

CANON INC  
Form 6-K  
March 05, 2010

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**FORM 6-K**  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**Report of Foreign Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**

For the month of .... **March**..... , **2010**..  
**CANON INC.**

(Translation of registrant's name into English)  
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F            Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes                      No     

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CANON INC.**  
(Registrant)

Date....**March 3, 2010**....

By ...../s/..... Masashiro Kobayashi.....  
(Signature)\*

Masashiro Kobayashi  
General Manager  
Global Finance Management Center  
Canon Inc.

\*Print the name and title of the signing officer under his signature.

The following materials are included.

1. Notice of convocation of the ordinary general meeting of shareholders for the 109<sup>th</sup> business term
  2. Report for the 109<sup>th</sup> business term
-

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March 3, 2010

**TO OUR SHAREHOLDERS**

**Canon Inc.**

30-2, Shimomaruko 3-chome,  
Ohta-ku, Tokyo  
Fujio Mitarai  
Chairman & CEO

**NOTICE OF CONVOCATION  
OF  
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS  
FOR THE 109TH BUSINESS TERM**

Notice is hereby given that the Ordinary General Meeting of Shareholders for the 109th Business Term of Canon Inc. (the Company) will be held as described below and that you are requested to attend the Meeting.

**If you do not expect to attend the Meeting, you may exercise your voting rights in writing. After reviewing the following Reference Materials for General Meeting of Shareholders, please indicate your for/against on the enclosed Card for Exercise of Voting Rights, and return it to us by March 29 (Monday), 2010.**

**1. DATE AND TIME:** March 30 (Tuesday), 2010 at 10:00 a.m.

**2. PLACE:** Head Office of the Company  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo  
(Please see the map on page 18.)

**3. MATTERS CONSTITUTING THE PURPOSE OF THE MEETING**

**Matters to be Reported:**

1. Reports on the contents of the Business Report and Consolidated Financial Statements for the 109th Business Term (from January 1, 2009 to December 31, 2009), and reports on the Auditing Results of Accounting Auditor and Board of Corporate Auditors regarding the Consolidated Financial Statements.
  2. Reports on the content of the Non-Consolidated Financial Statements for the 109th Business Term (from January 1, 2009 to December 31, 2009).
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**Matters to be Resolved upon:**

**Propositions:**

**Item No.1** Dividend from Surplus

**Item No.2** Election of Seventeen Directors

**Item No.3** Election of Three Corporate Auditors

**Item No.4** Grant of Retirement Allowance to Directors to Retire

**Item No.5** Grant of Retirement Allowance to Corporate Auditors to Retire and Final Payments of Retirement Allowance Due to the Abolishment of the Retirement Allowance System for Corporate Auditors

**Item No.6** Grant of Bonus to Directors

**Item No.7** Issuance of Share Options as Stock Options without Compensation

**Early coming would be appreciated since the reception desk is expected to be crowded just before the opening of the Meeting.**

**Upon attending the Meeting, please present the enclosed Card for Exercise of Voting Rights to the receptionist at the place of the Meeting.**

**Any changes in the matters described in Reference Materials for General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements and Consolidated Financial Statements will be posted on our website on the Internet (<http://www.canon.co.jp/ir/>).**

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**REFERENCE MATERIALS FOR GENERAL MEETING OF SHAREHOLDERS**

**Item No.1: Dividend from Surplus**

Regarding our term-end dividend, we propose a dividend as described below in order to respond to your loyal support. As we have already paid an interim dividend of 55.00 yen per share, the full-year dividend will be 110.00 yen per share, which is the same amount as the dividend for the previous Business Term.

- (1) Type of dividend Cash
  
- (2) Matters concerning allocation of dividend and its total amount  
55.00 yen per one common share of the Company  
Total amount of dividend 67,896,150,465 yen
  
- (3) Effective date of the dividend from surplus March 31, 2010

**Table of Contents****Item No.2: Election of Seventeen Directors**

The term of offices of all of the twenty-five Directors will expire at the end of this Meeting. We would like you to elect seventeen Directors.

The candidates for the Directors are as follows:

| Candidate No. | Name<br>(Date of birth)           | Brief personal record, position, business in charge and important concurrent posts   | Number of the Company's shares held |
|---------------|-----------------------------------|--|-------------------------------------|
| 1             | Fujio Mitarai<br>(Sep. 23, 1935)  | <p>As of</p> <p>Apr. 1961: Entered the Company</p> <p>Mar. 1981: Director</p> <p>Mar. 1985: Managing Director</p> <p>Mar. 1989: Senior Managing &amp; Representative Director</p> <p>Mar. 1993: Executive Vice President &amp; Representative Director</p> <p>Sep. 1995: President &amp; CEO</p> <p>Mar. 2006: Chairman, President &amp; CEO</p> <p>May 2006: Chairman &amp; CEO (present)</p> <p>(Important concurrent posts)</p> <p>- Chairman of Nippon Keidanren (Japan Business Federation)</p> | 96,600 shares                       |
| 2             | Tsuneji Uchida<br>(Oct. 30, 1941) | <p>As of</p> <p>Apr. 1965: Entered the Company</p> <p>Mar. 1997: Director</p> <p>Mar. 2001: Managing Director</p> <p>Mar. 2003: Senior Managing Director</p> <p>Mar. 2006: Executive Vice President &amp; Representative Director</p> <p>May 2006: President &amp; COO (present)</p>   | 16,800 shares                       |
| 3             | Toshizo Tanaka<br>(Oct. 8, 1940)  | <p>As of</p> <p>Apr. 1964: Entered the Company</p> <p>Mar. 1995: Director</p> <p>Mar. 1997: Managing Director</p> <p>Mar. 2001: Senior Managing Director</p> <p>Mar. 2007: Executive Vice President &amp; Director</p> <p>Mar. 2008: Executive Vice President &amp; CFO (present)</p> <p>Apr. 2009: Senior General Manager of Policy &amp; Economy Research Center</p>   | 18,452 shares                       |

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(present)  
Jan. 2010: Group Executive of General Affairs  
Headquarters (present)



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| Candidate No. | Name<br>(Date of birth)          | Brief personal record, position, business in charge and important concurrent posts   | Number of the Company's shares held |
|---------------|----------------------------------|--|-------------------------------------|
| 4             | Toshiaki Ikoma<br>(Mar. 5, 1941) | <p>As of</p> <p>Apr. 2005: Adviser of the Company</p> <p>Jul. 2007: R&amp;D Adviser</p> <p>Jan. 2008: Special R&amp;D Adviser</p> <p>Jan. 2009: Group Executive of Corporate R&amp;D Headquarters (present)</p> <p>Mar. 2009: Executive Vice President &amp; CTO (present)</p> <p>Jul. 2009: Chief Executive of Optical Products Operations (present)</p> <p>(Important concurrent posts)</p> <p>- President of The Canon Foundation</p> <p>- Director of Hitachi Metals, Ltd.</p> | 4,100 shares                        |
| 5             | Kunio Watanabe<br>(Oct. 3, 1944) | <p>As of</p> <p>Apr. 1969: Entered the Company</p> <p>Apr. 1995: Group Executive of Corporate Planning Development Headquarters (present)</p> <p>Mar. 1999: Director</p> <p>Mar. 2003: Managing Director</p> <p>Jan. 2007: Deputy Group Executive of Policy &amp; Economy Research Headquarters</p> <p>Mar. 2008: Senior Managing Director (present)</p>   | 17,652 shares                       |
| 6             | Yoroku Adachi<br>(Jan. 11, 1948) | <p>As of</p> <p>Apr. 1970: Entered the Company</p> <p>Mar. 2001: Director</p> <p>Mar. 2005: Managing Director</p> <p>Apr. 2005: President &amp; CEO of Canon U.S.A., Inc. (present)</p> <p>Mar. 2009: Senior Managing Director (present)</p> <p>(Important concurrent posts)</p> <p>- President &amp; CEO of Canon U.S.A., Inc.</p>  | 17,600 shares                       |

|   |                                     |            |  |
|---|-------------------------------------|------------|--|
|   |                                     | As of      |  |
|   |                                     | Apr. 1974: | Entered the Company  |
|   |                                     | Mar. 2001: | Director   |
| 7 | Yasuo Mitsuhashi<br>(Nov. 23, 1949) | Apr. 2003: | Chief Executive of Peripheral<br>Products Operations (present) |
|   |                                     | Mar. 2005: | Managing Director  |
|   |                                     | Mar. 2009: | Senior Managing Director (present)                             |
|   |                                     | Apr. 2009: | Chief Executive of Chemical<br>Products Operations             |
|   |                                     |            | 13,777<br>shares   |

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| Candidate No. | Name<br>(Date of birth)                | Brief personal record, position, business in charge and important concurrent posts  | Number of the Company's shares held |
|---------------|--|---|-------------------------------------|
| 8             | Tomonori Iwashita<br>(Jan. 28, 1949)   | <p>As of<br/>Apr. 1972: Entered the Company<br/>Mar. 2003: Director<br/>Mar. 2007: Managing Director (present)<br/>Mar. 2007: Group Executive of Global Environment Promotion Headquarters (present Environment Headquarters) (present)<br/>Apr. 2007: Group Executive of Quality Management Headquarters (present)</p>                       | 12,250 shares                       |
| 9             | Masahiro Osawa<br>(May 26, 1947)       | <p>As of<br/>Apr. 1971: Entered the Company<br/>Mar. 2004: Director<br/>Mar. 2007: Managing Director (present)<br/>Apr. 2007: Group Executive of Finance &amp; Accounting Headquarters (present)</p>  | 9,742 shares                        |
| 10            | Shigeyuki Matsumoto<br>(Nov. 15, 1950) | <p>As of<br/>Apr. 1977: Entered the Company<br/>Jan. 2002: Group Executive of Device Technology Development Headquarters (present)<br/>Mar. 2004: Director<br/>Mar. 2007: Managing Director (present)</p>   | 8,252 shares                        |
| 11            | Katsuichi Shimizu<br>(Nov. 13, 1946)   | <p>As of<br/>Apr. 1970: Entered the Company<br/>Mar. 2003: Director<br/>Apr. 2003: Chief Executive of Inkjet Products Operations (present)<br/>Mar. 2008: Managing Director (present)</p>   | 10,937 shares                       |
| 12            | Ryoichi Bamba<br>(Nov. 25, 1946)       | <p>As of<br/>Apr. 1972: Entered the Company<br/>Mar. 2003: Director<br/>Feb. 2008: President of Canon Europa N.V. (present)<br/>Feb. 2008: President of Canon Europe Ltd. (present)<br/>Mar. 2008: Managing Director (present)<br/>(Important concurrent posts)<br/>- President of Canon Europa N.V.<br/>- President of Canon Europe Ltd.</p> | 10,200 shares                       |

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| Candidate No. | Name<br>(Date of birth)           | Brief personal record, position, business in charge and important concurrent posts  | Number of the Company's shares held |
|---------------|-----------------------------------|---|-------------------------------------|
| 13            | Toshio Homma<br>(Mar. 10, 1949)   | As of<br>Apr. 1972: Entered the Company<br>Mar. 2003: Director<br>Jan. 2007: Chief Executive of L Printer Products Operations (present)<br>Mar. 2008: Managing Director (present)   | 13,292 shares                       |
| 14            | Masaki Nakaoka<br>(Jan. 3, 1950)  | As of<br>Apr. 1975: Entered the Company<br>Mar. 2004: Director<br>Apr. 2005: Chief Executive of Office Imaging Products Operations (present)<br>Mar. 2008: Managing Director (present)  | 5,900 shares                        |
| 15            | Haruhisa Honda<br>(Oct. 14, 1948) | As of<br>Apr. 1974: Entered the Company<br>Mar. 2004: Director<br>Mar. 2007: Group Executive of Production Engineering Headquarters (present)<br>Mar. 2008: Managing Director (present)   | 11,289 shares                       |
| 16            | Hideki Ozawa<br>(Apr. 28, 1950)   | As of<br>Apr. 1973: Entered Canon Sales Co., Inc. (present Canon Marketing Japan Inc.)<br>Apr. 2004: President of Canon Singapore Pte. Ltd.<br>Apr. 2005: President of Canon (China) Co., Ltd. (present)<br>Mar. 2007: Director (present)<br>(Important concurrent posts)<br>- President of Canon (China) Co., Ltd. | 6,300 shares                        |
| 17            | Masaya Maeda<br>(Oct. 17, 1952)   | As of<br>Apr. 1975: Entered the Company<br>Jul. 2003: Deputy Group Executive of Digital Imaging Business Group<br>Jan. 2006: Group Executive of Digital Imaging Business Group<br>Mar. 2007: Director (present)<br>Apr. 2007: Chief Executive of Image Communication Products Operation (present)                   | 3,500 shares                        |

Notes: 1. None of the candidates for the Directors have any special interest in the Company.  
2. Mr. Fujio Mitarai, Mr. Tsuneji Uchida and Mr. Toshizo Tanaka are Representative Directors.

**Table of Contents****Item No.3: Election of Three Corporate Auditors**

The Corporate Auditor Mr. Kunihiro Nagata will retire at the end of this Meeting and the terms in office of the Corporate Auditors Mr. Yoshinobu Shimizu and Mr. Minoru Shishikura will expire at the end of this Meeting. We would like you to elect three Corporate Auditors.

The candidates for the Corporate Auditors are as follows.

Prior to our proposal of this item, we have already obtained the consent from the Board of Corporate Auditors.

| Candidate No. | Name<br>(Date of birth)             | Brief personal record and important concurrent posts  | Number of the Company's shares held |
|---------------|-------------------------------------|---|-------------------------------------|
| 1             | Shunji Onda<br>(Mar. 13, 1950)      | <p>As of<br/>Apr. 1972: Entered Canon Sales Co., Inc.<br/>(present Canon Marketing Japan Inc.)<br/>Apr. 2004: Senior General Manager of Optical Products Business Administration Center<br/>Mar. 2006: Director (present)<br/>Apr. 2006: Deputy Group Executive of Finance &amp; Accounting Headquarters<br/>Apr. 2007: Group Executive of Global Procurement Headquarters (present)</p> <p>As of<br/>Sep. 1978: Registered as a Certified Public Accountant (present)<br/>May 1996: Engagement Partner of Ota Showa &amp; Co.<br/>Apr. 2000: Engagement Partner (present Senior Partner) of Century Ota Showa &amp; Co. (present Ernst &amp; Young ShinNihon LLC)<br/>May 2002: Director of Shin Nihon &amp; Co. (present Ernst &amp; Young ShinNihon LLC)<br/>Aug. 2008: Senior Executive Director of Ernst &amp; Young ShinNihon LLC (present)</p> | 9,302 shares                        |
| 2             | Kazunori Watanabe<br>(Oct. 9, 1950) | <p>As of<br/>Sep. 1978: Registered as a Certified Public Accountant (present)<br/>May 1996: Engagement Partner of Ota Showa &amp; Co.<br/>Apr. 2000: Engagement Partner (present Senior Partner) of Century Ota Showa &amp; Co. (present Ernst &amp; Young ShinNihon LLC)<br/>May 2002: Director of Shin Nihon &amp; Co. (present Ernst &amp; Young ShinNihon LLC)<br/>Aug. 2008: Senior Executive Director of Ernst &amp; Young ShinNihon LLC (present)</p>  | 0 shares                            |

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| Candidate No. | Name<br>(Date of birth)              | Brief personal record and important concurrent posts   | Number of the Company's shares held |
|---------------|--------------------------------------|--|-------------------------------------|
| 3             | Kuniyoshi Kitamura<br>(Apr. 8, 1956) | <p>As of</p> <p>Apr. 1981: Entered The Dai-ichi Mutual Life Insurance Company</p> <p>Apr. 2002: General Manager of Network Service Management Dept.</p> <p>Apr. 2004: General Manager of Corporate Relations Dept. No.2</p> <p>Apr. 2006: General Manager of Research Dept.</p> <p>Nov. 2007: General Manager of Corporate Planning Dept. No.2</p> <p>Apr. 2009: General Manager of Corporate Relations Dept. No.8 (present)</p> | 1,000 shares                        |

- Notes: 1. None of the candidates for the Corporate Auditors have any special interest in the Company.
2. Mr. Kazunori Watanabe and Mr. Kuniyoshi Kitamura are the candidates for Outside Corporate Auditors.
3. We have comprehensively judged that the candidates are the appropriate persons as Outside Corporate Auditors of the Company, each with insight and longstanding experience, and from the standpoint of realizing oversight of overall management and audits further appropriate.
4. Although Mr. Kazunori Watanabe has never been directly involved in any company management, with his extensive experience in corporate accounting as a certified public accountant, we have concluded that he is capable of conducting his duty as an Outside Corporate Auditor appropriately.
5. Although Mr. Kuniyoshi Kitamura has never been directly involved in any company management, with his extensive knowledge in company management due to his experience in a wide spectrum of business areas in a life insurance company over many years, we have concluded that he is capable of conducting his duty as an Outside Corporate Auditor appropriately.

