THE LINK TO

VALUE

ANNUAL REPORT

2006

For the year ended December 31, 2006

Canon Marketing Japan Inc.

PROFILE

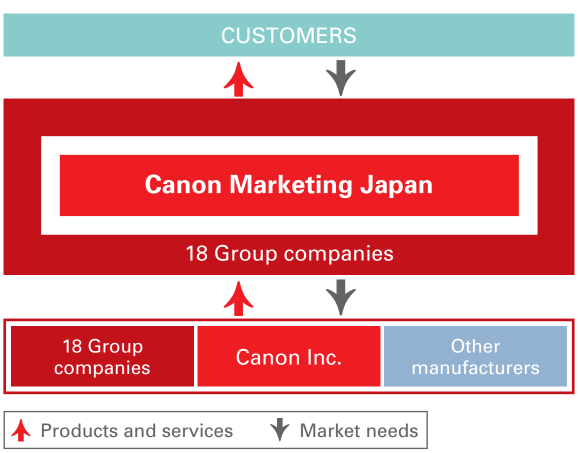
As an independent sales company responsible for the Japanese market, Canon Marketing Japan Inc. (formerly Canon Sales Co., Inc.; in this report Canon MJ) is a key member of the worldwide Canon Group. With a special focus on Canon products, the Company and its 17 subsidiaries and one associate supply products and services in three business segments: Business Solutions, Consumer Equipment and Industrial Equipment.

Canon MJ is positioned as a strategic link between the Japanese market and Canon Inc. Its central mission is to identify needs in the Japanese market through nationwide marketing and to supply customers with Canon-branded products that meet their needs. Through this role, Canon MJ builds good communications between Canon and its customers, providing enhanced value to both.

Canon MJ also meets customer needs by supplying products and services from other sources, including solutions and support services, based on its in-depth knowledge of the Japanese market.

VALUE

THROUGH STRONG



Canon MJ supplies the Japanese market with a wide range of products, including business equipment and software, as well as solutions, services and support.

This includes all Canon-branded products in the Japanese market, with Canon products accounting for 68% of the total value of its inventory acquisitions. Other products are sourced from partner companies, while services are provided by Canon MJ Group itself.

CONTENTS

CUSTOMER RELATIONSHIPS

MISSION & VISION

As a member of the worldwide Canon Group, our mission is to ensure consistently innovative marketing activities and encourage greater creativity in each individual, at work and in the community by providing products and services of the highest value.

Our vision for the future is based on "customer focus," a phrase that expresses our fundamental commitment to customer needs. On this foundation, we will work in good faith to grow as a corporate group with a global reputation for excellence, while maintaining global perspectives in our thinking. Throughout this continuous evolution, we will aim to maintain sound profit growth.

Disclaimer Regarding Forward-looking Statements

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

FINANCIAL HIGHLIGHTS

(Consolidated)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	FY 2006	FY 2005	FY 2004	FY 2006
FOR THE YEAR:				
Net sales	¥ 867,172	¥ 821,948	¥ 815,511	$ 7,287,160
Operating income	33,919	29,723	29,274	285,034
Income before income taxes and minority interests	32,967	27,086	20,186	277,034
Net income	18,807	15,358	12,364	158,042
AT YEAR-END:				
Total assets	526,578	513,335	482,337	4,425,025
Total stockholders' equity (Note 5)	260,367	247,244	234,158	2,187,958
	Yen			U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK:				
Net income (Note 2)	¥ 125.64	¥ 101.78	¥ 81.78	$ 1.06
Cash dividends (Notes 3 and 4)	36.00	28.00	22.00	0.30

Notes: 1. The accompanying financial figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥119 to US$1, the prevailing exchange rate as of December 31, 2006.

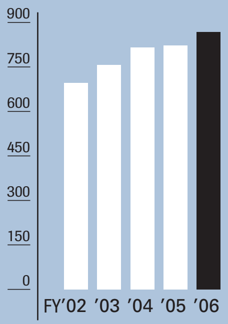
2. Net income per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.

3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.

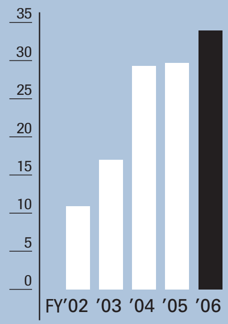
4. Year-end cash dividends for the year ended December 31, 2005, include a ¥2.00 bonus dividend reflecting record-high consolidated net sales, operating income and net income.

5. Total stockholders' equity in the above table represents the total of stockholders' equity and valuation and translation adjustments in the consolidated balance sheets. This is due to the adoption of a new accounting standard for the presentation of net assets in the balance sheet, 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. The methods of determining the amounts of each category have not changed from the previous fiscal year.

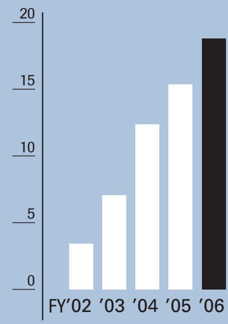
NET SALES
(Billions of yen)



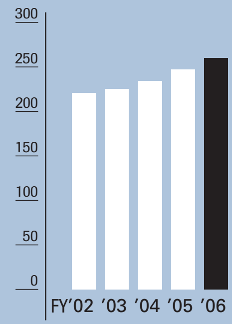
OPERATING INCOME
(Billions of yen)



NET INCOME
(Billions of yen)



TOTAL STOCKHOLDERS' EQUITY (Billions of yen)

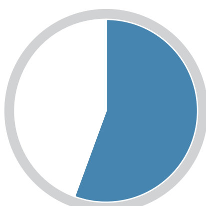


SEGMENT PERFORMANCE FOR FISCAL 2006

(Consolidated)

BUSINESS SOLUTIONS

PERCENTAGE OF NET SALES



55.6%

PERCENTAGE OF OPERATING INCOME

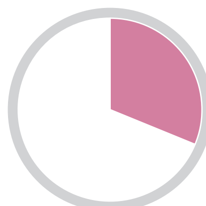
43.1%

Keiji Domon

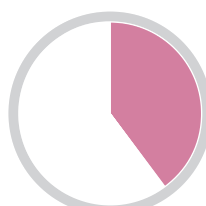
Senior Managing Director of the Business Solutions segment

The Business Solutions segment consists of the Document Business, which includes sales and servicing of multifunctional products (MFPs) and laser-beam printers (LBPs), and IT Solutions. Net sales in fiscal 2006 amounted to ¥482.2 billion (US$4,051.6 million), a year-on-year increase of 1.3%. Operating income also showed steady growth, with a 8.7% increase to ¥14.6 billion (US$122.7 million).

CONSUMER EQUIPMENT



31.2%



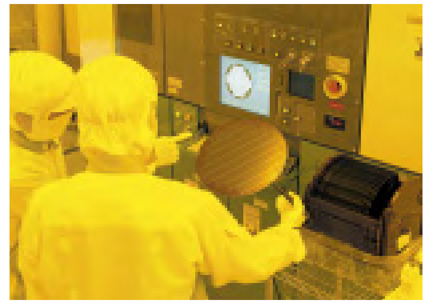
39.7%

Koji Ashizawa

Senior Managing Director of the Consumer Equipment segment

Key products sold by Canon MJ in the Consumer Equipment segment include digital cameras and personal-use ink-jet printers. Healthy performance trends continued in fiscal 2006. Net sales increased by 6.5% year on year to ¥270.8 billion (US$2,275.9 million), and operating income rose by 15.6% to ¥13.5 billion (US$113.2 million).

INDUSTRIAL EQUIPMENT



13.2%

17.2%

Hiroshi Shibuya

Senior Managing Director of the Industrial Equipment segment

Products sold by Canon MJ in the Industrial Equipment segment include semiconductor and LCD lithography systems, medical equipment and broadcasting lenses. The results for fiscal 2006 were substantially higher, with net sales increasing by 24.4% year on year to ¥114.2 billion (US$959.7 million). Operating income amounted to ¥5.8 billion (US$49.1 million).

TO OUR STOCKHOLDERS

Haruo Murase
President and CEO

LIVING AND WORKING TOGETHER INTO THE FUTURE

As members of the Canon Group, we share its corporate philosophy of *kyosei*, or harmonious coexistence, in which we strive towards a social environment where all people, regardless of race, religion, or culture, harmoniously live and work together.

Our core approach to business, “customer focus,” follows the *kyosei* spirit. To put this concept into practice, we always interact in good faith with people and society, and always listen to and seek to understand our customers. Good communication with the market is essential to our continuing ability to supply high-added-value products and services that truly reflect its needs. By building customer trust, and contributing to harmonious coexistence, we can continue to achieve sound growth.

> We achieved growth in both sales and income across all business segments.

REVIEW OF THE YEAR ENDED DECEMBER 31, 2006

I am very pleased to report that your company, Canon MJ, has set new records for net sales and net income, both on a consolidated basis, for the second consecutive year.

In the year just ended, the Japanese economy benefited from continuing strong business performance and a firm trend in capital investment. However, we also faced challenges in our business environment. Our corporate customers continued to seek further reductions in their office costs, and we were again affected by escalating competition and sluggish consumer spending.

Our results under these conditions include consolidated net sales of ¥867.2 billion (US$7,287.2 million), a year-on-year increase of 5.5%. Our consolidated operating income was 14.1% higher at ¥33.9 billion (US$285.0 million), while consolidated net income increased by 22.5% to ¥18.8 billion (US$158.0 million).

We achieved growth in both sales and income across all business segments. This success could not have been achieved without the support and cooperation of our stockholders, our customers, our partner companies, our parent company and leading supplier, Canon Inc., and the executives and employees of the Canon MJ Group. Here, I would like to express my profound gratitude.

HIGHLIGHTS OF FISCAL 2006

Long-Term Management Plan

In January 2006, we formulated a Long-Term Management Plan covering the period from fiscal 2006 to fiscal 2010. The adoption of this new plan marks the start of our evolution toward a future as a marketing company with a global reputation for excellence.

Corporate Name Change

In April 2006, we changed our corporate name from Canon Sales Co., Inc. to Canon Marketing Japan Inc. The new name reflects our strengthened focus on the needs of our customers and on building solid relationships with our target markets.

