in fiscal 2010. We are also seeing signs of a qualitative shift in the needs of corporate users. Yet, we are determined to achieve positive consolidated net income in fiscal 2010 by focusing on the following priority strategies.

Rebuilding the Document Business

In fiscal 2009, we recorded an operating loss of ¥3.3 billion (US\$35.6 million) in the Business Solutions segment. Our top priority as we work toward a return to profitability in this segment will be to rebuild our income structure for the Document Business. A key factor in this recovery will be imageRUNNER ADVANCE, which was launched in September 2009. Compared with earlier models, this new MFP has totally new capabilities. In addition to network support and security features, it offers new value to users because of its superb support for the integration of office document tasks into corporate IT systems.

Another urgent task will be to improve the earning

potential of our maintenance services. We need to raise the efficiency of our staff without compromising service quality, and will do this by continually reinforcing systems, including IT systems, within the Canon MJ Group. We aim to achieve positive operating income in the Business Solutions segment in fiscal 2010.

Maintaining Our No. 1 Position in Digital Photography

Digital camera products have very short lifecycles, and the timing of new product launches is extremely important. We maintained a healthy sales trend in 2009, and product inventories are at an appropriate level. Conditions are now favorable for the systematic launch of new products. We aim to maintain our position as No.1 in digital photography and achieve results similar to the fiscal 2009 figures by further enhancing our ability to offer consumers total solutions for their photographic needs, including home printing.

Strengthening the Industrial Equipment Segment

We radically reorganized the Industrial Equipment segment, which was affected by the semiconductor industry slump and showed an operating loss of ¥1.1 billion (US\$12.1 million) in fiscal 2009. On January 1, 2010, we transferred the Semiconductor and LCD Lithography Systems Business, a core category in this segment, to Canon Inc. The workforce was also transferred, thereby halving the number of personnel in this segment to 300. We aim to achieve positive operating income in fiscal 2010 with a structure based on the

STRATEGIES FOR THE IT SOLUTIONS (ITS) BUSINESS

1.

Restructure IT Solutions group companies

2.

Renew IT systems inside Canon Inc., Canon MJ and other Canon Group companies and use that experience for new business

3.

Enhance sales power of IT solutions

4.

Develop Data Center Business and start cloud computing services

three categories of imported industrial equipment, medical equipment and broadcasting equipment.

Within these categories, we will focus on new markets and new product development.

The above combination of measures will allow us to return to positive consolidated net income in fiscal 2010.

“Our goal is to achieve a sustained return to a growth track in fiscal 2012 and beyond.”

Our growth targets, which are contained in our financial forecasts for fiscal 2012, are consolidated net sales of ¥760 billion (US\$8,260.9 million) and consolidated operating income of ¥30 billion (US\$326.1 million). The priority strategies outlined here will enable us to achieve these goals. Of particular importance is our planned expansion of the IT Solutions Business.

Enhancing Our Ability to Provide IT Solutions

The IT Solutions Business currently employs about 5,000 people and generates net sales of ¥140.0 billion (US\$1,521.7 million). We are working to enhance production and sales capabilities in this segment through a range of measures (listed above).

Creating new service businesses is a key part. At present, we have data centers in three locations, and we plan to invest ¥15.0 billion (US\$163.0 million) in the establishment of a fourth center on the outskirts of Tokyo. This new, cutting-edge facility will become operational in the fall of 2012. We aim to create a stock-type business model based on continuous

expansion of cloud computing services and system operation services.

“Our medium- to long-term priority is the expansion of shareholder returns.”

Our fundamental priorities are to achieve sustained growth in Canon MJ's corporate value in the medium- to long-term and to return income to our shareholders through reliable dividends and a target consolidated payout ratio of 30%.

Regrettably, the dividend for fiscal 2009 has been reduced from ¥40 per share to ¥20 (US\$0.22). We will continue to work relentlessly toward an improvement.

Our financial position is very sound, and we have secured funds for investments totaling almost ¥70 billion (US\$760.9 million) over the next three years.

Canon MJ is determined to achieve sustained growth in the medium- to long-term by continuously bringing customers new value, and to help build a sustainable society through operations that minimize environmental impact.

We look forward to your continuing strong support as we move toward our goals.

Chairman Haruo Murase



President Masami Kawasaki



**SPECIAL
FEATURE 1**

HOLDING THE NO. 1 SHARE IN DIGITAL PHOTOGRAPHY

Canon MJ's No. 1 share of the digital camera market, held despite harsh conditions and sharp reductions in the promotional activities of corporations, proves the Canon brand's resilience. Solidifying our position, we continue to focus on surpassing user expectations.

EOS 7D

18-Megapixel CMOS Sensor

Developed and manufactured by Canon, the EOS 7D features an APS-C-size CMOS sensor that provides ultra-high 18-megapixel resolution. Using high-precision design and manufacturing processes, Canon has combined extremely high resolution and ISO sensitivity with low noise. Suitably, the EOS 7D is marketed as an "Image Monster" in Japan.



IMAGE MONSTER

Canon—No. 1 in the Japanese Market for Digital Single-Lens Reflex Cameras

As digital cameras become more common, the market has increasingly shifted toward digital SLR cameras with enhanced functionality. Canon pioneered the market for entry-level digital SLR cameras with the launch of the EOS Kiss Digital series in 2003. In addition, the EOS Digital series has earned strong support across users ranging from advanced

amateurs to professionals.

Canon's key advantage in this market is a product line-up with models for users at all levels from beginners to professionals. This wide line-up ensures Canon's position as Japan's leading digital SLR camera manufacturer in terms of market share.



IXY and PowerShot Also Remain No. 1.

A key advantage for Canon MJ is its extensive line-up of compact digital cameras. Canon offers two series of cameras—IXY, which emphasizes compactness, and PowerShot, which combines compact designs with sophisticated features. In 2009, Canon was Japan's leading manufacturer in terms of its share of the compact digital camera market.

Total Service

To build long-term customer relationships and make Canon products every customer's preferred choice, we are particularly focused on responding promptly to customer inquiries, and on providing speedy, effective repairs.

General inquiries are handled at the Canon Customer Support Center, which receives several

million phone calls annually from customers seeking advice about products they are using. We have progressively expanded our call center systems to ensure that every call can be handled promptly and appropriately. We have also enhanced our online support pages, which can be accessed around the clock via the Canon website.



Almost 100% Field of View

Viewfinder performance is crucial to enjoying photographic creativity with single-lens reflex cameras. Canon viewfinders provide nearly 100% field of view and a magnification of 1.0. Previously such performance was available only in high-end professional cameras.

Dual Digid 4

Canon has dramatically increased the EOS 7D's image processing power with dual Digid 4 advanced imaging engines. The system supports rapid shooting at eight frames per second and high-speed processing of 18-megapixel images.

EOS MOVIE

The Next Step
in Video Recording

Thanks to its high resolution, the EOS 7D brings new creative capabilities and lots of fun to HD video recording. With EOS Movie mode activated, the 18-megapixel CMOS sensor and dual Digid 4 advanced imaging engines enable users to retain focus on the desired spot while blurring the background—a feature unavailable at this price point until now. The EOS Movie features are already seeing use in TV commercial production and filmmaking.

Expanding the Canon Fan Base

Canon MJ offers camera users many opportunities to enhance their enjoyment of photography. One channel used for this purpose is the *Canon Photo Circle* magazine, which turned 50 in 2009. There are also 86 local Canon photo clubs in Japan, all of which are actively supported by Canon MJ. Other activities include the EOS School (pictured), where users can learn photographic techniques. By enhancing users' enjoyment of photography, Canon MJ is building a fan base of people who will continue to choose Canon products.



SPECIAL FEATURE 2

User-Friendly Interface

The control panel of the imageRUNNER ADVANCE is equipped with a tiltable 8.4-inch color LCD touch screen. The information shown can be customized for individual users.



INTRODUCING NEXT-GENERATION BUSINESS SOLUTIONS

Businesses today require ever-higher productivity, cost-efficiency, quality and ease of use. Canon MJ fulfills these demands by combining market-leading multifunctional products (MFPs) with sophisticated IT solutions into total packages that ensure smooth workflows.

User-Centric—A New Concept of Universal User-Friendliness

Under the *User-Centric* concept, “user” encompasses not only customers, but also everyone involved in equipment sales and maintenance. If equipment is difficult for Canon MJ staff to handle, we cannot expect it to be easy for customers to use. We continually emphasized this concept during our frequent consultations with Canon Inc. staff throughout the development process.

Of course, imageRUNNER ADVANCE was designed for use by all kinds of people, including people with disabilities. For example, control panel adjustment functions have been expanded to make the system more convenient for wheelchair users, and colors have been selected to enhance visibility for users with impaired color vision (dyschromatopsia).



Reduced Component Replacement Time

In developing the imageRUNNER ADVANCE, a key aim was to reduce maintenance downtime, which is invariably frustrating for users. Canon MJ strongly pushed Canon Inc. to enable speedy maintenance, resulting in significantly reduced component replacement time—and greater customer satisfaction.

User-Centric Combined with IT Connectivity

The new imageRUNNER ADVANCE series of MFPs has features that will be vital for office-use multifunctional systems in the future, including powerful connectivity with IT systems, improved control features, reduced total cost of ownership (TCO), and the ability to provide an optimized workflow for each user. These products can be combined with a variety of optional equipment and software to create solutions for a wide range of needs.

One major advantage is the excellent compatibility with existing MFPs. Significant improvements in overall efficiency can be had by installing multiple imageRUNNER ADVANCE units and using them in conjunction with existing MFPs.

Customers can also combine these products with other solutions, such as user authentication

systems. For example, it is possible to create highly customized security systems that enhance end-user convenience while allowing managers to set specific menu controls for each user.

Canon MJ has also created the HOME service, an IT operations outsourcing service for small and medium-sized enterprises. This allows companies to integrate their internal information systems into corporate portal sites that provide dramatic improvements in information sharing and security, without the need to employ IT staff. Canon MJ is committed to helping users realize the full potential of imageRUNNER ADVANCE technology and will continue to improve its solutions-based marketing in step with the development of the series.

Advanced Box

The Advanced Box feature supports file sharing even in a non-server environment by means of hard disks installed within the system. A 9GB disk is provided as standard, but this can be expanded up to 114GB.

