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The following table provides the noon buying rates for Japanese yen in New York City as reported by the Federal Reserve Bank of New York expressed in Japanese yen per U.S.\$1 during the periods indicated and the high and low noon buying rates for Japanese yen per U.S.\$1 during the months indicated. On March 20, 2009, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥96.18 = U.S.\$1.

Yen exchange rates per U.S. dollar:	Average	Term end	High	Low
2004	107.63	102.68	114.30	102.56
2005	110.74	117.88	120.93	102.26
2006	115.99	119.02	119.81	110.07
2007	117.45	111.71	124.09	108.17
2008 -Year	102.85	90.79	110.48	87.84
- 1(st) half		106.17	109.70	96.88
- July		108.10	108.19	104.64
- August		108.69	110.48	107.59
- September		105.94	108.85	104.71
- October		98.28	106.06	92.64
- November		95.46	100.48	94.98
- December		90.79	93.71	87.84
2009 - January		89.83	94.20	87.80
- February		97.74	98.55	89.09

Note: The average exchange rates for the periods are the average of the exchange rates on the last day of each month during the period.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk Factors

Canon is one of the world's leading manufacturers of plain paper copying machines, digital multifunction devices, laser beam printers, inkjet printers, cameras, steppers and aligners.

Primarily because of the nature of the business areas and geographical areas in which Canon operates and the highly competitive nature of the industries to which it belongs, Canon is exposed to a variety of risks and uncertainties in carrying out its businesses, including, but not limited to, the following:

Risks Related to Canon's Industries

Canon has invested and will continue to invest heavily in next-generation technologies. If the market for these technologies does not develop as Canon expects or if its competitors produce these or competing technologies in a more timely or effective manner, Canon's operating results could be materially adversely affected.

Canon has made and will continue to make investments in next-generation technology research and development initiatives. Canon's competitors may achieve research and development breakthroughs in these technologies more quickly than Canon, or may achieve advances in competing technologies that drive products under development by Canon uncompetitive. In step with the continuous evolution in technologies, Canon has increased the size of its investment in development and manufacturing. If Canon's business strategies diverge from market needs, Canon may not recover some or all of its investment, lose business opportunities, or both, which may materially adversely affect Canon's operating results. In addition, Canon has sought to develop production technology and production equipment to increase the automation of its manufacturing process and in-house production of key devices. If Canon cannot effectively implement these techniques, Canon may fail to realize its cost advantages or differentiation, and lose business opportunities, which may adversely affect Canon's operating results. While differentiation in technology and product development is an important part of Canon's strategy, Canon must also accurately assess the demand for and perceived market acceptance of new technologies and products that it develops. If Canon pursues technologies or develops products that do not become commercially accepted, its operating results could be adversely affected.

It is assumed that Canon, as a matter of corporate strategy, seeks to enter into new business fields by developing next-generation technologies. If Canon enters new business fields, Canon may not be able to establish a successful business model, or may face severe competition with new competitors. If such risks arise, Canon's operating results may be adversely affected.

If Canon does not effectively manage transitions in its products and services, its operating results may decline.

Many of the businesses in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features, the frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. If Canon does not make an effective transition from existing products and services to new offerings, its revenue and profits may decline. Among the risks associated with the introduction of new products and services are delays in development or manufacturing, low product marketability due to poor product quality, variations in manufacturing costs, delays in customer purchases in anticipation of new introductions, uncertainty in predicting customer demand for new product offerings and difficulty in effective management of inventory levels in line with anticipated demand. Canon's revenue and gross margin also may suffer due to the timing of product or service introductions by its competitors. This risk is exacerbated when a product has a short life cycle or a competitor introduces a new product just before Canon's introduction of a similar product. Furthermore, sales of Canon's new products and services may replace sales of, or result in discounting of, some of its current product offerings, sometimes offsetting the benefits derived from the introduction of a successful new product or service. Canon must also ensure that its new products are not duplicative and do not overlap with existing products and operations. Given the competitive nature of Canon's businesses, if any of these risks materialize, future demand for its products and services will be reduced and its results of operations may decline.

