



2009

Report for the 109th Business Term

From January 1, 2009 to December 31, 2009

CANON INC.

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

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

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.

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.

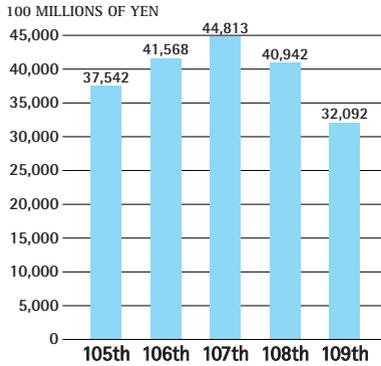
We worked on improving cost rate to firmly maintain adequate investment and solid cash flow management. Therefore, we achieved further progress with production and procurement reform activities and made efforts to thoroughly improve design quality by utilizing simulations and, thereby, boost development 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.

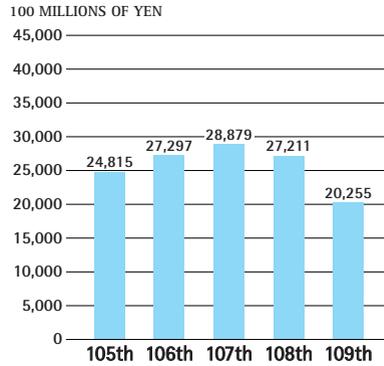
In the area of sales, we decided to establish a far-reaching system for cooperating with the U.S. companies Hewlett-Packard Development Company LP and Adobe Systems Incorporated, mainly to strengthen our solutions business in the office sector, and also accelerated the restructuring of our domestic Group 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%).

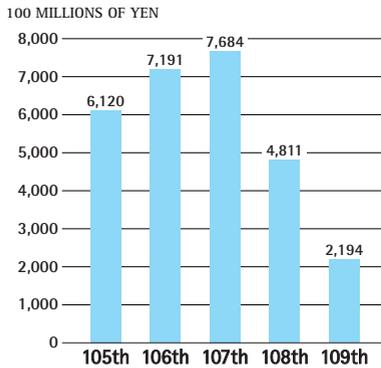
Net Sales (Consolidated)



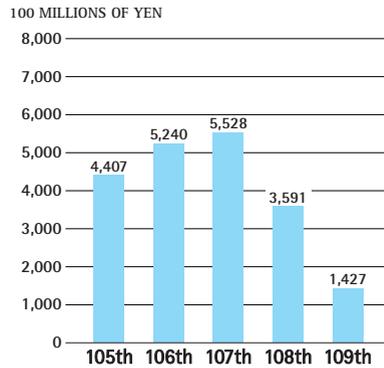
Net Sales (Non-Consolidated)



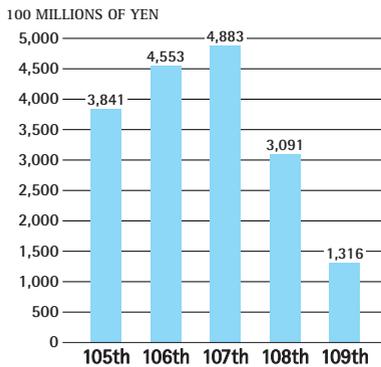
Income before Income Taxes (Consolidated)



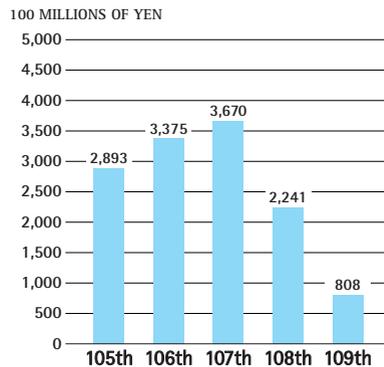
Ordinary Profit (Non-Consolidated)



Net Income Attributable to Canon Inc. (Consolidated)



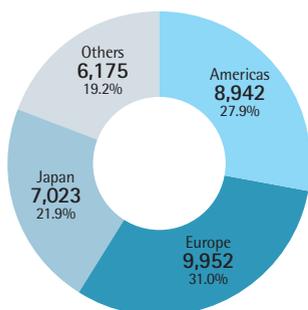
Net Income (Non-Consolidated)