Expanding Our Income Base

Canon MJ continued to introduce new products and services to the market in the key areas of business-use multifunctional products (MFPs), laser-beam printers (LBPs) and digital photography. We also sought to enhance customer satisfaction and the value of the Canon brand further.

Strengthening Group Management

We made significant progress toward the reinforcement of our management structures. In fiscal 2006, we implemented a range of measures to strengthen our Group management. Several subsidiaries were merged to provide additional synergy benefits, and we further expanded the business base of our subsidiaries through M&A.

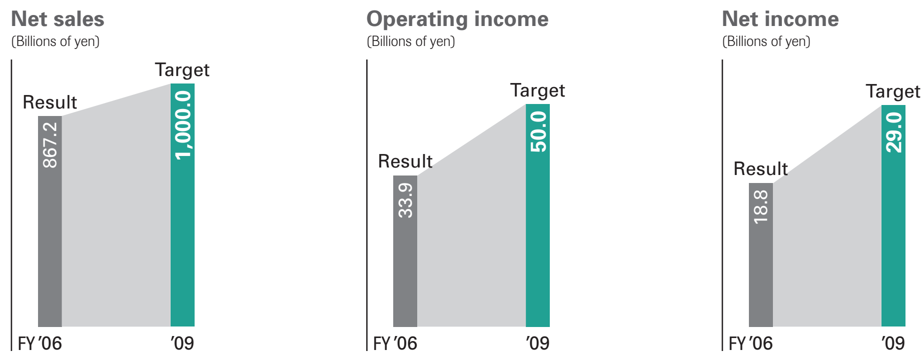
Record net sales and net income, both on a consolidated basis, for the second consecutive year

Corporate name changed to Canon Marketing Japan Inc., and a new growth phase launched under the Long-Term Management Plan

Our aim: To build Canon MJ into a marketing group with a global reputation for excellence

Targets for fiscal 2010: Consolidated net sales of ¥1.1 trillion and a consolidated ordinary income margin of at least 5.2%

THREE-YEAR MANAGEMENT PLAN, FISCAL 2006 RESULTS AND TARGETS



OUR VISION FOR CANON MARKETING JAPAN

Aim of the Long-Term Management Plan

As the member of the global Canon Group responsible for marketing in the Japanese market, Canon MJ will continue to encourage greater creativity in each individual, at work and in the community by supplying products and services of the highest value. We envision a future in which Canon MJ achieves growth as a marketing group with a global reputation for excellence. Realizing this vision will depend not only on profit growth, but also on our ability to earn and maintain the confidence of all stakeholders.

"Customer focus," the ability to see things from the customer's perspective, is the fundamental requirement for strengthening stakeholder confidence. We must also maintain global perspectives in our thinking and always interact in good faith with individuals and the community.

Targets and Strategic Policies of the Long-Term Management Plan

- The numerical targets are consolidated net sales of ¥1.1 trillion and a consolidated *ordinary income margin of at least 5.2% by fiscal 2010.
- We will build a consolidated Group management structure optimized for expedited business operations.
- We will secure an overwhelming advantage for key Canon products in terms of customer satisfaction and shares of the domestic market.
- We will further enhance the value of the Canon brand and expand the corporate value of the Canon MJ Group.
- We will develop human resources with global perspectives and the qualities needed to work in a marketing organization with a reputation for excellence.
- We will foster a corporate culture and systems to support continuing innovation focused on customer needs.

The numerous achievements of fiscal 2006, the first year of the new Long-Term Management Plan, brought us significantly closer to these goals. I believe that we have made an excellent start and seen tangible progress.

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

TURNING THE VISION INTO REALITY

Three-Year Management Plan (Fiscal 2007–2009)

To ensure that we achieve our targets under the Long-Term Management Plan, we have formulated a Three-Year Management Plan. Starting fiscal 2007, we will implement this plan under a system of rolling adjustments based on yearly reviews of targets and results.

ACHIEVING NO. 1 STATUS IN KEY PRODUCT CATEGORIES

Existing No. 1 Products	Target No. 1 Products
Business Solutions:	
Laser-beam printers	Business-use multifunctional products
Consumer Equipment:	
Compact digital cameras	
Digital single-lens reflex cameras	
Ink-jet printers	
Industrial Equipment:	
Lithography equipment for semiconductor manufacturers	Lithography equipment for LCD manufacturers
Broadcasting lenses	

Based on the results for the first year of the Long-Term Management Plan, we have set the following revised targets for fiscal 2007–2009. The targets reflect our determination to achieve further income expansion through sales growth.

In fiscal 2006, consolidated net sales were largely on target, and consolidated operating income was 11% above target. The ratio of operating income to net sales climbed to 3.9%, an improvement of 0.3 points year on year. These figures were achieved by strengthening Group management to improve the efficiency of the entire Canon MJ Group, and by minimizing selling, general and administrative expenses.

THREE-YEAR MANAGEMENT PLAN

(Billions of yen)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
	Target/Actual	Target		
Consolidated net sales	870.0/867.2	910.0	960.0	1,000.0
Consolidated operating income	30.5/33.9	36.0	43.0	50.0
Consolidated net income	16.9/18.8	20.0	24.9	29.0

Strategic Priorities under the Three-Year Management Plan

Our basic goals under the Three-Year Management Plan are to create a solid foundation for sustained and profitable growth, and achieve a management quality standard fit for the global arena. As we implement these policies, we will continue to focus on the achievement of our targets and strategic objectives under the Long-Term Management Plan. We have adopted the following strategic priorities for the Three-Year Management Plan:

- Development of IT Solutions into a core business area
- Achievement of profitable growth and establishment of next-generation activities
- Achievement of No. 1 status in terms of customer satisfaction for Canon products in all segments
- Reinforcement of Group management
- Enhancement of management quality

Operating income exceeding the target for the first year of the Long-Term Management Plan

Continued targeting of growth accompanied by profitability

AIMING TO INCREASE MARKET SHARE ACROSS ALL SEGMENTS

Balanced efforts to maintain and expand key business areas while creating new business activities

Steady progress toward achievement of top market shares for key products

Building IT Solutions into a Core Business

IT Solutions will benefit from Canon MJ's strong business performance through determined investment in IT infrastructure. This expansion is expected to continue in line with investment aimed at constructing an internal control framework compliant with the Act on the Protection of Personal Information and new legislation effective April 1, 2008, dubbed "J-SOX" for its similarity with the U.S. Sarbanes-Oxley Act.

Canon MJ's sales target for IT Solutions in fiscal 2009 is ¥190.0 billion. This represents a 34% increase over the fiscal 2006 result. We are actively working to expand this business segment in cooperation with Canon Inc. and subsidiaries responsible for specific areas, such as system integration, network integration, embedded software development, IT outsourcing and support.

Our core goals are to achieve profitable growth and develop next-generation business activities. We have identified the following strategic priorities in this context:

● Business Solutions segment

We aim to develop IT Solutions and reinforce the income base for color MFPs as the mainstay product of this segment. Other goals include increasing our market share for large-format ink-jet printers, improving profit margins on maintenance services, and establishing and expanding a market presence in digital commercial printing.

● Consumer Equipment segment

We aim to expand the home printing business and foster a digital photography culture—an environment in which our products enhance the customers' enjoyment at all stages from photography to printing. In the photo studio business, we will target business expansion by promoting digital photo solutions with a diversified approach encompassing not just products but all aspects of photography.

● Industrial Equipment segment

We will work to maintain and improve our market shares for lithography equipment for use in semiconductor and LCD manufacturing. We also aim to build up our sales of imported semiconductor manufacturing-related equipment. Other priorities include expanding our medical solutions business and increasing sales of broadcasting lenses.

"Moving forward, we will continue to apply the "customer focus" concept to all aspects of our operations."

Continued efforts to maximize stockholder returns through sustained growth

Achieving No. 1 Status for Canon Products

We define "No. 1" not only in terms of market share, but also in terms of customer satisfaction. Moving forward, we will continue to apply the "customer focus" concept to all aspects of our operations, while monitoring the results of third-party customer satisfaction surveys.

Targeting Sustained Growth in Corporate Value

Our fundamental goal under the Long-Term Management Plan is to enhance the corporate value of the Canon MJ Group. Reinforcing consolidated Group management has been identified as a priority in this context, and we are now focusing on improving efficiency through centralizing the Group's support operations to create shared services. This process also includes enhancing integrated Group-level information systems. The strengthening of our Group management system includes our internal governance system, which is based on U.S. standards due to Canon MJ being a member of the global Canon Group.

We also recognize the importance of corporate social responsibility (CSR), and in January 2007 we established a CSR Promotion Division within our organization. This unit will work to strengthen Group-level CSR structures.

Canon MJ is a public company and our stocks are traded publicly. Our business operations are based on funds invested by our stockholders. Though Canon MJ is a subsidiary of Canon Inc., we have full management autonomy, and Canon Inc. is an important business partner in addition to being a major stockholder. As the person entrusted with the management of Canon MJ, I am keenly aware that our most important mission is to provide returns to our stockholders by achieving sustained growth. I believe that the rate of return should be around 30% of consolidated net income, and on this basis we have increased the dividend for fiscal 2006 by ¥8.00 over the previous year's level to ¥36.00 (US$0.30) per share.

We are determined to continue to raise the corporate value of your company, provide appropriate returns to stockholders and enhance our asset value. We look forward to continuing to receive your wholehearted support in the future.

March 2007

Haruo Murase
President and CEO

MAINTAINING OUR VISION

For Canon MJ, "customer focus" means an ongoing dedication to customer satisfaction, encompassing the development, sales and after-sales service of high-added-value products that meet the needs of users.

OUR ASPIRATION:

TAILOR-MADE CUSTOMER SOLU

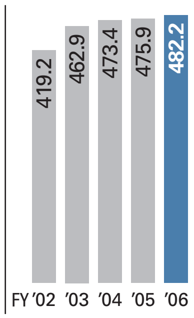
TIONS

New ideas for the new digital photography culture—Canon MJ is helping to create new ways to enjoy photography and expand its use as a medium of human communication that brings added enjoyment and value to life. This concept is expressed in the slogan "Enjoy Photo."