**Table of Contents****Item No.4: Grant of Retirement Allowance to Directors to Retire**

It is proposed that retirement allowance be granted to Mr. Nobuyoshi Tanaka, Mr. Junji Ichikawa, Mr. Akiyoshi Moroe, Mr. Toshiyuki Komatsu, Mr. Tetsuro Tahara, Mr. Seijiro Sekine, Mr. Shunji Onda and Mr. Kazunori Fukuma, the Directors to retire at the end of this Meeting, in appreciation of their services during their terms in offices, within the due amount based upon certain standards stipulated by the Company, and that the determination of the actual amount and the time and method of granting, etc. be entrusted to the Board of Directors.

Brief personal records of each of the Directors to retire are as follows:

| Name              | Brief personal record                         |
|-------------------|---|
| Nobuyoshi Tanaka  | As of<br>Mar. 1993: Director                  |
|                   | Mar. 2001: Managing Director                  |
|                   | Mar. 2006: Senior Managing Director (present) |
| Junji Ichikawa    | As of<br>Mar. 1997: Director                  |
|                   | Mar. 2001: Managing Director                  |
|                   | Mar. 2006: Senior Managing Director (present) |
| Akiyoshi Moroe    | As of<br>Mar. 1999: Director                  |
|                   | Mar. 2003: Managing Director                  |
|                   | Mar. 2008: Senior Managing Director (present) |
| Toshiyuki Komatsu | As of<br>Mar. 2004: Director (present)        |
| Tetsuro Tahara    | As of<br>Mar. 2006: Director (present)        |
| Seijiro Sekine    | As of<br>Mar. 2006: Director (present)        |
| Shunji Onda       | As of<br>Mar. 2006: Director (present)        |
| Kazunori Fukuma   | As of<br>Mar. 2007: Director (present)        |

**Table of Contents****Item No.5: Grant of Retirement Allowance to Corporate Auditors to Retire and Final Payments of Retirement Allowance Due to the Abolishment of the Retirement Allowance System for Corporate Auditors**

It is proposed that retirement allowance be granted to Mr. Kunihiro Nagata, Mr. Yoshinobu Shimizu and Mr. Minoru Shishikura, the Corporate Auditors to retire at the end of this Meeting, in appreciation of their services during their terms in offices, within the due amount based upon certain standards stipulated by the Company.

We propose that the determination of the actual amount and the time and method of granting etc. be entrusted to the consultation of the Corporate Auditors.

Also, the Company resolved at the meeting of the Board of Directors, held on February 12, 2010, to abolish the retirement allowance system for Corporate Auditors as of the end of this Meeting.

Accordingly, we propose to implement final payments of retirement allowance to Mr. Keijiro Yamazaki and Mr. Tadashi Ohe, the Corporate Auditors in their tenure, in appreciation of their services during their terms in offices, within the due amount based upon certain standards stipulated by the Company.

The time of the payment shall be when each of the Corporate Auditor retire and the actual amount and method of payment etc. be entrusted to the consultation of the Corporate Auditors.

Brief personal records of each of the Corporate Auditors subject to the retirement allowance are as follows:

**1. Corporate Auditors to retire at the end of this Meeting**

| Name              | Brief personal record                           |
|-------------------|---|
| Kunihiro Nagata   | As of<br>Mar. 2004: Corporate Auditor (present) |
| Yoshinobu Shimizu | As of<br>Mar. 2006: Corporate Auditor (present) |
| Minoru Shishikura | As of<br>Mar. 2006: Corporate Auditor (present) |

**2. Corporate Auditors to continue their tenure after the end of this Meeting**

| Name             | Brief personal record                           |
|------------------|---|
| Keijiro Yamazaki | As of<br>Mar. 2008: Corporate Auditor (present) |
| Tadashi Ohe      | As of<br>Mar. 1994: Corporate Auditor (present) |



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**Item No.6: Grant of Bonus to Directors**

It is proposed that bonus be granted to the twenty-five Directors as of the end of this term, in appreciation of their services during this Business Term, which totals 127,000,000 yen considering the business results for this Business Term and the members to be granted, etc.

**Item No.7: Issuance of Share Options as Stock Options without Compensation**

Pursuant to the provisions of Articles 236, 238 and 239 of the Corporation Law (*kaisha-ho*), we would like you to approve the issuance of share options (*shinkabu yoyaku-ken*) as stock options without compensation to the Company's directors, executive officers and senior employees, and delegation of the details of offering to the Company's Board of Directors.

Also, we would like you to approve the specific method for calculating the amount of remuneration for Directors as specified in Item 2, Paragraph 1 of Article 361 of the Corporation Law and the specific contents of remuneration that are not monetary as specified in Item 3 of the same Paragraph since share options to be allocated to Directors are considered as remunerations to Directors as stipulated in Paragraph 1 of Article 361 of the Corporation Law.

**1. The Reason for the Necessity to Solicit Those Who Subscribe for Share Options on Particularly Favorable Conditions**

Share options will be issued to the Company's directors, executive officers and senior employees, without compensation, for the purpose of further enhancing their motivation and morale to improve the Company's performance, with a view to long-term improvement of its corporate value.

**2. Grantees of Share Options**

The Company's directors, thirteen (13) executive officers, and not more than forty (40) senior employees who are entrusted with important functions.

**3. Maximum Number of Share Options**

The maximum number of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by resolution of the said shareholders meeting (the **Resolution** ), will be nine thousand five hundred (9,500).

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**4. Cash Payment for Share Options**

No cash payment will be required for the share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution.

**5. Features of Share Options**

The features of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution, will be as follows:

**(1) Number of Shares to be acquired upon Exercise of a Share Option**

The number of shares to be acquired upon Exercise of one (1) share option (the **Allotted Number of Shares** ) shall be one hundred (100) common shares, and the maximum total number of shares to be delivered due to the exercise of share options shall be nine hundred fifty thousand (950,000) shares.

However, if the Company effects a share split (including allotment of common shares without compensation; this inclusion being applicable below) or a share consolidation after the date of the allotment of the share options, the Allotted Number of Shares will be adjusted by the following calculation formula:

**Allotted Number of Shares after Adjustment**

**= Allotted Number of Shares before Adjustment X Ratio of Share Splitting or Share Consolidation.**

Such adjustment will be made only with respect to the number of issued share options that have not then been exercised, and any fractional number of less than one (1) share resulting from such adjustment will be rounded off.

**(2) Amount of Property to Be Contributed upon Exercise of Share Options**

The amount of property to be contributed upon the exercise of each share option will be the amount obtained by multiplying the amount to be paid in for one (1) share (the **Exercise Price** ) to be delivered upon the exercise of a share option by the Allotted Number of Shares. The Exercise Price will be the product of the multiplication of 1.05 and the closing price of one (1) common share of the Company in ordinary trading at the Tokyo Stock Exchange as of the date of allotment of the share options (or if no trade is made on such date, the date immediately preceding the date on which such ordinary shares are traded), with any fractional amount of less than one (1) yen to be rounded up to one (1) yen.

The Exercise Price will be adjusted as follows:

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- (i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to be rounded up to one (1) yen:

**Exercise Price after Adjustment**

$$= \text{Exercise Price before Adjustment} \times \frac{1}{\text{Ratio of Share Splitting or Share Consolidation}}$$

- (ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to be rounded up to one (1) yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

$$\text{Exercise Price after Adjustment} = \text{Exercise Price before Adjustment} \times$$

$$\frac{\text{Number of Issued and Outstanding Shares} + \text{Number of Newly Issued Shares} \times \text{Payment amount per Share}}{\text{Market Price}}$$

**Number of Issued and Outstanding Shares + Number of Newly Issued Shares**

The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to be Disposed.

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

**(3) Period during Which Share Options Are Exercisable**

From May 1, 2012 to April 30, 2016.

**(4) Matters regarding Stated Capital and Capital Reserves Increased When Shares Are Issued upon Exercise of Share Options**

- (i) The increased amount of stated capital will be one half (1/2) of the maximum amount of increases of stated capital, etc. to be calculated in accordance with Paragraph 1 of Article 17 of the Companies Accounting Regulations (*Kaisha Keisan Kisoku*). Any fractional amount of less than one (1) yen resulting from such calculation will be rounded up to one (1) yen.

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- (ii) The increased amount of capital reserves shall be the amount of the maximum amount of increases of stated capital, etc., mentioned in (i) above, after the subtraction of increased amount of stated capital mentioned in (i) above.

**(5) Restriction on Acquisition of Share Options by Transfer**

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

**(6) Events for the Company's Acquisition of Share Options**

If a proposal for the approval of a merger agreement under which the Company will become an extinguishing company or a proposal for the approval for a share exchange agreement or a share transfer plan under which the Company will become a wholly owned subsidiary is approved by the Company's shareholders at a Meeting of Shareholders (or by the Board of Directors if no resolution of a Meeting of Shareholders is required for such approval), the Company will be entitled to acquire the share options, without compensation, on a date separately designated by the Board of Directors.

**(7) Handling of Fractions**

Any fraction of a share (less than one (1) share) to be delivered to any holder of share options who has exercised share options will be disregarded.

**(8) Other Conditions for Exercise of Share Options**

- (i) One (1) share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's General Meeting of Shareholders regarding the final business term within two (2) years from the end of the Ordinary General Meeting of Shareholders for the 109th Business Term of the Company.
- (iii) Holders of share options will be entitled to exercise their share options for two (2) years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately lose effect.
- (iv) No succession by inheritance is authorized for the share options.
- (v) Any other conditions for the exercise of share options may be established by the Board of Directors.

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**6. Specific Method of Calculation of Remuneration to Directors**

The amount of share options to be issued to the directors of the Company, as remuneration, will be the amount to be obtained by multiplying the fair market value per share option as of the allotment date thereof by the total number (not more than four thousand five hundred (4,500) share options) of share options to be allotted to the directors existing as of such allotment date. The fair market value of a share option will be calculated with the use of the Black-Scholes model on the basis of various conditions applicable on the allotment date. Upon the approval of Item No. 2, regarding election of directors, the number of directors will be seventeen (17).

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The map of the place of  
the General Meeting of Shareholders

Place: Head Office of the Company  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo

Station: Shimomaruko Station of the Tokyu Tamagawa  
Line (About 10 minutes walk)

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\*The products mentioned in this report may have different names in other regions.

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To Our Shareholders

We are pleased to present our report for the 109th business term (from January 1, 2009 to December 31, 2009).

The current business term began as the global recession, ignited by the financial crisis in the wake of the Lehman shock occurring the year before last, grew to an unprecedented scale. Due to efforts taken by governments and central banks to eliminate financial anxieties and by stimulus measures in each country, situation is on the verge of improvement. Economic conditions, however, remained severe as a whole with all leading industrialized countries reporting negative GDP growth rate.

Under these circumstances, the Canon Group, in the term, the fourth year of Phase III (2006 to 2010) of our Excellent Global Corporation Plan, moved to restructure itself as a lean and solid organization. Therefore, we undertook various measures in development, production and sales, achieving even greater results in areas such as cost reduction and optimization of inventory levels than in the previous term. In spite of these measures, we were not able to avoid the effects of unprecedentedly severe business conditions and unfortunately there was a decline in sales and profits.

Regarding the dividend, we will propose a term-end dividend of 55.00 yen per share at the Ordinary General Meeting of Shareholders for the 109th Business Term. This is in appreciation for the ongoing support of our shareholders and reflects the importance of maintaining stable returns. Combined with the interim dividend (55.00 yen per share), dividends for the year will be 110.00 yen per share, the same amount as the 108th business term.

Business conditions for the Canon Group are expected to continue improving in general, however, we expect that there will still be uncertainty over economic prospects with various risk factors in place. In response, under a new growth strategy, we aim to bring all of our capabilities to reverse the tide and bear in an offensive aimed at improving our business results.

We look forward to your continued support and encouragement.

March, 2010

FUJIO MITARAI  
*Chairman & CEO*  
TSUNEJI UCHIDA  
*President & COO*  
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*(Materials delivered pursuant to Article 437 and Article 444 of the Corporation Law)*

**BUSINESS REPORT**

(From January 1, 2009 to December 31, 2009)

**1. Current Conditions of the Canon Group**

**(1) Business Progress and Results**

**General Business Conditions**

Reviewing economic conditions in both Japan and overseas during the current term, the worst of the deep global recession seen at its onset ended, however, dire circumstances remained as a whole.

The U.S. and European economies stopped their recession as stimulus measures began to take effect in the second half of the term, but remained precarious generally, facing problems such as a rising unemployment rate.

Asian economies, on the other hand, began to recover aided primarily on the strength of Chinese domestic demand which started in the spring.

The Japanese economy suffered a severe downturn through the first half as an ongoing decline in exports added to the effects of weak consumer spending and capital investment. The second half, though, saw an upturn mostly in exports to Asian countries and other signs of improvement. That said, however, poor conditions with regard to employment and corporate earnings kept a full-scale recovery out of reach.

In foreign exchange markets, rapid yen appreciation took hold in the aftermath of the Lehman shock and the yen marked significant gains against both the U.S. dollar and the euro compared with the 108th business term.

As to the situation of the markets in which the Canon Group operates, conditions for office-use products such as copying machines and multifunctional devices were generally weak in Japan and overseas, while demand for consumer products such as cameras and inkjet printers declined overall except for single lens reflex (SLR) cameras. The demand for both semiconductor production equipment and mirror projection mask aligners for LCDs also weakened due to further ongoing capital investment restraint by semiconductor and LCD panel manufacturers.

Under such business conditions, the Canon Group set the current term, the fourth year of Phase III (2006 to 2010) of our Excellent Global Corporation Plan, as a year for responding swiftly to the present difficult business conditions and preparing to take advantage of the future. We are focusing on improving management quality and embarking on various measures to restructure ourselves as a lean organization.

First, we succeeded in drastically reducing inventories by scaling down capacity at production bases, strengthening our supply chain management and other efforts.

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In product development, we made efforts to timely introduce competitive new products which excel in terms of functionality and performance, ease of use, reliability, design and cost performance, even during the recession.

Particularly, we promoted development based on the Cross-media Imaging strategy which aims to deliver new value by linking various products in a sophisticated manner over an IT network, and we released imageRUNNER ADVANCE series networked multifunctional devices for office use, serving as the core of this strategy.

Furthermore, to continuously create new business themes, we also embarked on structural improvements for our Headquarters R&D Operations.

In the area of production, the entire Group worked to accelerate automation and in-house production. Reliability improvements of automated production facilities resulted in greater productivity and steady progress was also achieved in increasing in-house production.

We worked on improving cost rate to firmly maintain adequate investment and solid cash flow management. Therefore, we achieved further progress with production and procurement reform activities and made efforts to thoroughly improve design quality by utilizing simulations and, thereby, boost development efficiency. As a result, we were able to minimize the decrease in profits due to lower production volumes and product prices.

In addition, as for product quality, which is critical for manufacturers, we took to heart the supremacy of quality, improved product quality thoroughly and worked to increase customer satisfaction.

In the area of sales, we decided to establish a far-reaching system for cooperating with the U.S. companies Hewlett-Packard Development Company LP and Adobe Systems Incorporated, mainly to strengthen our solutions business in the office sector, and also accelerated the restructuring of our domestic Group sales subsidiaries. Other measures to steadily enhance the Group structure were taken by strengthening the U.S. direct sales network and centralizing European headquarter functions in London to more strongly tie them to sales functions.

As described above, we took various actions under severe business conditions and, as a result, we recorded net sales of 3,209.2 billion yen (down 21.6% from the previous term), income before income taxes of 219.4 billion yen (down 54.4%), and net income attributable to Canon Inc. of 131.6 billion yen (down 57.4%), all on a consolidated basis. On a non-consolidated basis, we recorded net sales of 2,025.5 billion yen (down 25.6%), ordinary profit of 142.7 billion yen (down 60.3%), and net income of 80.8 billion yen (down 64.0%).