Powerful Usage Rights Management for PDFs

The imageRUNNER ADVANCE Series supports Adobe LiveCycle® Rights Management ES functionality, which enables powerful handling of sensitive information. Via a user-installed rights management server, usage permissions for reviewing, copying, editing and printing can be flexibly assigned to PDF files. These permissions are fully editable, and can be modified for protected files even after distribution.

Active Commitment to Environmental Responsibility

CO₂ emissions have been reduced by 50% compared with earlier products. imageRUNNER ADVANCE is also the first Canon MFP made entirely from recycled plastic. Recyclable packaging, which can be reused up to 10 times, is used at the distribution stage. Moreover, Canon has anticipated future requirements under the RoHS Directive by making these products lead-free (except for electronic and electrical components).





BUSINESS SOLUTIONS

DOCUMENT BUSINESS

IN BRIEF

- The key strategic product in this segment is the new imageRUNNER ADVANCE. Our challenge is to build a new business model through the fusion of document services with IT Solutions (ITS).
- In maintenance services, we will implement radical changes to create a structure that will allow us to earn income while enhancing customer satisfaction.

PERFORMANCE

The Business Solutions segment, consisting of the Document Business and the IT Solutions Business, is a core business area and generates 61% of total net sales. Unfortunately, corporate customers reduced investments in facilities and office equipment by a greater margin than predicted, significantly lowering segment earnings year on year.

In the Document Business, the product category of business-use multifunctional products saw big changes in fiscal 2009. Total shipments of both color and monochrome models in the domestic market dropped sharply during the year, and net sales were severely impacted. Sales of maintenance services were also below the previous year's level due to the reduction of printing volumes by customers and cuts in the unit prices of maintenance services.

The IT Solutions Business was also hit by a general decline in corporate investment.

These factors were reflected in the fiscal 2009 results for this segment. Net sales were 15% lower year on year at ¥419.2 billion (US\$4,556.7 million), and there was an operating loss of ¥3.3 billion (US\$35.6 million).

MAJOR TRENDS

BUSINESS-USE MULTIFUNCTIONAL PRODUCTS (MFPs)

There was a generalized and dramatic decline in shipments of both color and monochrome

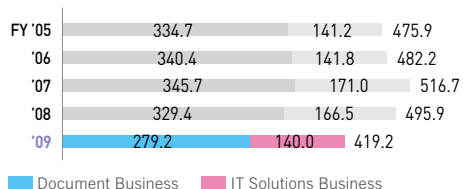
Focused on a Sustained Recovery

Japan's economy has yet to recover fully, and we expect the conditions seen in 2009, including deflationary pressure and corporate cost-cutting, to persist in the first half of fiscal 2010. Our top priority in fiscal 2010 will be to develop strategies to take us through and beyond this situation. We will increase sales by emphasizing solutions centered on the imageRUNNER ADVANCE, and have also launched a "Knock on the door" initiative to get new clients.

KOJI ASHIZAWA Executive Vice President

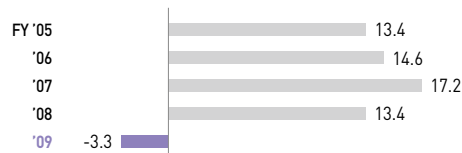


NET SALES (Billions of yen)



Document Business IT Solutions Business

OPERATING INCOME* (Billions of yen)



* Total of Document and IT Solutions Businesses

MFPs in the Japanese market in fiscal 2009. While this situation directly impacted on the results for this segment, we immediately took steps to reverse the downward trend by building a new sales business model centering on the imageRUNNER ADVANCE, launched in September 2009.

LASER PRINTERS Shipments of color and monochrome laser printers in the Japanese market fell year on year in fiscal 2009. We maintained our No. 1 market share, but sales were below the previous year's level.

MAINTENANCE SERVICES Maintenance services are provided mainly by a consolidated subsidiary, Canon System & Support Inc. (Canon S&S). We faced extremely difficult conditions, including a reduction in print volumes by maintenance service customers, a shift from color to monochrome output, and a reduction in unit prices under pressure from escalating competition.

HIGHLIGHTS OF THE YEAR 2009

FEBRUARY

Canon's lineup of color laser printers is further expanded with the announcement of three A3 and two A4 models.

MARCH

The imagePRESS 1135, 1125 and 1100 monochrome on-demand systems go on sale.

JULY

Canon S&S graphic centers and Canon Business Support POD centers are integrated under a new company, Canon Print Square Inc.

JULY

The new imageRUNNER ADVANCE is announced.

JULY

A new service license system is introduced with the aim of improving customer engineer (CE) skills for imageRUNNER ADVANCE service staff.

SEPTEMBER

The new CANVAS service system becomes operational.

WHOLE YEAR

For laser printers, the biggest share of the Japanese market is retained for the 17th consecutive year.



ImagePRESS 1135

This high-speed, high-performance printing system offers excellent productivity for both small runs and bulk printing thanks to improved durability, and also has enhanced security features for added reliability. Designed for usability, this system is extremely easy to operate.



Satera LBP9600C

Using original environmental technology, energy efficiency is an integral part of this printer's design, and the excellent environmental performance is shown by its TEC rating. The printer is packed with user-friendly features, including a wide-screen LCD monitor, and has extensive options for various business needs.



ImageRUNNER ADVANCE C7065

Based on the *User-Centric* concept, the new imageRUNNER ADVANCE line-up sets a new standard in business device usability. A high-performance CPU dramatically improves processing efficiency for high-speed, high-quality printing. The system also supports efficient business communication by allowing information to be used and shared quickly and securely.



BUSINESS SOLUTIONS

IT SOLUTIONS BUSINESS

IN BRIEF

- Japanese companies are still reducing their IT investment, but Canon MJ is preparing for a return to demand growth in the medium-to long-term by channeling its total group resources into structural reinforcement.
- We have launched major initiatives aimed at creating a stock-type business model. Measures include the expansion of our network of data centers, and the development of cloud computing services.

PERFORMANCE

We see the IT Solutions Business as a growth driver. In fiscal 2009, however, IT investment cuts by our customers caused net sales to fall 16% year on year to ¥140.0 billion (US\$1,521.4 million).

Our IT Solutions Business is divided into four areas: system integration (SI) services, solutions, infrastructure/outsourcing and IT products.

Performance trends in the solutions category remained strong, especially in the security-related area. However, there were significant declines in sales of SI services to customers in the financial and manufacturing sectors, and in sales of IT products. We also faced difficult conditions in the infrastructure/outsourcing category.

MAJOR TRENDS

GROUP RESTRUCTURING AND REINFORCEMENT

In fiscal 2009, we restructured related group companies to raise production and sales power. In January 2009, Canon Network Communications Inc. was absorbed into Canon IT Solutions Inc. We also established two new companies: Canon ITS Medical Inc. and Canon BizAttenda Inc. In April, we acquired Edifist Learning Inc., which provides IT and management training for corporate customers. On April 1, 2010, we will further strengthen this business through the establishment of Canon MJ IT Group Holdings Inc., which will play a key strategic role. Also, in May 2010, we

Focused on Strengthening IT Solutions

In fiscal 2010, the establishment of Canon MJ IT Group Holdings Inc. on April 1 will bring a clearer direction for the IT Solutions Business. This new company will make investment decisions and manage income, and also help to expand earnings by intensifying dialog with customers. Maintaining portfolio balance in these difficult conditions is extremely important, and our immediate priority will be to create and expand a stock-type IT service business capable of sustained income streams.

KAZUNORI ASADA President, Canon MJ IT Group Holdings Inc.



will boost our total group resources by acquiring Canon Software Inc. as a wholly owned subsidiary.

LINKAGE WITH THE imageRUNNER ADVANCE

The imageRUNNER ADVANCE is more than an MFP. Its powerful networking and security features enable users to build highly effective systems by networking the imageRUNNER ADVANCE with computers and other office equipment. We have increased our sales force in this area by 70 people in preparation for the introduction of a new proposal-based business model.

DATA CENTER BUSINESS AND CLOUD SERVICES

We currently have two data centers in the Tokyo area and one in Okinawa. We plan to invest ¥15.0 billion (US\$163.0 million) in a fourth data center, which will open in the fall of 2012 within the Tokyo Metropolitan Area.

Moreover, the development of our cloud service business has now begun in earnest. We will create a stock-type business model centering mainly on existing customers.

HIGHLIGHTS OF THE YEAR 2009

JANUARY

Canon NC merges with Canon ITS.

JANUARY

The medical solutions business of Canon ITS is transferred to FMS, and Canon ITS Medical Inc. is established.

JANUARY

AIS and Solutions Service merge to form Canon BizAttenda Inc.

APRIL

Edifist Learning Inc. joins the Canon MJ Group.

SEPTEMBER

Canon MJ, Canon ITS and Canon BS present a joint exhibit at Cloudforce Japan, the biggest cloud computing event in Japan.

SEPTEMBER

Data center services are expanded using data centers operated by Qualysite Technologies Inc.

OCTOBER

Domestic sales of ESET security products exceed 1 million units.

NOVEMBER

SSJ K.K. announces Super Stream-NX, a new Enterprise Resource Planning (ERP) product.



ESET Smart Security 4

Designed for ease of use, this comprehensive security package integrates anti-virus, anti-spyware, anti-phishing, anti-spam and firewall tools. To prevent virus infections from removable storage devices, access to these can be restricted. Also, the ESET Smart Security Program protects itself from modifications, partial deletion or other problems caused by virus attacks or operator error.



CONSUMER EQUIPMENT

IN BRIEF

- New product launches and strategic marketing campaigns earned us the No. 1 market share for this segment's major products, which are digital SLR cameras, compact digital cameras and home-use printers.
- We aim to maintain our performance at fiscal 2009 levels in fiscal 2010 by offering consumers a variety of new ideas for enjoyment of digital photography.

PERFORMANCE

A worsening employment environment, falling personal incomes and other factors were reflected in a deflationary trend in Japanese consumer markets in fiscal 2009. Conditions in the digital camera market were extremely tough. Sales volumes were lower across the board, while fierce competition drove down selling prices.

In this market environment, Canon MJ launched new digital SLR cameras and digital compact cameras. We also strengthened our integrated approach to sales promotion, a key feature of which is our strategy of offering consumers a variety of new ways to enjoy photography, including home printing.