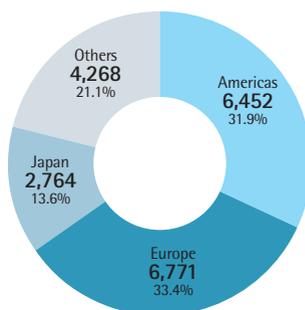
Constitution of Sales by Region

100 MILLIONS OF YEN

Consolidated



Non-Consolidated



Business Conditions by Operations

Sales by Operations

Consolidated

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

Non-Consolidated

Operations	Sales (100 millions of yen)	Change from Previous Term (%)
Office Business Unit	10,213	(30.4)
Consumer Business Unit	9,505	(14.0)
Industry and Others Business Unit	537	(64.0)
Total	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.

● 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.

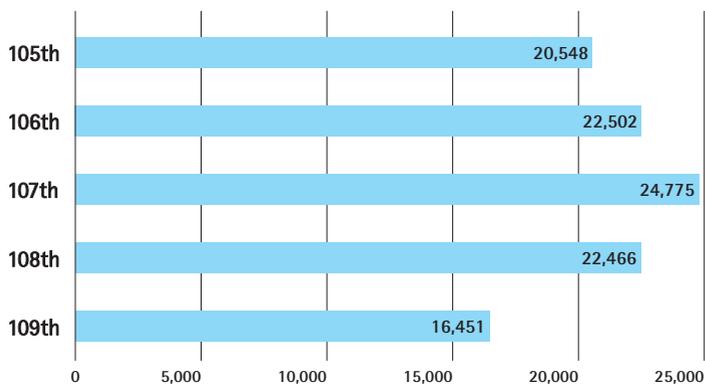
In our “imagePROGRAF series” of large-format inkjet printers, we introduced four new products including “iPF755/750” whose high productivity and user friendliness rivals that of high-end models, and took steps to strengthen our solutions business by marketing the “PosterArtist 2009” poster auto design 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.

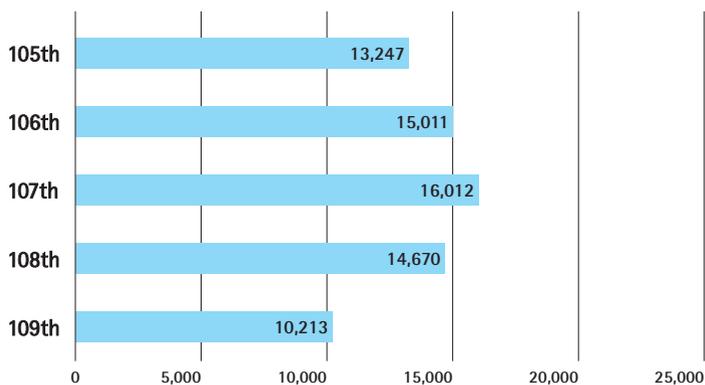
Change in Sales

100 MILLIONS OF YEN

Consolidated



Non-Consolidated



● 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 “HJ14e×4.3B” super-wide-angle lens offering optical performance of the highest level, and the compact and lightweight “KJ17e×7.7B” 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.

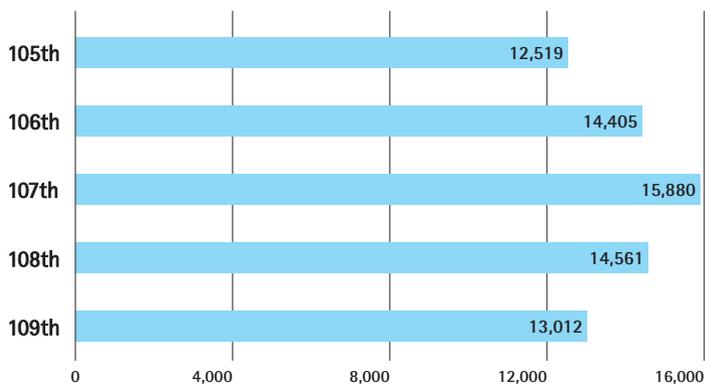
In image scanners, the “CanoScan LiDE 200” and other products released in the previous term were well received allowing us to maintain our No. 1 share position in this market, even as market contraction reduced unit sales.

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.