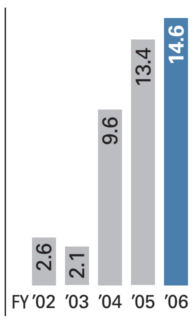
BUSINESS SOLUTIONS

THE LINK TO PRODUCTIVITY

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



PERFORMANCE

The Business Solutions segment primarily targets business users. It is divided into two areas: the Document Business, which includes multifunctional products (MFPs), laser-beam printers (LBPs) and related maintenance services, and IT Solutions, which encompasses sales of solution services, software and IT equipment.

The growth in corporate demand for efficiency improvements and cost savings in document-related operations has accelerated. In IT Solutions, corporate customers need to cope with a variety of new requirements, including internal governance systems and protection systems for personal information. Although competition has intensified, demand has been growing for new products, including security-related products.

In fiscal 2006, Canon MJ launched a stream of new business-use MFPs and LBPs. It also focused on the development of its security-related products. These efforts were reflected in the segment's results, which included net sales of ¥482.2 billion (US$4,051.6 million) and operating income of ¥14.6 billion (US$122.7 million), equalling increases of 1.3% and 8.7% respectively over the previous year. The segment accounted for 55.6% of Canon MJ's net sales and 43.1% of operating income.

PRODUCTS AND SERVICES

Business-use Multifunctional Products

The shift from monochrome to color continued to accelerate in fiscal 2006. In the second half of the year, Canon MJ introduced new high-speed and medium-speed models in its Color imageRUNNER Series of color MFPs. This brought a sharp increase in sales in the fourth quarter.

MANAGEMENT COMMENT

"In line with our 'customer focus' philosophy, we will continue to supply high-added-value products and services."

In this segment, we offer total support from the supply of products and software through to after-sales service. Canon MJ's goal is to be No. 1 in customer satisfaction, and I believe that building this segment into the Company's flagship will help us achieve this. This role is also reflected in the identification of this segment as a growth driver in the Three-Year Management Plan.

Keiji Domon
Senior Managing Director of the Business Solutions segment

Commercial Printing Systems

In the digital commercial printing market, Canon MJ launched the new imagePRESS brand, in fiscal 2006. Through their extraordinary quality, these systems offer a competitive alternative to offset printing.

Laser-beam Printers

The LBP market remained generally slack in fiscal 2006. However, Canon MJ was able to achieve considerable success by launching a total of nine new monochrome and color models, especially in the Satera LBP Series. Sales of color LBPs increased by almost 50% over the previous year's level. In terms of shipment, Canon MJ became the market leader with a share of 27%.

Maintenance Services and Other Products

Despite a continuing decline in unit prices for maintenance services, sales again surpassed the previous year's result. Contributing factors included not only growth in the total number of business-use MFPs in use, but also improvements in the efficiency of service operations. Sales of other products also expanded, reflecting the launch of six new models in the iPF Series of large-format ink-jet printers. Sales of LCD projectors also remained strong.

IT Solutions

There was a substantial increase in sales of security-related products, including IC card verification systems. In the area of IT equipment, Canon MJ recorded steady growth in sales of equipment for gas and water metering and data collection from vending machines, as well as of small, portable terminals for financial institutions. In the software category, there was solid growth in the embedded software and backbone system development business, which is handled mainly by subsidiaries. Other growth areas included the medical solutions business and the CAD business.

STRATEGIES AND OUTLOOK

Under the Three-Year Management Plan, Canon MJ will expand the business base of the Business Solutions segment, targeting segment net sales of ¥580.0 billion by fiscal 2009, the final year of the plan. While maintaining its leadership in the LBP market, Canon MJ also aims to achieve double-digit growth in sales of business-use MFPs, especially the Color imageRUNNER Series, and 50% growth in sales of large-format ink-jet printers.

Canon MJ made its first full-scale entry into the digital commercial printing market in fiscal 2006 and has assigned 50 full-time staff to this area under a plan geared toward growth over the medium-term future. In the maintenance service field, Canon MJ anticipates increased profit margins resulting from efficiency improvements and the continuing shift to color MFPs and LBPs.

IT Solutions is also a key contributor to growth. Here, Canon MJ will work with its Group subsidiaries to build this area into a core business segment through a range of initiatives designed to lift net sales from ¥141.8 billion (US$1,191.6 million) in fiscal 2006 to ¥190.0 billion in fiscal 2009.

Canon Color Laser IRC 5180 Photocopier

High-capacity multifunctional imaging system with advanced document handling and high-resolution printing

imagePRESS C7000VP

Advanced, high-capacity digital color press capable of 70 prints per minute

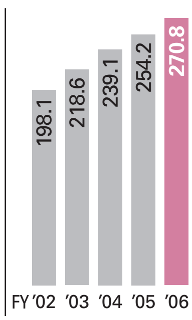
Satera LBP5900

Feature-packed, small-sized desktop color laser-beam printer capable of printing A3 sheets at high speed

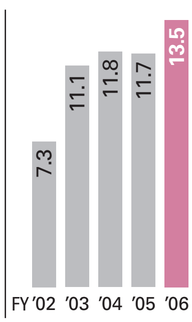
CONSUMER EQUIPMENT

THE LINK TO EXPRESSION

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



PERFORMANCE

The main products sold by Canon MJ in the Consumer Equipment segment are digital cameras, digital video cameras, personal-use ink-jet printers and compact photo printers. In fiscal 2006, many manufacturers launched new compact digital cameras and digital single-lens reflex cameras with enhanced functions and features. These new products helped to stimulate both replacement demand and new demand. However, the sales volume of personal-use ink-jet printers fell compared with the previous year, in part because of market maturization.

Canon MJ launched new products in all of its product categories, while also working aggressively to build new demand for compact photo printers. Net sales in the Consumer Equipment segment increased 6.5% over the previous year to ¥270.8 billion (US$2,275.9 million) while operating income reached ¥13.5 billion (US$113.2 million), up 15.6% over the previous year. This segment accounted for 31.2% of total corporate net sales and 39.7% of operating income.

PRODUCTS AND SERVICES

Compact Digital Cameras

In this market, growth is driven by high demand from customers wishing to replace older items, prompting all manufacturers (including Canon) to release new, carefully differentiated models. Canon MJ launched six new models in the IXY DIGITAL Series and nine in the PowerShot Series. Sales again set a new record, and Canon MJ retained its position as market leader.

MANAGEMENT COMMENT

"Today, photography is more engaging than ever. Our mission is to continuously heighten this enjoyment by offering new value to users."

In fiscal 2006, over 230 million digital cameras and digital video cameras were sold. Through Canon's extremely high profile in the market, which is strongly associated with the Canon brand, we aim to achieve growth in step with market expansion by offering users new ways to enjoy photography.

Koji Ashizawa
Senior Managing Director of the Consumer Equipment segment

Digital Single-lens Reflex Cameras

Canon MJ retained its market leadership due to sustained earnings growth. Among the most popular products were the EOS 5D and the EOS 30D, both developed for advanced amateur photographers. The Company also enjoyed great success with the best-selling, entry-level model, EOS Kiss Digital X.

Digital Video Cameras

Demand stagnated because of factors including the diversification of recording media, and the postponement of purchasing decisions ahead of the transition to the Hi-Vision format, the Japanese High Definition (HD) TV format. Despite the launch of Canon MJ's first personal-use Hi-Vision model, the iVIS HV10, sales were below the previous year's level.

Ink-jet Printers

Despite slow demand in the market for personal-use ink-jet printers, Canon MJ achieved considerable success, including the launch of eight new models. The MP600 model in the PIXUS Series became a major hit immediately after its launch and helped Canon MJ to gain a big share of the market.

Compact Photo Printers

Canon MJ launched three new models in the SELPHY Series, while also actively emphasizing through marketing the ability of Canon products to link with compact cameras, providing an easy, integrated input-to-output solution for printing photos at home. Sales of both equipment and consumables grew dramatically.

STRATEGIES AND OUTLOOK

Canon MJ aims to achieve robust income growth in the Consumer Equipment segment. The sales target for fiscal 2009, the final year of the Three-Year Management Plan, is ¥285.0 billion.

The Company remains the market leader in all of the segment's core product categories and anticipates further strong growth. In the growing market for single-lens reflex cameras, Canon MJ will seek to keep its leading position by supplying solutions that enable customers to truly enjoy photography.

Another area in which Canon MJ will target increased sales is compact photo printers. The goal is to capture 50% of the market for home-use printers.

Marketing materials for this segment emphasize Canon's ability to provide total support for the enjoyment of photography, from shooting to printing. Under its "Enjoy Photo" slogan, Canon MJ is working to foster a digital photography culture.

IXY DIGITAL 900 IS

Compact 7.1 megapixel camera with wide-angle optical zoom, image stabilizer and 2.5-inch LCD

EOS Kiss Digital X

10.1 megapixel single-lens reflex camera with a 1.8-inch LCD, fast start-up and wide viewing angle

iVIS HV10

HD camcorder with 10x optical zoom and 2.7-inch LCD, records to standard mini-DV cassettes

PIXUS MP600

Easy-to-use color ink-jet printer offering high-speed, high-quality printing

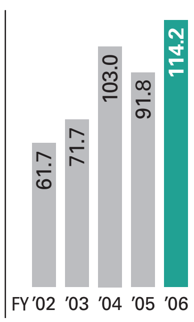
SELPHY ES1

Flagship of the SELPHY compact printer range, offers wireless printing and one-touch operation

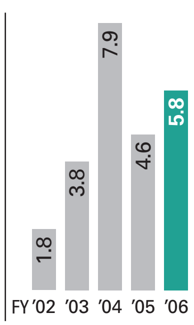
INDUSTRIAL EQUIPMENT

THE LINK TO INNOVATION

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



PERFORMANCE

Marketing activities in the Industrial Equipment segment center on semiconductor and LCD lithography systems, medical equipment and broadcasting lenses. Leading semiconductor manufacturers continued to invest heavily in plant and equipment in fiscal 2006. However, capital investment by the LCD panel industry began to wind down following the completion of mass-production facilities by major manufacturers.