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**Net Sales (Consolidated)**  
**Income before Income Taxes**  
**(Consolidated)**  
**Net Income Attributable to Canon Inc.**  
**(Consolidated)**  
**Net Sales (Non-Consolidated)**  
**Ordinary Profit (Non-Consolidated)**  
**Net Income (Non-Consolidated)**

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**Table of Contents****Constitution of Sales by Region  
100 MILLIONS OF YEN****Consolidated****Non-Consolidated****Business Conditions by Operations  
Sales by Operations  
Consolidated**

| Operations                               | Sales<br>(100 millions of<br>yen) | Change from Previous<br>Term<br>(%) |
|--|-----------------------------------|-------------------------------------|
| <b>Office Business Unit</b>              | 16,451                            | (26.8)                              |
| <b>Consumer Business Unit</b>            | 13,012                            | (10.6)                              |
| <b>Industry and Others Business Unit</b> | 3,580                             | (31.5)                              |
| <b>Eliminations</b>                      | (951)                             |                                     |
| <b>Total</b>                             | 32,092                            | (21.6)                              |

**Non-Consolidated**

| Operations                    | Sales<br>(100 millions of<br>yen) | Change from Previous<br>Term<br>(%) |
|-------------------------------|-----------------------------------|-------------------------------------|
| <b>Office Business Unit</b>   | 10,213                            | (30.4)                              |
| <b>Consumer Business Unit</b> | 9,505                             | (14.0)                              |

|  |        |        |
|--|--------|--------|
| <b>Industry and Others Business Unit</b> | 537    | (64.0) |
| <b>Total</b>                             | 20,255 | (25.6) |

Notes: 1. Although Business Conditions by Operations was previously classified into Business Machines (Office Imaging Products, Computer Peripherals, Business Information Products), Cameras and Optical and Other Products according to product function and type, from this report, we have changed to classify into three business units, namely the Office Business Unit, Consumer Business Unit, and Industry and Others Business Unit, following business operation organization of Canon Inc.

2. The consolidated sales of each business unit includes the amount of intersegment sales.

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**Table of Contents****Office Business Unit**

For our office-use digital networked multifunctional devices, we took various measures amid a lack of corporate motivation toward capital investment. These included measures to boost sales of the iR C3580 color machine and iR 3245 black-and-white machine introduced in the previous term, and efforts to restructure the U.S. direct sales network. In the fall, we announced a new generation of multifunctional devices called the imageRUNNER ADVANCE series, and introduced 12 models, including the C9075PRO/9065PRO, C7065/7055 and the C5051/5051F. This series has become the focus of attention as a line of products that not only offer more basic functions as multifunctional devices but also respond to the full range of user document needs via robust connections to IT environments and compatibility to a variety of system application software. Our solutions business aims to generate profits from both hardware and software by constantly developing and providing users with Internet services as well as with the latest in software offering the most advanced functions. All necessary resources were applied to selling imageRUNNER ADVANCE series products, which were deemed as strategic for this new business.

For our imagePRESS series of printers for digital commercial printing, we worked to expand sales of color machines such as the imagePRESS C7000VP with strong results in this term particularly in Asia and Oceania. Additionally, to mark our full-scale entry into the market for black-and-white commercial printers, we introduced and made a good start of the high-speed imagePRESS 1135 which offers both high-quality printing reproducing the beauty of true black and an output of up to 135 pages per minute.

Regarding multifunctional devices for small mid-sized business owners, we launched products such as the Satera MF8350Cdn A4 color laser multifunctional device which offers four functions of copying, printing, faxing and scanning together with the high image quality technology we developed for our imagePRESS series in a compact body.

In laser beam printers, orders for OEM-brand products declined as the recession weighed heavily on customers. As for Canon-brand products in color machines, we expanded our lineup by introducing the A3-size compatible Satera LBP9600C and A4-size compatible Satera LBP7700C, both offering greater ease-of-use through the addition of features like a wide LCD panel, which can display onscreen animation, and the ability to print 30 pages per minute. We also worked to expand our solutions business, utilizing the MEAP-Lite function expansion system.

In our imagePROGRAF series of large-format inkjet printers, we introduced four new products including iPF755/750 whose high productivity and user friendliness rivals that of high-end models, and took steps to strengthen our solutions business by marketing the PosterArtist 2009 poster auto design application which features powerful design and support functions and advanced design-editing capabilities well suited for CAD drawings, posters, signboards and a wide variety of other applications. As a result, we managed to increase our market share well above the previous term results amid recessionary conditions.

Sales for this business unit fell by 26.8% on a consolidated basis and by 30.4% on a non-consolidated basis, both in comparison to the previous term.



**Table of Contents**

**Change in Sales**  
**100 MILLIONS OF YEN**  
**Consolidated**  
**Non-Consolidated**

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**Table of Contents****I Consumer Business Unit**

In digital cameras, demand for SLRs remained relatively solid amid the global recession. Under such conditions, we launched some models including the EOS Kiss X3 equipped with a 15.1 megapixel CMOS sensor, the high-performance DIGIC 4 image processor for high image quality shooting and full HD video functionality, despite it being an entry-level model. We also launched an advanced amateur model, the EOS 7D with an 18.0 megapixel CMOS sensor, Dual DIGIC 4 image processor for high-resolution and rich gradation expression, capable of a maximum continuous shooting speed of about 8 frames per second and the maximum burst capacity of about 94 frames. Furthermore, with solid sales results for the EOS 5D Mark II which was awarded Camera of the Year in the Camera Grand Prix 2009 and the EOS Kiss X2, SLR unit sales grew. As for interchangeable lenses for SLRs, the EF 100mm F2.8L Macro IS USM employing a new image stabilization system met with favorable reviews and cumulative production of our EF lens series reached the 50 million unit milestone in December.

In the area of compact digital cameras, we launched six new models in our IXY DIGITAL series. One of these, the IXY DIGITAL 930 IS features the DIGIC 4 image processor, a 12.1 megapixel CCD, wide-angle 24mm 5x zoom lens and 3.0-inch Clear Live LCD T monitor with touch-panel interface. We also added nine new products to our PowerShot series. One of them, the PowerShot S90 is equipped with the Dual Clear System combining an ultra-high-resolution CCD sensor and DIGIC 4 image processor, which allows beautiful low-noise pictures and a wide-angle 28mm f/2.0 large-aperture 3.8x zoom lens.

In digital video cameras, we secured a large share of the HD flash memory video camera market, which is expected to grow, by introducing products such as the iVHS HF S11 and iVHS HF21. Both feature a double memory system comprised of a large 64GB internal flash memory and an SD/SDHC card, along with a Canon Full HD CMOS sensor, DIGIC DV III image processor and Canon HD Video Lens for recording high-quality, high-definition images.

For our line of LCD projectors, we mounted sales promotion efforts focusing on the WUX10 Mark II, SX80 Mark II and other high-resolution and high image quality models especially well-suited for the production of images such as medical imagery and high resolution digital photo.

Regarding broadcasting equipment, we secured a large share of the market by introducing portable HDTV camera lenses. These included the HJ14eX4.3B super-wide-angle lens offering optical performance of the highest level, and the compact and lightweight KJ17eX7.7B 17.0x zoom lens responding to the growing consumers demand for low-price products.

As for inkjet printer, in the face of declining global demand, we took steps that included expanding sales channels among volume retailers in the U.S., recording strong sales of middle and top range multifunctional devices and implementing sales-boosting measures in China. This resulted in pushing unit sales beyond the result of the previous term. In the first half, we introduced the PIXUS MX860 targeting home office users and the PIXUS Pro9500 Mark II for advanced amateurs. In the second half, we completely renewed our lineup for home users with new introductions of models featuring wireless LAN functionality, which has seen a particularly strong increase in demand. Examples included the PIXUS MP990 multifunctional device which adds grey ink for a total of six ink colors and the PIXUS MP640. Meanwhile, sales of consumables suffered minimal losses as printing demand among end users remained solid despite the recession.

In image scanners, the CanoScan LiDE 200 and other products released in the previous term were well received allowing us to maintain our No. 1 share position in this market, even as market contraction reduced unit sales.

Sales for this business unit fell by 10.6% on a consolidated basis and by 14.0% on a non-consolidated basis, both in comparison to the previous term.

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**Table of Contents**

**Change in Sales**  
**100 MILLIONS OF YEN**  
**Consolidated**  
**Non-Consolidated**

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**1 Industry and Others Business Unit**

Mirror projection mask aligners for LCDs fell substantially in terms of both units and sales in the current term. These declines became inevitable as forecasts of negative market growth for LCD panels as of the end of the previous term led panel manufacturers to postpone or freeze capital investments.

Similarly, severe market conditions also prevailed for semiconductor production equipment, demand for which plummeted as semiconductor manufacturers kept investments in new capital equipment low.

In response to these circumstances, we moved to implement a dramatic structural improvement of our semiconductor equipment business. One of the steps was to integrate the relevant operations of Canon Marketing Japan Inc. into Canon Inc. as of January 1, 2010. This change was undertaken to establish a system integrating everything from development and design, to production, sales and service and support and to include reflecting market trends and customer desires into products more rapidly and strengthening the technical capabilities of sales units.

On the medical equipment front, we launched five new digital radiography systems, including the lightweight and thin CXDI-55C which offers a wide effective imaging area. Strong sales of these products in China and other parts of Asia helped to keep unit sales on a par with the previous term's result.

For sales of ophthalmic devices, we made efforts to expand sales by introducing products such as CR-1 Mark II, a non-mydratic digital retinal camera capable of producing high-quality images with low flash intensity and the CX-1, Canon's first mydratic/non-mydratic hybrid digital retinal camera, which is a compact, lightweight and easy-to-use model that employs a newly developed specialized digital camera unit enabling high-resolution 15.1 megapixel images.

Document scanners handled by Canon Electronics Inc. met with lower sales, despite efforts to expand sales including the introduction of products such as the highly durable, highly speedy DR-9050C/7550C/6050C and the extremely compact and portable DR-150.

Regarding calculators handled by Canon Electronic Business Machines (H.K.) Co., Ltd., the X-Mark I with its refined design and other products utilizing recycled materials drew attention, however, sales of its mainstay commercial printing calculators faltered on a marked decline in corporate demand. On another front, we released, to rave reviews, the wordtank V823, with substantial content for Chinese language learners, and four models of the compact wordtank S500 series offering a color LCD screen and carefully selected content.

Die bonders handled by Canon Machinery Inc. and magnetic head film deposition equipment handled by Canon ANELVA Corporation were low due to the effect of capital investment restraint by customers.

Sales for this business unit fell by 31.5% on a consolidated basis and by 64.0% on a non-consolidated basis, both in comparison to the previous term.

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**Table of Contents**

**Change in Sales**  
**100 MILLIONS OF YEN**  
**Consolidated**  
**Non-Consolidated**

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(2) Facilities Investment

The investment in facilities during this term totaled 216.1 billion yen (128.2 billion yen by the Company), which are mainly as follows:

**Main facilities completed during this term**

Canon Virginia, Inc.: Land and New Production Base

(Office Business Unit)

Location: Virginia, U.S.A.

Date of Completion: May, 2009

Hita Canon Materials Inc.: Land

(Office Business Unit)

Location: Hita-shi, Oita Pref.

Date of Completion: June, 2009

\*To be leased to Hita Canon Materials Inc. by the Company

Nagasaki Canon Inc.: Land

(Consumer Business Unit)

Location: Hasami-cho, Higashisonogi-gun, Nagasaki Pref.

Date of Completion: July, 2009

\*To be leased to Nagasaki Canon Inc. by the Company

Canon Dalian Business Machines, Inc.: New Production Base

(Office Business Unit)

Location: Liaoning Province, China

Date of Completion: November, 2009

Canon Electronics Inc.: Land and New Tokyo Headquarters

(Office Business Unit, Industry and Others Business Unit)

Location: Minato-ku, Tokyo

Date of Completion: December, 2009

**Main facilities under construction for establishment/expansion as of the end of this term**

Nagasaki Canon Inc.: New Administration and Welfare Building / New Production Base

(Consumer Business Unit)

Location: Hasami-cho, Higashisonogi-gun, Nagasaki Pref.

\*To be leased to Nagasaki Canon Inc. by the Company

Kawasaki Office of the Company: New R&D Building

(Headquarters Operations)

Location: Kawasaki-shi, Kanagawa Pref.

Oita Canon Materials Inc.: New Production Base

(Office Business Unit)

Location: Oita-shi, Oita Pref.

\*To be leased to Oita Canon Materials Inc. by the Company

Toride Office of the Company: New Production Base  
(Office Business Unit)  
Location: Toride-shi, Ibaraki Pref.

Canon Chemicals Inc.: New Production Base  
(Office Business Unit)  
Location: Kasama-shi, Ibaraki Pref.  
\*To be leased to Canon Chemicals Inc. by the Company

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(3) Management Perspectives

Although the global economy has generally entered a recovery trend, there are still various risk factors such as weakened effects of stimulus measures in various countries, worsening employment conditions and consequent weakness in consumer spending, and it is necessary to maintain a close watch on what is a very uncertain future. It is expected that the global economy will continue to be trapped in a slow, L-shaped recovery, with business conditions facing the Canon Group remaining severe for the foreseeable future.

The Canon Group has, however, successfully managed to further strengthen its financial condition, by implementing various management reforms undertaken until this term. Therefore, we have designated 2010, the final year of Phase III (2006-2010) of our Excellent Global Corporation Plan, as our First Year of Growth, a turning point to the growth mode. We will make full efforts to improve business performance at a speed that exceeds that of the economic recovery under a new growth strategy.

We will begin by focusing on the introduction of innovative products and services that take markets by storm. For example, we strive to utilize the most of technologies and personnel resources we have developed throughout our history to identify market trends early on and create novel products and services like the imageRUNNER ADVANCE series which has the potential to become the core of the promising solutions business.

Next, we will also focus on capturing significant portions of markets in China and other parts of Asia, where significant growth beyond that of the industrialized nations can be expected. Our approach will be to maximize our competitiveness by thoroughly considering the characteristics of individual regions and revising our sales strategies from the ground up.

In addition, we will make Océ N.V., a Dutch printer manufacturer with strengths in printers for commercial use and large-format printers for business use, into a consolidated subsidiary and by doing so, we will enhance our direct-sales and direct-service systems, mainly in Europe and the U.S., and apply its technologies and products to overwhelmingly achieve the No.1 position in the printing industry. With the addition of Océ to the Canon Group serving as a foothold, we will also accelerate efforts to achieve our long-held objective of constructing a global tri-polar (Japan, U.S., and Europe) business creation organization.

To nurture the development of new businesses, we plan to search for and develop existing businesses and peripheral businesses, enhance Group company sales to non-Group members and swiftly establish positions in next-generation businesses such as medical imaging and industrial robots.

As we move ahead with the measures mentioned above, we will remain steadfast in our efforts to achieve further improvements in management quality. To strengthen profit structure, we will work on restructuring our semiconductor business, strengthening our office equipment business and creating an optimal production system.

We will also continue to promote inventory reductions as we further strive for supremacy of quality.



**Table of Contents****(4) Status of Assets and Earnings  
Consolidated**

|  | 105th Business Term<br>(Jan. 1, 2005-Dec. 31, 2005) | 106th Business Term<br>(Jan. 1, 2006-Dec. 31, 2006) |
|--|---|---|
| Net Sales<br>(100 millions of yen)   | 37,542  | 41,568  |
| Income before Income<br>Taxes<br>(100 millions of yen)                               | 6,120   | 7,191   |
| Net Income<br>Attributable to<br>Canon Inc.<br>(100 millions of yen)                 | 3,841   | 4,553   |
| Basic Net Income<br>Attributable to<br>Canon Inc.<br>Stockholders Per Share<br>(yen) | 288.63  | 341.95  |
| Total Assets<br>(100 millions of yen)  | 40,436  | 45,219  |
| Total Canon Inc.<br>Stockholders Equity<br>(100 millions of yen)                     | 26,047  | 29,866  |

Notes: 1. Canon's  
consolidated

financial statements are prepared in accordance with U.S. generally accepted accounting principles.

2. Basic net income attributable to Canon Inc. stockholders per share is calculated based on the weighted average number of outstanding shares during the term.

**Non-Consolidated**

|  | 105th Business Term<br>(Jan. 1, 2005-Dec. 31, 2005) | 106th Business Term<br>(Jan. 1, 2006-Dec. 31, 2006) |
|--|---|---|
| Net Sales<br>(100 millions of yen)       | 24,815  | 27,297  |
| Ordinary Profit<br>(100 millions of yen) | 4,407   | 5,240   |
| Net Income<br>(100 millions of yen)      | 2,893   | 3,375   |
| Net Income Per Share<br>(yen)            | 325.83  | 253.48  |
|  | 26,528  | 29,381  |

Total Assets  
(100 millions of yen)

Net Assets  
(100 millions of yen)



18,754

21,093

Notes: 1. Net income per share is calculated based on the weighted average number of outstanding shares during the term.