Canon's digital camera business operates in a highly competitive environment.

The accelerated trend towards digitization in recent years has resulted in the entry of new competitors into the digital camera market, such as electronics manufacturers and other specialized companies which were not active during the analog camera era. If this industry develops more rapidly than initially anticipated by Canon, it may not be able to maintain its position as an industry leader in many of its business categories. Canon's success in this increasingly competitive environment will depend on its investments in research and development, ability to cut costs and commitment to continuously providing the market with attractive products offering high added value. If Canon is unable to remain innovative while reducing costs, it may lose market share and its results of operations may be adversely affected.

Because the semiconductor industry is highly cyclical, Canon may be adversely affected by any downturn in the industry.

The semiconductor industry is characterized by up and down business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of integrated circuits have at times led to significantly reduced demand for capital equipment, including the steppers and aligners Canon produces. Despite this cyclicity, Canon must maintain significant levels of research and development expenditure in order to maintain its competitiveness. Canon's operating results and financial condition could be materially adversely affected by reduced cash flow from sales that could not offset expenditures, including those from research and development, arising from future downturns in the semiconductor industry and related fluctuations in the demand for capital equipment in general, and particularly by memory manufacturers.

In addition, liquid crystal display ("LCD") panel manufacturers are facing demands for severe price reductions of LCD panels as a result of intense competition among makers of LCD televisions and LCD monitors used in personal computers. As a result, panel manufacturers may reduce equipment investment, which may adversely affect Canon's business operations.

Downturns in the semiconductor industry have caused Canon's customers to change their operating strategies, which in turn may affect Canon's business.

Many device manufacturers have changed their business models to focus on the design of semiconductors, while consigning the production of semiconductors to lower-cost foundries. It is difficult for Canon to accurately predict the future effect of these trends on its business. However, as research and development, manufacturing and sales activities become increasingly globalized in response to these trends, shifting particularly to emerging markets, unexpected global developments, such as adverse regulatory or legal changes, and unanticipated events, such as natural disasters, may adversely affect Canon's business operations.

In addition, an oligopoly is developing in the large-sized LCD panel production industry base. Therefore, if Canon is insufficiently responsive to market trends, including market reorganization led by LCD panel manufacturers, Canon may not be able to maintain its customer base which may materially adversely affect Canon's business operations.

The semiconductor equipment industry is characterized by rapid technological change. If Canon does not constantly develop new products to keep pace with technological change and meet its customer requirements, Canon may lose customers and its business may suffer.

Canon's steppers and mask aligners are affected by rapid technological change and can quickly become obsolete. Canon believes its future success in the stepper and aligner business depends on its ability to continue to enhance its existing products and develop new products using new and more advanced technologies. In particular, as semiconductor pattern sizes continue to decrease, the demand for more technologically advanced steppers is likely to increase. Canon's existing stepper and mask aligner products could become obsolete sooner than anticipated because of faster than anticipated changes in one or more of the technologies related to Canon's products or in the market demand for products based on a particular technology. Any failure by Canon to develop the advanced technologies required by its customers at progressively lower costs and to supply sufficient quantities to a worldwide customer base could adversely affect Canon's net sales and profitability.

Growing popularity of High Definition ("HD") and increased diversification of recording media may adversely affect Canon's video camcorder business.

The video camcorder market is now almost entirely based on digital formats and the increase in HD television broadcasts has led to a gradual shift from the Standard Definition format to the HD format. At the same time, many products using new media formats such as MiniDV tapes, Digital Versatile Drive ("DVD"), Hard Disk Drive ("HDD") and Secure Digital ("SD") cards, have appeared at a rate that outpaces the proliferation of HD. Failure by Canon to accurately forecast demand in these increasingly diversified markets could have an adverse effect on Canon's operating results.