Canon MJ continued to cooperate closely with Canon Inc. on the strategic implementation of fine-tuned marketing activities based on integrated efforts by sales staff, technical personnel and field engineers. These activities, which targeted not only major manufacturers but also smaller companies, brought substantial growth. Net sales increased by 24.4% over the previous year to ¥114.2 billion (US$959.7 million), while operating income was 26.3% higher at ¥5.8 billion (US$49.1 million). This segment accounted for 13.2% of total corporate net sales and 17.2% of operating income.

PRODUCTS AND SERVICES

Lithography Equipment for Semiconductor Manufacturers

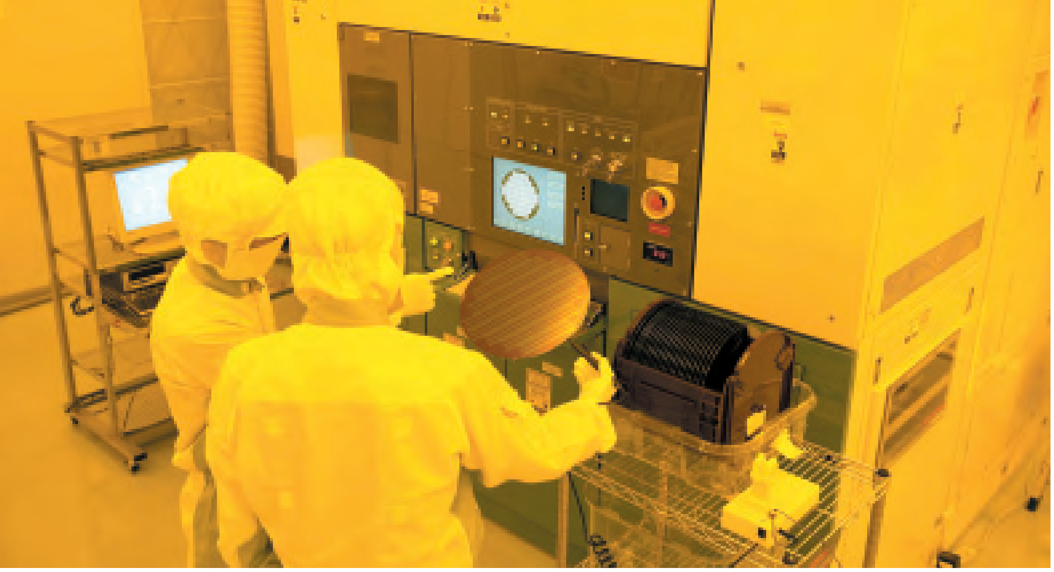
Sales activities in this area focused on i-line steppers and KrF step-and-scan systems. Support systems were strengthened through the use of customer-focused task teams, and sales and technical personnel worked closely with field engineers to maintain and enhance customer satisfaction. Canon MJ again captured over 70% of the market in terms of unit sales.

MANAGEMENT COMMENT

"We will develop business activities in specific markets through close coordination of sales, technical and service personnel."

The key to survival in this segment is our ability to ensure customer satisfaction by supplying high-added-value products that reflect the needs of corporate customers, and by ensuring efficient operation after delivery. We will work to establish a unique market profile for our products, which symbolize the technical capabilities of Canon MJ.

Hiroshi Shibuya
Senior Managing Director of the Industrial Equipment segment



Lithography Equipment for LCD Manufacturers

There was sustained sales growth, including additional orders for the flagship MPA-8800 and MPA-8000 Series. To ensure timely deliveries, installations and start-ups in accordance with customers' production plans, Canon MJ has established a joint installation and support structure with Canon Inc. and is also working to provide effective after-sales service.

Other Semiconductor-related Equipment

The main products in this category are laser repair systems manufactured by ESI, Inc. and Zygo Corporation's interferometer systems. Sales showed steady growth.

Medical Equipment

Sales of digital radiography systems, which are the core products in this area, exceeded the previous year's level, allowing Canon MJ to retain the largest share of the market. However, sales of intraocular lenses and other products were adversely affected by downward pressure on the prices of medical equipment, and sales were marginally below the previous year's level.

Broadcasting Lenses

In readiness for the full-scale start-up of terrestrial digital broadcasting, Canon MJ gave priority to the expansion of sales of High Definition (HD) portable lenses, especially to private broadcasting companies, who are investing heavily in Hi-Vision equipment. Sales matched the previous year's level, and Canon MJ maintained the biggest market share.

STRATEGIES AND OUTLOOK

The target set for the Industrial Equipment segment under the Three-Year Management Plan is sales of ¥135.0 billion in fiscal 2009, the final year of the plan. In the semiconductor business and the LCD panel market, Canon MJ will maintain a cautious business strategy based on careful monitoring of trends. In the area of lithography equipment, it aims to maintain the biggest market share for semiconductor manufacturers by introducing new products. The Three-Year Management Plan also calls for the achievement of the No. 1 position in the market for lithography equipment for LCD manufacturers. Plans for other types of semiconductor-related equipment include expanded sales of imported products.

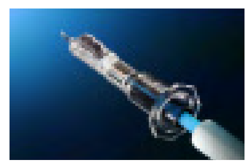
In the medical equipment category, Canon MJ will target increased sales of the CXDI Series in the Japanese market, where the transition to digital radiology equipment has been slow compared with other countries. In the area of broadcasting lenses, private broadcasting companies are already investing heavily in Hi-Vision technology, and NHK, Japan's state-owned broadcasting organization, is expected to follow suit. As the industry leader, Canon MJ will develop aggressive marketing activities in this area.

FPA-6000 ES5A

Immersion scanner capable of scanning the middle layer of microchips of 110–65 nanometer half pitch, with various options available

Digital Graphy CXDI-50C

Portable, high-resolution digital x-ray camera system with a highly sensitive low-radiation sensor



Preset IOL System KS-X

Acrylic preset intraocular lens (IOL) system for the treatment of cataracts

DIGISUPER 100AF

HD broadcasting 100x zoom lens with autofocus, currently in high demand

We envision a future as a marketing company with a global reputation for excellence, built on a dedication to harmonious coexistence and continuous, sound growth. Our wide-ranging business activities are guided by a commitment to social contribution and continuous cultivation of good relationships with all stakeholders, and by our determination to contribute to the solution of environmental problems.

GROWING TOGETH

E R ,

WORLDWIDE

Canon MJ recognizes that sound, sustainable improvement in corporate value requires solid corporate governance. For that reason, we continually reinforce our systems for compliance, disclosure, internal control and information security, which are all in line with international standards.

OUR COMMITMENT TO STAKEHOLDERS

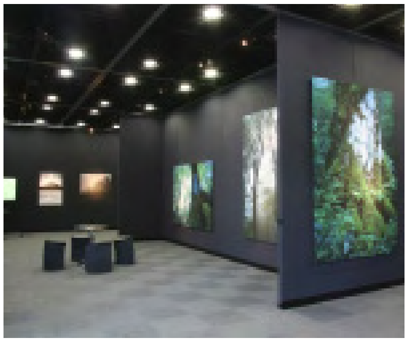
Fundamental Philosophy on Social Responsibility

We believe that Canon MJ's primary corporate mission is to maintain sound growth through its core activities by supporting human creativity in all facets of life, work and the community with products and services of the highest value.

We also recognize that Canon MJ has obligations as a member of society, and have therefore made corporate social responsibility (CSR) a management priority. The reinforcement of Group-level CSR activities is also identified as an important aspect of management quality improvement, one of the strategic priorities of the Three-Year Management Plan. In January 2007, we established the CSR Promotion Division to strengthen Group-level CSR activities.

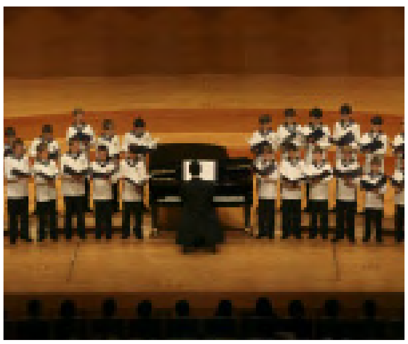
Building Good Relationships with All Stakeholders

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



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

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



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

Professional tennis player Ayumi Morita is also sponsored by Canon MJ.

Support for Imaging and Cultural Activities

The business activities of Canon MJ are closely intertwined with imaging, and we place great importance on creating new opportunities for the development of image culture. One of the ways in which we encourage photography is through our support for activities that help to expand the world of photography and imaging. For example, we support the Japan Media Arts Festival organized by the Japanese Cultural Affairs Agency.

Canon MJ also supports a wide range of sporting activities, including soccer, golf and tennis, as well as cultural activities, such as concerts in Japan by the Vienna Boys Choir.

Environmental Initiatives

Harmonious coexistence is a fundamental principle for the global Canon Group. As a company that interacts directly with its customers, Canon MJ has a special responsibility to consider the environment in its marketing activities. We led the industry in establishing a toner cartridge recycling program and promoting the reuse of copiers. To reduce CO_2 emissions, we use rail and sea transport in our product recovery systems, and are expanding our green procurement activities and actively introducing electric vehicles.

