

3. Canon adopted ASU No. 2017-07 from the quarter beginning January 1, 2018. The adoption of the new presentation requirement of the service cost component and the other components of net benefit cost resulted in reclassification from cost of sales, and selling, general and administrative expenses, and research and development expenses into other income (deductions) for the years ended December 31, 2017 and 2016 respectively.
4. Certain figures for the fiscal years ended December 31, 2019, 2018, 2017 and 2016 presented in the table above have been revised from the versions previously disclosed. The effect on the consolidated financial statements was immaterial, respectively. For further details regarding the circumstances of the revision, please refer to Note 1 (y) of the Notes to Consolidated Financial Statements.

**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 office multifunction devices ("MFDs"), plain paper copying machines, laser printers, cameras, inkjet printers, diagnostic equipment and lithography equipment.

Primarily due to the nature of the business and geographic areas in which Canon operates and the highly competitive nature of the industries to which it belongs, Canon is subject to a variety of risks and uncertainties, including, but not limited to, the following:

Risks Specific to Canon's Industries and Business Operations

***Changes in the print environment may affect Canon's business.***

In the business machines market for such products as office MFDs and printers, customers are increasingly looking for ways to cut costs while protecting the environment. In addition, the digitalization of workflow in office and the increasing popularity of remote work could also lead to a decrease in customer print opportunities.

In line with these trends, Canon believes that products and services with enhanced cloud connectivity and security, as well as advanced functions that contribute to the efficiency of office operations, will attract strong demand. In the field of commercial printing, Canon anticipates growth in the medium to long term due to a changeover from analog printing to digital printing and growing needs for high-mix, low-volume printing, and is striving to capture demand by focusing on the graphic arts and packaging fields. While Canon has been taking initiatives to analyze market information and respond to these market changes in the print environment by tailoring its new product and service offerings, if Canon is unable to develop and provide products and services that are responsive to the evolving needs of consumers, its operating results may be adversely affected.

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

As the photographic capabilities of other digital devices, including smartphones, have improved significantly, consumer preferences for taking photographs have also changed and diversified. As a result, the digital camera market is shrinking, with competition intensifying in price and performance. Under these circumstances, one of Canon's strategies is developing higher performance digital cameras with further differentiation from smartphones, and further strengthening its product capabilities focusing on models for professional and high-end users. Canon is also developing new categories of cameras in order to attract new users who demand ease of use and taking photographs in a variety of occasions.

Although Canon has been taking initiatives to analyze market information and respond to the market changes, if Canon fails to introduce new products that maintain a competitive advantage over competitors, or fails to provide new services that match changes in consumer tastes, Canon's position will decline in relative terms, and as a result, its operating results may be adversely affected.

***Canon may not be able to adequately anticipate developments related to its medical device business, including changes to the market environment and developments related to medical device approvals, certifications and health insurance coverage.***

Regarding the market for Canon's medical equipment sold to medical institutions, mainly in the area of diagnostic imaging, it takes a long time to design, research, develop and commercialize products, because it is necessary to prove the clinical effectiveness of new technologies and new products, and obtain regulatory approvals and certifications prior to sale in individual countries and regions. The global market for medical devices is expanding due to developing medical infrastructure in emerging countries and regions, but in developed countries and regions issues such as aging populations, rising health insurance costs and pressure to cut medical device costs may adversely affect Canon's medical device business.

Canon invests in research and development of new medical device technologies based on detailed analysis of the potential technical and business prospects for such technologies. Although Canon has been taking initiatives to analyze market information and respond to the market changes and despite these investments, Canon may become less competitive if it cannot anticipate whether new technologies will have the expected clinical effects or developments in the market or regulatory environment for such technologies. Canon may need to significantly modify its business plans in response to these challenges and it may not be able to generate the expected returns on its investments in research and development of medical devices.