If the market demand shifts to new products using a new recording media format that Canon has not anticipated, Canon may be required to increase the size of its investments in research and development. The resulting increased research and development costs could adversely affect Canon's business and operating results.

Risks Related to Canon's Business

Economic trends in Canon's major markets may adversely affect its results of operations.

The global economy is currently undergoing an unprecedented economic crisis. Declines in consumption and restrained investment in Canon's major markets, including Japan, the United States, Europe and non-Japan Asia, due to the economic downturn have affected and may continue to affect both consumer and corporate sales. Canon's operating results are affected by financial results of its corporate customers for products such as business machines and optical equipment, and the deteriorated financial results of Canon's customers have caused and may continue to cause the customers to restrain their capital investments. Demand for Canon's consumer products, such as cameras and printers, is discretionary. The rise in inventory levels and price declines of Canon's products due to intensifying competition, in addition to the recent decline in the level of consumer spending and corporate investments driven by the economic downturn that stemmed from the financial crisis, could adversely affect Canon's results of operations and financial position.

Canon derives a significant percentage of its revenues from Hewlett-Packard.

Canon depends on Hewlett-Packard for a significant part of its business. For fiscal 2008, approximately 23% of Canon's net sales were to Hewlett-Packard. As a result, Canon's business and results of operations may be affected by the policies, business and results of operations of Hewlett-Packard. Any decision by Hewlett-Packard management to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and results of operations.

Canon depends on a limited number of suppliers for certain key components.

Canon relies on a limited number of outside vendors which meet Canon's strict criteria for quality, efficiency and environmental friendliness for certain critical components used in its products. In some cases, Canon may be forced to discontinue its production of some or all of its products if certain vendors that supply key components across Canon's product lines experience unforeseen difficulties, or if such parts suffer from quality problems or are in short supply. Canon's reliance on a limited number of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components, the risk of untimely delivery of these subassemblies and components and the risk for a substantial increase in price of these components to occur. If such problems arise, Canon's operating results will be adversely affected.

Although competition is increasing in the market for sales of supplies and services following initial product placement, Canon maintains a high market share in sales of such supplies. As a result, Canon may be subject to antitrust-related suits, investigations or proceedings which may adversely affect its operating results or reputation.

A portion of Canon's net sales consists of sales of supplies and the provision of services occurring after the initial equipment placement. As these supplies and services have become more commoditized, the number of competitors in these markets has increased. Canon's success in maintaining these post-placement sales will depend on its ability to compete successfully with these competitors, some of which may offer lower-priced products or services. Despite the increase in competitors, Canon currently maintains high market shares in the market for supplies. Accordingly, Canon may be subject to suits, investigations or proceedings under relevant antitrust laws and regulations. Any such suits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon's operating results or reputation.

Increases in counterfeit Canon products may adversely affect Canon's brand image and its operating results.

In recent years, Canon has experienced a worldwide increase in the emergence of counterfeit Canon products. Such counterfeit products may diminish Canon's brand image, particularly if purchasers of such products are unaware of their counterfeit status and attribute the counterfeit products' poor product quality to Canon. Canon has been taking measures to halt the spread of counterfeit products. However, there can be no assurance that such measures will be successful, and the continued production and sale of such products could adversely affect Canon's brand image as well as its operating results.

Per unit production costs are highest when a new product is introduced, and if such new products are not successful or if Canon fails to achieve cost reductions over time, Canon's gross profits may be adversely affected.

The unit cost of Canon's products has historically been highest when they are newly introduced into production. New products have at times had a negative impact on its gross profit, operating results and cash flow. Cost reductions and enhancements typically come over time through:

- engineering improvements;
- economies of scale;
- improvements in manufacturing processes;
- improved serviceability of products; and
- reduced inventories of parts and products.

Initial shipments of new products adversely affect Canon's profit and cash flow, and if new products do not achieve sufficient sales volumes, Canon's gross profit, operating results and cash flow may be adversely affected.