2. The Company implemented a three-for-two stock split on July 1, 2006. The net income per share for the 106th business term has been calculated on the basis that the stock split was made at the beginning of the term.

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| 107th Business Term<br>(Jan. 1, 2007-Dec. 31, 2007) | 108th Business Term<br>(Jan. 1, 2008-Dec. 31, 2008) | 109th Business Term<br>(Jan. 1, 2009-Dec. 31, 2009) |
|---|---|---|
| 44,813  | 40,942  | 32,092  |
| 7,684   | 4,811   | 2,194   |
| 4,883   | 3,091   | 1,316   |
| 377.59  | 246.21  | 106.64  |
| 45,126  | 39,699  | 38,476  |
| 29,223  | 26,598  | 26,881  |

3. Canon has made a three-for-two stock split on July 1, 2006. Basic net income attributable to Canon Inc. stockholders per share for the 105th business term has been calculated based on the number of issued shares following the

implementation of the stock split. The basic net income attributable to Canon Inc. stockholders per share for the 106th business term has been calculated on the basis that the stock split was made at the beginning of the term.

| 107th Business Term<br>(Jan. 1, 2007-Dec. 31, 2007) | 108th Business Term<br>(Jan. 1, 2008-Dec. 31, 2008) | 109th Business Term<br>(Jan. 1, 2009-Dec. 31, 2009) |
|---|---|---|
| 28,879  | 27,211  | 20,255  |
| 5,528   | 3,591   | 1,427   |
| 3,670   | 2,241   | 808   |
| 283.75  | 178.50  | 65.44   |
| 27,909  | 26,190  | 25,511  |
| 18,906  | 18,650  | 18,127  |

3. Effective from 106th business term, the

Company  
adopted  
Accounting  
Standards  
Board  
Statement  
No. 5  
Accounting  
Standard for  
Presentation of  
Net Assets in  
the Balance  
Sheet issued  
by the  
Accounting  
Standards  
Board of Japan  
on  
December 9,  
2005 and  
Accounting  
Standards  
Board  
Guidance  
No. 8  
Guidance on  
Accounting  
Standards for  
Presentation of  
Net Assets in  
the Balance  
Sheet issued  
by the  
Accounting  
Standards  
Board of Japan  
on  
December 9,  
2005.

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(5) Main Activities

Canon Group is engaged in the development, manufacture and sales of the following products.

Operations

Main Products

**Office Business Unit**

Office Network Digital Multifunction Devices (MFDs),

Color Network Digital MFDs,

Personal-use Network Digital MFDs,

Office Copying Machines,

Full-color Copying Machines,

Personal-use Copying Machines,

Laser Printers,

Large Format Inkjet Printers

**Consumer Business Unit**

Digital SLR Cameras,

Compact Digital Cameras,

Interchangeable Lenses,

Digital Video Cameras,

Inkjet Multifunction Printers,

Single Function Inkjet Printers,

Image Scanners,

Broadcast-use Television Lenses

**Industry and Others Business Unit**

Semiconductor Production Equipment,

Mirror Projection Mask Aligners for LCD Panels,

Medical Image Recording Equipment,

Magnetic Heads,

Micromotors

Computers,

Handy Terminals,

Document Scanners,

Calculators



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(6) Canon Group Global Network  
n **Major Domestic Bases**

Name [Location]

**Canon Inc.**

Headquarters [Tokyo]  
Kawasaki Office [Kanagawa Pref.]  
Ayase Plant [Kanagawa Pref.]  
Hiratsuka Plant [Kanagawa Pref.]  
Oita Plant [Oita Pref.]  
Tamagawa Office [Kanagawa Pref.]  
Kosugi Office [Kanagawa Pref.]  
Toride Plant [Ibaraki Pref.]  
Fuji-Susono Research Park [Shizuoka Pref.]  
Yako Office [Kanagawa Pref.]  
Utsunomiya Plant [Tochigi Pref.]  
Ami Plant [Ibaraki Pref.]

**Manufacturing**

Oita Canon Inc. [Oita Pref.]  
Canon Chemicals Inc. [Ibaraki Pref.]  
Nagahama Canon Inc. [Shiga Pref.]  
Fukushima Canon Inc. [Fukushima Pref.]  
Oita Canon Materials Inc. [Oita Pref.]

**Marketing**

Canon Marketing Japan Inc. [Tokyo]  
Canon Software Inc. [Tokyo]  
Canon System & Support Inc. [Tokyo]  
Canon IT Solutions Inc. [Tokyo]

**R&D, Manufacturing and Marketing**

Canon Electronics Inc. [Saitama Pref.]  
Canon Finetech Inc. [Saitama Pref.]  
Canon Machinery Inc. [Shiga Pref.]  
Canon Precision Inc. [Aomori Pref.]  
Canon ANELVA Corporation [Kanagawa Pref.]

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**n Major Overseas Bases**

Name [Location]

**R&D**

Canon Development Americas, Inc. [U.S.A.]  
Canon Technology Europe Ltd. [U.K.]  
Canon Research Centre France S.A.S. [France]  
Canon Information Systems Research Australia Pty. Ltd. [Australia]

**Manufacturing**

Canon Virginia, Inc. [U.S.A.]  
Canon Giessen GmbH [Germany]  
Canon Bretagne S.A.S. [France]  
Canon Dalian Business Machines, Inc. [China]  
Canon Zhuhai, Inc. [China]  
Canon Zhongshan Business Machines Co., Ltd. [China]  
Canon (Suzhou) Inc. [China]  
Canon Inc., Taiwan [Taiwan]  
Canon Hi-Tech (Thailand) Ltd. [Thailand]  
Canon Vietnam Co., Ltd. [Vietnam]  
Canon Opto (Malaysia) Sdn. Bhd. [Malaysia]

**Marketing**

Canon U.S.A., Inc. [U.S.A.]  
Canon Canada Inc. [Canada]  
Canon Latin America, Inc. [U.S.A.]  
Canon Europa N.V. [Netherlands]  
Canon Europe Ltd. [U.K.]  
Canon (UK) Ltd. [U.K.]  
Canon France S.A.S. [France]  
Canon Deutschland GmbH [Germany]  
Canon Ru LLC [Russia]  
Canon Middle East FZ-LLC [U.A.E.]  
Canon (China) Co., Ltd. [China]  
Canon Hongkong Co., Ltd. [Hong Kong]  
Canon Korea Consumer Imaging Inc. [Korea]  
Canon Singapore Pte. Ltd. [Singapore]  
Canon Australia Pty. Ltd. [Australia]  
Canon do Brasil Indústria e Comércio Limitada [Brazil]  
Canon Chile, S.A. [Chile]  
Canon South Africa Pty. Ltd. [South Africa]

**R&D, Manufacturing and Marketing**

Canon Electronic Business Machines (H.K.) Co., Ltd. [Hong Kong]

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(7) Employees  
**Consolidated**

Number of employees 168,879 persons  
(Increase of 1,899 persons from the previous term)

Americas 11,084 persons

Europe 12,004 persons

Japan 73,635 persons

Others 72,156 persons

**Non-Consolidated**

Number of employees 25,683 persons  
(Increase of 271 persons from the previous term)

**Table of Contents****(8) Principal Subsidiaries  
n Subsidiaries**

| Company Name                           | Capital Stock<br>(millions of yen) | Ratio of Voting<br>Rights of the<br>Company (%) | Main Activities  |
|--|------------------------------------|---|--|
| Canon Marketing Japan Inc.             | 73,303                             | 55.2  | Domestic sale of business machines, cameras, etc.  |
| Canon Electronics Inc.                 | 4,969                              | 55.1  | Manufacture and sale of information related equipment and precision machinery units for cameras  |
| Canon Finetech Inc.                    | 3,451                              | 58.1  | Manufacture and sale of printers, peripheral devices for business machines and chemicals, etc.   |
| Canon Software Inc.                    | 1,348                              | 57.6  | Development and sale of computer software  |
| Canon Machinery Inc.                   | 2,712                              | 64.6  | Manufacture and sale of semiconductor production equipment and automation/laborsaving equipment  |
| Tokki Corporation                      | 6,573                              | 66.5  | Development, manufacture and sale of equipment for manufacturing organic EL display panels, etc. |
| Asia Pacific System Research Co., Ltd. | 2,400                              | 87.9  | Design, development, operation and maintenance of software and systems                           |
| e-System Corporation                   | 5,005                              | 62.1  | Introduction of Customer Relationship Management System, etc.                                    |
| Oita Canon Inc.                        | 80                                 | 100.0   | Manufacture of cameras   |
| Canon U.S.A., Inc.                     | 204,355<br>thousands of U.S.\$     | 100.0   | Sale of business machines, cameras, etc. in the Americas   |
| Canon Europa N.V.                      | 290,600<br>thousands of Euro       | 100.0   | Sale of business machines, cameras, etc. in Europe   |

Notes: 1.

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The ratio of the Company's voting rights in Canon Marketing Japan Inc. and Canon Finetech Inc. are calculated together with the number of voting rights held by subsidiaries.

2. The ratio of the Company's voting rights in Canon Software Inc., Asia Pacific System Research Co., Ltd. and e-System Corporation are based on the number of voting rights held by subsidiaries.
3. The ratio of the Company's voting rights in Asia Pacific System Research Co., Ltd. is calculated based on the number of voting rights as of September 30, 2009.

**n Consolidated Status**

The number of consolidated subsidiaries was 241, and the number of affiliated companies accounted for by the equity method was 15.

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**Table of Contents****(9) Other Important Items Regarding Current Conditions of the Canon Group**

- (i) On January 1, 2010, Canon Inc. received sales, service and support functions for semiconductor production equipment and mirror projection mask aligners for LCD panels from Canon Marketing Japan Inc. This was in an effort to fortify our industry equipment business by establishing a completely integrated system from development to production, sales and servicing.
- (ii) On February 1, 2010, Asia Pacific System Research Co., Ltd. exercised a share exchange with Canon Electronics Inc. and became a wholly owned subsidiary of Canon Electronics Inc. This was in an effort to further accelerate business decision-making by integrating the two companies.
- (iii) On January 26, 2010, Canon Marketing Japan Inc. concluded a share exchange agreement with Canon Software Inc. ( Canon Software ), making Canon Software a wholly owned subsidiary effective May 1, 2010. This was in an effort to further fortify and streamline our consolidated business base and accelerate the making of IT solutions business of Canon Marketing Japan Group into a core business.
- (iv) On February 8, 2010, Canon Inc. concluded a share exchange agreement with Canon Finetech Inc. ( Canon Finetech ), making Canon Finetech a wholly owned subsidiary effective May 1, 2010. This was in an effort to facilitate the organic integration of management resources between both companies and further enhance the synergies throughout the Canon Group to promote speed of management and solidify our position in the office equipment segment.

**2. Shares of the Company****Number of Shares Issuable 3,000,000,000 shares****Issued Shares, Capital Stock and Number of Shareholders**

|                                    | As of the end of<br>the Previous Term | Change<br>during<br>This Term | As of the end of<br>This Term |
|------------------------------------|---------------------------------------|-------------------------------|-------------------------------|
| Issued Shares (share)              | 1,333,763,464                         | 0                             | 1,333,763,464                 |
| Capital Stock (yen)                | 174,761,797,475                       | 0                             | 174,761,797,475               |
| Number of<br>Shareholders (person) | 184,789                               | Decrease of<br>15,617         | 169,172                       |

**Table of Contents****Major Shareholders (Ten shareholders)**

| Name of Shareholders                                       | Number of<br>Shares Held<br>(thousands<br>of<br>shares) | Share-<br>holding<br>Ratio<br>(%) |
|--|---|-----------------------------------|
| The Dai-Ichi Mutual Life Insurance Company                 | 74,649  | 6.0                               |
| Japan Trustee Services Bank, Ltd. (Trust Account)          | 67,840  | 5.5                               |
| The Master Trust Bank of Japan, Ltd. (Trust Account)       | 51,665  | 4.2                               |
| Moxley and Co.   | 50,458  | 4.1                               |
| JP Morgan Chase Bank 380055                                | 39,866  | 3.2                               |
| Mizuho Corporate Bank, Ltd.                                | 25,919  | 2.1                               |
| Sompo Japan Insurance Inc.                                 | 22,910  | 1.9                               |
| The Chase Manhattan Bank, N.A. London S.L. Omnibus Account | 21,863  | 1.8                               |
| State Street Bank and Trust Company 505225                 | 20,850  | 1.7                               |
| State Street Bank and Trust Company                        | 19,681  | 1.6                               |

- Notes:
1. Shareholding ratio is calculated by deducting number of treasury shares (99,288 thousand shares) from total shares issued.
  2. With respect to The Dai-Ichi Mutual Life Insurance Company, in addition to the above, there are 6,180 thousand shares of the Company's stock, in the form of trust property relating to retirement allowance trust.
  3. With respect to Mizuho Corporate Bank, Ltd., in addition to the above, there are 7,704 thousand shares of the Company's stock, in the form of trust property relating to retirement allowance trust.

**Shareholding Ratio by Category**

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## 3. Share Options of the Company

## Share Options Issued as Stock Options

**(i) Share Options Held by the Directors and Corporate Auditors of the Company as of the end of this term**

|                   | Number of share options<br>(Exercise price per share) | Class and number of shares to be acquired | Exercise period                  | Number of holders       |
|-------------------|---|---|----------------------------------|-------------------------|
| 1st Share Options | 3,400 options<br>(5,502 yen)                          | Common stock<br>340,000 shares            | May 1, 2010 to<br>April 30, 2014 | Directors<br>24 persons |
| 2nd Share Options | 5,500 options<br>(3,287 yen)                          | Common stock<br>550,000 shares            | May 1, 2011 to<br>April 30, 2015 | Directors<br>25 persons |

**(ii) Share Options Issued to the Employees of the Company during this term**

|                   | Number of share options<br>(Exercise price per share) | Class and number of shares to be acquired | Exercise period                  | Number of holders                      |
|-------------------|---|---|----------------------------------|--|
| 2nd Share Options | 4,040 options<br>(3,287 yen)                          | Common stock<br>404,000 shares            | May 1, 2011 to<br>April 30, 2015 | Employees of the Company<br>39 persons |

**(iii) Issue Price of Share Options**

No cash payment is required.

**(iv) Other Conditions for Exercise of Share Options**

- a. One (1) share option may not be exercised partially.
- b. Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's Ordinary General Meeting of Shareholders regarding the final business term within two (2) years from the end of the Ordinary General Meeting of Shareholders which the issuance of such share options was resolved.
- c. Holders of share options will be entitled to exercise their share options for two (2) years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately lose effect.



- d. No succession by inheritance is authorized for the share options.
- e. Besides the above, other conditions shall be stipulated in an agreement to be executed between the Company and grantee of share options, based on the resolution of the Board of Directors meeting.