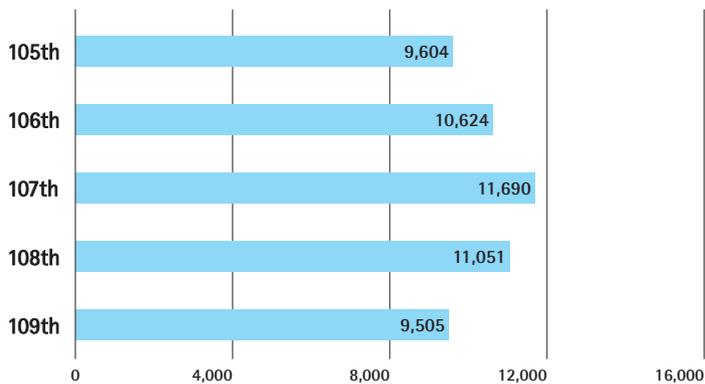
Change in Sales

100 MILLIONS OF YEN

Consolidated



Non-Consolidated



● 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.

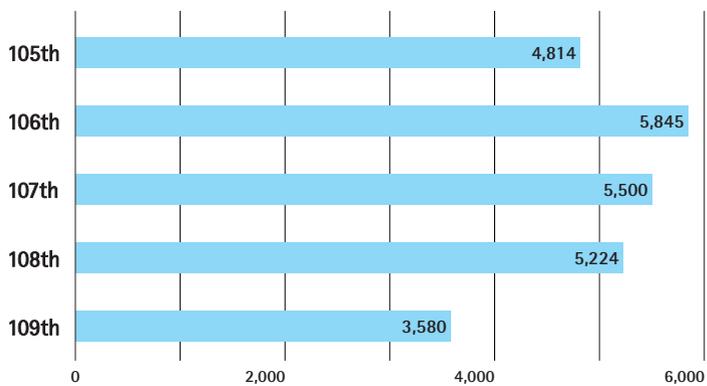
Die bonders handled by Canon Machinery Inc. and magnetic head film deposition equipment handled by Canon ANELVA Corporation were low due to the effect of capital investment restraint by customers.

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.

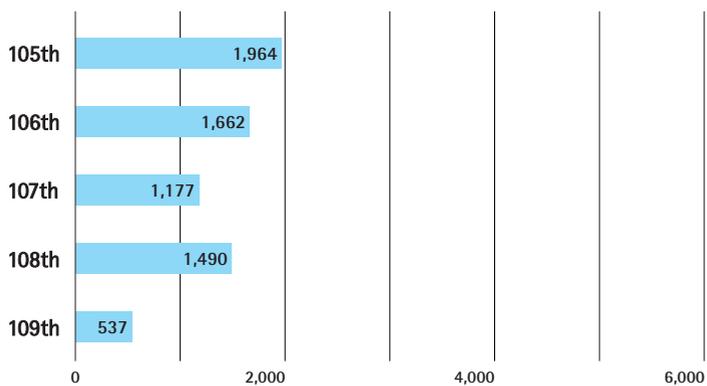
Change in Sales

100 MILLIONS OF YEN

Consolidated



Non-Consolidated



(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

(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.”

(4) Status of Assets and Earnings

Consolidated

	105th Business Term (Jan. 1, 2005-Dec. 31, 2005)	106th Business Term (Jan. 1, 2006-Dec. 31, 2006)
Net Sales (100 millions of yen)	37,542	41,568
Income before Income Taxes (100 millions of yen)	6,120	7,191
Net Income Attributable to Canon Inc. (100 millions of yen)	3,841	4,553
Basic Net Income Attributable to Canon Inc. Stockholders Per Share (yen)	288.63	341.95
Total Assets (100 millions of yen)	40,436	45,219
Total Canon Inc. Stockholders' Equity (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 (Jan. 1, 2005-Dec. 31, 2005)	106th Business Term (Jan. 1, 2006-Dec. 31, 2006)
Net Sales (100 millions of yen)	24,815	27,297
Ordinary Profit (100 millions of yen)	4,407	5,240
Net Income (100 millions of yen)	2,893	3,375
Net Income Per Share (yen)	325.83	253.48
Total Assets (100 millions of yen)	26,528	29,381
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.