Cyclical patterns in sales of Canon's products make planning and inventory management difficult and future financial results less predictable.

Canon generally experiences variable seasonal trends in the sale of its consumer-oriented products, which results in sales fluctuations. Canon has little control over the various factors that produce these seasonal trends. Accordingly, it is difficult to predict near-term demand which as a result places pressure on Canon's inventory management and logistics systems. If product supply from Canon is substantially greater than actual demand, there will be excess inventory, thereby putting downward pressure on selling prices and reducing Canon's revenue. Alternatively, if demand substantially exceeds the supply of products from Canon, its ability to fulfill orders may be limited, which could adversely affect net sales and increase the risk of unanticipated variations in its results of operations.

Canon's business is subject to changes in the sales environment.

Particularly in Europe and the United States, a substantial portion of market share is concentrated in a relatively small number of large distributors. Canon's sales of products to these distributors constitute a significant percentage of Canon's overall sales. As a result, any disruptions in its relationships with these large distributors in specific sales territories could adversely affect Canon's ability to meet its sales targets. Any increase in concentration of Canon's sales in these large distributors could result in a reduction of Canon's pricing power and adversely affect its profits. In addition, the rapid proliferation of Internet-based businesses may render conventional distribution channels obsolete. These and other changes in Canon's sales environment could adversely affect Canon's results of operations.

Canon is subject to financial and reputational risks due to product quality and liability issues.

Although Canon works to minimize risks that may arise from product quality and liability issues arising from the combination of hardware and software in addition to the individual functionality of hardware and software consisting Canon's products, there can be no assurance that Canon will be able to eliminate or mitigate occurrences of these issues and consequent damages. If such factors adversely affect Canon's operating activities, generate expenses such as those for product recalls, service and compensation, or hurt its brand image, its operating results or reputation for quality products may be adversely affected.

Canon's success depends on the value of its brand name, and if the value of the brand name is diminished, operating results and prospects will be adversely affected.

Canon's success in its markets depends in part on its brand name and its value. Any negative publicity regarding the quality of Canon's products could have an adverse impact on operations, especially those involving consumer products. There can be no assurance that such adverse publicity will not occur or that such claims will not be made in the future. Furthermore, Canon cannot predict the impact of such adverse publicity on its business and results of operations.

A substantial portion of Canon's business activity is conducted outside Japan, exposing Canon to the risks of international operations.

A substantial portion of Canon's business activity is conducted outside Japan, which includes developing and emerging markets in Asia. There are a number of risks inherent in doing business in those markets, including the following:

- less developed technological infrastructure, which can affect production or other activities or result in lower customer acceptance of Canon's services;
- difficulties in recruiting and retaining personnel;
- potentially adverse tax consequences, including transfer pricing issues and increases in corporate tax rates;
- longer payment cycles;
- political turmoil or unfavorable economic factors; and
- unexpected legal or regulatory changes.

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Canon's inability to successfully manage the risks inherent in its international activities could adversely affect its business and operating results. In order to produce Canon's products competitively and to reduce costs, Canon has several production facilities and more than ten sales bases in Asia, including China, Thailand and Vietnam, and is vigorously conducting significant production and sales activities in Asia. Under such circumstances, unexpected events may occur, including political or legal change, labor shortage or strikes, increased personnel costs or changes in economic conditions. In particular, a large revaluation of local currencies, or a sudden significant change in the tax system or other regulatory regimes could adversely affect Canon's overall performance.

The spread of an epidemic disease, such as a new influenza infecting humans, in Asia or elsewhere around the world could also have a negative effect on Canon's business. Expanding medical crises in the future may disrupt manufacturing processes and markets for Canon's products. Given the importance of Canon's sales to non-Japan Asia along with production facilities and supply relationships in non-Japan Asia, Canon's business may be more exposed to this risk than to the global economy in general.

In addition, unexpected changes in the imposition of import taxes by foreign governments could adversely affect Canon's business and results of operations.