Net sales were 9% lower year on year at ¥241.7 billion (US\$2,627.7 million), but operating income was 4% higher at ¥10.7 billion (US\$116.1 million).

MAJOR TRENDS

DIGITAL SLR CAMERAS Total shipments in the digital SLR camera market fell during the year. In April, we launched a new entry-level model, the EOS Kiss X3, which gained the biggest market share in its class. A powerful line-up of products matched to consumer needs and marketing campaigns targeted toward specific user profiles helped us to maintain our position as No. 1 in terms of market share.

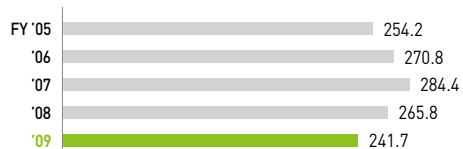


Focused on Enhancing Customer Satisfaction

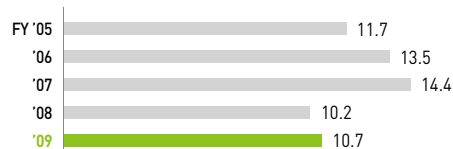
In fiscal 2009, among other reforms, we realigned our sales organizations and integrated management in the service and support area. These initiatives raised income beyond the 2008 level, and we secured No. 1 market shares in key product categories. As many of our products are in the mature phase of their life cycles, our priority is to enhance customers' satisfaction. To this end, we will ensure that every Canon MJ employee has truly professional communication skills.

OSAMU SASAKI Senior Managing Director

NET SALES (Billions of yen)



OPERATING INCOME (Billions of yen)



COMPACT DIGITAL CAMERAS Conditions were difficult in this market also. Total shipments fell below the previous year's level, and price competition remained intense. Our marketing for this category focused on our reputation for quality products, especially the IXY Digital 930 IS, a high-end camera packed with the latest features. Sales volumes exceeded the previous year's level, and we secured the No. 1 market share.

HOME-USE PRINTERS Total shipments of home-use printers in the Japanese domestic market shrank in fiscal 2009. Reactions to the PIXUS MP630, which we launched in fiscal 2008, and the PIXUS MP640, which debuted in September 2009, were very positive, and we were able to maintain the top market share. We recorded a steady trend in sales of printer consumables.

HIGHLIGHTS OF THE YEAR 2009

JUNE

Canon MJ commences joint shipping with Epson Sales Japan Corporation to reduce environmental loads.

JULY

Service center and call center functions are integrated under Canon RS to strengthen customer response capabilities.

JULY

Canon Photo Circle magazine celebrates the 50th anniversary of its 1959 launch. Membership exceeded 20,000 by the end of 2009.

SEPTEMBER

Presentations are held to announce the launch of the EOS 7D digital SLR camera and new PIXUS products.

OCTOBER, NOVEMBER

Canon Photo Festival 2009 is held. Events include mass photography shoots, hands-on demonstrations, talk shows, seminars and photo exhibitions.



EOS KISS X3

This user-friendly camera combines 15.1 megapixel resolution with high-speed processing, including continuous shooting at 3.4 frames per second. Other advanced features include nine-point auto focus, face detection and HD video recording.



IXY DIGITAL 930 IS

This elegant camera sports a new Touch Focus system that holds the focus on any target. The 24 mm wide-angle lens and automatic selection of scene settings enable great expressivity, with images shown on a 3.0-inch LCD screen.



PIXUS MP640

Perfectly suited for both photographs and text thanks to double black-ink cartridges and resolution of up to 9600 dpi, PIXUS MP640 lets users enjoy wireless printing thanks to connectivity with both wired and wireless LANs.



INDUSTRIAL EQUIPMENT

IN BRIEF

- In January 2010, we transferred two key product categories—lithography equipment for semiconductor manufacturers and LCD lithography equipment—to Canon Inc. and radically restructured the segment organization.
- We aim to achieve a rapid return to positive operating income in fiscal 2010 with a structure based on three business categories: imported industrial equipment, medical equipment and broadcasting equipment.

PERFORMANCE

While there were signs of a recovery in operating rates in some areas of the Japanese semiconductor manufacturing industry, manufacturers continued to limit their investment in plant and equipment. Consequently, domestic shipments of lithography equipment for semiconductor manufacturers fell

substantially year on year. Medical equipment and broadcasting equipment were also affected by investment cutbacks in related industries, and the overall business environment for industrial equipment was extremely challenging.

Net sales of industrial equipment were 61% lower year on year at ¥25.7 billion (US\$278.8 million). This inevitably resulted in an operating loss of ¥1.1 billion (US\$12.1 million).

MAJOR TRENDS

RADICAL CHANGES TO BUSINESS STRUCTURE

On January 1, 2010, we transferred sales, service and support for lithography equipment for semiconductor manufacturers and LCD lithography equipment, which were this segment's core product categories, to Canon Inc. We also streamlined our workforce in the segment and created a new structure that will support a rapid return to profitability.

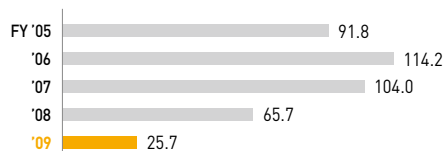


Focused on New Markets and New Customers

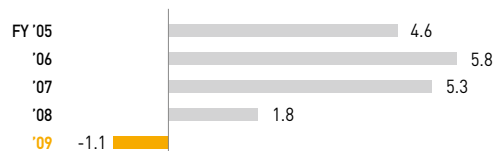
Meeting customers' needs quickly is always our foremost priority. That is why we transferred our Semiconductor and LCD Lithography Systems Business to Canon Inc. Also, since our customers operate globally, we will develop sales and service structures that are global rather than domestic in scope. In fiscal 2010, we will focus on achieving a good balance between growth and income strategies, and develop new markets and new customers in the areas of imported industrial equipment, medical equipment and broadcasting equipment.

KUNIO KURIHARA Director

NET SALES (Billions of yen)



OPERATING INCOME (Billions of yen)



RETURN TO POSITIVE OPERATING INCOME

Investment cutbacks by related industries in Japan are expected to affect the business environment for this segment for some time. By transferring some of our business units to Canon Inc., we have reduced our workforce to approximately 300. Our future activities in this segment will center on imported industrial equipment, including products in non-semiconductor fields; on medical equipment, notably digital x-ray photography systems and ophthalmological equipment; and on broadcasting equipment, such as portable zoom lenses and HDTV wide-angle zoom lenses. We plan to build a sales structure consisting of 40% imported products, 40% medical equipment and 20% broadcasting equipment. We also aim to achieve an early return to positive operating income in fiscal 2010.

HIGHLIGHTS OF THE YEAR 2009

APRIL

A compact, lightweight 17x portable zoom lens for HDTV cameras is announced.

JULY

The CXDI-60C, CXDI-55C and CXDI-55G digital radiography systems are announced.

SEPTEMBER

Canon MJ announces the transfer of its semiconductor equipment business to Canon Inc.

SEPTEMBER

The CX-1, a digital fundus camera capable of dilated and non-dilated photography, goes on sale.



Zygo NewView 6300

Manufactured by Zygo Corporation in the United States, this non-contact 3D surface profiler can produce high-precision surface profiles of a wide range of materials, from semiconductors and optical components to soft materials such as resins and films.



CX-1 Digital Fundus Camera

This newly developed digital camera is designed specifically for use as a fundus camera, and combines dilated and non-dilated photographic systems in a single easy-to-use unit with a compact, lightweight body.



HJ14e x 4.3B HD Wide-Angle HDTV Zoom Lens

This extremely robust, yet compact and lightweight, wide-angle HDTV zoom lens is ideal for news gathering and field production. It is best-in-class in terms of both fixed focal (4.3 mm) and field angle (96.3° horizontal field in 16:9 mode).

CSR AS A PART OF MARKETING INNOVATION

We believe that real growth in corporate value comes from effective and transparent corporate governance, and from fulfilling our responsibilities as a corporation.

Responding to stakeholders' expectations is not only the right thing to do, it also builds trust in our corporate brand and fosters close communication that enables us to enhance products and services, and meet needs better. In this sense, CSR becomes an essential part of our marketing efforts, at the same time as it lets us bring value to society.

We believe that if we work closely together with the people and communities around us, we can find solutions for every problem while steadily enhancing corporate excellence and corporate value.





CANON MARKETING JAPAN ENVIRONMENTAL POLICY

As a member of the Canon Group, the Canon MJ Group will contribute to sustainable economic development and harmony with the global environment. We seek to do this by combining a solid commitment to marketing innovation with wide-ranging environmental protection initiatives. We aim to earn the trust of society through actions that contribute to a sustainable future, including the following priority initiatives:

CANON MARKETING JAPAN ENVIRONMENTAL POLICY

All employees and executive officers follow this environmental policy, and it is also available to the general public.

1. Supplying environment-friendly products, systems and services

We want customers to feel reassured that our products, systems and services do not impact unnecessarily on the environment.

2. Environmentally responsible product development and planning

We will work to reduce environmental loads and act responsibly toward the environment in product development and planning activities.

3. Pollution prevention

We will protect the global environment by working to prevent pollution through careful use of harmful chemicals.

4. Green procurement

We will focus on environmental responsibility from the procurement stage by purchasing products and services designed to minimize environmental loads.

5. Improving business efficiency

We will contribute to business efficiency and facilitate environmental protection by helping to reduce resource and energy consumption, promote recycling, and improve the efficiency of logistical and business systems.

6. Compliance with laws and regulations

We will comply with environment-related laws and regulations, as well as other requirements under voluntary agreements.

7. Social contribution

We will cooperate with government policies and work to contribute to local communities.

8. Disclosure

We will disclose information about our environment-friendly products and environmental protection activities.

9. Education

We will implement educational and awareness programs to raise the environmental awareness of individual employees.

10. Environmental management systems

We will continually improve our environmental performance by establishing environmental management systems, and by setting and regularly reviewing environmental targets.

➔ CANON GREEN RECYCLING ACTIVITIES

Canon MJ offers a convenient fee-based recovery service for office equipment that is no longer needed. Users can arrange to have their unwanted products collected for reuse and recycling simply by completing a form on our website. Since May 11, 2005, Canon MJ has been an approved waste disposal agent under Japan's wide-area waste disposal certification system*.