***Because the semiconductor lithography equipment and flat-panel-display ("FPD") industry is highly cyclical, Canon may be adversely affected by any downturn in demand for semiconductor devices, FPD panels and organic light-emitting diode ("OLED") panels.***

The semiconductor lithography equipment and FPD lithography equipment industry is characterized by fluctuating business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of semiconductor devices and panels have at times led to significantly reduced demand for capital equipment, including the semiconductor lithography equipment, FPD lithography equipment and OLED vapor deposition equipment that Canon produces. Despite this cyclical nature, Canon must maintain significant levels of research and development expenditures to remain competitive. A future cyclical downturn in the lithography equipment industry and related fluctuations in the demand for capital equipment could cause cash flow from sales to fall below the level necessary to offset Canon's expenditures, including those arising from research and development, and could consequently have a material adverse effect on Canon's operating results and financial condition.

Under these circumstances, Canon is working to stabilize its earnings base by continuously improving the performance of its equipment and enhancing its ability to respond to customer needs, thereby aiming to capture a broader scope of demand, diversifying customer base and applications, and developing products to improve the balance in sales regions across the globe. In addition, Canon is taking measures to minimize the impact of fluctuations in market demand by transforming existing manufacturing facilities and building a group-wide system of flexible staff reshuffling, and investing in its own production facilities with the assumptions of significant fluctuations in demand.

Although Canon has been taking initiatives to analyze market information and respond to the market changes, Canon's operating results and financial position could be adversely affected if Canon fails to meet its customer needs by having different assumptions of the market trend.

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

Situations such as disruptions of relationships between Canon and its original equipment manufacturing ("OEM") partner, HP Inc., or between Canon and the major distributors of Canon products or acquisitions of those distributors by competitors could adversely affect Canon's ability to meet its sales targets. 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 operating results.

In addition, Canon depends on HP Inc. for a significant part of its business and has had a strong relationship with HP Inc. as an OEM partner. However, Canon's business and operating results may be affected by the policies, business and operating results of HP Inc. Any decision by HP Inc. management to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and operating results.

Canon has built close relationships with the major distributors of Canon products but Canon's business and operating results may be affected by the policies, business and operating results of those partners. Any decision by the senior management team of such partners to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and operating results.

In addition to the traditional approach of selling its goods, Canon has been focusing on online sales of its products by making use of a variety of its sales channels amid the sharp growth of online sales platforms across the world. Nevertheless, Canon's operating results may be adversely affected should the business conditions change dramatically than expected.

Other Risks Related to Canon's Industries and Business Operations

***Canon's cooperation and alliances with, strategic investments in, and acquisitions of, third parties may not produce the anticipated improvements to its financial results.***

Canon makes strategic acquisitions of other companies for the purpose of business expansion and Canon is also engaged in alliances, joint ventures, and strategic investments with other companies. Canon targets corporate acquisitions, business alliances and strategic investments in areas where Canon has a strong affinity with, based on the technologies it possesses and the businesses it excels in. In particular, it focuses its investments on blue chip companies with strong management teams. These activities can help Canon to grow its business. However, weak business trends or disappointing performance by partners or acquired companies may adversely affect the success of such activities. The success of such activities may be adversely affected by the inability of Canon and its partners or acquired companies to successfully define and reach common objectives. Even if Canon and its partners or acquired companies succeed in designing a structure that allows for the definition and achievement of common objectives, synergies may not be created between the businesses of Canon and its partners or acquired companies. In addition, integration of operations may take more time than expected. In connection with its acquisitions, Canon recognizes goodwill and other intangible fixed assets on its consolidated balance sheet, and the amounts recognized may be impaired if there is a decline of future cash flow. An unexpected cancellation of a major business alliance may disrupt Canon's overall business plans and may also result in a delayed return on, or reduced recoverability of, the investment, adversely affecting Canon's operating results and financial position.

***A substantial portion of Canon's business activity is conducted outside Japan, exposing Canon to unfavorable political, diplomatic or economic conditions, sharp fluctuations in foreign currency exchange rates and unexpected political, legal or regulatory change.***

Canon's business activities are deployed globally so overseas business activities are primarily exposed to the risk of unfavorable political, diplomatic or economic conditions, sharp fluctuations in foreign currency exchange rates and unexpected political, legal or regulatory changes.