Canon may unintentionally infringe international trade laws and regulations, and any such infringement may lead to an adverse effect on its business. The extent of the effect on Canon's business will depend upon the nature of the infringement and the severity of fines or other sanctions imposed upon Canon. A major infringement could result in suspension of Canon's trading rights in one or more jurisdictions. In addition to any sanctions prescribed by law, adverse publicity regarding an alleged infringement of trade laws and regulations by Canon may also have a negative effect on the Canon brand and image.

All of the above factors regarding international operations could have an adverse impact on Canon's business results.

Canon depends on efficient logistics services to distribute its products worldwide.

Canon depends on efficient logistics services to distribute its products worldwide. Problems with Canon's computerized logistics system, or regional disputes or labor disputes, such as a dockworker's strike, could lead to a disruption of Canon's operations and result not only in increased logistical costs, but also in loss of sales opportunities due to delays in delivery. Also, because demand for Canon's consumer products can fluctuate throughout the year, the failure to adjust bookings of vessels and the preparation of warehouse space to reflect such fluctuations could result in either a loss of sales opportunities or the incurrence of unnecessary costs.

In addition, the increasingly higher levels of precision required of semiconductor production equipment like steppers and mask aligners and the resulting increase in the value and the size of this equipment in recent years have resulted in a concurrent increase in the need for sensitive handling and transportation of these products. Due to their precise nature, even a minor shock to these products during the handling and transportation process could irreparably damage the entire product. If unforeseen accidents during the handling and transportation process render a significant portion of Canon's higher-end precision products unmarketable, costs will increase and Canon may lose sales opportunities and the trust of its customers.

Substantially higher crude oil prices have lead to increases in the cost of freight via air, ocean and land vehicles in the form of fuel surcharges. Continued or further increases in crude oil prices could adversely affect Canon's results of operations.

Canon is endeavoring to reduce carbon dioxide emissions by increasing its use of railroad transportation and ocean transportation to ship its products. Failure by Canon to meet its targets may adversely affect Canon's brand and image and its business.

Risks Related to Environmental Issues

Canon's business is subject to environmental laws and regulations.

Canon is subject to certain Japanese and foreign environmental requirements in areas such as energy resource conservation, reduction of hazardous substances, collection and recycling of products, clean air, water protection and waste disposal. An adverse affect on Canon's operating results may occur as a result of the requirements of future legislation.

In some cases, mainly in the European Union, such as the Directive establishing a framework for the setting of EcoDesign requirements for Energy-using Products, detailed implementation standards responsive to environmental requirements have not been determined. Canon intends to comply with such standards beforehand if and when the standards are foreseen. If Canon's current measures do not meet such standards when they are adopted, Canon may be required to take further action and incur additional costs to comply with these regulations.

Furthermore, a rework or repair expense may be incurred if non-qualifying products are shipped in non-compliance with the European Union Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS Directive") or other legal regulations were not fully followed by parts suppliers. These extra costs may exceed compensation from parts suppliers or coverage from insurance contracts, and could have adverse effects on Canon's business and operating results overall.

Environmental clean-up and remediation costs relating to Canon's properties and associated litigation could decrease Canon's net cash flow, adversely affect its results of operations and impair its financial condition.

Canon is subject to potential liability for the investigation and clean up of environmental contamination at each of the properties that it owns or operates and at certain properties Canon formerly owned or operated. If Canon is held responsible for such costs in any future litigation or proceedings, such costs may not be covered by insurance and may be material.

In addition, Canon may face liability for alleged personal injury or property damage due to exposure to chemicals or other hazardous substances from its facilities. Canon may also face liability for personal injury, property damage or natural resource damage, or for clean-up costs for the alleged migration of contamination or other hazardous substances from its facilities. A significant increase in the number or success of these claims and costs could adversely affect Canon's business and results of operations.

Risks Related to Intellectual Property

Canon may be subject to intellectual property litigation and infringement claims, which could cause it to incur significant expenses or prevent it from selling its products.