*Wide-Area Waste Disposal Certification System:

This system was established to reduce waste and ensure appropriate disposal by allowing companies that manufacture, sell or otherwise supply products to dispose of waste without obtaining approval from local authorities, which is a basic requirement under Japanese waste disposal regulations.

 <http://cweb.canon.jp/ecology/cgrs/>

➔ ENVIRONMENTAL SOLUTIONS

Canon MJ and its group companies have resources of environmental technology and knowledge based on many years of experience. We have begun to share these resources on a significant scale as products and services supplied through our expanding Environmental Solutions Business. We supply environmental cleaning technology and offer a variety of products and services, especially consulting and IT services. By enabling customers to use our technology and knowledge, we hope to contribute to reduced environmental loads in industry and throughout society in general. We provide solutions that help our customers to implement environmental initiatives, reduce costs and maximize their corporate value.

 <http://cweb.canon.jp/ecology/customer/solution>

➔ GREEN PROCUREMENT ACTIVITIES

When purchasing office equipment and supplies that we need for our business activities, we preferentially choose products with reduced environmental footprints. The entire Canon Group is committed to careful management of environmentally harmful substances, including raw materials, parts and subsidiary materials used in our products.

 <http://cweb.canon.jp/ecology/procurement/>

GREEN PROCUREMENT OF STATIONERY AND OFFICE SUPPLIES

Using the following criteria, we preferentially purchase products that impose minimal environmental loads:

- | | |
|--|-------------------------------|
| (1) Reduction of environmental contaminants | (5) Facilitation of reuse |
| (2) Reduction of resource and energy consumption | (6) Facilitation of recycling |
| (3) Sustainable use of natural resources | (7) Use of recycled materials |
| (4) Maximization of economic life of products | (8) Facilitation of disposal |

PARTNERSHIP WITH SUPPLIERS

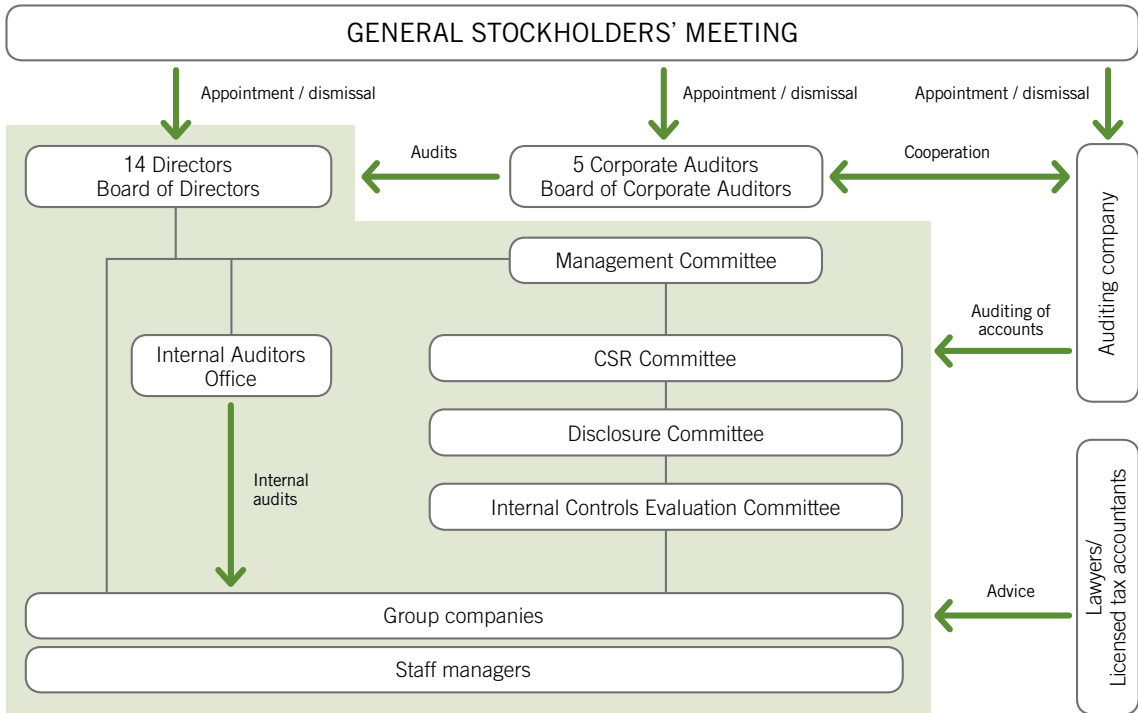
Canon's commitment to harmonious coexistence is reflected in our green procurement policy, which is a key part of our contribution to the protection of the global environment. We were among the first Japanese companies to adopt green procurement policies, and in 1997, we further solidified our commitment by issuing the Global Canon Green Procurement Standards and Global Canon Green Procurement Guidebook.

Environmental protection activities need to involve not only the corporate organization, but also our suppliers. Our cooperation with suppliers include green procurement seminars based on the Global Canon Green Procurement Standards, and we also regularly ask them to verify the effectiveness of their own environmental protection efforts and systems.

SUSTAINABLE MANAGEMENT

CORPORATE GOVERNANCE

(As of March 26, 2010)



BASIC STANCE ON CORPORATE GOVERNANCE

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

THE CORPORATE GOVERNANCE STRUCTURE

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

BOARD OF DIRECTORS

As of March 26, 2010, there were 14 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



Chairman
Haruo Murase



President
Masami Kawasaki



Executive Vice President
Koji Ashizawa



Senior Managing Director
Osamu Sasaki



Managing Director
Yo Shibasaki



Managing Director
Masahiro Sakata



Director
Tetsuo Yoshida



Director
Masaki Sawabe



Director
Masanori Koyama



Director
Yutaka Usui



Director
Kunio Kurihara



Director
Keizo Go



Director
Shinichi Inoue



Director
Koichi Yagi

BOARD OF CORPORATE AUDITORS



Corporate Auditor
Toshio Matsumoto



Corporate Auditor
Taiji Miyazaki



Outside Corporate Auditor
Hiroshi Kawashimo



Outside Corporate Auditor
Keijiro Yamazaki



Outside Corporate Auditor
Kuniyoshi Kitamura

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 44 audit staff members.

AUDITING OF ACCOUNTS

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

SUSTAINABLE MANAGEMENT



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



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



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.

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.

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.

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

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

RELATIONSHIP WITH CANON INC. Canon MJ is a subsidiary of Canon Inc., which owns 55.2% of Canon MJ stock (as of December 31, 2009). This percentage figure excludes Canon MJ’s treasury stock holdings. With these holdings, the ownership percentage for Canon Inc. would be 50.1%. Canon MJ has the exclusive right to sell all products manufactured by Canon Inc. under the Canon brand in Japan. In fiscal 2009, our purchases from Canon Inc. amounted to ¥269.2 billion (US\$2,926.1 million), or 57.4% 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.

FINANCIAL SECTION

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32	CONSOLIDATED BALANCE SHEETS	37	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

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

	Millions of yen			
	2009	2008	2007	2006
FOR THE YEAR:				
Net sales	¥ 686,615	¥ 827,487	¥ 905,137	¥ 867,172
Operating income	6,297	25,416	36,886	33,919
Income (loss) before income taxes and minority interests	(595)	22,229	35,452	32,967
Net income (loss)	(4,343)	11,186	20,033	18,807
AT YEAR-END:				
Total assets	449,607	484,937	526,125	526,578
Total stockholders' equity (Note 6)	246,829	255,220	266,086	260,367
CASH FLOWS (Note 4):				
Cash flows from operating activities	18,144	41,122	47,214	18,094
Cash flows from investing activities	(25,834)	(28,967)	(21,912)	(19,217)
Cash flows from financing activities	(4,324)	(21,738)	(16,345)	(6,126)
Cash and cash equivalents	95,575	107,589	117,206	108,248

Yen

PER SHARE OF COMMON STOCK:

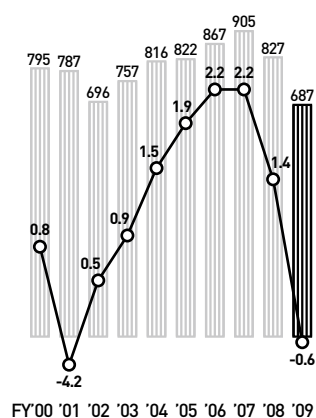
Net income (loss) (Note 2)	¥ (31.62)	¥ 78.63	¥ 134.84	¥ 125.64
Cash dividends (Notes 3 and 5)	20.00	40.00	40.00	36.00
Stockholders' equity (Note 6)	1,797.31	1,858.39	1,817.59	1,739.50

- Notes:**
- The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥92 to U.S.\$1, the prevailing exchange rate as of December 31, 2009.
 - Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
 - Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.
 - 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.

Return on Sales (ROS)

(Billions of yen/%)

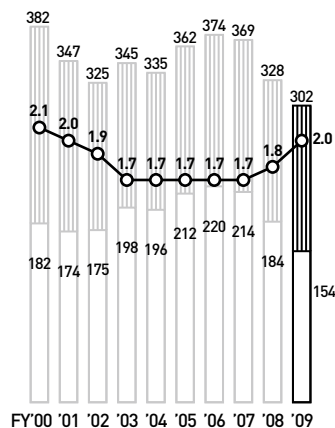
Net Sales
ROS



Working Capital

(Billions of yen/Times)

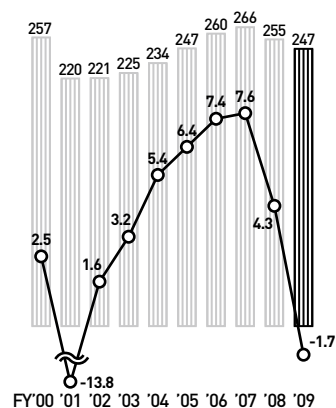
Current Assets
Current Liabilities
Current Ratio



Total Stockholders' Equity and ROE

(Billions of yen/%)

Total Stockholders' Equity
ROE



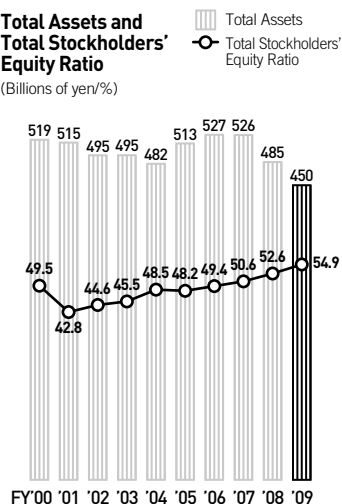
Millions of yen						Thousands of U.S. dollars (Note 1)
2005	2004	2003	2002	2001	2000	2009
¥ 821,948	¥ 815,511	¥ 757,033	¥ 695,585	¥ 786,828	¥ 794,917	\$ 7,463,207
29,723	29,274	16,987	10,885	19,397	20,512	68,447
27,086	20,186	20,438	6,873	(63,280)	15,313	(6,467)
15,358	12,364	7,043	3,436	(32,831)	6,460	(47,207)
513,335	482,337	495,396	495,298	514,698	518,958	4,887,033
247,244	234,158	225,317	220,797	220,418	256,959	2,682,924
36,985	22,053	23,671	36,275	(3,384)	12,324	197,217
(17,887)	(7,963)	(16,258)	(26,869)	(7,364)	(13,015)	(280,804)
(4,311)	(39,045)	(20,305)	(13,889)	(6,182)	(2,909)	(47,000)
115,504	98,844	123,815	136,448	141,045	157,921	1,038,859
Yen						U.S. dollars (Note 1)
¥ 101.78	¥ 81.78	¥ 46.24	¥ 22.96	¥ (217.39)	¥ 42.77	\$ (0.34)
28.00	22.00	18.00	18.00	18.00	18.00	0.22
1,650.52	1,562.23	1,496.74	1,464.43	1,459.60	1,701.44	19.54

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.