107th Business Term (Jan. 1, 2007-Dec. 31, 2007)	108th Business Term (Jan. 1, 2008-Dec. 31, 2008)	109th Business Term (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 (Jan. 1, 2007-Dec. 31, 2007)	108th Business Term (Jan. 1, 2008-Dec. 31, 2008)	109th Business Term (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.

(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

(6) Canon Group Global Network

■ 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.]

■ 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]

(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)	

(8) Principal Subsidiaries

■ Subsidiaries

Company Name	Capital Stock (millions of yen)	Ratio of Voting Rights of the 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 thousands of U.S.\$	100.0	Sale of business machines, cameras, etc. in the Americas
Canon Europa N.V.	290,600 thousands of Euro	100.0	Sale of business machines, cameras, etc. in Europe

- Notes: 1. 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.

■ Consolidated Status

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

(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 the Previous Term	Change during This Term	As of the end of 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 Shareholders (person)	184,789	Decrease of 15,617	169,172

Major Shareholders (Ten shareholders)

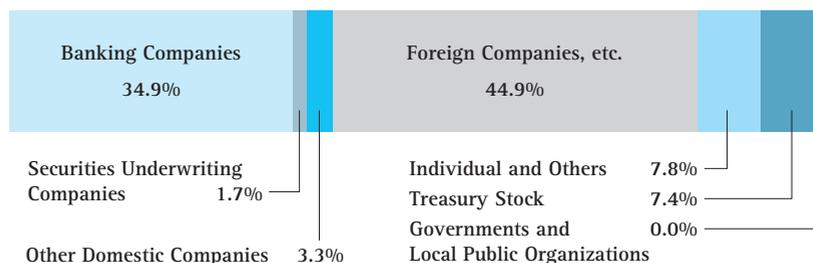
Name of Shareholders	Number of Shares Held (thousands of shares)	Shareholding Ratio (%)
The Dai-Ichi Mutual Life Insurance Company	74,649	6.0
Japan Trustee Services Bank, Ltd. (Trust Account)	67,840	5.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,665	4.2
Moxley and Co.	50,458	4.1
JP Morgan 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



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

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

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

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 Moroe	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
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 Komatsu	Deputy Group Executive of Corporate Planning Development Headquarters
Director	Tetsuro Tahara	Group Executive of Global Manufacturing & Logistics Headquarters
Director	Seijiro Sekine	Deputy President and Representative Executive Officer of 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 Operations

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	5 persons	105 million yen
	(including 53 million yen for 3 Outside Corporate Auditors)	

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

(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.
Yoshinobu Shimizu	Attended 18 out of 19 Board of Directors meetings and all 19 of the Board of Corporate Auditors meetings held during this term, and provided expert input as a Certified Public Accountant when necessary.
Minoru Shishikura	Attended all 19 of the Board of Directors meetings and 18 out of 19 Board of Corporate Auditors meetings held during this term, and provided input based on his insight in financial operation when necessary.

Remuneration and Other Amounts Received by Outside Directors and Outside Corporate Auditors from the Company's Subsidiaries

Remuneration and other amounts received during this term by Outside Corporate Auditors from the Company's subsidiaries for their services as Outside Corporate Auditors amounted to 11 million yen.

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.

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.

(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.

(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.

(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.

Consolidated Financial Statements

Consolidated Balance Sheets

ASSETS		Millions of yen	
	As of Dec. 31, 2009	As of Dec. 31, 2008	
Current assets:			
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	
Total current assets	2,017,779	2,064,848	
Noncurrent receivables			
Investments	14,936	14,752	
Property, plant and equipment, net	114,066	88,825	
Intangible assets, net	1,269,785	1,357,186	
Other assets	117,396	119,140	
Total assets	3,847,557	3,969,934	
LIABILITIES AND EQUITY		Millions of yen	
	As of Dec. 31, 2009	As of Dec. 31, 2008	
Current liabilities:			
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	
Total current liabilities	783,690	944,000	
Long-term debt, excluding current installments			
Accrued pension and severance cost	4,912	8,423	
Other noncurrent liabilities	115,904	110,784	
Total liabilities	968,157	1,118,952	
Commitments and contingent liabilities			
Equity:			
Canon Inc. stockholders' equity:			
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]	
Total Canon Inc. stockholders' equity	2,688,109	2,659,792	
Noncontrolling interests	191,291	191,190	
Total equity	2,879,400	2,850,982	
Total liabilities and equity	3,847,557	3,969,934	