Because of the emphasis on product innovation in the markets for Canon's products, many of which are subject to frequent technological innovations, patents and other intellectual property are an important competitive factor. Canon relies primarily on technology it has developed, and Canon seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

Canon faces the risks that:

- competitors will be able to develop similar technology independently;
- Canon's pending patent applications may not be issued;
- the steps Canon takes to prevent misappropriation or infringement of its intellectual property may not be successful; and
- intellectual property laws may not adequately protect Canon's intellectual property, particularly in some emerging markets.

In case Canon is not aware of actual or potential infringements of, or adverse claims to, its rights in such technologies, any interference in Canon's rights to use such technologies could adversely affect its operating results.

In addition, Canon may need to litigate in order to enforce its patents, copyrights or other intellectual property rights, to protect its trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement, which can be expensive and time-consuming. In the event any government agency or third party were adjudicated to have a valid claim against Canon, Canon could be required to:

- refrain from selling the affected product in certain markets;
- pay monetary damages;
- seek to develop non-infringing technologies, which may not be feasible; or
- seek to acquire licenses to the infringed technology and to make royalty payments, which may not be available on commercially reasonable terms, if at all.

Canon also licenses its patents to third parties in exchange for payment or cross-licensing. The terms and conditions of such licensing or changes in the conditions for renewals of such licenses could affect Canon's business.

Canon's businesses, company image and results of operations could be adversely affected by any of these developments.

Disputes involving payment of remuneration for employee inventions may adversely affect Canon's brand image as well as its business.

Canon may face disputes involving payment of remuneration given to employee inventions for which the rights have been succeeded by Canon. This risk is particularly relevant in countries such as Japan and Germany, where patent laws require companies to pay remuneration to employees for the succession of the employee's invention to the company. Canon maintains company rules on and an evaluation system for employee inventions. Canon believes it has been making adequate payments to employees for assignment of inventions based on these rules. But, there can be no assurance that disputes will not arise with respect to the amount of payments to employees. Such disputes may adversely affect Canon's brand image as well as its business.

Other Risks

Canon's operating and financing activities expose Canon to foreign currency exchange and interest rate risks that may adversely affect its revenues and profitability.

Canon derives a significant portion of its revenue from its international operations. As a result, Canon's operating results and financial position have been and may continue to be significantly affected by changes in the value of the yen versus foreign currencies. Foreign-currency-denominated sales of Canon's products and its margins have been and may continue to be adversely affected due to the strong yen against foreign currencies. Conversely, a strengthening of foreign currencies will be generally favorable to Canon's foreign-currency-denominated sales. The yen value of Canon's assets and liabilities arising from business transactions in foreign currencies and equity investments denominated in foreign currencies along with the currency translations stemming from foreign currency-based financial statements of Canon's foreign affiliates, have fluctuated and affected and may continue to fluctuate and affect Canon's consolidated financial statements, which are presented in yen.

Furthermore, the value of a number of foreign currencies, such as the U.S. dollar and Euro, used by Canon for its business has become significantly weaker than expected against the yen in the foreign exchange market, which has led and may further lead to negatively affecting Canon's operating results and financial position. Although Canon has been striving to mitigate the effects of foreign currency fluctuations arising from its international business activities, Canon's operating results and financial position could be continuously adversely affected if the current strong yen environment persists. Canon is also exposed to the risk of interest rate fluctuations, which may affect the value of Canon's financial assets and liabilities.

Canon must attract and retain highly qualified professionals.

Canon's future operating results depend in significant part upon the continued contributions of its employees. In addition, Canon's future operating results depend in part on its ability to attract, train and retain other qualified personnel in development, production, sales and management for Canon's operations. The competition for these human resources in the high-tech industries in which Canon competes has been increasingly intense in recent years. Moreover, due to the accelerating pace of technological change, the importance of training new personnel in a timely manner to meet product research and development requirements will increase. Failure by Canon to recruit and train qualified personnel or the loss of key employees could delay development or slow down production, and adversely affect Canon's business and results of operations.