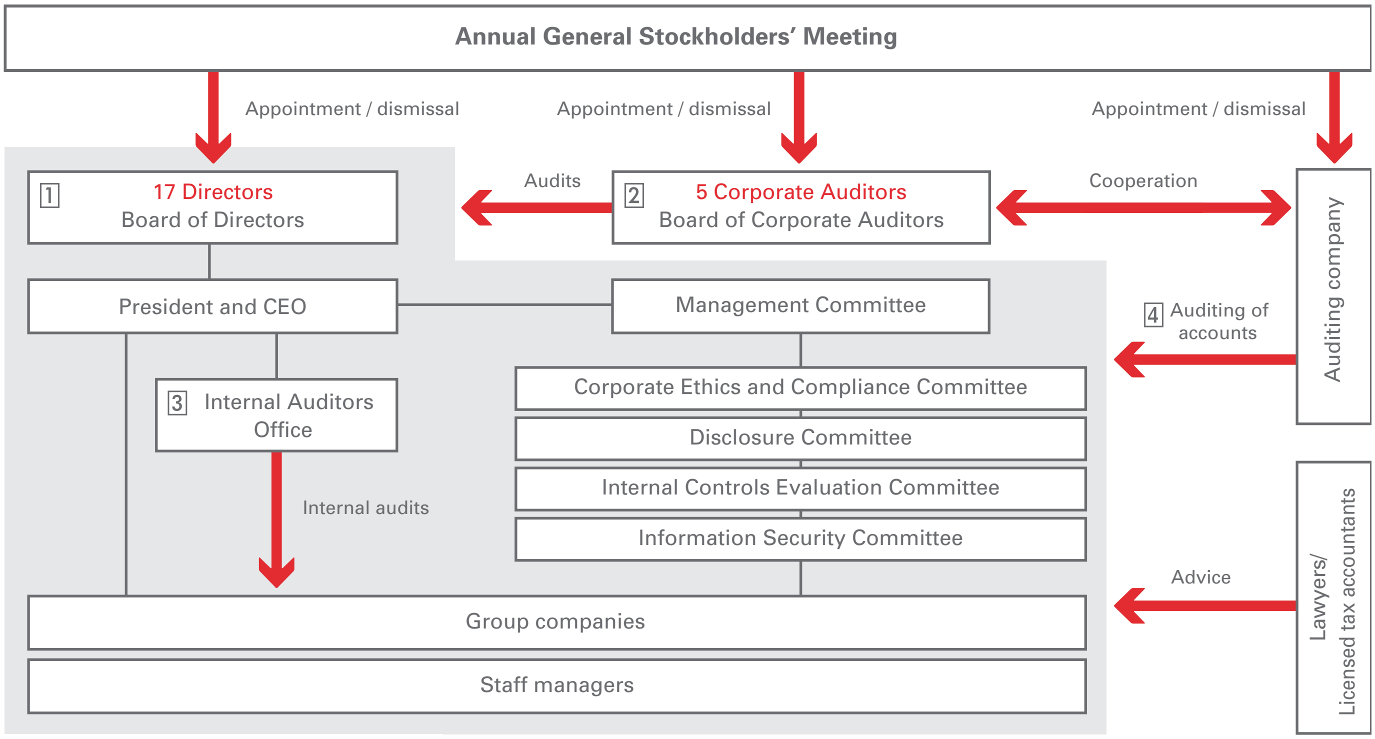
Canon MJ is also leading the industry in the supply of environment-friendly products. For example, we are working to eliminate the use of hazardous substances by introducing products that comply with the European Union's RoHS Directive concerning six hazardous substances.

Canon System & Support now uses 18 electric cars that can be recharged through the national grid.

Canon MJ also arranges photo workshops and events for children, giving them hands-on experience of the joys of photography.

CORPORATE GOVERNANCE

(As of March 28, 2007)



Basic Stance on Corporate Governance

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

The Corporate Governance Structure

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

1 Board of Directors

As of March 28, 2007, there were 17 directors. By limiting the term of office for directors to one year, we have created a management structure capable of adapting quickly to changes in the business environment. Important decisions are made by the Board of Directors, which normally meets once a month, and at Management Committee meetings attended by the Directors of Canon MJ and the presidents of key subsidiaries. There are no outside directors.

2 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.

3 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 effec-

BOARD OF DIRECTORS AND CORPORATE AUDITORS

BOARD OF DIRECTORS


President and CEO
Haruo Murase


Senior Managing Director
Keiji Domon


Senior Managing Director
Kazunori Asada


Senior Managing Director
Koji Ashizawa


Senior Managing Director
Hiroshi Shibuya


Senior Managing Director
Masami Kawasaki


Managing Director
Kenichiro Goto


Managing Director
Motoo Fukui


Managing Director
Hajime Iwaki


Director
Osamu Sasaki


Director
Tetsuo Yoshida


Director
Yo Shibasaki


Director
Kunitoshi Horikawa


Director
Masahiro Sakata


Director
Masaki Sawabe


Director
Masanori Koyama


Director
Yutaka Usui

CORPORATE AUDITORS


Corporate Auditor
Masayasu Saito


Corporate Auditor
Toshio Matsumoto


Corporate Auditor
Nobuo Ishido


Corporate Auditor
Kunihiro Nagata


Corporate Auditor
Minoru Shishikura

tiveness 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 39 audit staff members.

4 Auditing of Accounts

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

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.

Disclosure

The task of the Disclosure Committee is to make prompt decisions concerning important corporate information, including the identification of information for which timely disclosure is required, and decisions concerning the content and timing of disclosure.

To ensure that information can be gathered promptly, disclosure officers have been appointed in each department and subsidiary. As part of our Investor Relations activities, Canon MJ holds briefings on medium-term planning, quarterly results briefings and business briefings. We also distribute timely, accurate information continually via websites and other channels.

Internal Controls

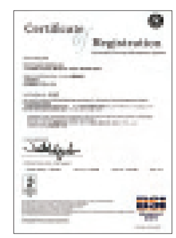
Canon MJ has been assessing its internal control systems under the Internal Controls Evaluation Project, established in March 2005. In January 2006, we created the Internal Controls Evaluation Committee. Chaired by the President, this committee consists of officials representing corporate departments and subsidiaries. Its task is to develop internal control systems for the entire Canon MJ Group.

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

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.

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 system (certification currently held by some sections).

たいせつにしますプライバシー
A520003(02)

The Privacy Mark guarantees protection of personal information. Through its know-how of the Privacy Mark requirements, Canon MJ can assist customers seeking this certification.

FINANCIAL SECTION

CONTENTS

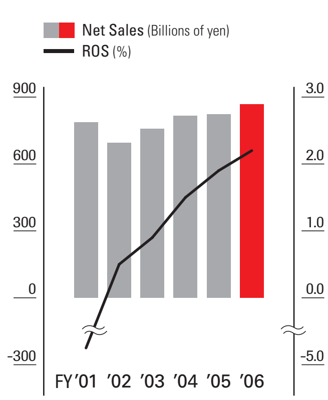
SIX-YEAR CONSOLIDATED FINANCIAL SUMMARY

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

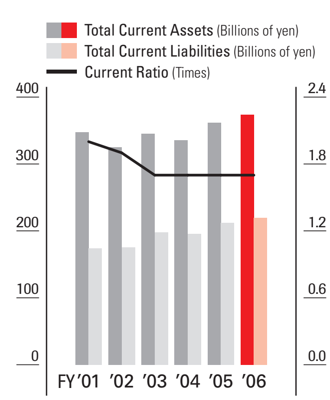
	Millions of yen						Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2003	2002	2001	2006
FOR THE YEAR:							
Net sales	¥867,172	¥ 821,948	¥ 815,511	¥ 757,033	¥ 695,585	¥ 786,828	$ 7,287,160
Cost of sales	587,045	551,165	547,011	507,491	467,044	542,732	4,933,152
Gross profit	280,127	270,783	268,500	249,542	228,541	244,096	2,354,008
Selling, general and administrative expenses	246,208	241,060	239,226	232,555	217,656	224,699	2,068,974
Operating income	33,919	29,723	29,274	16,987	10,885	19,397	285,034
Income (loss) before income taxes and minority interests	32,967	27,086	20,186	20,438	6,873	(63,280)	277,034
Income taxes (credit)	13,768	11,366	7,666	13,219	3,361	(28,407)	115,698
Net income (loss)	18,807	15,358	12,364	7,043	3,436	(32,831)	158,042
AT YEAR-END:							
Total assets	526,578	513,335	482,337	495,396	495,298	514,698	4,425,025
Total stockholders' equity (Note 5)	260,367	247,244	234,158	225,317	220,797	220,418	2,187,958
	Yen						U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK:							
Net income (loss) (Note 2)	¥ 125.64	¥ 101.78	¥ 81.78	¥ 46.24	¥ 22.96	¥ (217.39)	$ 1.06
Cash dividends (Notes 3 and 4)	36.00	28.00	22.00	18.00	18.00	18.00	0.30
Stockholders' equity (Note 5)	1,739.50	1,650.52	1,562.23	1,496.74	1,464.43	1,459.60	14.62

Notes: 1. The accompanying financial figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥119 to US$1, the prevailing exchange rate as of December 31, 2006.
2. Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.
3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.
4. Year-end cash dividends for the year ended December 31, 2005, include a ¥2.00 bonus dividend reflecting record-high consolidated net sales, operating income and net income.
5. Total stockholders' equity in the above table represents the total of stockholders' equity and valuation and translation adjustments in the consolidated balance sheets. This is due to the adoption of a new accounting standard for the presentation of net assets in the balance sheet, 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. The methods of determining the amounts of each category have not changed from the previous fiscal year.

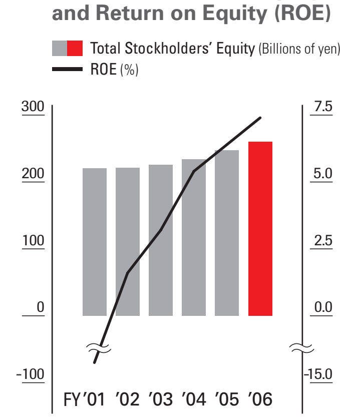
Return on Sales (ROS)



Working Capital



Total Stockholders' Equity and Return on Equity (ROE)



Results of Operations

Sales

Consolidated net sales of the fiscal year ended December 31, 2006 amounted to ¥867.2 billion, up 5.5% compared with the previous fiscal year, reflecting a stronger year-on-year performance in all business segments.

An analysis by business segment shows that the Business Solutions segment acquired the leading market shares in both color and monochrome laser-beam printers while securing a steady performance in maintenance services for business-use multifunctional products, and recorded ¥482.2 billion in sales, a 1.3% increase compared with the previous fiscal year. In the Consumer Equipment segment, sales of compact digital cameras reached a record high, as well as the top market share for the fourth consecutive year. Digital single-lens reflex cameras also steadily increased in sales, and as a result, the aggregate sales of the Consumer Equipment segment increased by 6.5% compared with the previous fiscal year to ¥270.8 billion. The Industrial Equipment segment also increased its sales by 24.4% compared with the previous fiscal year to ¥114.2 billion, largely owing to an expanded market share in lithography equipment for semiconductor manufacturers. This was achieved by aggressively promoting order-winning initiatives and strengthening customer support structures.