**Table of Contents**4. Directors and Corporate Auditors  
(1) Directors and Corporate Auditors

| Position                       | Name                | Business in Charge or Important Concurrent Posts  |
|--------------------------------|---------------------|---|
| Chairman & CEO                 | Fujio Mitarai       | Chairman of Nippon Keidanren  |
| President & COO                | Tsuneji Uchida      |   |
| Executive Vice President & CFO | Toshizo Tanaka      | Senior General Manager of Policy & Economy Research Center  |
| Executive Vice President & CTO | *Toshiaki Ikoma     | Group Executive of Corporate R&D Headquarters, Chief Executive of Optical Products Operations, President of The Canon Foundation and Director of Hitachi Metals, Ltd. |
| Senior Managing Director       | Nobuyoshi Tanaka    | Group Executive of Corporate Intellectual Property and Legal Headquarters   |
| Senior Managing Director       | Junji Ichikawa      | Chairman and Representative Director and President of Canon ANELVA Corporation  |
| Senior Managing Director       | Akiyoshi Moree      | Group Executive of External Relations Headquarters and Group Executive of Human Resources Management & Organization Headquarters                                      |
| Senior Managing Director       | Kunio Watanabe      | Group Executive of Corporate Planning Development Headquarters  |
| Senior Managing Director       | Yoroku Adachi       | President & CEO of Canon U.S.A., Inc.   |
| Senior Managing Director       | Yasuo Mitsuhashi    | Chief Executive of Peripheral Products Operations and Chief Executive of Chemical Products Operations   |
| Managing Director              | Tomonori Iwashita   | Group Executive of Environment Headquarters and Group Executive of Quality Management Headquarters  |
| Managing Director              | Masahiro Osawa      | Group Executive of Finance & Accounting Headquarters  |
| Managing Director              | Shigeyuki Matsumoto | Group Executive of Device Technology Development Headquarters   |

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|                   |                      |   |
|-------------------|----------------------|---|
| Managing Director | Katsuichi Shimizu    | Chief Executive of Inkjet Products Operations   |
| Managing Director | Ryoichi Bamba        | President of Canon Europa N.V. and President of Canon Europe Ltd.                         |
| Managing Director | Toshio Homma         | Chief Executive of L Printer Products Operations  |
| Managing Director | Masaki Nakaoka       | Chief Executive of Office Imaging Products Operations                                     |
| Managing Director | Haruhisa Honda       | Group Executive of Production Engineering Headquarters                                    |
| Director          | Toshiyuki<br>Komatsu | Deputy Group Executive of Corporate Planning<br>Development Headquarters                  |
| Director          | Tetsuro Tahara       | Group Executive of Global Manufacturing & Logistics<br>Headquarters                       |
| Director          | Seijiro Sekine       | Deputy President and Representative Executive Officer of<br>Japan Post Holdings Co., Ltd. |
| Director          | Shunji Onda          | Group Executive of Global Procurement Headquarters  |
| Director          | Kazunori Fukuma      | President & Representative Director of SED Inc.   |
| Director          | Hideki Ozawa         | President of Canon (China) Co., Ltd.  |
| Director          | Masaya Maeda         | Group Executive of Image Communication Products<br>Operations                             |

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| Position          | Name              | Business in Charge or Important Concurrent Posts   |
|-------------------|-------------------|--|
| Corporate Auditor | Keijiro Yamazaki  | Auditor of Canon Finetech Inc.   |
| Corporate Auditor | Kunihiro Nagata   | Auditor of Canon Marketing Japan Inc. and Auditor of Canon Electronics Inc.  |
| Corporate Auditor | Tadashi Ohe       | Attorney, Auditor of Marui Group Co., Ltd. and Auditor of Kao Corporation  |
| Corporate Auditor | Yoshinobu Shimizu | Certified Public Accountant, Auditor of Mitsubishi UFJ Trust and Banking Corporation and Auditor of Canon Electronics Inc. |
| Corporate Auditor | Minoru Shishikura | Auditor of Canon Marketing Japan Inc. and Auditor of Canon Finetech Inc.   |

- Notes:
1. Mr. Fujio Mitarai, Mr. Tsuneji Uchida and Mr. Toshizo Tanaka are Representative Directors.
  2. Director with asterisk was newly elected at the Ordinary General Meeting of Shareholders for the 108th Business Term held on March 27, 2009, and assumed his office.
  3. Corporate Auditors Mr. Tadashi Ohe, Mr. Yoshinobu Shimizu and Mr. Minoru Shishikura are Outside Corporate Auditors defined by Item 16, Article 2 of the Corporation Law.
  4. Corporate Auditor Mr. Kunihiro Nagata had experienced accounting operation at the Company for many years and has a wealth of expertise in finance and accounting.
  5. Corporate Auditor Mr. Yoshinobu Shimizu is a Certified Public Accountant and has a wealth of expertise in finance and accounting.
  6. Corporate Auditor Mr. Minoru Shishikura had experienced financial operation at an insurance company for many years and has a wealth of expertise in finance.
  7. Business in Charge or Important Concurrent Posts of Directors Mr. Toshizo Tanaka and Mr. Yasuo Mitsuhashi, as of January 1, 2010, have been changed as follows.
 

|                  |  |
|------------------|--|
| Toshizo Tanaka   | Senior General Manager of Policy & Economy Research Center and Group Executive of General Affairs Headquarters |
| Yasuo Mitsuhashi | Chief Executive of Peripheral Products Operations  |

## (2) Remuneration and Other Amounts to Directors and Corporate Auditors

|   |            |                   |
|---|------------|-------------------|
| Directors   | 26 persons | 1,654 million yen |
| Corporate Auditors<br>(including 53 million yen for 3 Outside Corporate Auditors) | 5 persons  | 105 million yen   |

- Notes:
1. The above persons include 1 Director who has retired at the conclusion of the Ordinary General Meeting of Shareholders for the 108th Business Term held on March 27, 2009.

2. Directors' remuneration and other amounts do not include amount paid as salary for employees to those Directors who are also employees.
3. Directors' remuneration and other amounts include provisions for directors' bonuses for this term in the amount of 127 million yen.
4. Directors' remuneration and other amounts include expenses related to the share options issued pursuant to the resolution of the 107th Ordinary General Meeting of Shareholders, held on March 28, 2008, and the share options issued pursuant to the resolution of the 108th Ordinary General Meeting of Shareholders, held on March 27, 2009, in the amount of 341 million yen.
5. The above remuneration and other amounts include an increased amount of accrued directors' retirement benefits for this term (Directors 225 million yen, Corporate Auditors 11 million yen (including 5 million yen for Outside Corporate Auditors)).
6. In addition to the above, Directors and Corporate Auditors received the following remuneration and other amounts.

Directors' allowance paid pursuant to the resolution of the Ordinary General Meeting of Shareholders for the 108th Business Term held on March 27, 2009

|          |          |                |
|----------|----------|----------------|
| Director | 1 person | 26 million yen |
|----------|----------|----------------|

The amount includes increased amount of accrued directors' retirement benefits, disclosed in the business report for this business term and in prior business terms.

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## (3) Outside Directors and Outside Corporate Auditors

**Relation Between Important Organization of Concurrent Post and Canon Inc.**

| Name              | Concurrent Post           | Organization of Concurrent Post              | Relation with Canon Inc. |
|-------------------|---------------------------|--|--------------------------|
| Tadashi Ohe       | Outside Corporate Auditor | Marui Group Co., Ltd.                        | No special relation      |
|                   | Outside Corporate Auditor | Kao Corporation                              | No special relation      |
| Yoshinobu Shimizu | Outside Corporate Auditor | Mitsubishi UFJ Trust and Banking Corporation | No special relation      |
|                   | Outside Corporate Auditor | Canon Electronics Inc.                       | Subsidiary               |
| Minoru Shishikura | Outside Corporate Auditor | Canon Marketing Japan Inc.                   | Subsidiary               |
|                   | Outside Corporate Auditor | Canon Finetech Inc.                          | Subsidiary               |

**Principal Activities**

| Name        | Principal Activities  |
|-------------|---|
| Tadashi Ohe | Attended 12 out of 19 Board of Directors meetings and 18 out of 19 Board of Corporate Auditors meetings held during this term, and provided expert input as an attorney when necessary. |



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5. Accounting Auditor

(1) Name of Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Remuneration and Other Amounts to Accounting Auditor for This Term

|  | Amount            |
|--|-------------------|
| (i) Remuneration and other amounts payable by the Company for the services defined in Paragraph 1, Article 2 of the Certified Public Accountants Act | 522 million yen   |
| (ii) Total amount of cash and other financial benefits payable by the Company and its subsidiaries to the Accounting Auditor                         | 1,050 million yen |

Notes: 1. In the audit agreement between the Company and the Accounting Auditor, remuneration amounts are determined on a lump-sum without breakdown into a separate remuneration amount for auditing in accordance with the Corporation Law and in accordance with the Financial Instruments and Exchange Law. Accordingly, the amounts shown in (i) above represent total amounts of remuneration and other amounts for both of these auditing services.

2. The Company pays remuneration to the Accounting Auditor for their advisory services in addition to the services defined in Paragraph 1, Article 2 of the Certified Public Accountants Act.

3. Among the Company's principal subsidiaries, Asia Pacific System Research Co., Ltd. is audited by KPMG AZSA & Co., Canon U.S.A., Inc. is audited by Ernst & Young LLP and Canon Europa N.V. is audited by Ernst & Young Accountants LLP.

(3) Policy Regarding Decision to Either Dismiss or Not Reappoint Accounting Auditor

The Board of Corporate Auditors, by unanimous agreement, will dismiss the Accounting Auditor when confirmed that the Accounting Auditor falls under any Item of Paragraph 1, Article 340 of the Corporation Law.

In addition to the above, should anything occur to negatively impact the qualifications or independence of the Accounting Auditor, making it unlikely that the Accounting Auditor will be able to properly perform an audit, the Directors will propose, with the agreement of the Board of Corporate Auditors, or as requested by the Board of Corporate Auditors, not to reappoint the Accounting Auditor at a General Meeting of Shareholders.



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6. Systems for Ensuring Propriety of Operations

As systems for ensuring the propriety of the Company's operations, the Board of Directors has adopted a resolution as follows:

- (1) System for Ensuring the Performance of Duties by Directors and Employees to Comply with Laws and Articles of Incorporation
  - (i) Based on the spirit of the Three Selves (self-motivation, self-management, and self-awareness) a Canon universal principle dating back to the Company's founding the Company established the Canon Group Code of Conduct as a standard to which Directors, Executive Officers and employees must adhere when performing their work. A Committee that manages and oversees this initiative promotes compliance activities to develop law-abiding, independent and strong individuals with a high sense of ethics.
  - (ii) Policies and measures set forth by the Committee above are implemented throughout the Company with the assistance of compliance staff assigned to each division.
  - (iii) Each division establishes internal rules and guidelines to help ensure that all Directors, Executive Officers and employees thoroughly understand the laws and regulations of Japan and other countries.
  - (iv) The Company ensures Directors, Executive Officers and employees the implementation of the basic policy that provides not to have any relation with antisocial forces under any circumstances, and also maintains and improves the cooperation structure with external institutions such as police by establishing a department in charge.
  - (v) The Company's internal auditing, legal, and other divisions work to strengthen compliance through law-abidance guidance and monitoring on its business activities.
  - (vi) An in-house hotline system is employed to promote internal self-checks to prevent illegal or unethical activities and help prevent improprieties.
- (2) System for Maintaining and Managing Information Relating to the Performance of Duties by Directors
  - (i) Information relating to the performance of duties by Directors is maintained and managed in accordance with the Company's basic rules for document management addressing the creation, sending and receiving, storage, retention, and destruction of documents, and other in-house rules.
  - (ii) A system is established that enables Directors, Corporate Auditors, and internal auditing to access this information anytime.

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- (3) Rules and Other Systems Regarding Management of Risk of Loss
  - (i) Important matters are carefully deliberated at the Executive Committee and in other Management Committees on specific action plans to eliminate or reduce business risks.
  - (ii) Business processes are specified and risks are evaluated based on guidelines set forth by a committee that oversees financial risk management to ensure the accuracy and reliability of financial reporting. This must be documented in writing, and the status of control activity is regularly confirmed to make risk management effectively work.
  - (iii) A risk management system is created through the formulation and observance of various in-house rules to protect the Company from diversifying risks (quality, environmental, disaster, information-related, export management, etc.) and maintain public faith. In particular, Basic Policies Regarding Product Safety have been established, which govern efforts in supplying customers with safe products that will allow comfortable and satisfactory use.
  - (iv) Wide-ranging audits of various types and promotion of the in-house hotline system by internal auditing are carried out for the early detection and resolution of risks.
- (4) System for Assuring Directors Efficient Execution of Duties
  - (i) The Executive Committee and Management Committees are established and important matters are carefully deliberated in advance by Directors, Executive Officers and relevant managers to promote prompt and appropriate decision making by Directors.
  - (ii) Based on explanation of management policies in long-term management plans, the Company goals are given concrete shape in medium-term plans, and each division is thoroughly informed of the content of these plans. Furthermore, annual and quarterly short-term plans and monthly budgetary control are used to monitor performance progress, through which the Company makes optimum use of management resources.

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- (5) System for Ensuring Appropriate Operations of the Corporate Group Comprised of Corporation, its Parent Companies and Subsidiaries
  - (i) Based on the Canon Group Code of Conduct, the Company promotes Groupwide compliance and infuses an awareness of compliance and corporate ethics to share as a set of common values for the Group.
  - (ii) Policies and measures set forth by the Committee managing and overseeing the Canon Group Code of Conduct are implemented at each Group company by compliance staff assigned to it.
  - (iii) The internal auditing, legal, and other divisions enhance compliance by providing guidance and monitoring with regard to the observance of laws in the business activities of all Group companies.
  - (iv) The soundness and efficiency of the Group's business activities are ensured through the formulation of Groupwide medium-term plans and deliberations in the Management Committee.
- (6) Matters Regarding Employees Who Assist the Duties of Corporate Auditors When Corporate Auditors Request Assignment of Such Employees
  - (i) A division is established specifically to assist Corporate Auditors with their duties.
  - (ii) Full-time employees of a requisite number are assigned to the division.
- (7) Matters Regarding Independence of the Employees in (6) Above From Directors
  - (i) The division is an organization independent of the Board of Directors.
  - (ii) Changes in the division's personnel require the prior consent of the Board of Corporate Auditors.

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- (8) System for Directors and Employees to Report to Corporate Auditors and System for Other Types of Reporting to Corporate Auditors
  - (i) Directors promptly report to Corporate Auditors matters that may have a significant impact on the Company when such matters emerge or are likely to emerge.
  - (ii) Directors, Executive Officers and employees deliver reports periodically to Corporate Auditors regarding matters Directors and the Corporate Auditors have previously agreed upon in consultations.
  - (iii) Corporate Auditors attend the Executive Committee and other important meetings.
  - (iv) An in-house hotline system is adopted to allow Corporate Auditors to receive information from employees.
- (9) Other Systems for Securing the Effectiveness of Auditing by Corporate Auditors
  - (i) Corporate Auditors periodically receive reports from accounting auditors.
  - (ii) The Company establishes the systems for providing cooperation and allowing field audits of internal divisions and affiliates to be performed efficiently by Corporate Auditors.

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Consolidated Financial Statements

**Consolidated Balance Sheets****ASSETS**

Millions of yen

|   | <b>As of Dec. 31,<br/>2009</b> | <b>As of Dec. 31,<br/>2008</b> |
|---|--------------------------------|--------------------------------|
| <b>Current assets:</b>                    |                                |                                |
| Cash and cash equivalents                 | 795,034                        | 679,196                        |
| Short-term investments                    | 19,089                         | 7,651                          |
| Trade receivables, net                    | 556,572                        | 595,422                        |
| Inventories                               | 373,241                        | 506,919                        |
| Prepaid expenses and other current assets | 273,843                        | 275,660                        |
| <b>Total current assets</b>               | <b>2,017,779</b>               | <b>2,064,848</b>               |
| Noncurrent receivables                    | 14,936                         | 14,752                         |
| Investments                               | 114,066                        | 88,825                         |
| Property, plant and equipment, net        | 1,269,785                      | 1,357,186                      |
| Intangible assets, net                    | 117,396                        | 119,140                        |
| Other assets                              | 313,595                        | 325,183                        |
| <b>Total assets</b>                       | <b>3,847,557</b>               | <b>3,969,934</b>               |

**LIABILITIES AND EQUITY**

Millions of yen

|  | <b>As of Dec. 31,<br/>2009</b> | <b>As of Dec. 31,<br/>2008</b> |
|--|--------------------------------|--------------------------------|
| <b>Current liabilities:</b>                            |                                |                                |
| Short-term loans and current portion of long-term debt | 4,869                          | 5,540                          |
| Trade payables   | 339,113                        | 406,746                        |
| Accrued income taxes                                   | 50,105                         | 69,961                         |
| Accrued expenses                                       | 274,300                        | 277,117                        |
| Other current liabilities                              | 115,303                        | 184,636                        |
| <b>Total current liabilities</b>                       | <b>783,690</b>                 | <b>944,000</b>                 |
| Long-term debt, excluding current installments         | 4,912                          | 8,423                          |
| Accrued pension and severance cost                     | 115,904                        | 110,784                        |

|   |                  |                  |
|---|------------------|------------------|
| Other noncurrent liabilities                  | 63,651           | 55,745           |
| <b>Total liabilities</b>                      | <b>968,157</b>   | <b>1,118,952</b> |
| <b>Commitments and contingent liabilities</b> |                  |                  |
| <b>Equity:</b>                                |                  |                  |
| <b>Canon Inc. stockholders equity:</b>        |                  |                  |
| Common stock                                  | 174,762          | 174,762          |
| [Authorized shares] (share)                   | [3,000,000,000]  | [3,000,000,000]  |
| [Issued shares] (share)                       | [1,333,763,464]  | [1,333,763,464]  |
| Additional paid-in capital                    | 404,293          | 403,790          |
| Legal reserve                                 | 54,687           | 53,706           |
| Retained earnings                             | 2,871,437        | 2,876,576        |
| Accumulated other comprehensive income (loss) | (260,818)        | (292,820)        |
| Treasury stock, at cost                       | (556,252)        | (556,222)        |
| [Treasury shares] (share)                     | [99,288,001]     | [99,275,245]     |
| <b>Total Canon Inc. stockholders equity</b>   | <b>2,688,109</b> | <b>2,659,792</b> |
| <b>Noncontrolling interests</b>               | <b>191,291</b>   | <b>191,190</b>   |
| <b>Total equity</b>                           | <b>2,879,400</b> | <b>2,850,982</b> |
| <b>Total liabilities and equity</b>           | <b>3,847,557</b> | <b>3,969,934</b> |