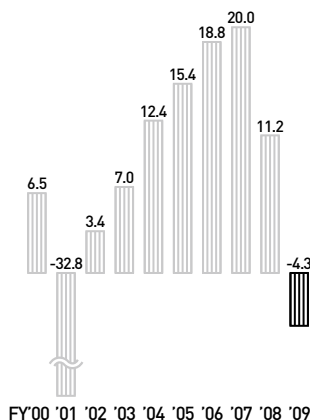
Total Assets and Total Stockholders' Equity Ratio

(Billions of yen/%)



Net Income (Loss)

(Billions of yen)



FINANCIAL REVIEW

Business Performance

Net Sales

All business segments were affected by negative economic trends in the year ended December 31, 2009. Consolidated net sales were substantially lower year on year with a 17.0% decline to ¥686,615 million.

Segment Information

In the Business Solutions segment, a downward trend in corporate capital investment was reflected in a significant year-on-year decline in sales of office multi-functional products (MFPs). In the laser printer category, we were able to maintain our position as market leader by focusing our marketing efforts on A3 color printers. However, sales fell below the previous year's level. We recorded firmer trends in sales of large-format ink-jet printers and consumables, in part because of the conclusion of major deals.

In the office MFP maintenance category, lower unit prices for maintenance services, and a tendency for users to reduce office printing were reflected in a year-on-year decline in sales. Canon System & Support Inc., a member of the Canon MJ Group, also recorded a year-on-year decline in sales. Reasons included the reduction of capital investment and cost-cutting efforts by small and medium-sized enterprises, which are the core customers, as well as tighter credit criteria for leasing transactions.

In the IT Solutions Business, net sales in the solutions category remained at a level similar to that of the previous year, due to strong performance from security solutions and business systems that are based on handy terminals for use in the public sector and in distribution services. However, moves by businesses to reduce their capital expenditure adversely affected system integration (SI) services and the circuit board and IT products categories, resulting in total net sales for the IT Solutions Business as a whole to fall year on year.

Total sales in the Business Solutions segment amounted to ¥419,217 million, a year-on-year decline of 15.5%.

In the Consumer Equipment segment, sales of digital single-lens reflex cameras were lower year on year because of market contraction. However, we maintained our position as the leading manufacturer by maintaining a powerful product line-up in all categories, and by implementing marketing activities targeted toward specific consumer profiles.

Sales of compact digital cameras declined because of price reductions. However, consumers responded positively to marketing campaigns focusing on the high quality of Canon products. Sales exceeded the previous year's level in volume terms, and we were able to maintain our position as the leading manufacturer in terms of market share. We also worked to expand sales of digital video cameras by emphasizing the ease of operation and excellent picture quality of our products. Unfortunately, sales were below the previous year's level, in part because of a reduction in the product line-up.

Canon became the leading manufacturer of ink-jet printers in terms of market share, and sales of consumables were higher year on year. Total sales, including equipment and consumables, were maintained at the previous year's level.

Total consolidated sales in the Consumer Equipment segment were 9.1% lower year on year at ¥241,748 million.

In the Industrial Equipment segment, sales of lithography equipment for semiconductor manufacturers were sharply lower year on year because of reduced capital investment. Sales of medical equipment were also eroded by the impact of reduced capital investment on the hospital market. Sales of broadcasting equipment were similarly affected by a decline in capital investment by broadcast stations.

Consolidated sales in the Industrial Equipment segment amounted to ¥25,650 million, a year-on-year decline of 61.0%.

Income

Operating income was 75.2% below the previous year's result at ¥6,297 million. Selling, general and administrative expenses declined year on year due to reductions in advertising expenses, sales promotion expenditure and payroll costs. However, these savings were outweighed by a decline in gross profit on sales resulting from the lower net sales figure.

Higher extraordinary losses were reflected in a net loss of ¥4,343 million. This resulted in part from efforts to improve the effective use of company-owned real estate through replacement construction. The portion of the costs involved that were estimated to be non-recoverable were treated as impairment losses.

Net income per share was negative ¥31.62, compared with a positive figure of ¥78.63 in the previous year. The annual dividend per share was set at ¥20.00.

Financial Position

Current assets declined by ¥25,865 million from the previous year's level to ¥301,828 million. The main reasons for the lower figure were a ¥23,810 million reduction in notes and accounts receivable resulting from the decline in sales and an ¥8,359 million decline in inventories, despite a ¥20,000 million increase in short-term loans receivable.

Fixed assets reached ¥147,779 million, a year-on-year reduction of ¥9,465 million. This change resulted primarily from a ¥10,110 million decline in the value of land owing to impairment losses and other factors.

Current liabilities ended the year ¥30,030 million below the previous year's level at ¥153,710 million. Key reasons for this decline included reductions of ¥17,453 million in notes and accounts payable, ¥5,235 million in accrued expenses, and ¥5,387 million in accrued income taxes.

Long-term liabilities increased by ¥2,868 million year on year to ¥45,022 million. Significant factors affecting long-term liabilities were a ¥503 million increase in lease obligations resulting from the application of new lease accounting standards, and a ¥1,799 million increase in deferred tax liabilities.

Net assets declined by ¥8,168 million year on year to ¥250,875 million. Factors that had a significant effect on net assets included an ¥8,463 million reduction in retained earnings, which resulted mainly from the net loss of ¥4,343 million and dividend payments totaling ¥4,120 million.

These changes resulted in a ¥35,330 million year-on-year reduction in total assets, which amounted to ¥449,607 million as of December 31, 2009.

Return on equity (ROE) declined from 4.3% in the previous year to negative 1.7%, while the stockholders' equity ratio increased from 52.6% to 54.9%. Stockholders' equity per share was reduced from ¥1,858.39 in the previous year to ¥1,797.31 as of December 31, 2009.

Cash Flows

Cash and cash equivalents as of December 31, 2009 amounted to ¥95,575 million, a reduction of ¥12,014 million from the position at end of the previous year.

Net cash provided by operating activities totaled ¥18,144 million, compared with ¥41,122 million in the previous year. One major factor influencing this result was a ¥595 million loss before income taxes and minority interests. Key factors influencing cash inflows included depreciation and amortization of ¥12,356 million, impairment losses of ¥10,769 million, a ¥23,282 million reduction in notes and accounts receivable, and an ¥8,635 million reduction in inventories. Major outflows included a ¥5,182 million loss on sales of property and equipment, a ¥16,829 million reduction in notes and accounts payable, and income tax payments amounting to ¥10,423 million.

Net cash used in investing activities amounted to ¥25,834 million, compared with ¥28,967 million in the previous year. Major inflows included ¥6,204 million of proceeds from sales of property and equipment and a ¥5,010 million net reduction in time deposits. Significant outflows included expenditure of ¥6,958 million on the acquisition of property and equipment and ¥9,590 million on the acquisition of intangible fixed assets, and a net increase of ¥20,000 million in short-term loans receivable.

Net cash used in financing activities amounted to ¥4,324 million, compared with ¥21,738 million in the previous year. This consisted mainly of ¥4,244 million in dividend payments.

CONSOLIDATED BALANCE SHEETS

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
CURRENT ASSETS:			
Cash and cash equivalents (Note 8)	¥ 95,575	¥ 107,589	\$ 1,038,859
Notes and accounts receivable	125,738	149,548	1,366,717
Short-term investments in securities (Note 3)	221	—	2,402
Inventories (Notes 2 and 5)	25,785	34,144	280,272
Deferred tax assets (Note 10)	4,361	5,389	47,402
Short-term loans receivable	40,001	20,001	434,794
Other current assets	10,715	11,483	116,467
Allowance for doubtful receivables	(568)	(461)	(6,174)
Total current assets	301,828	327,693	3,280,739
PROPERTY AND EQUIPMENT:			
Land	31,629	41,739	343,794
Buildings and structures	71,605	76,189	778,315
Machinery and vehicles (Note 7)	17	369	185
Furniture and fixtures (Note 7)	18,733	19,738	203,620
Rental assets	21,568	21,508	234,435
Lease assets (Note 2)	702	—	7,630
Total	144,254	159,543	1,567,979
Accumulated depreciation	(60,064)	(61,553)	(652,870)
Net property and equipment	84,190	97,990	915,109
INTANGIBLE ASSETS:			
Goodwill (Note 2)	2,335	2,926	25,380
Software (Note 7)	21,638	15,598	235,196
Lease assets (Note 2)	26	—	283
Utilization rights	289	389	3,141
Other intangible assets	104	116	1,130
Total intangible assets	24,392	19,029	265,130
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Note 8)	5,155	6,420	56,033
Long-term loans receivable	21	26	228
Lease deposits	9,016	8,792	98,000
Deferred tax assets (Note 10)	21,236	20,327	230,826
Other investments	5,301	5,829	57,620
Allowance for doubtful receivables	(1,532)	(1,169)	(16,652)
Total investments and other assets	39,197	40,225	426,055
Total assets	¥ 449,607	¥ 484,937	\$ 4,887,033