Earnings

Operating income again reached an all-time high level of ¥33.9 billion, a rise of 14.1% compared with the previous fiscal year. Although sales promotion expenses increased along with personnel expenses due to an increase in the number of employees, these negative effects were outweighed by a drop in the ratio of selling, general and administrative expenses to net sales and an increase in gross profit.

Net income also reached a record high of ¥18.8 billion, an increase of 22.5% compared with the previous fiscal year. This is mainly due to a decrease in loss on disposal and devaluation of inventories and the absence of a special depreciation of fixed assets and expenses related to the relocation of headquarters in affiliated companies, which were recorded in the previous fiscal year.

Net income per share was ¥125.64, compared with ¥101.78 in the previous fiscal year. Cash dividends per share applicable to the year were ¥36.00, an increase of ¥8.00 compared with the previous fiscal year.

Financial Position

Total assets as of the year-end under review amounted to ¥526.6 billion, an increase of 2.6% compared with the previous fiscal year. This is mainly due to an increase in notes and accounts receivable reflecting the sales increase, as well as to an increase in investments in securities for the purposes of stronger business relationships and mid- and long-term investments.

Total liabilities edged up by 0.3% compared with the previous fiscal year to ¥263.1 billion, despite a drop in the liability for employees' retirement benefits. The major factors behind this rise include increases in notes and accounts payable and accrued expenses.

As a result of these changes, net assets as of the fiscal year-end amounted to ¥263.5 billion, a 5.0% increase compared with the previous fiscal year.

Return on equity (ROE) was 7.4%, compared with 6.4% in the previous fiscal year. Total stockholders' equity ratio was 49.4%, up from 48.2% in the previous fiscal year. Stockholders' equity per share was ¥1,739.50, up from ¥1,650.52 in the previous fiscal year.

Cash Flows

Cash and cash equivalents as of the year-end decreased by ¥7.3 billion to ¥108.2 billion compared with the previous fiscal year, mainly due to a ¥22.8 billion increase in notes and accounts receivable.

Net cash provided by operating activities amounted to ¥18.1 billion, compared with ¥37.0 billion in the previous fiscal year. The major factors of the operating cash flows include income before income taxes and minority interests of ¥33.0 billion; depreciation and amortization of ¥10.7 billion; a decrease in inventories of ¥5.5 billion; an increase in notes and accounts receivable of ¥22.8 billion; and income taxes paid of ¥11.0 billion.

Net cash used in investing activities was ¥19.2 billion, compared with ¥17.9 billion in the previous fiscal year. This result was largely attributable to payments for purchases of property and equipment of ¥8.4 billion, as well as payments for purchases of investments in securities of ¥7.6 billion.

Net cash used in financing activities amounted to ¥6.1 billion, up from ¥4.3 billion in the previous fiscal year. The major factor behind this cash outflow was ¥5.2 billion in dividends paid.

CONSOLIDATED BALANCE SHEETS

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents (Note 3)	¥ 108,248	¥ 115,504	$ 909,647
Notes and accounts receivable	194,468	170,822	1,634,185
Short-term investments in securities (Notes 3 and 9)	224	—	1,882
Inventories (Note 4)	51,911	56,667	436,227
Deferred tax assets (Note 7)	6,930	7,302	58,235
Other current assets	12,288	12,059	103,261
Allowance for doubtful receivables	(245)	(255)	(2,059)
Total current assets	373,824	362,099	3,141,378
PROPERTY AND EQUIPMENT:			
Land	41,245	40,864	346,596
Buildings and structures	73,999	72,235	621,840
Machinery (Note 8)	441	4	3,706
Vehicles (Note 8)	102	16	857
Furniture and fixtures (Note 8)	20,006	19,276	168,118
Rental assets	18,764	17,373	157,681
Total	154,557	149,768	1,298,798
Accumulated depreciation	(52,748)	(47,391)	(443,260)
Net property and equipment	101,809	102,377	855,538
INTANGIBLE ASSETS:			
Software (Note 8)	5,122	4,517	43,042
Utilization rights	365	365	3,067
Other intangible assets	44	16	370
Total intangible assets	5,531	4,898	46,479
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 3 and 9)	15,717	12,248	132,076
Long-term loans receivable	13	13	109
Lease deposits	8,350	8,714	70,168
Deferred tax assets (Note 7)	18,989	20,787	159,571
Other investments	3,516	3,306	29,546
Allowance for doubtful receivables	(1,171)	(1,107)	(9,840)
Total investments and other assets	45,414	43,961	381,630
Total assets	¥ 526,578	¥ 513,335	$ 4,425,025

LIABILITIES AND NET ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
CURRENT LIABILITIES:			
Notes and accounts payable	¥ 157,196	¥ 151,936	$ 1,320,975
Accrued income taxes (Note 7)	7,627	7,592	64,092
Accrued consumption taxes payable	2,750	2,822	23,109
Accrued expenses	31,988	30,401	268,807
Reserves	5,018	4,476	42,168
Other current liabilities	15,086	15,074	126,773
Total current liabilities	219,665	212,301	1,845,924
LONG-TERM LIABILITIES:			
Deferred tax liabilities (Note 7)	250	188	2,101
Liability for employees' retirement benefits (Notes 2, 5 and 11)	39,461	45,520	331,605
Liability for directors' and corporate auditors' retirement benefits (Note 2)	704	629	5,916
Consolidation differences (Note 2)	—	1,391	—
Negative goodwill (Note 2)	479	—	4,025
Other long-term liabilities	2,551	2,389	21,437
Total long-term liabilities	43,445	50,117	365,084
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 2)**:**			
STOCKHOLDERS' EQUITY (Notes 6 and 11)**:**			
Common stock: Authorized—299,500,000 shares; Issued—150,523,896 shares in 2006 and 2005	73,303	73,303	615,992
Capital surplus	82,530	82,525	693,529
Retained earnings	104,077	90,324	874,597
Treasury stock	(1,236)	(1,123)	(10,387)
VALUATION AND TRANSLATION ADJUSTMENTS:			
Net unrealized gain on available-for-sale securities	1,676	2,207	14,084
Foreign currency translation adjustments	17	8	143
MINORITY INTERESTS:	3,101	3,673	26,059
Total net assets	263,468	250,917	2,214,017
Total liabilities and net assets	¥ 526,578	¥ 513,335	$ 4,425,025

• See accompanying notes to consolidated financial statements.

• Effective the year ended December 31, 2006, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related Implementation Guidance. The financial statements for the year ended December 31, 2005 have been restated to conform to the presentation of the financial statements for the year ended December 31, 2006. In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format familiar to readers outside Japan.

CONSOLIDATED STATEMENTS OF INCOME

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
NET SALES	¥ 867,172	¥ 821,948	$ 7,287,160
COST OF SALES	587,045	551,165	4,933,152
Gross profit	280,127	270,783	2,354,008
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	246,208	241,060	2,068,974
Operating income	33,919	29,723	285,034
OTHER INCOME (EXPENSES):			
Interest and dividend income	321	91	2,697
Interest expense	(33)	(21)	(277)
Loss on disposal and devaluation of inventories	(2,135)	(2,437)	(17,941)
Loss on impairment of fixed assets	(97)	—	(815)
Gain on sales of investments in securities	96	1	807
Loss on sales and disposal of property and equipment	(479)	(471)	(4,025)
Expenses related to relocation of headquarters of affiliated companies	—	(309)	—
Special depreciation of fixed assets	—	(974)	—
Other, net	1,375	1,483	11,554
	(952)	(2,637)	(8,000)
Income before income taxes and minority interests	32,967	27,086	277,034
INCOME TAXES (Note 7)**:**			
Current	11,188	11,683	94,017
Deferred	2,580	(317)	21,681
	13,768	11,366	115,698
Income before minority interests	19,199	15,720	161,336
MINORITY INTERESTS	392	362	3,294
Net income	¥ 18,807	¥ 15,358	$ 158,042

	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥ 125.64	¥ 101.78	$ 1.06
Cash dividends applicable to the year	¥ 36.00	¥ 28.00	$ 0.30

• 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, 2006 and 2005

		Millions of yen							
		Stockholders' equity				Valuation and translation adjustments			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
BALANCE AT DECEMBER 31, 2004	150,523,896	¥ 73,303	¥ 82,522	¥ 78,599	¥ (920)	¥ 678	¥ (24)	¥ 2,726	¥ 236,884
Net income				15,358					15,358
Cash dividends				(3,595)					(3,595)
Bonuses to directors				(90)					(90)
Adjustment due to increase in a consolidated subsidiary				53					53
Gain on disposition of treasury stock			3						3
Net unrealized gain on available-for-sale securities						1,529			1,529
Foreign currency translation adjustments							32		32
Employee welfare fund				(1)					(1)
Increase in treasury stock, net					(203)				(203)
Other, net								947	947
BALANCE AT DECEMBER 31, 2005	150,523,896	¥ 73,303	¥ 82,525	¥ 90,324	¥(1,123)	¥ 2,207	¥ 8	¥ 3,673	¥ 250,917
Net income				18,807					18,807
Cash dividends				(4,940)					(4,940)
Bonuses to directors				(113)					(113)
Purchases of treasury stock					(119)				(119)
Disposition of treasury stock			5		6				11
Employee welfare fund				(1)					(1)
Other, net						(531)	9	(572)	(1,094)
BALANCE AT DECEMBER 31, 2006	150,523,896	¥ 73,303	¥ 82,530	¥104,077	¥(1,236)	¥ 1,676	¥ 17	¥ 3,101	¥ 263,468

	Thousands of U.S. dollars (Note 1)							
	Stockholders' equity				Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
BALANCE AT DECEMBER 31, 2005	$ 615,992	$ 693,487	$ 759,025	$ (9,437)	$ 18,546	$ 67	$ 30,866	$2,108,546
Net income			158,042					158,042
Cash dividends			(41,513)					(41,513)
Bonuses to directors			(949)					(949)
Purchases of treasury stock				(1,000)				(1,000)
Disposition of treasury stock		42		50				92
Employee welfare fund			(8)					(8)
Other, net					(4,462)	76	(4,807)	(9,193)
BALANCE AT DECEMBER 31, 2006	$ 615,992	$ 693,529	$ 874,597	$ (10,387)	$ 14,084	$ 143	$ 26,059	$2,214,017