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

- Allowance for doubtful receivables: 11,343 million yen
- Accumulated depreciation: 1,815,982 million yen
- 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.
- Guarantee obligations for bank loans taken out by employees: 18,526 million yen

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

Canon Inc. stockholders' equity per share 2,177.53 yen

Consolidated Statements of Income

	Millions of yen	
	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Net sales	3,209,201	4,094,161
Cost of sales	1,781,808	2,156,153
Gross profit	1,427,393	1,938,008
Operating expenses:		
Selling, general and administrative expenses	905,738	1,067,909
Research and development expenses	304,600	374,025
	1,210,338	1,441,934
Operating profit	217,055	496,074
Other income (deductions):		
Interest and dividend income	5,202	19,442
Interest expense	(336)	(837)
Other, net	(2,566)	(33,532)
	2,300	(14,927)
Income before income taxes	219,355	481,147
Income taxes	84,122	160,788
Consolidated net income	135,233	320,359
Less:Net income attributable to noncontrolling interests	3,586	11,211
Net income attributable to Canon Inc.	131,647	309,148

<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

Consolidated Statement of Equity

Millions of yen

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

Millions of yen

	Noncontrolling interests	Total equity
Balance at December 31, 2008	191,190	2,850,982
Equity transactions with 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)
Total comprehensive income	4,803	168,452
Repurchase of treasury stock, net		(42)
Balance at December 31, 2009	191,291	2,879,400

<Note to Consolidated Statement of Equity>

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

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.

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,

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)

<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 (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.

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.

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.

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	Kejiro 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.

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

ASSETS	Millions of yen	
	As of Dec. 31, 2009	As of Dec. 31, 2008
Current assets	1,112,783	1,138,932
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)
Fixed assets	1,438,317	1,480,066
Property, plant and equipment, net	862,901	929,217
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
Intangible fixed assets	32,444	40,431
Software	29,922	37,469
Other intangibles	2,522	2,962
Investments and other assets	542,972	510,418
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)
Total assets	2,551,100	2,618,998

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

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

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

Net assets per share	1,467.76 yen
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LIABILITIES AND NET ASSETS

Millions of yen

	As of Dec. 31, 2009	As of Dec. 31, 2008
Current liabilities	699,680	715,501
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
Noncurrent liabilities	38,702	38,492
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	-
Total liabilities	738,382	753,993
Stockholders' equity	1,810,900	1,865,955
Common stock	174,762	174,762
Capital surplus	306,288	306,288
Additional paid-in capital	306,288	306,288
Other capital surplus	-	-
Retained earnings	1,886,102	1,941,127
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
Treasury stock	(556,252)	(556,222)
Valuation and translation adjustments	1,008	(1,196)
Net unrealized gains (losses) on securities	1,384	(1,048)
Net deferred gains (losses) on hedges	(376)	(148)
Subscription rights to shares	810	246
Total net assets	1,812,718	1,865,005
Total liabilities and net assets	2,551,100	2,618,998

Non-Consolidated Statements of Income

	Millions of yen	
	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Net sales	2,025,546	2,721,094
Cost of sales	1,471,056	1,801,801
Gross profit	554,490	919,293
Selling, general and administrative expenses	456,713	560,587
Operating profit	97,777	358,706
Other income	118,847	117,797
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
Other expense	73,940	117,417
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
Ordinary profit	142,684	359,086
Non-ordinary income	292	71
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	-
Non-ordinary loss	20,688	26,155
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
Income before income taxes	122,288	333,002
Income taxes — Current	30,206	125,704
— Deferred	11,304	(16,837)
Net income	80,778	224,135

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

Transactions with affiliated companies

Sales	1,976,307 million yen
Purchase	1,331,599 million yen
Other transactions	116,625 million yen

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

Net income per share

65.44 yen



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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.

Millions of yen

Stockholders' equity			Valuation and translation adjustments				Subscription rights to shares	Total net assets
Retained earnings			Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on securities	Net deferred gains (losses) on hedges		
Other retained earnings								
Reserve for deferral of capital gain on property	Special reserves	Retained earnings						
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 stock	Cash dividend (Millions of yen)	A source of dividend	Dividend per share (yen)	Base date	Effective date
March 30, 2010 Ordinary general meeting of shareholders	common stock	67,896	Retained earnings	55.00	December 31, 2009	March 31, 2010

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).