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
CURRENT LIABILITIES:			
Notes and accounts payable	¥ 106,444	¥ 123,897	\$ 1,157,000
Lease obligations (Note 13)	190	—	2,065
Accrued income taxes (Note 10)	698	6,085	7,587
Consumption taxes payable	2,268	2,281	24,652
Deferred tax liabilities (Note 10)	8	7	87
Accrued expenses	22,903	28,138	248,946
Reserves	4,174	4,596	45,370
Other current liabilities	17,025	18,736	185,054
Total current liabilities	153,710	183,740	1,670,761
LONG-TERM LIABILITIES:			
Lease obligations (Note 13)	503	—	5,467
Deferred tax liabilities (Note 10)	2,079	280	22,598
Allowance for employees' retirement benefits (Notes 2 and 9)	37,538	37,122	408,022
Allowance for long-term continuous service rewards (Note 2)	1,007	937	10,946
Allowance for directors' and corporate auditors' retirement benefits (Note 2)	844	805	9,174
Other long-term liabilities (Note 13)	3,051	3,010	33,163
Total long-term liabilities	45,022	42,154	489,370
CONTINGENT LIABILITIES (Note 4)			
NET ASSETS:			
STOCKHOLDERS' EQUITY (Note 14):			
Common stock:			
Authorized—299,500,000 shares;			
Issued—151,079,972 shares in 2009 and 2008	73,303	73,303	796,772
Capital surplus	83,289	83,289	905,315
Retained earnings	115,153	123,616	1,251,663
Treasury stock	(24,759)	(24,731)	(269,119)
VALUATION AND TRANSLATION ADJUSTMENTS:			
Net unrealized loss on available-for-sale securities	(117)	(212)	(1,272)
Foreign currency translation adjustments	(40)	(45)	(435)
MINORITY INTERESTS	4,046	3,823	43,978
Total net assets	250,875	259,043	2,726,902
Total liabilities and net assets	¥ 449,607	¥ 484,937	\$ 4,887,033

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
NET SALES	¥ 686,615	¥ 827,487	\$ 7,463,207
COST OF SALES	453,557	554,467	4,929,967
Gross profit	233,058	273,020	2,533,240
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	226,761	247,604	2,464,793
Operating income	6,297	25,416	68,447
OTHER INCOME (EXPENSES):			
Interest and dividend income	712	970	7,739
Interest expense	(87)	(67)	(946)
Loss on disposal and devaluation of inventories	—	(1,614)	—
Gain on sales of property and equipment	5,596	0	60,826
Loss on impairment of fixed assets	(10,769)	(144)	(117,054)
Gain on sales of investments in securities	1	0	11
Loss on sales and disposal of property and equipment	(414)	(578)	(4,500)
Loss on devaluation of investments in securities	(1,104)	(1,125)	(12,000)
Provision of allowance for prior years' long-term continuous service rewards	—	(929)	—
Expenses related to restructuring of consolidated subsidiaries	(66)	(592)	(718)
Loss on adjustment for change of accounting standard for measurement of inventories	(1,299)	—	(14,120)
Other, net	538	892	5,848
	(6,892)	(3,187)	(74,914)
Income (loss) before income taxes and minority interests	(595)	22,229	(6,467)
INCOME TAXES (Note 10):			
Current	1,477	10,336	16,055
Deferred	1,926	239	20,935
	3,403	10,575	36,990
Income (loss) before minority interests	(3,998)	11,654	(43,457)
MINORITY INTERESTS	345	468	3,750
Net income (loss)	¥ (4,343)	¥ 11,186	\$ (47,207)
	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2):			
Net income (loss)	¥ (31.62)	¥ 78.63	\$ (0.34)
Cash dividends applicable to the year	¥ 20.00	¥ 40.00	\$ 0.22

• 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, 2009 and 2008

	Millions of yen								
	Number of shares of common stock	Stockholders' equity				Valuation and translation adjustments		Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments		
BALANCE AT DECEMBER 31, 2007	151,079,972	¥ 73,303	¥ 83,296	¥ 118,528	¥ (9,695)	¥ 640	¥ 14	¥ 3,482	¥ 269,568
Net income (loss)				11,186					11,186
Cash dividends				(6,094)					(6,094)
Purchases of treasury stock					(15,066)				(15,066)
Disposition of treasury stock			(7)		30				23
Contributions to employee welfare pension fund				(4)					(4)
Other, net						(852)	(59)	341	(570)
BALANCE AT DECEMBER 31, 2008	151,079,972	¥ 73,303	¥ 83,289	¥ 123,616	¥ (24,731)	¥ (212)	¥ (45)	¥ 3,823	¥ 259,043
Net income (loss)				(4,343)					(4,343)
Cash dividends				(4,120)					(4,120)
Purchases of treasury stock					(4)				(4)
Disposition of treasury stock			0		2				2
Changes due to sales of investments in subsidiaries			0		(26)				(26)
Contributions to employee welfare pension fund				0					0
Other, net						95	5	223	323
BALANCE AT DECEMBER 31, 2009	151,079,972	¥ 73,303	¥ 83,289	¥ 115,153	¥ (24,759)	¥ (117)	¥ (40)	¥ 4,046	¥ 250,875

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation and translation adjustments		Minority interests	Total net assets	
					Net unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments			
BALANCE AT DECEMBER 31, 2008	\$ 796,772	\$ 905,315	\$ 1,343,652	\$ (268,815)	\$ (2,304)	\$ (489)	\$ 41,554	\$ 2,815,685	
Net income (loss)			(47,207)					(47,207)	
Cash dividends			(44,782)					(44,782)	
Purchases of treasury stock				(43)				(43)	
Disposition of treasury stock			0	22				22	
Changes due to sales of investments in subsidiaries			0	(283)				(283)	
Contributions to employee welfare pension fund			0					0	
Other, net					1,032	54	2,424	3,510	
BALANCE AT DECEMBER 31, 2009	\$ 796,772	\$ 905,315	\$ 1,251,663	\$ (269,119)	\$ (1,272)	\$ (435)	\$ 43,978	\$ 2,726,902	

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (595)	¥ 22,229	\$ (6,467)
Adjustments for:			
Depreciation and amortization	12,356	12,059	134,304
Loss on impairment of fixed assets	10,769	144	117,054
Amortization of goodwill	849	833	9,228
Increase in allowance for doubtful receivables	510	324	5,543
(Reversal of) provision for liability for employees' retirement benefits	846	(1,515)	9,196
Provision for liability for directors' and corporate auditors' retirement benefits	40	51	435
Interest and dividend income	(712)	(970)	(7,739)
Interest expense	87	67	946
Loss (gain) on sales and disposal of property and equipment, net	(5,182)	578	(56,326)
Loss (gain) on sales of investments in securities	7	(0)	76
Decrease in notes and accounts receivable	23,282	38,790	253,065
Decrease in inventories	8,635	3,577	93,859
Decrease in notes and accounts payable	(16,829)	(24,450)	(182,924)
Other	(6,145)	1,452	(66,793)
Sub-total	27,918	53,169	303,457
Interest paid	(88)	(86)	(958)
Interest and dividends received	737	977	8,011
Income taxes paid	(10,423)	(12,938)	(113,293)
Net cash provided by operating activities	18,144	41,122	197,217
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(6,958)	(9,047)	(75,631)
Proceeds from sales of property and equipment	6,204	—	67,435
Payments for purchases of intangible assets	(9,590)	(8,580)	(104,239)
Payments for purchases of investments in securities	(9)	(816)	(98)
Proceeds from sales of investments in securities	16	4,075	174
Payments for purchases of investments in subsidiaries	—	(18)	—
Payments for purchases of investments in subsidiaries accompanying changes in scope of consolidation	(396)	—	(4,304)
Proceeds from purchases of investments in subsidiaries accompanying changes in scope of consolidation	—	33	—
Payments for sales of investments in subsidiaries accompanying changes in scope of consolidation	(188)	—	(2,044)
Increase in short-term loans receivable	(20,000)	(19,994)	(217,391)
Decrease in time deposits	5,010	5,300	54,457
Other	77	80	837
Net cash used in investing activities	(25,834)	(28,967)	(280,804)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of finance lease obligations	(77)	—	(837)
Net decrease in short-term bank loans	—	(474)	—
Payments for purchases of treasury stock	(4)	(15,067)	(44)
Dividends paid	(4,244)	(6,221)	(46,130)
Other	1	24	11
Net cash used in financing activities	(4,324)	(21,738)	(47,000)
Effect of exchange rate changes on cash and cash equivalents	(0)	(34)	(0)
Net decrease in cash and cash equivalents	(12,014)	(9,617)	(130,587)
Cash and cash equivalents at beginning of year	107,589	117,206	1,169,446
Cash and cash equivalents at end of year	¥ 95,575	¥ 107,589	\$ 1,038,859

• 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 ¥92=U.S.\$1, the rate prevailing at December 31, 2009. 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, 2009 include the accounts of the Company and all of its 20 (20 in 2008) subsidiaries. Investments in nonconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation.

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

(b) Cash Equivalents

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

(c) Securities

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

(d) Inventories

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

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

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

<Change in Accounting Standards>

Effective the year ended December 31, 2009, the Company has adopted the "Accounting Standard for Measurement of Inventories" (the Accounting Standards Board of Japan (ASBJ) Statement No. 9, issued on July 5, 2006).

As a result of this change, operating income and income before income taxes and minority interest for the fiscal year ended December 31, 2009 have been reduced by ¥1,722 million and ¥1,317 million respectively.

(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.

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

(f) Allowance for Employees' Retirement Benefits

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

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

(g) Leases

<Change in Accounting Standards>

Until the previous fiscal year, finance lease transactions that did not deem to transfer ownership to the lessee were accounted for as operating leases.

Effective the year ended December 31, 2009, the Company has adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, originally issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007), and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007).

In accordance with the revised accounting standards, finance lease transactions that do not deem to transfer ownership to the lessee are now accounted for as ordinary purchase transactions.

However, finance lease transactions that do not deem to transfer ownership to the lessee commencing prior to the adoption of the new accounting standards are accounted for as operating leases as in previous fiscal years.

The effect of this accounting change on income is immaterial for the year ended December 31, 2009.