<Notes to Consolidated Balance Sheets as of December 31, 2009>

|  |           |
|--|-----------|
|  | 11,343    |
|  | million   |
| 1. Allowance for doubtful receivables:   | yen       |
|  | 1,815,982 |
|  | million   |
| 2. Accumulated depreciation:   | yen       |
| 3. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, net unrealized gains and losses on securities, net gains and losses on derivative financial instruments and pension liability adjustments. |           |
|  | 18,526    |
|  | million   |
| 4. Guarantee obligations for bank loans taken out by employees:  | yen       |

<Note to Per Share Information as of December 31, 2009>

|  |          |
|--|----------|
| Canon Inc. stockholders equity per share | 2,177.53 |
|  | yen      |

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## Consolidated Statements of Income

|  | Millions of yen                     |                                     |
|--|-------------------------------------|-------------------------------------|
|  | <b>Year ended<br/>Dec. 31, 2009</b> | <b>Year ended<br/>Dec. 31, 2008</b> |
| <b>Net sales</b>                             | <b>3,209,201</b>                    | <b>4,094,161</b>                    |
| Cost of sales                                | 1,781,808                           | 2,156,153                           |
| <b>Gross profit</b>                          | <b>1,427,393</b>                    | <b>1,938,008</b>                    |
| <b>Operating expenses:</b>                   |                                     |                                     |
| Selling, general and administrative expenses | 905,738                             | 1,067,909                           |
| Research and development expenses            | 304,600                             | 374,025                             |
|  | <b>1,210,338</b>                    | <b>1,441,934</b>                    |
| <b>Operating profit</b>                      | <b>217,055</b>                      | <b>496,074</b>                      |
| <b>Other income (deductions):</b>            |                                     |                                     |
| Interest and dividend income                 | 5,202                               | 19,442                              |
| Interest expense                             | (336)                               | (837)                               |
| Other, net                                   | (2,566)                             | (33,532)                            |
|  | <b>2,300</b>                        | <b>(14,927)</b>                     |
| <b>Income before income taxes</b>            | <b>219,355</b>                      | <b>481,147</b>                      |

|   |                |                |
|---|----------------|----------------|
| Income taxes  | 84,122         | 160,788        |
| <b>Consolidated net income</b>                            | <b>135,233</b> | <b>320,359</b> |
| Less: Net income attributable to noncontrolling interests | 3,586          | 11,211         |
| <b>Net income attributable to Canon Inc.</b>              | <b>131,647</b> | <b>309,148</b> |

<Note to Per Share Information for the year ended December 31, 2009>

Net income attributable to Canon Inc. stockholders per share

Basic

106.64 yen

Diluted

106.64 yen

53



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## Consolidated Statement of Equity

|   | Millions of yen |                                  |                  |                      |   |                   |   |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|---|
|   | Common<br>stock | Additional<br>paid-in<br>capital | Legal<br>reserve | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Total<br>Canon Inc.<br>stockholders<br>equity |
| <b>Balance at December 31,<br/>2008</b>                           | <b>174,762</b>  | <b>403,790</b>                   | <b>53,706</b>    | <b>2,876,576</b>     | <b>(292,820)</b>  | <b>(556,222)</b>  | <b>2,659,792</b>                              |
| Equity transactions with<br>noncontrolling interests and<br>other |                 | 503                              |                  |                      |   |                   | 503   |
| Dividends paid to Canon<br>Inc. stockholders                      |                 |                                  |                  | (135,793)            |   |                   | (135,793)                                     |
| Dividends paid to<br>noncontrolling interests                     |                 |                                  |                  |                      |   |                   |   |
| Transfers to legal reserve  |                 |                                  | 981              | (981)                |   |                   | -   |
| Comprehensive income:   |                 |                                  |                  |                      |   |                   |   |
| Net income  |                 |                                  |                  | 131,647              |   |                   | 131,647                                       |
| Other comprehensive<br>income (loss), net of tax                  |                 |                                  |                  |                      |   |                   |   |
| Foreign currency translation<br>adjustments                       |                 |                                  |                  |                      | 33,340  |                   | 33,340  |
| Net unrealized gains and<br>losses on securities                  |                 |                                  |                  |                      | 2,150   |                   | 2,150   |
| Net gains and losses on<br>derivative instruments                 |                 |                                  |                  |                      | (1,422)   |                   | (1,422)                                       |
| Pension liability<br>adjustments                                  |                 |                                  |                  |                      | (2,066)   |                   | (2,066)                                       |
| <b>Total comprehensive<br/>income</b>                             |                 |                                  |                  |                      |   |                   | <b>163,649</b>                                |
| Repurchase of treasury<br>stock, net                              |                 |                                  |                  | (12)                 |   | (30)              | (42)  |
| <b>Balance at December 31,<br/>2009</b>                           | <b>174,762</b>  | <b>404,293</b>                   | <b>54,687</b>    | <b>2,871,437</b>     | <b>(260,818)</b>  | <b>(556,252)</b>  | <b>2,688,109</b>                              |

Millions of yen

|  | Noncontrolling<br>interests | Total<br>equity  |
|--|-----------------------------|------------------|
| <b>Balance at December 31, 2008</b>                            | <b>191,190</b>              | <b>2,850,982</b> |
| Equity transactions with<br>noncontrolling interests and other | (1,376)                     | (873)            |
| Dividends paid to Canon Inc. stockholders                      |                             | (135,793)        |
| Dividends paid to noncontrolling interests                     | (3,326)                     | (3,326)          |
| Transfers to legal reserve                                     |                             | -                |
| Comprehensive income:  |                             |                  |
| Net income   | 3,586                       | 135,233          |
| Other comprehensive income (loss), net of tax                  |                             |                  |
| Foreign currency translation adjustments                       | 30                          | 33,370           |
| Net unrealized gains and losses on securities                  | 67                          | 2,217            |
| Net gains and losses on derivative instruments                 | (1)                         | (1,423)          |
| Pension liability adjustments                                  | 1,121                       | (945)            |
| <b>Total comprehensive income</b>                              | <b>4,803</b>                | <b>168,452</b>   |
| Repurchase of treasury stock, net                              |                             | (42)             |
| <b>Balance at December 31, 2009</b>                            | <b>191,291</b>              | <b>2,879,400</b> |

&lt;Note to Consolidated Statement of Equity&gt;

Pension liability adjustments include actuarial loss, prior service credit and net transition obligation.

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**Notes to Consolidated Financial Statements**

<Notes to Basic Significant Matters Regarding Preparation of Consolidated Financial Statements>  
Significant Accounting Policies

1. Group Position

The number of consolidated subsidiaries was 241, and the number of affiliated companies accounted for by the equity method was 15.

2. Basis of Presentation

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ( US GAAP ) pursuant to the provision of Paragraph 1, Article 120 of the previous Company Accounting Regulations based on Article 2 of supplementary provision (Act of Justice Ministry No. 46 issued and effective in 2009) of current Company Accounting Regulations. However, certain disclosures required under US GAAP are omitted pursuant to the same provision.

3. Cash Equivalents

All highly liquid investments acquired with an original maturity of three months or less are considered to be cash equivalents.

4. Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Exchange differences are charged or credited to income. Assets and liabilities of subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and income and expense items are translated at the average exchange rates prevailing during the year. The resulting translation adjustments are reported in other comprehensive income (loss).

5. Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the average method for domestic inventories and principally the first-in, first-out method for overseas inventories.

6. Investments

Canon accounts for its debt and marketable equity securities as follows. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for-sale securities are excluded from earnings and are reported in other comprehensive income (loss) until realized. Realized gain and losses are determined on the average cost method.

7. Property, Plant and Equipment

Property, plant and equipment are depreciated principally by the declining-balance method.

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8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. Intangible assets with finite useful lives are amortized over the respective estimated useful lives. Software is amortized on a straight-line basis over the period of three to five years.

9. Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment change is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

10. Basis of Recording Allowances

(Allowance for doubtful accounts)

An allowance for doubtful accounts is provided based on credit loss history and an evaluation of any specific doubtful accounts.

(Accrued pension and severance cost)

Pension and severance cost is accrued based on the projected benefit obligations and the fair value of plan assets at the balance sheet date. Unrecognized actuarial loss is recognized by amortizing a portion in excess of a corridor (i.e., 10% of the greater of the projected benefit obligations or the fair value of plan assets) using the straight-line method over the average remaining service period of employees. Unrecognized prior service cost or credit is amortized using the straight-line method over the average remaining service period of employees.

11. Taxes collected from customers and remitted to governmental authorities are excluded from revenues, cost and expenses in consolidated statements of income.

12. Stock-Based Compensation

Canon measures stock-based compensation cost at the grant date, based on the fair value of the award, and recognizes the cost on a straight-line basis over the requisite service period.

13. Net Income Attributable to Canon Inc. Stockholders Per Share

Basic net income attributable to Canon Inc. stockholders per share is computed by dividing net income by the weighted-average number of common shares outstanding during each year. Diluted net income attributable to Canon Inc. stockholders per share includes the effect from potential issuance of common stock based on the assumption that all stock options were exercised.

14. Recently Issued Accounting Guidance

Canon adopted the Accounting Standards Codification issued by the Financial Accounting Standards Board in the third quarter beginning July 1,

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2009. This adoption did not have a material impact on Canon's consolidated results of operations and financial condition. As a result of the adoption of this guidance, throughout the notes to the consolidated financial statements, references to specific accounting guidance are not used.

Canon adopted new guidance for noncontrolling interests in consolidated financial statements in the first quarter beginning January 1, 2009. Upon the adoption of this guidance, noncontrolling interests, which were previously referred to as minority interests and classified between total liabilities and stockholders' equity on the consolidated balance sheets, are now included as a separate component of total equity. In addition, consolidated net income on the consolidated statements of income now includes the net income (loss) attributable to noncontrolling interests. The financial statement presentation requirements have been adopted retrospectively and prior year amounts have been reclassified or adjusted to conform to this guidance.

<Note for Additional Information>

(Recommended Cash Offer by Canon for All the Issued and Outstanding Ordinary Shares of Océ N.V.)

Canon and Océ N.V. (Océ) have reached conditional agreement on November 16, 2009 that Canon intends to make a fully self-funded, public cash offer for all the issued and outstanding shares of Océ, which is listed on NYSE Euronext Amsterdam. In accordance with this agreement, Canon has been proceeding to acquire all the issued and outstanding ordinary shares of Océ.

1. Strategic Rationale

Amid the increasingly competitive printing industry, Canon aims to further strengthen its business foundation in order to solidify the position as the global leader. The combination of Canon and Océ will render strong synergies in areas such as creating benefits from complementary technologies and products, reinforcing research and development on a global basis and acquiring strong sales and distribution networks, along with serving excellent clients.

2. Trade Name and Business Operation of Océ

(1) Trade Name: Océ N.V.

(2) Business Operation: Research and development, manufacture and sale of document management systems, printing systems for professionals and high-speed, wide format digital printing systems

3. Offer Period

From January 29, 2010 to March 1, 2010

(In the event that tender offer conditions are not fulfilled, Canon can extend the Offer Period)

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<Note to Significant Subsequent Events>

(Share Exchange Agreement to Make Canon Finetech Inc. a Wholly Owned Subsidiary of Canon Inc.)

On February 8, 2010, the Board of Directors of Canon Inc. approved a share exchange under which Canon Inc. would make Canon Finetech Inc. ( Canon Finetech ) its wholly owned subsidiary, and on the same date, has entered into the share exchange agreement with Canon Finetech. As of February 8, 2010, Canon Inc. owned 57.59% of the outstanding shares issued by Canon Finetech.

1. Strategic Rationale of the Share Exchange

Canon Inc. aims to facilitate the organic integration of management resources between Canon Inc. and Canon Finetech, further enhance the synergies throughout the Canon Group, and promote the flexibility and speed of its management, through the share exchange with Canon Finetech.

2. Overview of the Share Exchange Agreement

(1) Method and Procedures

In accordance with the share exchange agreement reached on February 8, 2010, Canon Inc. will allot 0.38 shares of Canon Inc. for one share of Canon Finetech to the shareholders of Canon Finetech (excluding itself), who will hold the shares of Canon Finetech just before the planned acquisition date of all the outstanding shares (excluding shares already held by Canon Inc.)

Canon Inc. will execute the share exchange without obtaining the approval at the Meeting of Shareholders of Canon Inc., pursuant to the provision of Paragraph 3, Article 796 stated in the Corporation Law, which specifies the simplified share exchange procedure. Canon Inc. will not issue new shares for this transaction, and will allot its treasury stocks instead.

(2) Share Exchange Ratio

The share exchange ratio is 0.38 shares of Canon Inc. for one share of Canon Finetech. As for the 24,496,816 shares of Canon Finetech held by Canon Inc., no shares will be allotted.

(3) Measurement Rationale of the Share Exchange Ratio

In order to ensure fairness of calculating the share exchange ratio, both companies have separately requested an independent third party appraisal agency to calculate the share exchange ratio. Taking into account the results of the professional analyses and advice of the proposed share exchange ratio, the Board of Directors of the two companies have decided the announced share exchange ratio.

(4) Common Stock Account

Common stock account will not increase as a result of this share exchange.

(5) Schedule

|                |  |
|----------------|--|
| March 24, 2010 | Annual general meeting of shareholders to be held at Canon Finetech<br>(share exchange agreement to be approved) |
| May 1, 2010    | Execution of the planned share exchange (effective date)   |

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Accounting Audit Report of Accounting Auditor on  
Consolidated Financial Statements

Report of Independent Auditors

February 9, 2010

The Board of Directors

Canon Inc.

Ernst & Young ShinNihon LLC

Noriharu Fujita

Certified Public Accountant

Designated and Engagement

Partner

Norimitsu Yanai

Certified Public Accountant

Designated and Engagement

Partner

Yuichiro Munakata

Certified Public Accountant

Designated and Engagement

Partner

Hiroki Suzuki

Certified Public Accountant

Designated and Engagement

Partner

Pursuant to Paragraph 4, Article 444 of the Corporation Law, we have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of equity and the notes to consolidated financial statements of Canon Inc. (the Company ) applicable to the fiscal year from January 1, 2009 through December 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Canon Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States under Paragraph 1, Article 120 of the previous Company Accounting Regulations based on Article 2 of supplementary provision (Act of Justice Ministry No. 46 issued and effective in 2009) of current Company Accounting Regulations (refer to Note 2 of notes to basic significant matters regarding preparation of consolidated financial statements in the notes to consolidated financial statements).

**Additional Information**

As mentioned in 14. Notes to Basic Significant Matters Regarding Preparation of Consolidated Financial Statements of Notes to Consolidated Financial Statements, Canon Inc. adopted the new accounting guidance that was issued by the Financial Accounting Standards Board and was codified in Accounting Standards Codification 810,

Consolidations (the provisions of which were previously included in Statement of Financial Accounting Standards 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No.51 ) in the fiscal year beginning January 1, 2009, and prepared the consolidated financial statements in accordance with the said accounting standard.

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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Audit Report of Board of Corporate Auditors on  
Consolidated Financial Statements

Audit Report on Consolidated Financial Statements

Regarding the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statements of equity, and notes to consolidated financial statements) for the 109th business term from January 1, 2009, to December 31, 2009, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Corporate Auditor and hereby report as follows:

1. Auditing Methods Employed by the Corporate Auditors and Board of Corporate Auditors and Details of Such Methods

We established auditing policies, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding their execution of audits and results thereof, as well as reports from the Directors and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

Following the auditing policies and allocation of duties established by the Board of Corporate Auditors, each Corporate Auditor received reports from such as the Directors and employees regarding consolidated financial statements and sought explanations as necessary. Furthermore, we monitored and verified whether the Accounting Auditor maintained their independence and implemented appropriate audits, and received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that System for ensuring that duties are performed properly (matters set forth in each Item of Article 131 of the Company Accounting Regulations) is organized in accordance with the Quality Management Standards Regarding Audits (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the consolidated financial statements for this business term.

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2. Audit Results

We confirm that the methods and results of the audit employed by the Accounting Auditor, Ernst & Young ShinNihon LLC, are proper.

February 10, 2010

Board of Corporate Auditors, Canon Inc.