• See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Years ended December 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 32,967	¥ 27,086	$ 277,034
Adjustments for:			
Depreciation and amortization	10,716	11,084	90,050
Loss on impairment of fixed assets	97	—	815
Amortization of consolidation differences	—	(762)	—
Amortization of negative goodwill	(775)	—	(6,513)
Increase (decrease) in allowance for doubtful receivables	18	(271)	151
(Reversal of) provision for employees' retirement benefits	(6,392)	835	(53,714)
Provision for directors' and corporate auditors' retirement benefits	74	83	622
Interest and dividend income	(321)	(91)	(2,697)
Interest expense	33	21	277
Loss on sales and disposal of property and equipment, net	468	538	3,933
Gain on sales of investments in securities	(96)	(1)	(807)
Increase in notes and accounts receivable	(22,818)	(4,673)	(191,748)
Decrease in inventories	5,452	815	45,815
Increase in notes and accounts payable	4,379	9,739	36,798
Other	5,061	3,177	42,530
Cash generated from operations	28,863	47,580	242,546
Interest paid	(33)	(21)	(277)
Interest and dividends received	293	91	2,462
Income taxes paid	(11,029)	(10,665)	(92,681)
Net cash provided by operating activities	18,094	36,985	152,050
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(8,384)	(10,255)	(70,454)
Payments for purchases of intangible assets	(2,682)	(1,330)	(22,538)
Payments for purchases of investments in securities	(7,594)	(5,437)	(63,815)
Proceeds from sales of investments in securities	3,121	2	26,227
Payments for purchases of investments in subsidiaries	(746)	—	(6,269)
Payments for purchases of investments in subsidiaries accompanying changes in the scope of consolidation	(487)	—	(4,092)
Proceeds from sale of investment in a subsidiary accompanying changes in the scope of consolidation	—	390	—
Decrease (increase) in other investments	2,000	(2,000)	16,807
Increase in time deposits	(4,479)	—	(37,639)
Other	34	743	286
Net cash used in investing activities	(19,217)	(17,887)	(161,487)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term bank loans	(297)	—	(2,496)
Payments for purchases of treasury stock	(84)	(217)	(706)
Dividends paid	(5,189)	(4,109)	(43,605)
Other	(556)	15	(4,672)
Net cash used in financing activities	(6,126)	(4,311)	(51,479)
Effect of exchange rate changes on cash and cash equivalents	(7)	52	(59)
Net (decrease) increase in cash and cash equivalents	(7,256)	14,839	(60,975)
Cash and cash equivalents at beginning of year	115,504	98,844	970,622
Cash and cash equivalents of a newly consolidated subsidiary at beginning of year	—	101	—
Increase in cash and cash equivalents resulting from merger of a consolidated subsidiary	—	1,720	—
Cash and cash equivalents at end of year	¥ 108,248	¥ 115,504	$ 909,647

• See accompanying notes to consolidated financial statements.

1. Basis of Presenting 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 Securities 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 ¥119=US$1, the rate prevailing at December 31, 2006. 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, 2006 include the accounts of the Company and all of its 17 (16 in 2005) subsidiaries. Investments in non-consolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation.

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

(b) Cash Equivalents

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

(c) Securities

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

(d) Inventories

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

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method for property and equipment, with the exception of items that are depreciated by the straight-line method at rates based on the estimated useful lives of the assets. These items are: buildings purchased 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 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.

Until December 31, 2004, the Company applied the declining-balance method of depreciation for rental assets in the Business Solutions segment. In line with the Corporate Tax Law, the useful life of such assets was set at five years and their residual value at 5% of the original cost. Effective fiscal 2005, the Company adopted the straight-line method of depreciation, with the economic life of rental assets set at three years and their residual value at 1% of the original cost.

This change, which coincided with the introduction of a new fixed asset management system, corrects discrepancies between the average number of years that rental assets are operational and previous estimates of their useful lives. The adoption of the new depreciation method with residual value set at 1% enables the Company to adjust for various revenues and expenses and more accurately reflect the income and losses of the Business Solutions segment during each fiscal period.

(f) Accounting for Impairment of Fixed Assets

The Company and its consolidated subsidiaries have adopted the accounting standard for the impairment of fixed assets, which requires that fixed assets be carried at cost less depreciation, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The accounting standard requires that an impairment loss be recognized in the statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of the net realizable value and the usage value. The usage value is calculated as the present value of future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The net realizable value is calculated as the fair market value of the asset, net of its disposition cost.

(g) Liability for Employees' Retirement Benefits

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

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

(h) Leases

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

(i) 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.

(j) Appropriation of Retained Earnings

Until the fiscal year ended December 31, 2006, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors must be approved at the general stockholders' meeting, which is held within three months after the end of each fiscal year.

On May 1, 2006, the Corporate Law (Law No. 86 of 2005) went into effect and replaced the Commercial Code. Under the new Corporate Law, the Company is able to appropriate retained earnings by resolution of the Board of Directors, provided that certain criteria are met. Upon meeting these criteria, the Company amended its Articles of Incorporation upon the approval of a resolution at the annual general stockholders' meeting on March 28, 2007, the first general stockholders' meeting held under the new Corporate Law.

Bonuses to directors, which have been paid and accounted for as appropriation of retained earnings, are charged to income effective fiscal 2006. The effects of this accounting change on the profit and loss for this fiscal year are described in Note 2(o) of the accompanying consolidated financial statements.

(k) 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.

(l) 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 at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

(m) 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 stockholders' equity, which is translated at the historical exchange rate.

(n) 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.

(o) Bonuses to Directors

Effective this fiscal year, "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005) has been adopted. As a result of the adoption, selling, general and administrative expenses increased by ¥160 million, thereby causing operating income and income before income taxes and minority interests to decrease by ¥160 million, compared with the amounts that would have been recorded under the previous accounting method.

(p) Provision for Directors' and Corporate Auditors' Retirement Benefits

The Company and its consolidated subsidiaries pay lump-sum retirement benefits to directors, the amount of which is 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 if all directors and corporate auditors retired at the end of the fiscal year.

(q) Change of Recording Periods for Maintenance Services Sales

Until December 31, 2004, in the case of maintenance services provided under contracts lasting more than one year, the Company recorded sales and cost of sales on a yearly basis, utilizing year-end estimates. Effective the year ended December 31, 2005, the Company began to record such items on a monthly basis and took other steps to improve the accuracy of estimates. This decision was taken in light of the growing need to reflect diversified maintenance services sales due to the expansion of operations in the Business Solutions segment.

(r) Accounting Standard for Business Combinations

The following accounting standards and related guidance have been adopted effective this fiscal year: "Accounting Standard for Business Combinations" (Business Accounting Council, issued on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 27, 2005). As a result, former consolidation differences is presented as negative goodwill effective this fiscal year.

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

"Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8, issued on December 9, 2005) have been adopted effective this fiscal year.

As a result, former stockholders' equity and minority interests are presented as components of net assets, while net assets has been divided into stockholders' equity, valuation and translation adjustments and minority interests. The amount that corresponds to former stockholders' equity is ¥260,367 million.

3. Securities

Securities held by the Company and its consolidated subsidiaries as of December 31, 2006 and 2005 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Securities classified as:			
Available-for-sale:			
Investments in securities	¥ 11,618	¥ 11,922	$ 97,630
Held-to-maturity:			
Cash and cash equivalents	11,993	12,498	100,782
Short-term investments in securities	224	—	1,882
Investments in securities	4,000	227	33,614
	16,217	12,725	136,278
	¥ 27,835	¥ 24,647	$ 233,908

The carrying amounts and aggregate fair values of investments in securities at December 31, 2006 and 2005 were as follows:

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

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

	Millions of yen			
	2005			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Government bonds	¥ 227	¥ 0	¥ —	¥ 227

	Millions of yen			
	2005			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,891	¥ 3,727	¥ (47)	¥ 6,571
Other	3,001	1	(1)	3,001
	¥ 5,892	¥ 3,728	¥ (48)	¥ 9,572

	Thousands of U.S. dollars (Note 1)			
	2006			
	Book value	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Corporate bonds	$ 33,614	$ —	$ (236)	$ 33,378
Government bonds	1,882	—	(8)	1,874
	$ 35,496	$ —	$ (244)	$ 35,252

	Thousands of U.S. dollars (Note 1)			
	2006			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 30,883	$ 24,496	$ (1,051)	$ 54,328
Other	21,050	42	—	21,092
	$ 51,933	$ 24,538	$ (1,051)	$ 75,420

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2006 and 2005 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Available-for-sale:			
Equity securities	¥ 2,643	¥ 2,350	$ 22,210
Held-to-maturity:			
Debt securities	11,993	12,498	100,782
	¥ 14,636	¥ 14,848	$ 122,992

4. Inventories

Inventories at December 31, 2006 and 2005 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Merchandise	¥ 45,200	¥ 49,687	$ 379,832
Service parts	4,130	3,681	34,706
Work in progress	1,613	2,590	13,555
Supplies	885	681	7,437
Other	83	28	697
	¥ 51,911	¥ 56,667	$ 436,227

5. Employees' Retirement and Severance Benefits

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans. These include corporate pension plans, tax-qualified retirement pension plans and lump-sum severance payments.

As of January 1, 2007, the defined benefit corporate pension plan previously adopted by the Company was transferred to a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan), and a lump-sum severance payment plan. For the financial effects of this transfer on the next fiscal year, refer to Note 11, Subsequent Events.