-
- (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.

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.

(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.

<Note to Deferred Income Tax>

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
<u>Subtotal deferred tax assets</u>	<u>128,456 million yen</u>
Valuation reserve	(6,937) million yen
<u>Total deferred tax assets</u>	<u>121,519 million yen</u>

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
<u>Total deferred tax liabilities</u>	<u>(3,767) million yen</u>
Net deferred tax assets	117,752 million yen

<Notes to Transaction with Related Parties>

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) Direct: 55.2% Indirect: 0.0%	Sales of the Company's products Interlocking directorate	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) Direct: 100%	Sales of the Company's products Interlocking directorate	Purchase of products, components and others	341,395	Accounts payable	97,401
Subsidiary	Canon U.S.A., Inc.	(Possession) Direct: 100%	Sales of the Company's products Interlocking directorate	Sales of the Company's products	563,311	Notes receivable	190,607
				Borrowings of funds	19,383	Accounts receivable	9,336
Subsidiary	Canon Europa N.V.	(Possession) Direct: 100%	Sales of the Company's products Interlocking directorate	Sales of the Company's products	673,929	Accounts receivable	207,339
Subsidiary	Canon Singapore Pte. Ltd.	(Possession) Direct: 100%	Sales of the Company's products Interlocking directorate	Sales of the Company's products	163,244	Accounts receivable	58,873
Subsidiary	Canon (China) Co.,Ltd.	(Possession) Direct: 100%	Sales of the Company's products 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.

<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.

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.

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

3. Trade Name, Business Operation, Scale and Others of the Counterparty

- (1) Trade Name: Canon Finetech Inc.
- (2) Business Operation: Manufacture and sale of printers, peripherals of office equipment, industrial equipment, consumables and other products
- (3) Common Stock: 3,451 million yen (As of December 31, 2009)
- (4) Net Assets: 73,184 million yen (consolidated) (As of December 31, 2009)
- (5) Total Assets: 95,955 million yen (consolidated) (As of December 31, 2009)
- (6) Sales: 108,148 million yen (consolidated) (For the year ended December 31, 2009)
- (7) Net Income: 2,226 million yen (consolidated) (For the year ended December 31, 2009)
- (8) Number of Employees: 7,429 persons (consolidated) (As of December 31, 2009)

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

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.

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

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.

(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.jp

Canon Worldwide Network

www.canon.com

Sample

CARD FOR EXERCISE OF VOTING RIGHTS

Serial Number of Shareholder _____ Number of Voting Rights to be exercised _____
voting rights

To Canon Inc.

I exercise my voting rights as indicated in the right (for/against shall be indicated with a mark) to each proposition of the Company's Ordinary General Meeting of Shareholders for the 109th Business Term to be held on March 30, 2010 (including a continued or an adjourned session of the Meeting).

March __, 2010

If for/against to a Proposition is not indicated, it will be considered as a indication of for.
Canon Inc.

PROPOSITIONS:

Item No. 1	Item No. 2 (except for following candidate)	Item No. 3 (except for following candidate)	Item No. 4	Item No. 5	Item No. 6	Item No. 7
FOR	FOR	FOR	FOR	FOR	FOR	FOR
AGAINST	AGAINST	AGAINST	AGAINST	AGAINST	AGAINST	AGAINST

Upon attending the Meeting, please present this Card to the receptionist at the place of the Meeting without cutting off the right side.

(Please cut along the line.)

Serial Number of Shareholder _____
Number of Voting Rights to be exercised _____
voting rights

(Number of Shares Constituting One Unit _____ shares)

Number of Shares Held _____
shares

Note:

1. If you do not expect to attend the Meeting, please indicate your for/against on the Card for Exercise of Voting Rights, and return the Card to us by March 29, 2010 (preceding day of the Meeting).
2. If you are to indicate different intentions to certain candidates in Proposition Item No.2 and No.3, please describe the relevant candidate number listed in the Reference Materials for General Meeting of Shareholders.
3. Please indicate mark clearly of for / against by black ballpoint pen.

Canon Inc.

Canon