Corporate Auditor                      Keijiro Yamazaki

Corporate Auditor                      Kunihiro Nagata

Corporate Auditor                      Tadashi Ohe

Corporate Auditor                      Yoshinobu Shimizu

Corporate Auditor                      Minoru Shishikura

Note: Corporate Auditors, Tadashi Ohe, Yoshinobu Shimizu and Minoru Shishikura are Outside Corporate Auditors, as provided in Item 16, Article 2, and Paragraph 3, Article 335, of the Corporation Law.

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Non-Consolidated Financial Statements  
[Non-Consolidated Balance Sheets](#)

| <b>ASSETS</b>                             | Millions of yen        |                        |
|---|------------------------|------------------------|
|   | As of Dec. 31,<br>2009 | As of Dec. 31,<br>2008 |
| <b>Current assets</b>                     | <b>1,112,783</b>       | <b>1,138,932</b>       |
| Cash and deposits                         | 6,855                  | 10,674                 |
| Notes receivable                          | 190,667                | 176,449                |
| Accounts receivable                       | 458,927                | 431,598                |
| Marketable securities                     | 92,740                 | 93,899                 |
| Finished goods                            | 60,868                 | 107,375                |
| Work in process                           | 83,073                 | 109,933                |
| Raw materials and supplies                | 3,997                  | 4,360                  |
| Deferred tax assets                       | 57,312                 | 68,123                 |
| Short-term loans receivable               | 59,241                 | 51,512                 |
| Other current assets                      | 99,104                 | 85,010                 |
| Allowance for doubtful receivables        | (1)                    | (1)                    |
| <b>Fixed assets</b>                       | <b>1,438,317</b>       | <b>1,480,066</b>       |
| <b>Property, plant and equipment, net</b> | <b>862,901</b>         | <b>929,217</b>         |
| Buildings                                 | 469,571                | 510,730                |
| Machinery                                 | 135,263                | 185,710                |
| Vehicles                                  | 204                    | 696                    |
| Tools and equipment                       | 32,095                 | 47,548                 |

|   |                  |                  |
|---|------------------|------------------|
| Land  | 148,217          | 137,987          |
| Construction in progress                      | 77,551           | 46,546           |
| <b>Intangible fixed assets</b>                | <b>32,444</b>    | <b>40,431</b>    |
| Software                                      | 29,922           | 37,469           |
| Other intangibles                             | 2,522            | 2,962            |
| <b>Investments and other assets</b>           | <b>542,972</b>   | <b>510,418</b>   |
| Marketable securities-noncurrent              | 40,970           | 15,427           |
| Investments in affiliated companies           | 422,421          | 411,247          |
| Long-term loans receivable                    | 2,328            | 3,911            |
| Long-term pre-paid expenses                   | 12,518           | 12,529           |
| Deferred tax assets-noncurrent                | 60,440           | 62,402           |
| Guarantees                                    | 1,498            | 1,535            |
| Other noncurrent assets                       | 2,852            | 3,425            |
| Allowance for doubtful receivables-noncurrent | (55)             | (58)             |
| <b>Total assets</b>                           | <b>2,551,100</b> | <b>2,618,998</b> |

## &lt;Notes to Non-Consolidated Balance Sheets as of December 31, 2009&gt;

|  |                       |
|--|-----------------------|
| 1. Accumulated depreciation of property, plant and equipment   | 1,122,921 million yen |
| Accumulated impairment losses of property, plant and equipment | 21,606 million yen    |
| 2. Guarantees  |                       |
| Mortgage bank loans for employees                              | 16,256 million yen    |
| 3. Receivables and Payables for affiliated companies           |                       |
| Receivables  | 763,132 million yen   |
| Payables   | 530,826 million yen   |

## &lt;Note to Per Share Information as of December 31, 2009&gt;

|                      |              |
|----------------------|--------------|
| Net assets per share | 1,467.76 yen |
|----------------------|--------------|

Table of Contents**LIABILITIES AND NET ASSETS**

Millions of yen

|  | As of Dec. 31,<br>2009 | As of Dec. 31,<br>2008 |
|--|------------------------|------------------------|
| <b>Current liabilities</b>                 | <b>699,680</b>         | <b>715,501</b>         |
| Notes payable                              | 1,456                  | 1,871                  |
| Accounts payable                           | 330,763                | 322,109                |
| Short-term loans payable                   | 226,749                | 156,148                |
| Other payables                             | 37,717                 | 99,325                 |
| Accrued expenses                           | 51,667                 | 64,610                 |
| Accrued income taxes                       | 27,639                 | 47,825                 |
| Deposits                                   | 8,644                  | 9,690                  |
| Accrued warranty expenses                  | 3,043                  | 6,077                  |
| Accrued bonuses for employees              | 4,129                  | 4,972                  |
| Accrued directors' bonuses                 | 127                    | 244                    |
| Other current liabilities                  | 7,746                  | 2,630                  |
| <b>Noncurrent liabilities</b>              | <b>38,702</b>          | <b>38,492</b>          |
| Accrued pension and severance cost         | 34,524                 | 34,456                 |
| Accrued directors' retirement benefits     | 1,786                  | 1,576                  |
| Reserve for environmental provision        | 1,170                  | 1,300                  |
| Accrued long service rewards for employees | 1,176                  | 1,160                  |
| Other noncurrent liabilities               | 46                     | -                      |

|  |                  |                  |
|--|------------------|------------------|
| <b>Total liabilities</b>                           | <b>738,382</b>   | <b>753,993</b>   |
| <b>Stockholders equity</b>                         | <b>1,810,900</b> | <b>1,865,955</b> |
| <b>Common stock</b>                                | <b>174,762</b>   | <b>174,762</b>   |
| <b>Capital surplus</b>                             | <b>306,288</b>   | <b>306,288</b>   |
| Additional paid-in capital                         | 306,288          | 306,288          |
| Other capital surplus                              | -                | -                |
| <b>Retained earnings</b>                           | <b>1,886,102</b> | <b>1,941,127</b> |
| Legal reserve                                      | 22,114           | 22,114           |
| Other retained earnings                            | 1,863,988        | 1,919,013        |
| Reserve for special depreciation                   | 1,566            | 4,664            |
| Reserve for deferral of capital gain on property   | 2,701            | 2,578            |
| Special reserves                                   | 1,249,928        | 1,249,928        |
| Retained earnings brought forward                  | 609,793          | 661,843          |
| <b>Treasury stock</b>                              | <b>(556,252)</b> | <b>(556,222)</b> |
| <b>Valuation and translation adjustments</b>       | <b>1,008</b>     | <b>(1,196)</b>   |
| <b>Net unrealized gains (losses) on securities</b> | <b>1,384</b>     | <b>(1,048)</b>   |
| <b>Net deferred gains (losses) on hedges</b>       | <b>(376)</b>     | <b>(148)</b>     |
| <b>Subscription rights to shares</b>               | <b>810</b>       | <b>246</b>       |
| <b>Total net assets</b>                            | <b>1,812,718</b> | <b>1,865,005</b> |
| <b>Total liabilities and net assets</b>            | <b>2,551,100</b> | <b>2,618,998</b> |

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## Non-Consolidated Statements of Income

|   | Millions of yen                     |                                     |
|---|-------------------------------------|-------------------------------------|
|   | <b>Year ended<br/>Dec. 31, 2009</b> | <b>Year ended<br/>Dec. 31, 2008</b> |
| <b>Net sales</b>                                    | <b>2,025,546</b>                    | <b>2,721,094</b>                    |
| <b>Cost of sales</b>                                | <b>1,471,056</b>                    | <b>1,801,801</b>                    |
| <b>Gross profit</b>                                 | <b>554,490</b>                      | <b>919,293</b>                      |
| <b>Selling, general and administrative expenses</b> | <b>456,713</b>                      | <b>560,587</b>                      |
| <b>Operating profit</b>                             | <b>97,777</b>                       | <b>358,706</b>                      |
| <b>Other income</b>                                 | <b>118,847</b>                      | <b>117,797</b>                      |
| Interest income                                     | 792                                 | 1,419                               |
| Dividend income                                     | 15,522                              | 13,512                              |
| Rental income                                       | 63,564                              | 66,150                              |
| Royalty income                                      | 30,344                              | 25,180                              |
| Miscellaneous income                                | 8,625                               | 11,536                              |
| <b>Other expense</b>                                | <b>73,940</b>                       | <b>117,417</b>                      |
| Interest expense                                    | 3,916                               | 3,844                               |
| Depreciation of rental assets                       | 57,040                              | 59,121                              |



|  |                |                |
|--|----------------|----------------|
| Loss on disposal and write-off of inventories        | -              | 38,873         |
| Foreign exchange loss                                | 681            | 5,678          |
| Miscellaneous loss                                   | 12,303         | 9,901          |
| <b>Ordinary profit</b>                               | <b>142,684</b> | <b>359,086</b> |
| <b>Non-ordinary income</b>                           | <b>292</b>     | <b>71</b>      |
| Gain on sales of fixed assets                        | 204            | 39             |
| Gain on sales of marketable securities-noncurrent    | 66             | 32             |
| Gain on sales of investments in affiliated companies | 22             | -              |
| <b>Non-ordinary loss</b>                             | <b>20,688</b>  | <b>26,155</b>  |
| Loss on sales and disposal of fixed assets           | 4,060          | 4,969          |
| Loss on impairment of fixed assets                   | 15,745         | 12,508         |
| Loss on sales of marketable securities-noncurrent    | 72             | -              |
| Write-off of marketable securities-noncurrent        | 811            | 8,678          |
| <b>Income before income taxes</b>                    | <b>122,288</b> | <b>333,002</b> |
| Income taxes   |                |                |
| Current  | 30,206         | 125,704        |
| Deferred   | 11,304         | (16,837)       |
| <b>Net income</b>                                    | <b>80,778</b>  | <b>224,135</b> |

<Notes to Non-Consolidated Statements of Income for the year ended December 31, 2009>

Transactions with affiliated companies

|          |           |
|----------|-----------|
|          | 1,976,307 |
|          | million   |
| Sales    | yen       |
| Purchase | 1,331,599 |
|          | million   |

|  |           |
|--|-----------|
|  | yen       |
|  | 116,625   |
|  | million   |
| Other transactions   | yen       |
| <Note to Per Share Information for the year ended December 31, 2009> |           |
| Net income per share   | 65.44 yen |
| 66   |           |

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## Non-Consolidated Statement of Changes in Net Assets

|  | Stockholders' equity |                            |                       |                   |                                  |
|--|----------------------|----------------------------|-----------------------|-------------------|----------------------------------|
|  | Common stock         | Capital surplus            |                       | Retained earnings |                                  |
|  |                      | Additional paid-in capital | Other capital surplus | Legal reserve     | Reserve for special depreciation |
| Balance as of December 31, 2008                              | 174,762              | 306,288                    | -                     | 22,114            | 4,664                            |
| Changes in the term  |                      |                            |                       |                   |                                  |
| Transfer to reserve for special depreciation                 |                      |                            |                       |                   | 146                              |
| Reversal of reserve for special depreciation                 |                      |                            |                       |                   | (3,244)                          |
| Transfer to reserve for deferral of capital gain on property |                      |                            |                       |                   |                                  |
| Reversal of reserve for deferral of capital gain on property |                      |                            |                       |                   |                                  |
| Dividends paid   |                      |                            |                       |                   |                                  |
| Net income   |                      |                            |                       |                   |                                  |

Purchase of treasury stock

Disposal of treasury stock

Net change of items other than stockholders equity

Total changes in the term - - - - (3,098)

Balance as of December 31, 2009 174,762 306,288 - 22,114 1,566

1. Number of issued shares as of December 31, 2009 1,333,763,464 shares

2. Classes and number of treasury stock (Shares)

| Classes of stock | Balance as of December 31, 2008 | Increase | Decrease | Balance as of December 31, 2009 |
|------------------|---------------------------------|----------|----------|---------------------------------|
| Common stock     | 99,275,245                      | 16,518   | 3,762    | 99,288,001                      |

(Reason for change)

The increase reflects the purchase of 16,518 shares based on the shareholders request for purchase of shares less-than-one-unit.

The decrease reflects the sale of 3,762 shares based on the shareholders request for the sale of shares less-than-one-unit.

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|   |                     |                      |   |                        |   |   |                        | Millions of<br>yen |
|---|---------------------|----------------------|---|------------------------|---|---|------------------------|--------------------|
| Stockholders equity   |                     |                      | Valuation and<br>translation<br>adjustments |                        |   |   |                        |                    |
| Retained earnings   |                     |                      |   |                        |   |   |                        |                    |
| Other retained earnings   |                     |                      | Treasury                                    | Total                  | Net   | Net   | Subscription           | Total              |
| Reserve<br>for<br>deferral<br>of<br>capital<br>gain<br>on<br>property | Special<br>reserves | Retained<br>earnings | stock                                       | stockholders<br>equity | unrealized<br>gains<br>(losses)<br>on<br>securities | deferred<br>gains<br>(losses)<br>on<br>hedges | rights<br>to<br>shares | net assets         |
| 2,578   | 1,249,928           | 661,843              | (556,222)                                   | 1,865,955              | (1,048)   | (148)   | 246                    | 1,865,005          |
|   |                     | (146)                |   |                        |   |   |                        |                    |
|   |                     | 3,244                |   |                        |   |   |                        |                    |
| 199   |                     | (199)                |   |                        |   |   |                        |                    |
| (76)  |                     | 76                   |   |                        |   |   |                        |                    |

(135,793) (135,793) (135,793)

80,778 80,778 80,778

(51) (51) (51)

(10) 21 11 11

2,432 (228) 564 2,768

123 (52,050) (30) (55,055) 2,432 (228) 564 (52,287)

2,701 1,249,928 609,793 (556,252) 1,810,900 1,384 (376) 810 1,812,718

3. Payment for dividends

(1) Amount of dividends paid

| Decision  | Classes of stock | Cash dividend (Millions of yen) | Dividend per share (yen) | Base date         | Effective date  |
|---|------------------|---------------------------------|--------------------------|-------------------|-----------------|
| March 27, 2009 Ordinary general meeting of shareholders | common stock     | 67,897                          | 55.00                    | December 31, 2008 | March 30, 2009  |
| July 28, 2009 Board of directors meeting                | common stock     | 67,896                          | 55.00                    | June 30, 2009     | August 28, 2009 |

(2) Dividends whose record date is included in the current

fiscal year-end  
and effective  
date is after the  
current fiscal  
year-end.

| Scheduled  | Classes of<br>stock | Cash dividend<br>(Millions of yen) | A source of<br>dividend | Dividend per<br>share (yen) | Base date            | Effective date    |
|--|---------------------|------------------------------------|-------------------------|-----------------------------|----------------------|-------------------|
| March 30,<br>2010<br>Ordinary<br>general<br>meeting of<br>shareholders | common<br>stock     | 67,896                             | Retained<br>earnings    | 55.00                       | December 31,<br>2009 | March 31,<br>2010 |



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**Notes to Non-Consolidated Financial Statements**

<Notes to Significant Accounting Policies>

1. Valuation of Securities

(1) Securities of subsidiaries and affiliates ---- stated at cost based on the moving average method.

(2) Other securities:

Securities with quotation ---- stated at fair value (unrealized holdings gains and losses are reported in net assets, when sold, the cost is based on the moving average method.)

Securities without quotation ---- stated at cost based on the moving average method.

2. Valuation of Inventories

(1) Finished goods; work in process ---- valued at cost based on the periodic average method (amount shown in the balance sheet is devaluated due to decline in profitability).

(2) Raw materials and supplies ---- valued at cost based on the moving average method (amount shown in the balance sheet is devaluated due to decline in profitability).

3. Depreciation Method of Fixed Assets

(1) Property, plant and equipment (excluding lease assets) ---- calculated by declining-balance method. For buildings (excluding fixtures) acquired after April 1, 1998, depreciation is calculated by straight-line method.

<Additional information>

Useful lives of machinery and equipment have been revised from fiscal 2009, based on a fundamental review, triggered by an amendment to the Corporate Tax Law in Japan.

The effect of this change, depreciation costs increased by 5,531 million yen and operating profit, ordinary profit and income before taxes decreased by 3,229 million yen for the fiscal year ended December 31, 2009.

(2) Intangible fixed assets ---- calculated by straight-line method. With regard to software for sale, calculated based on the estimated marketable period in consideration of marketing plan etc. of the relevant products (3 years), and with regard to internal-use software, calculated based on the estimated useful period in the Company (5 years).