Maintaining a high level of expertise in Canon's manufacturing technology is critical to Canon's business. However, it is difficult to secure the expertise required for a special skills area, such as lens processing, in a short time period. While Canon is currently undertaking a series of planning exercises in order to obtain the expertise needed for each skills area, Canon cannot guarantee that such expertise will be acquired in a timely manner and retained, and failure to do so may adversely affect Canon's business and results of operations.

Canon's physical facilities, information systems and information security systems are subject to damage as a result of disasters, outages or similar events.

Canon's headquarters functions, its information systems and its research and development centers are located in or near Tokyo, Japan, where the possibility of disaster or damage from earthquakes is generally higher than in other parts of the world. In addition, Canon's facilities or offices, including those for research and development, material procurement, manufacturing, logistics, sales, and services are located throughout the world and subject to the possibility of disaster or outage or similar disruption as a result of any of a number of events, including natural disasters, computer viruses and terrorist attacks. Although Canon is working to establish appropriate backup structures for its facilities and information systems, there can be no assurance that Canon will be able to completely prevent or mitigate the effect of events or developments such as the aforementioned disasters, leakage of harmful substances, shutdowns of information systems, and leakage, falsification, and disappearances of internal databases. Although Canon has implemented backup plans to permit the production of products at multiple production facilities, such plans do not cover all product models. In addition, such backup arrangements may not be adequate to maintain production quantity levels. Such factors may adversely affect Canon's operating activities, generate expenses relating to physical or personal damage, or hurt Canon's brand image, and its operating results may be adversely affected.

The cooperation and alliances with, and strategic investments in, third parties undertaken by Canon may not produce successful results. Also, unexpected emergence of strong competitors through mergers and acquisitions, may affect Canon's business environment.

Canon carries out many activities with other companies in the form of alliances, joint ventures, and strategic investments. These activities help Canon's technological development process. However, weak business trends or disappointing performance by partners may adversely affect the success of these activities. In addition, the success of these activities may be adversely affected by the inability of Canon and its partners to successfully define and reach common objectives. Even if a mechanism is firmly structured by Canon and its partners to successfully define and reach common objectives, the creation of synergies between Canon's business and the partner's business may not be achieved. An unexpected cancellation of a major business alliance may disrupt Canon's overall business plans and may also result in a delayed return-on-investment or a reduced recoverability of the investment, driving down the operating results and financial position of Canon.

In addition, the unexpected emergence of strong competitors through mergers and acquisitions or the formation of business alliances may change the competitive environment of the businesses in which Canon engages, thereby affecting Canon's future results of operations.

Canon may be adversely affected by fluctuations in the stock and bond markets.

Canon's assets include investments in publicly traded securities. As a result, Canon's operating results and general financial position may be affected by price fluctuations in the stock and bond markets. In addition, if valuations of investment assets decrease due to conditions in, for example, stock or bond markets, additional funding and accruals with respect to Canon's pension and other obligations may be required, and such funding and accruals may adversely affect Canon's operating results and consolidated financial condition.

Confidential information may be inadvertently disclosed which could lead to damage claims or harm Canon's reputation, and may have an adverse effect upon Canon's business.

In connection with certain projects, Canon may receive confidential or sensitive information (such as personal information) from its customers relating to these customers or to other parties. In addition, Canon uses computer systems and electronic data in managing information relating to its employees. Although Canon makes every effort to keep this information confidential through procedures designed to prevent accidental release of confidential or sensitive information, such information may be inadvertently disclosed without Canon's knowledge. If this occurs, Canon may be subject to claims for damages from the parties or the employees affected, suffer harm to its reputation or be subject to liabilities and/or penalties under applicable statutes.

Inadvertent disclosure of secret information regarding new technology, would also have a material adverse effect upon Canon's business.