(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

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

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

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

(o) Allowance for Long-Term Continuous Service Rewards

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

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

Until the year ended December 31, 2007, rewards related to the Refresh and Vacation System were formerly treated as an expense at the time they were paid. However, their monetary significance has increased as a result of the increase in the number of employees and rational estimates have become possible with the enhancement of the functions of the Company's attendance management system. Therefore, effective January 1, 2008, the Company have changed to a method in which the liability is booked from the current period based on the amount we expect to pay in the future according to our internal regulations, in order to calculate period profit and loss more appropriately.

3 Assets Pledged as Collateral

Assets pledged as collateral for deferred payments of customs duties as of December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Short-term investments in securities	¥ 221	¥ 222	\$ 2,402

4 Contingent Liabilities

Contingent liabilities at December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Guarantees for employees' housing loans	¥ 114	¥ 134	\$ 1,239

5 Inventories

Inventories at December 31, 2009 and 2008 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Merchandise	¥ 18,233	¥ 24,767	\$ 198,185
Service parts	3,794	5,143	41,239
Work in progress	3,213	3,411	34,924
Supplies	545	812	5,924
Other	—	11	—
	¥ 25,785	¥ 34,144	\$ 280,272

6 Consolidated Statements of Changes in Net Assets

Current consolidated fiscal year (from January 1, 2009 to December 31, 2009)

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

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	13,746	3	1	13,748
Total	13,746	3	1	13,748

Notes: 1. The increase of 3 thousand shares of treasury stock was due to the purchase of fractional stock.
2. The decrease of 1 thousand shares of treasury stock was due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2009 General stockholders' meeting	Common stock	¥ 2,747	¥ 20	December 31, 2008	March 27, 2009
July 23, 2009 Board of Directors' meeting	Common stock	¥ 1,373	¥ 10	June 30, 2009	August 28, 2009

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

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2010 General stockholders' meeting	Common stock	Retained earnings	¥ 1,373	¥ 10	December 31, 2009	March 29, 2010

Previous consolidated fiscal year (from January 1, 2008 to December 31, 2008)

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

	End of the previous fiscal year (Thousands of shares)	Increase (Thousands of shares)	Decrease (Thousands of shares)	End of the current fiscal year (Thousands of shares)
Issued stock				
Common stock	151,080	—	—	151,080
Total	151,080	—	—	151,080
Treasury stock				
Common stock	4,685	9,077	16	13,746
Total	4,685	9,077	16	13,746

Notes: 1. The increase of 9,077 thousand shares of treasury stock consists of an increase of 9,032 thousand shares from the market purchase of treasury stock, and an increase of 45 thousand shares from the purchase, etc. of fractional stock.
2. The decrease of 16 thousand shares of treasury stock is due to the sale of fractional stock.

2. Matters regarding dividends

(1) Payment of dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 27, 2008 General stockholders' meeting	Common stock	¥ 3,221	¥ 22	December 31, 2007	March 28, 2008
July 23, 2008 Board of Directors' meeting	Common stock	¥ 2,873	¥ 20	June 30, 2008	August 26, 2008

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

Resolution	Type of stock	Funds used to pay the dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Base date	Date effective
March 26, 2009 General stockholders' meeting	Common stock	Retained earnings	¥ 2,747	¥ 20	December 31, 2008	March 27, 2009

7 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 ¥3,173 million (\$34,489 thousand) and ¥3,082 million for the years ended December 31, 2009 and 2008, respectively.

(As Lessee)

Future minimum lease payments subsequent to December 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Future minimum lease payments:			
Within one year	¥ 2,723	¥ 3,300	\$ 29,598
Thereafter	2,660	5,412	28,913
	¥ 5,383	¥ 8,712	\$ 58,511

Future minimum lease payments included the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Future minimum lease payments:			
Within one year	¥ 66	¥ 95	\$ 718
Thereafter	60	126	652
	¥ 126	¥ 221	\$ 1,370

The following *pro forma* amounts represent acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2009 and 2008, excluding subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Acquisition cost:			
Machinery and vehicles	¥ 51	¥ 269	\$ 554
Furniture and fixtures	11,311	12,643	122,946
Software	505	612	5,489
	¥ 11,867	¥ 13,524	\$ 128,989
Accumulated depreciation and amortization:			
Machinery and vehicles	¥ 40	¥ 191	\$ 435
Furniture and fixtures	6,248	4,525	67,913
Software	322	317	3,500
	¥ 6,610	¥ 5,033	\$ 71,848
Net book value:			
Machinery and vehicles	¥ 11	¥ 78	\$ 119
Furniture and fixtures	5,063	8,118	55,033
Software	183	295	1,989
	¥ 5,257	¥ 8,491	\$ 57,141

(As Lessor)

Future minimum lease payments, which consist of subleases subsequent to December 31, 2009 and 2008, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Future minimum lease payments:			
Within one year	¥ 66	¥ 95	\$ 718
Thereafter	60	126	652
	¥ 126	¥ 221	\$ 1,370

(b) Operating Leases (Non-cancelable)

(As Lessee)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Future minimum lease payments:			
Within one year	¥ 17	¥ 26	\$ 185
Thereafter	16	33	174
	¥ 33	¥ 59	\$ 359

8 Securities

Securities held by the Company and its consolidated subsidiaries as of December 31, 2009 and 2008 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Securities classified as:			
Available-for-sale:			
Investments in securities	¥ 4,155	¥ 5,198	\$ 45,163
Held-to-maturity:			
Cash and cash equivalents	77,899	88,097	846,728
Short-term investments in securities	221	—	2,402
Investments in securities	1,000	1,222	10,870
	79,120	89,319	860,000
	¥ 83,275	¥ 94,517	\$ 905,163

The carrying amounts and aggregate fair values of investments in securities at December 31, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 1,000	¥ 2	¥ —	¥ 1,002
Government bonds	221	2	—	223
	¥ 1,221	¥ 4	¥ —	¥ 1,225

	Millions of yen			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,577	¥ 590	¥ (918)	¥ 3,249
Other	11	—	(2)	9
	¥ 3,588	¥ 590	¥ (920)	¥ 3,258

	Millions of yen			
	2008			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	¥ 1,000	¥ —	¥ (10)	¥ 990
Government bonds	222	3	—	225
	¥ 1,222	¥ 3	¥ (10)	¥ 1,215

	Millions of yen			
	2008			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,908	¥ 579	¥ (1,032)	¥ 3,455
Other	11	—	(3)	8
	¥ 3,919	¥ 579	¥ (1,035)	¥ 3,463

	Thousands of U.S. dollars (Note 1)			
	2009			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	\$ 10,870	\$ 21	\$ —	\$ 10,891
Government bonds	2,402	22	—	2,424
	\$ 13,272	\$ 43	\$ —	\$ 13,315

	Thousands of U.S. dollars (Note 1)			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 38,880	\$ 6,413	\$ (9,978)	\$ 35,315
Other	120	—	(22)	98
	\$ 39,000	\$ 6,413	\$ (10,000)	\$ 35,413

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 872	¥ 1,697	\$ 9,478
Investments in investment partnerships	25	38	272
Held-to-maturity:			
Certificates of deposit	76,900	87,100	835,869
Commercial paper	999	997	10,859
	¥ 78,796	¥ 89,832	\$ 856,478

9 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, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Projected benefit obligation	¥ 152,040	¥ 144,721	\$ 1,652,608
Fair value of plan assets	(123,316)	(114,614)	(1,340,391)
Unrecognized actuarial loss	(25,543)	(31,282)	(277,641)
Unrecognized prior service cost	34,065	37,990	370,272
Prepaid pension cost	292	307	3,174
Allowance for employees' retirement benefits	¥ 37,538	¥ 37,122	\$ 408,022

The components of net periodic benefit costs for the years ended December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Service cost	¥ 6,176	¥ 6,211	\$ 67,131
Interest cost	3,471	3,371	37,728
Expected return on plan assets	(3,607)	(4,245)	(39,207)
Expenses incurred due to the change in accounting standards for retirement benefit obligations from the simplified method to the standard method	202	—	2,196
Amortization of prior service cost	(3,925)	(3,679)	(42,663)
Amortization of actuarial loss	3,103	1,256	33,728
Other	1,268	1,263	13,783
Net periodic benefit costs	¥ 6,688	¥ 4,177	\$ 72,696

Assumptions used in accounting for the above plans for the years ended December 31, 2009 and 2008 were principally as follows:

	2009	2008
Discount rate	2.4% - 2.5%	2.5%
Expected rates of return on plan assets	1.0% - 3.4%	1.0% - 3.4%
Amortization period of prior service cost	10-15 years	10-16 years
Recognition period of actuarial loss	10-15 years	10-16 years

10 Income Taxes

The normal statutory rate of income taxes was approximately 40.0% for the years ended December 31, 2009 and 2008.

The effective tax rates for the years ended December 31, 2009 and 2008, differed from the normal statutory tax rate following the adoption of tax-effect accounting for the reasons outlined in the table below.