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- (3) Lease assets ---- calculated by straight-line method. The engaged lease period is determined as the useful life of each lease asset.
  4. Deferred Charges ---- The items which can be deferred under the Corporation Law charged to operations as incurred.
  5. Basis of Recording Allowances
    - (1) Allowance for doubtful accounts ---- provided as a general provision for uncollectible receivables  
---- General accounts  
Allowances are provided using a rate determined by past debt experience.  
  
---- Allowance for accounts considered to be uncollectible and accounts in bankruptcy filing are provided for individual estimated uncollectible amount, primarily determined based on the respective customer's financial conditions.
    - (2) Accrued warranty expenses ---- provides as general provision for product after-sales service expenses and no charge repair cost on an estimated amount based on the historical performance.
    - (3) Accrued bonuses for employees ---- provided as a general provision for bonus to employees for this term based on an amount expected to pay.
    - (4) Accrued directors' bonuses ---- provided as general provision for bonus to directors for this term based on an amount expected to pay.
    - (5) Accrued pension and severance cost ---- provided as general provision for employee retirement and severance benefits based on projected benefits obligation and expected plan asset. Prior service cost and actuarial variance are amortized by straight-line method with average remaining service periods.
    - (6) Accrued directors' retirement benefits ---- provision for directors' retirement benefits based on the necessary amount at the fiscal year-end in accordance with management policy.
    - (7) Reserve for environmental provision ---- provided as general provision for the future environmental-related cost, such as construction costs to prevent the proliferation of soil pollution, and also clean up costs of hazardous substances based on the related regulations.
    - (8) Accrued long service rewards for employees ---- provided as general provision for reward for employees in accordance with management policy for long service employees for this term based on an amount expected to pay.
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6. Hedge accounting

- (1) Hedge accounting ---- deferral hedge accounting has been applied.
- (2) Hedging instrument and hedged assets / liabilities

Hedging instrument ---- derivative transaction (foreign exchange contract) Hedged assets / liabilities ---- accounts receivables denominated in foreign currency for forecasted transaction.

- (3) Hedge policy ---- derivative financial instruments are comprised principally of foreign exchange contracts to manage currency risk. The Company does not hold derivative financial instrument for trading purpose.
- (4) Assessment of hedge effectiveness ---- foreign exchange forward contracts due to the same currency of the same underlying at the same period are concluded to cover foreign currency fluctuation risk in the market based on the hedging policy, and thus is effective.

7. Consumption Taxes ---- excluded from the statements of income and are accumulated in other receivables or other payables.

<Notes to Change in Accounting Policies>

(Measurement standard and valuation method of inventories)

Previously, the inventories held by the Company were primarily valued at cost, determined by periodic average method. Effective from the current fiscal year, the Company has applied Accounting Standard for Measurement of Inventories (Accounting standards Board of Japan (ASBJ) Statement No.9, issued July 5, 2006). Accordingly, from the current fiscal year, such inventories are mainly valued at cost, determined by periodic average method (amount shown in the balance sheet is devaluated due to decline in profitability).

The effect of this change, operating profit, ordinary profit and income before taxes decreased by 2,034 million yen for the fiscal year ended December 31, 2009.

Further, devaluation loss and disposal loss of inventories were previously recorded as Other, net, whereas currently recorded as Cost of sales .

The effect of this change, operating profit decreased by 19,382 million yen for the fiscal year ended December 31, 2009.

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## (Lease transactions)

Previously, finance lease transactions that do not transfer ownership were accounted for in a manner of operating lease. Effective from the current fiscal year, the Company has applied Accounting Standard for Lease Transactions (ASBJ Statement No.13, issued March 30, 2007, revised from original standard issued by Corporate Accounting Council on June 17, 1993) and Guidance on Accounting Standards for Lease Transactions (ASBJ Guidance No.16, issued March 30, 2007, revised from original guidance issued by The Japanese Institute of Certified Public Accountants on January 18, 1994). Accordingly, from the current fiscal year, such lease transactions are accounted for in a similar manner with ordinary sale and purchase transactions.

The change of this accounting standard has no impact on the statements of income for the fiscal year ended December 31, 2009.

## &lt;Note to Deferred Income Tax&gt;

## 1. Significant components of deferred tax assets

|   |        |             |
|---|--------|-------------|
| Accrued pension and severance cost                  | 24,229 | million yen |
| Devaluation loss on inventories                     | 31,067 | million yen |
| Loss on disposal and write-off of inventories       | 13,018 | million yen |
| Outstanding enterprise tax                          | 2,827  | million yen |
| Depreciation of fixed assets in excess of limit     | 6,635  | million yen |
| Loss on impairment of fixed assets                  | 9,474  | million yen |
| Excess in amortization of software                  | 13,143 | million yen |
| Amortization of deferred charges in excess of limit | 9,127  | million yen |
| Other   | 18,936 | million yen |

|                              |         |             |
|------------------------------|---------|-------------|
| Subtotal deferred tax assets | 128,456 | million yen |
| Valuation reserve            | (6,937) | million yen |

|                           |         |             |
|---------------------------|---------|-------------|
| Total deferred tax assets | 121,519 | million yen |
|---------------------------|---------|-------------|

## 2. Significant components of deferred tax liabilities

|  |         |             |
|--|---------|-------------|
| Reserve for special depreciation                 | (1,044) | million yen |
| Reserve for deferral of capital gain on property | (1,801) | million yen |
| Other  | (922)   | million yen |

|                                |         |             |
|--------------------------------|---------|-------------|
| Total deferred tax liabilities | (3,767) | million yen |
|--------------------------------|---------|-------------|

|                         |         |             |
|-------------------------|---------|-------------|
| Net deferred tax assets | 117,752 | million yen |
|-------------------------|---------|-------------|

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&lt;Notes to Transaction with Related Parties&gt;

| Status     | Company name               | Ratio of voting rights held by the company | Relationship with the Company                               | Transaction details                         | Transaction amount (millions of yen) | Item                     | Balance at December 31, 2009 |
|------------|----------------------------|--|---|---|--------------------------------------|--------------------------|------------------------------|
| Subsidiary | Canon Marketing Japan Inc. | (Possession)<br>Direct:<br>55.2%           | Sales of the Company's products                             | Sales of the Company's products             | 268,464                              | Accounts receivable      | 79,566                       |
|            |                            |  |   | Borrowings of funds                         | 20,000                               | Short-term loans payable | 40,000                       |
| Subsidiary | Oita Canon Inc.            | (Possession)<br>Direct:<br>100%            | Sales of the Company's products<br>Interlocking directorate | Purchase of products, components and others | 341,395                              | Accounts payable         | 97,401                       |
| Subsidiary | Canon U.S.A., Inc.         | (Possession)<br>Direct: 100%               | Sales of the Company's products                             | Sales of the Company's products             | 563,311                              | Notes receivable         | 190,607                      |
|            |                            |  |   | Borrowings of funds                         | 19,383                               | Short-term loans payable | 101,310                      |
| Subsidiary | Canon Europa N.V.          | (Possession)<br>Direct:<br>100%            | Sales of the Company's products<br>Interlocking directorate | Sales of the Company's products             | 673,929                              | Accounts receivable      | 207,339                      |
| Subsidiary | Canon Singapore Pte. Ltd.  | (Possession)<br>Direct:<br>100%            | Sales of the Company's products<br>Interlocking directorate | Sales of the Company's products             | 163,244                              | Accounts receivable      | 58,873                       |
| Subsidiary | Canon (China) Co.,Ltd.     | (Possession)<br>Direct:<br>100%            | Sales of the Company's products<br>Interlocking directorate | Sales of the Company's products             | 110,892                              | Account receivable       | 31,372                       |

Conditions of transactions and policy regarding determination of conditions of transaction.

(Note 1) The transactions above are determined on a fair price basis.

(Note 2) Consumption taxes are excluded from the transaction amount, however, included in the balance at December 31, 2009.

(Note 3) The loans payable from Canon Marketing Japan Inc. and Canon U.S.A., Inc. are intended to make best use of the funding in the Canon Group. Transaction amount shows net loan and repayment. The interests are determined reasonably based on market interest rate.

(Note 4) Ratio of voting rights held by the Company for Indirect of Canon Marketing Japan Inc. shows 0.0% because the value is a fraction amount.

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<Note for Additional Information>

(Recommended Cash Offer by Canon for All the Issued and Outstanding Ordinary Shares of Océ N.V.)

Canon and Océ N.V. ( Océ ) have reached conditional agreement on November 16, 2009 that Canon intends to make a fully self-funded, public cash offer for all the issued and outstanding shares of Océ, which is listed on NYSE Euronext Amsterdam. In accordance with this agreement, Canon has been proceeding to acquire all the issued and outstanding ordinary shares of Océ.

1. Strategic Rationale

Amid the increasingly competitive printing industry, Canon aims to further strengthen its business foundation in order to solidify the position as the global leader. The combination of Canon and Océ will render strong synergies in areas such as creating benefits from complementary technologies and products, reinforcing research and development on a global basis and acquiring strong sales and distribution networks, along with serving excellent clients.

2. Trade Name and Business Operation of Océ

(1) Trade Name: Océ N.V.

(2) Business Operation: Research and development, manufacture and sale of document management systems, printing systems for professionals and high-speed, wide format digital printing systems

3. Offer Period

From January 29, 2010 to March 1, 2010

(In the event that tender offer conditions are not fulfilled, Canon can extend the Offer Period)

<Note to Significant Subsequent Events>

(Share Exchange Agreement to Make Canon Finetech Inc. a Wholly Owned Subsidiary of Canon Inc.)

On February 8, 2010, the Board of Directors of Canon Inc. approved a share exchange under which Canon Inc. would make Canon Finetech Inc. ( Canon Finetech ) its wholly owned subsidiary, and on the same date, has entered into the share exchange agreement with Canon Finetech. As of February 8, 2010, Canon Inc. owned 57.59% of the outstanding shares issued by Canon Finetech.

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1. Strategic Rationale of the Share Exchange

Canon Inc. aims to facilitate the organic integration of management resources between Canon Inc. and Canon Finetech, further enhance the synergies throughout the Canon Group, and promote the flexibility and speed of its management, through the share exchange with Canon Finetech.

2. Overview of the Share Exchange Agreement

(1) Method and Procedures

In accordance with the share exchange agreement reached on February 8, 2010, Canon Inc. will allot 0.38 shares of Canon Inc. for one share of Canon Finetech to the shareholders of Canon Finetech (excluding itself), who will hold the shares of Canon Finetech just before the planned acquisition date of all the outstanding shares (excluding shares already held by Canon Inc.)

Canon Inc. will execute the share exchange without obtaining the approval at the Meeting of Shareholders of Canon Inc., pursuant to the provision of Paragraph 3, Article 796 stated in the Corporation Law, which specifies the simplified share exchange procedure. Canon Inc. will not issue new shares for this transaction, and will allot its treasury stocks instead.

(2) Share Exchange Ratio

The share exchange ratio is 0.38 shares of Canon Inc. for one share of Canon Finetech. As for the 24,496,816 shares of Canon Finetech held by Canon Inc., no shares will be allotted.

(3) Measurement Rationale of the Share Exchange Ratio

In order to ensure fairness of calculating the share exchange ratio, both companies have separately requested an independent third party appraisal agency to calculate the share exchange ratio. Taking into account the results of the professional analyses and advice of the proposed share exchange ratio, the Board of Directors of the two companies have decided the announced share exchange ratio.

(4) Common Stock Account and Reserves

Common stock account and reserves will not increase as a result of this share exchange.





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Accounting Audit Report of Accounting Auditor

Report of Independent Auditors

February 9, 2010

The Board of Directors

Canon Inc.

Ernst & Young ShinNihon LLC

Noriharu Fujita

Certified Public Accountant

Designated and Engagement

Partner

Norimitsu Yanai

Certified Public Accountant

Designated and Engagement

Partner

Yuichiro Munakata

Certified Public Accountant

Designated and Engagement

Partner

Hiroki Suzuki

Certified Public Accountant

Designated and Engagement

Partner

Pursuant to Item 1, Paragraph 2 of Article 436 of the Corporation Law, we have audited the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, the notes to non-consolidated financial statements and the related supplementary schedules of Canon Inc. (the Company ) applicable to the 109th fiscal year from January 1, 2009 through December 31, 2009. These non-consolidated financial statements and the related supplementary schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these non-consolidated financial statements and the related supplementary schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the related supplementary schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements and the related supplementary schedules. An audit also includes assessing the

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accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the related supplementary schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Canon Inc. applicable to the 109th fiscal year ended December 31, 2009 in conformity with accounting principles generally accepted in Japan.

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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Audit Report of Board of Corporate Auditors

Audit Report

Regarding the performance of duties by the Directors for the 109th business term from January 1, 2009, to December 31, 2009, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Corporate Auditor and hereby report as follows:

1. Auditing Methods Employed by the Corporate Auditors and Board of Corporate Auditors and Details of Such Methods

We established auditing policies, allocation of duties and other relevant matters, and received reports from each Corporate Auditor regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

Each Corporate Auditor complied with the auditing standards of Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the internal auditing and other employees, and made efforts to establish the environment for collecting information and auditing, and participated in the meetings of the Board of Directors and other important meetings, received reports from such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the head office and principal offices. In addition, we monitored and verified the system for ensuring that the performance of duties by the Directors conforms to the related laws and regulations and Articles of Incorporation, as well as the resolution of the Board of Directors regarding the organization of the system stipulated in Item 1 and Item 3, Article 100, of the Enforcement Regulations of the Corporation Law and the status of the system based on such resolution (Internal Control System), which are necessary for ensuring propriety of company's operations. With respect to subsidiaries, we communicated and exchanged information with Directors and Corporate Auditors of subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and the accompanying detailed statements for this business term.

Furthermore, we monitored and verified whether the Accounting Auditor maintained their independence and implemented appropriate audits, and we received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from

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the Accounting Auditor that System for ensuring that duties are performed properly (matters set forth in each item of Article 131 of the Company Accounting Regulations) is organized in accordance with the Quality Management Standards Regarding Audits (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of changes in net assets, and notes to non-consolidated financial statements) and the accompanying detailed statements for this business term.

**2. Audit Results**

**(1) Results of Audit of Business Report and Other Relevant Documents**

1. We confirm that the business report and the accompanying detailed statements fairly represent the Company's conditions in accordance with the related laws and regulations and Articles of Incorporation.
2. We have found no significant evidence of wrongful act or violation of related laws and regulations, nor the Articles of Incorporation with regard to the performance of duties by the Directors.
3. We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the performance of duties by the Directors regarding the Internal Control System.

**(2) Results of Audit of non-consolidated financial statements and the accompanying detailed statements**

We confirm that the methods and results of the audit employed by the Accounting Auditor, Ernst & Young ShinNihon LLC, are proper.

February 10, 2010

Board of Corporate Auditors, Canon Inc.

Corporate Auditor      Keijiro Yamazaki

Corporate Auditor      Kunihiro Nagata

Corporate Auditor      Tadashi Ohe

Corporate Auditor      Yoshinobu Shimizu

Corporate Auditor      Minoru Shishikura

Note: Corporate Auditors, Tadashi Ohe, Yoshinobu Shimizu and Minoru Shishikura are Outside Corporate Auditors, as provided in Item 16, Article 2, and Paragraph 3, Article 335, of the Corporation Law.

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(For Reference)

Information on Shares

**Business term:**

From January 1 to December 31 of each year

**Ordinary general meeting of shareholders:**

March of each year

**Record date for above:**

December 31 of each year

**Record date for interim dividends:**

June 30 of each year

**Manager of the register of shareholders / Account management institution for the special account (*tokubetsu koza*)**

Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo

**Business handling place:**

Stock Transfer Agency Department, Head Office  
Mizuho Trust & Banking Co., Ltd.

\* Please inquire at your securities company etc. about procedures pertaining to shares of the Company, such as change of address.

\* Please inquire at Mizuho Trust & Banking Co., Ltd. about the payment of accrued dividends, procedures for the issuance of a statement of payment or procedures related to shares recorded in the special account.

**Mailing address and telephone number:**

Stock Transfer Agency Department  
Mizuho Trust & Banking Co., Ltd.  
8-4, Izumi 2-Chome, Suginami-ku, Tokyo 168-8507  
Telephone: 0120-288-324 (toll free)

**Number of shares constituting one unit:**

100 shares

**Newspaper in which public notices are inserted:**

The Nihon Keizai Shimbun

**Stock exchange listings:**

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo and New York

**Securities code:**

7751

Canon Inc., Headquarters  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501  
Telephone: 03 (3758) 2111

URL

Canon Inc.  
Canon Worldwide Network

canon.jp  
www.canon.com

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