The liability for employees' retirement benefits as of December 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Projected benefit obligation	¥ 159,464	¥ 144,847	$ 1,340,034
Fair value of plan assets	(127,248)	(110,512)	(1,069,311)
Unrecognized actuarial loss	(10,240)	(7,489)	(86,050)
Unrecognized prior service cost	17,298	18,540	145,361
Prepaid pension cost	187	134	1,571
Net liability	¥ 39,461	¥ 45,520	$ 331,605

The components of net periodic benefit costs for the years ended December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Service cost	¥ 7,065	¥ 6,989	$ 59,370
Interest cost	3,599	3,387	30,244
Expected return on plan assets	(4,137)	(3,264)	(34,765)
Amortization of transitional obligation	—	43	—
Amortization of prior service cost	(1,826)	(1,757)	(15,345)
Amortization of actuarial loss	919	1,544	7,723
Other	10	7	84
Net periodic benefit costs	¥ 5,630	¥ 6,949	$ 47,311

Assumptions used for the years ended December 31, 2006 and 2005 were principally as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	1.0%~4.0%	1.0%~4.0%
Amortization period of prior service cost	10~17 years	10~17 years
Recognition period of actuarial loss	10~17 years	10~17 years
Amortization period of transitional obligation	Not applicable	5 years for certain consolidated subsidiaries

6. 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 stocks 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 requires that an amount equal to 10% of dividends be appropriated to the legal reserve. 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).

Bonuses to directors and corporate auditors are charged to income in the fiscal year in which they are accrued, although some companies previously conventionally accounted for them as appropriation of retained earnings in accordance with Japanese customary practices.

7. Income Taxes

The normal statutory income tax rate was approximately 40.0% for the years ended December 31, 2006 and 2005.

For the years ended December 31, 2006 and 2005, the differences between the normal tax rate (40.0%) and the effective tax rates following the adoption of tax-effect accounting (41.8% and 42.0% respectively) were 1.8 percentage and 2 percentage points, respectively. Since these differences fall within the range of 0%-5% of the normal tax rate, breakdowns of related items have been omitted.

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
DEFERRED TAX ASSETS:			
Loss on disposal and devaluation of inventories	¥ 586	¥ 630	$ 4,924
Accrued business tax and business office tax	877	876	7,370
Accrued bonuses to employees	1,328	1,302	11,160
Software amortization	1,895	1,746	15,924
Loss on impairment of fixed assets	711	355	5,975
Excess depreciation of fixed assets	595	451	5,000
Allowance for doubtful receivables	301	243	2,529
Liability for employees' retirement benefits	16,243	18,663	136,496
Other	5,495	5,872	46,176
Gross deferred tax assets	28,031	30,138	235,554
Less: valuation allowance	(877)	(355)	(7,370)
Total deferred tax assets	¥ 27,154	¥ 29,783	$ 228,184
DEFERRED TAX LIABILITIES:			
Deferred capital gain	¥ 244	¥ 257	$ 2,050
Special depreciation reserve	32	76	269
Other	1,209	1,549	10,160
Total deferred tax liabilities	1,485	1,882	12,479
Net deferred tax assets	¥ 25,669	¥ 27,901	$ 215,705

8. Leases

(a) Finance Leases

Lease payments for finance leases excluding subleases, except for the lease agreements which stipulate the transfer of ownership of the leased property to the Company and its subsidiaries, were ¥1,609 million ($13,521 thousand) and ¥2,961 million for the years ended December 31, 2006 and 2005, respectively.

(For Lessee)

Future minimum lease payments subsequent to December 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Future minimum lease payments:			
Within one year	¥ 1,583	¥ 1,396	$ 13,302
Thereafter	2,026	1,477	17,025
	¥ 3,609	¥ 2,873	$ 30,327

Future minimum lease payments included the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Future minimum lease payments:			
Within one year	¥ 111	¥ 133	$ 933
Thereafter	138	156	1,159
	¥ 249	¥ 289	$ 2,092

Acquisition cost, accumulated depreciation and amortization, and net book value of leased property as of December 31, 2006 and 2005, excluding subleases, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Acquisition cost:			
Machinery and vehicles	¥ 338	¥ 370	$ 2,840
Furniture and fixtures	5,445	6,475	45,756
Software	870	769	7,311
	¥ 6,653	¥ 7,614	$ 55,907

	2006	2005	2006
Accumulated depreciation and amortization:			
Machinery and vehicles	¥ 193	¥ 161	$ 1,621
Furniture and fixtures	2,573	4,448	21,622
Software	527	421	4,429
	¥ 3,293	¥ 5,030	$ 27,672
Net book value:			
Machinery and vehicles	¥ 145	¥ 209	$ 1,219
Furniture and fixtures	2,872	2,027	24,134
Software	343	348	2,882
	¥ 3,360	¥ 2,584	$ 28,235

(For Lessor)

Future minimum lease payments, which consist of subleases subsequent to December 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Future minimum lease payments:			
Within one year	¥ 111	¥ 133	$ 933
Thereafter	138	156	1,159
	¥ 249	¥ 289	$ 2,092

(b) Operating Leases (Non-cancelable)

(For Lessee)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Future minimum lease payments:			
Within one year	¥ 33	¥ 83	$ 277
Thereafter	4	37	34
	¥ 37	¥ 120	$ 311

9. Assets Pledged as Collateral

Assets pledged as collateral for deferred payment of customs duties as of December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Short-term investments in securities	¥ 224	¥ —	$ 1,882
Investments in securities	—	227	—
	¥ 224	¥ 227	$ 1,882

10. Contingent Liabilities

Contingent liabilities at December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Guarantees for employees' housing loans	¥ 190	¥ 243	$ 1,597
Contingent liabilities related to the reduction of corporate bonds by debt assumption	20,000	20,000	168,067
	¥ 20,190	¥ 20,243	$ 169,664

11. Subsequent Events

(a) Appropriation of Retained Earnings

On March 28, 2007, the following appropriation of retained earnings was approved at a general stockholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	¥ 2,694	$ 22,639

(b) Transfer between Retirement Benefit Plans

As of January 1, 2007, the defined benefit corporate pension plan previously adopted by the Company was transferred to a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan) and a lump-sum severance payment plan. In connection with said transfer, projected benefit obligation (prior service cost) was reduced by ¥28,277 million ($237,622 thousand), and this reduction is expected to be amortized over 16 years. As a result, operating profit for the next fiscal year is expected to increase by ¥1,767 million ($14,849 thousand).

12. Segment Information

(a) Business Segment Information

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

Year ended or as of December 31,	Millions of yen 2005 Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥ 475,882	¥ 254,277	¥ 91,789	¥ 821,948	¥ —	¥ 821,948
Intersegment	—	—	—	—	—	—
Total	475,882	254,277	91,789	821,948	—	821,948
Operating expenses	462,443	242,625	87,157	792,225	—	792,225
Operating income	¥ 13,439	¥ 11,652	¥ 4,632	¥ 29,723	¥ —	¥ 29,723
Assets	¥ 203,162	¥ 88,157	¥ 89,593	¥ 380,912	¥ 132,423	¥ 513,335
Depreciation and amortization	8,538	1,368	1,178	11,084	—	11,084
Capital expenditures	9,376	639	1,416	11,431	—	11,431

Year ended or as of December 31,	Thousands of U.S. dollars (Note 1) 2006 Business Solutions	Consumer Equipment	Industrial Equipment	Total	Corporate and eliminations	Consolidated
Net sales:						
Unaffiliated customers	$ 4,051,538	$ 2,275,899	$ 959,723	$ 7,287,160	$ —	$ 7,287,160
Intersegment	—	—	—	—	—	—
Total	4,051,538	2,275,899	959,723	7,287,160	—	7,287,160
Operating expenses	3,928,824	2,162,722	910,580	7,002,126	—	7,002,126
Operating income	$ 122,714	$ 113,177	$ 49,143	$ 285,034	$ —	$ 285,034
Assets	$ 1,747,034	$ 746,513	$ 869,714	$ 3,363,261	$ 1,061,764	$ 4,425,025
Depreciation and amortization	74,319	8,529	7,202	90,050	—	90,050
Loss on impairment of fixed assets	815	—	—	815	—	815
Capital expenditures	73,622	8,588	9,521	91,731	—	91,731

(b) Geographic Segment Information

As international sales of the Company and its consolidated subsidiaries for the years ended December 31, 2006 and 2005 constituted less than 10% of consolidated net sales, geographic segment information is not disclosed.

ERNST & YOUNG SHINNIHON

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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, 2006 and 2005, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Marketing Japan Inc. and consolidated subsidiaries at December 31, 2006 and 2005, and the consolidated results of their income and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 5, Canon Marketing Japan Inc. transferred its defined benefit corporate pension plan to a defined contribution pension plan, a pension plan with a market-based variable accumulation rate (quasi-cash balance plan), and a lump-sum severance payment plan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 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 Shin Nihon

Tokyo, Japan
March 28, 2007

A MEMBER OF ERNST & YOUNG GLOBAL

CORPORATE DATA

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

Date of Establishment
February 1, 1968

Capital Stock
¥73,303,082,757

Stock
150,523,896 shares

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

Number of Employees
Consolidated: 15,813
Non-consolidated: 6,106
(As of December 31, 2006)

Main Locations of Operations
Headquarters, Makuhari office and branches
(Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka)
(As of April 1, 2007)

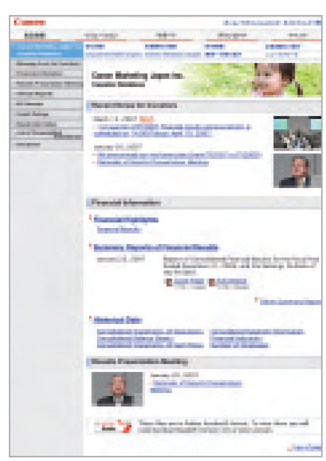
Major Stockholders

Name of Stockholder	Number of shares held (Thousands)	Percentage of ownership (%)
Canon Inc.	75,708	50.30
State Street Bank and Trust Company 505025	6,771	4.50
Japan Trustee Services Bank, Ltd.	3,860	2.56
Canon Marketing Japan Inc. Employee Stockholding Plan	3,023	2.01
The Master Trust Bank of Japan, Ltd.	2,558	1.70
Nomura Securities Co., Ltd.	1,691	1.12
State Street Bank and Trust Client Omnibus Account OM02	1,577	1.05
Trust & Custody Services Bank, Ltd.	1,542	1.02
HSBC Bank plc, Clients Non-Tax Treaty	1,535	1.02
The Chase Manhattan Bank, N. A. London	1,423	0.95

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 2007-2009)
- Stock information
- Annual reports



Canon Marketing Japan Inc.

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Canon Marketing Japan Web Site (Investor Relations)
http://cweb.canon.jp/co-profile/ir-e

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