	2009	2008
Normal statutory tax rate	40.0%	40.0%
Effects of realignment of subsidiaries	52.5%	—
Deduction entry reserve for fixed assets	21.7%	—
Dividend income not taxable	8.5%	—
Per-capita levy of inhabitants taxes	(34.6%)	1.8%
Entertainment and other expenses permanently not deductible for tax purposes	(39.0%)	1.9%
Amortization of goodwill	(56.3%)	1.4%
Change in valuation allowance	(571.7%)	1.7%
Other	7.1%	0.8%
Effective tax rate following the adoption of tax-effect accounting	(571.7%)	47.6%

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
DEFERRED TAX ASSETS:			
Loss on disposal and devaluation of inventories	¥ 622	¥ 460	\$ 6,761
Accrued business tax and business office tax	71	776	772
Accrued bonuses to employees	1,366	1,356	14,848
Excess amortization of software	4,177	3,173	45,402
Loss on impairment of fixed assets	770	960	8,370
Excess depreciation of fixed assets	342	824	3,717
Allowance for doubtful receivables	404	394	4,391
Allowance for employees' retirement benefits	15,050	14,912	163,587
Loss on devaluation of investments in securities	1,634	1,111	17,761
Loss carried forward	2,899	—	31,511
Other	4,021	5,380	43,706
Gross deferred tax assets	31,356	29,346	340,826
Less: valuation allowance	(5,729)	(3,389)	(62,272)
Total deferred tax assets	¥ 25,627	¥ 25,957	\$ 278,554
DEFERRED TAX LIABILITIES:			
Net unrealized gain on available-for-sale securities	¥ 68	¥ 90	\$ 739
Deferred capital gain	1,942	261	21,109
Other	107	177	1,163
Total deferred tax liabilities	2,117	528	23,011
Net deferred tax assets	¥ 23,510	¥ 25,429	\$ 255,543

11 Segment Information

(a) Business Segment Information

Year ended or as of December 31,	Millions of yen					
	2009					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Third-party customers	¥ 419,217	¥ 241,748	¥ 25,650	¥ 686,615	—	¥ 686,615
Intersegment	—	—	—	—	—	—
Total	419,217	241,748	25,650	686,615	—	686,615
Operating expenses	422,494	231,064	26,760	680,318	—	680,318
Operating income (loss)	¥ (3,277)	¥ 10,684	¥ (1,110)	¥ 6,297	—	¥ 6,297
Total assets	¥ 199,711	¥ 81,644	¥ 17,496	¥ 298,851	¥ 150,756	¥ 449,607
Depreciation and amortization	10,507	1,308	541	12,356	—	12,356
Loss on impairment of fixed assets	700	150	9,919	10,769	—	10,769
Capital expenditures	12,456	3,467	1,117	17,040	—	17,040
Year ended or as of December 31,	Millions of yen					
	2008					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Third-party customers	¥ 495,944	¥ 265,828	¥ 65,715	¥ 827,487	—	¥ 827,487
Intersegment	—	—	—	—	—	—
Total	495,944	265,828	65,715	827,487	—	827,487
Operating expenses	482,587	255,584	63,900	802,071	—	802,071
Operating income	¥ 13,357	¥ 10,244	¥ 1,815	¥ 25,416	—	¥ 25,416
Total assets	¥ 208,181	¥ 86,654	¥ 48,009	¥ 342,844	¥ 142,093	¥ 484,937
Depreciation and amortization	10,479	1,012	568	12,059	—	12,059
Loss on impairment of fixed assets	144	—	—	144	—	144
Capital expenditures	13,703	3,019	1,060	17,782	—	17,782

Year ended or as of December 31,	Thousands of U.S. dollars (Note 1)					
	2009					
	Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Third-party customers	\$ 4,556,707	\$ 2,627,696	\$ 278,804	\$ 7,463,207	—	\$ 7,463,207
Intersegment	—	—	—	—	—	—
Total	4,556,707	2,627,696	278,804	7,463,207	—	7,463,207
Operating expenses	4,592,326	2,511,565	290,869	7,394,760	—	7,394,760
Operating income (loss)	\$ (35,619)	\$ 116,131	\$ (12,065)	\$ 68,447	—	\$ 68,447
Total assets	\$ 2,170,772	\$ 887,435	\$ 190,174	\$ 3,248,381	\$ 1,638,652	\$ 4,887,033
Depreciation and amortization	114,207	14,217	5,880	134,304	—	134,304
Loss on impairment of fixed assets	7,609	1,630	107,815	117,054	—	117,054
Capital expenditures	135,391	37,685	12,141	185,217	—	185,217

(b) Geographic Segment Information

As international sales of the Company and its consolidated subsidiaries for the years ended December 31, 2009 and 2008 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, 2009 and 2008. For this reason, overseas sales have not been disclosed.

12 Transactions with Affiliated Companies

Current consolidated fiscal year (from January 1, 2009 to December 31, 2009)
Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Subject	Balance at end of fiscal year (Millions of yen)	
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥ 174,762	Manufacture and sale of business equipment, consumer equipment, and industrial equipment	(Ownership) Direct 55.2% Indirect 0.0%	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 269,211	Accounts payable	¥ 79,575
									Sales of business equipment and consumables, etc.	¥ 7,400	Accounts receivable and others	¥ 4,229
								Non-operating transactions	Loans of capital	¥ 40,000	Short-term loans	¥ 40,000

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

Transaction conditions and policies for deciding transaction conditions, etc.

- (1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.
- (2) Sales of business equipment and consumables, etc. are subject to similar conditions as general transactions.
- (3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Previous consolidated fiscal year (from January 1, 2008 to December 31, 2008)
Parent company and major corporate stockholders, etc.

Category	Name of company, etc.	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents		Contents of transactions	Transaction amount (Millions of yen)	Subject	Balance at end of fiscal year (Millions of yen)	
						Board members holding concurrent positions	Business relationships					
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥ 174,762	Manufacture and sale of business equipment, consumer equipment, and industrial equipment	(Ownership) Direct 55.2% Indirect 0.0%	Two hold concurrent positions	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 339,635	Accounts payable	¥ 89,467
									Sales of business equipment and consumables, etc.	¥ 15,716	Accounts receivable and others	¥ 3,712
								Non-operating transactions	Loans of capital	¥ 20,000	Short-term loans	¥ 20,000

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

Transaction conditions and policies for deciding transaction conditions, etc.

- (1) Purchases of products are decided based on price negotiations each fiscal year, after considering market prices and the affiliated company's proposals regarding desired prices.
- (2) Sales of business equipment and consumables, etc. are subject to similar conditions as general transactions.
- (3) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

13 Long-Term Debt

Lease obligations and deposits at December 31, 2009 and 2008 consisted of the following:

	Average interest rate	Millions of yen		Thousands of U.S. dollars (Note 1)
		2009	2008	2009
Lease obligations		¥ 693	—	\$ 7,532
Current portion of lease obligations		(190)	—	(2,065)
		¥ 503	—	\$ 5,467
Deposits	0.1%	2,915	2,781	31,685
		¥ 3,418	¥ 2,781	\$ 37,152

14 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).

15 Subsequent Events

(a) Transfer of Semiconductor Equipment Business to Canon Inc.
On September 25, 2009, the Company's Board of Directors resolved to transfer the semiconductor equipment business to the parent company, Canon Inc., effective from January 1, 2010.

1. Aims and Reasons

The Company's activities in the area of semiconductor equipment involve sales, service and support, primarily in relation to lithography equipment for semiconductors and LCD substrates. The change will be implemented because of the need for the Canon Group to establish an integrated structure covering all stages from development and design through to manufacture, sales, service and support, in order to respond flexibly in the rapidly changing market for semiconductor equipment.

2. Name of Company Assuming Control of the Business
Canon Inc.

3. Scope and Scale of Business to Be Transferred

① Scope of Business

The semiconductor equipment business primarily consists of sales, service and support of lithography equipment for semiconductors and LCD substrates.

② Financial Results for the Current Fiscal Year

Net sales: ¥14,564 million

4. Assets and Liabilities to Be Transferred

Assets: ¥2,084 million

Liabilities: ¥707 million

5. Date of Transfer
January 1, 2010

6. Transfer Price
¥1,777 million

(b) Conclusion of Exchange of Stock Agreement

At meetings held on January 26, 2010, the Boards of Directors of the Company and Canon Software Inc. resolved to implement an exchange of stock with a view to make Canon Software Inc. a wholly owned subsidiary, and an exchange of stock agreement was concluded.

1. Name and Business Activities of Merger Parties

① Merging Company

(sole parent company after exchange of stock)

Name Canon Marketing Japan Inc.

Activities Marketing of business equipment, consumer equipment and industrial equipment, and provision of related solutions

② Merged Company

(wholly owned subsidiary after exchange of stock)

Name Canon Software Inc.

Activities Provision of information services, sales of information processing equipment and related software

2. Legal Format of Merger

Exchange of stock

3. Name of Company After Merger

Unchanged

4. Outline of Transaction, Including Purpose

An exchange of stock will be implemented, resulting in the acquisition of Canon Software Inc. as a wholly owned subsidiary as of May 1, 2010. The purpose of the acquisition is to accelerate the development of the IT Solutions Business as a core business segment and create the capacity to provide greater enhanced quality services to customers by making optimal use of the accumulated technology and expertise of Canon Software Inc. within the Group.

5. Overview of Accounting Process

The merger will be treated as a transaction under common control (no goodwill) under the provisions of the Accounting Standard for Business Combinations (ASBJ Statement No. 21, December 26, 2008) and the Guidance on the Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008).

6. Items Relating to Acquisition of Subsidiary

① Cost of acquisition

Share acquisition cost: To be decided

② Exchange ratio, calculation method, number of shares to be allocated and valuation of each type of shares

(1) Type of stock and exchange of stock ratio

Type of stock: Common stock

The share exchange ratio is one share of Canon Software Inc. for 0.43 share of the Company.

(2) Method Used to Calculate Exchange of Stock Ratio

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

(3) Number of Shares to Be Granted

4,201,141 (tentative)

(4) Valuation

To be decided

REPORT OF INDEPENDENT AUDITORS



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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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 2008, 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

1. As described in "Subsequent Events," the Company reached an agreement at the Board of Directors' meeting on September 25, 2009, regarding the transfer of the Company's semiconductor equipment-related business to Canon Inc., effective January 1, 2010.
2. As described in "Subsequent Events," the Company and Canon Software Inc. each held a Board of Directors' meeting on January 26, 2010, where they concluded a share exchange agreement after adopting the final resolution for the share exchange in which the Company will convert Canon Software into a wholly owned subsidiary.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC

March 25, 2010

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: 19,165
Non-consolidated: 5,666
(As of December 31, 2009)

MAIN LOCATIONS OF OPERATIONS

Headquarters, Makuhari office and branches (Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)
(As of April 1, 2010)

MAJOR STOCKHOLDERS

Name of Stockholder	Number of shares held (thousands)	Percentage of ownership (%)
Canon Inc.	75,709	50.11
Canon Marketing Japan Inc.	13,748	9.09
Canon Marketing Japan Group Employee Stock Ownership Association	4,398	2.91
Japan Trustee Services Bank, Ltd. (Trust Account)	4,128	2.73
The Bank Of New York, Treaty JASDEC Account	2,756	1.82
The Master Trust Bank of Japan, Ltd.	2,193	1.45
RBC Dexia Investor Service Bank Account Luxembourg Non-Resident Domestic Rate	1,295	0.85
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	1,136	0.75
Mellon Bank, N.A. as agent for its client, Mellon Omnibus US Pension	1,099	0.72
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,084	0.71

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 2010–2012)
- Stock information
- Annual reports



<http://cweb.canon.jp/co-profile/ir-e/>



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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