Declines in consumption and restrained investment due to an economic downturn in major markets such as Japan, the United States, Europe, Asia and others may affect Canon's operating results. The operating results for

products such as office, diagnostic equipment and industrial equipment are affected by the financial results of its corporate customers or medical institutions, and deterioration of their financial results has caused and may continue to cause customers to limit capital investments. Demand for Canon's consumer products, such as cameras and inkjet printers, is discretionary. Rapid price declines owing to intensifying competition and declines in levels of consumer spending and corporate investment could adversely affect Canon's operating results and financial position.

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. Sales of Canon's products denominated in foreign currencies have been and may continue to be adversely affected by the strength of the yen against foreign currencies. Conversely, a strengthening of foreign currencies against the yen will generally be favorable to Canon's foreign currency sales. Canon's consolidated financial statements are presented in yen. As such, the yen value of Canon's assets and liabilities arising from foreign currency transactions have fluctuated and may continue to fluctuate. Unpredictable fluctuations may have certain effects on Canon's consolidated financial statements. Although Canon strives to mitigate the effects of foreign currency fluctuations arising from its international business activities, including by executing currency hedge transactions through short-term forward exchange contracts and by reflecting exchange rate movements in its product pricing, Canon's consolidated financial statements have been and may continue to be affected by currency translations from the financial statements of Canon's foreign subsidiaries and affiliates, which are denominated in various foreign currencies.

In addition, there are various political, diplomatic or economic issues in countries and regions around the world, and there is a risk that Canon will face unexpected political, legal or regulatory changes.

With regard to the occurrence of unfavorable political, diplomatic or economic conditions, Canon strives to monitor local conditions through daily communication with its subsidiaries and by collecting information through regular business hearings to its business strategies and forecasts of financial results. If demand is expected to decline in a specific market or globally, Canon adjusts its production in accordance with the production and supply system.

Canon has focused on strengthening its measures for international environmental regulations and changes in international and domestic tax regulations with respect to unexpected political, legal or regulatory changes. Regulations such as fair competition, anti-corruption, protection of personal information, security trade control and others including regulations related to the environment are carefully monitored and complied with based on the control of each department in charge.

Any inability to manage the risks inherent in Canon's international activities could adversely affect its business and operating results.

***Canon's business could be adversely affected by disruption in the supply chain.***

Canon's main business is to develop products, purchase raw materials and parts, manufacture products, and sell them worldwide. In its business activities, Canon strives to build an optimal supply chain for the entire chain of activities, from the purchase of raw materials to production and sales. In particular, Canon has striven to build optimal production systems and improve the quality of its products, including by building an efficient production system using automation and robotization technology, promoting in-house production of key parts, controlling the degree of external dependence, and reducing manufacturing costs to increase our resistance to rising raw material prices and supply shortages. Canon has also established a department dedicated to quality control and has worked with external suppliers to improve quality and ensure stable procurement of raw materials and parts, and established a department to manage the logistics of the entire Group, in order to increase efficiency, reduce logistics costs and quickly respond to problems when they arise. Further, Canon enters insurance policies to cover damages incurred by accidents. Nevertheless, despite these efforts, there can be no assurance that Canon

will be able to prevent or mitigate adverse effects on its supply chain, and there is a possibility that a shortage of raw materials and parts supply, quality problems, rising production costs, as well as stagnation in distribution, accidents of transportation and damages triggered by other factors in the production and sales of products may have an adverse effect on Canon's operating results.

Canon relies on specific external suppliers for critical parts and materials to be used in products that meet Canon's strict quality, efficiency and environmental standards. Canon's business performance may be adversely affected by suspension of production activities or higher production costs in the event of any unforeseen circumstances affecting suppliers of parts and materials used across Canon's product lineup, or in the event of a quality problem, insufficient supply, or sharp price increases affecting such parts and materials.

Canon's ability to supply products to countries and regions around the world depends on the effectiveness of its logistics services. However, if any trouble occurs in the computerized logistics system, if problems such as regional disputes occur, or if labor disputes such as strikes by port workers occur, or if the losses arising from accidents when transporting expensive products are not compensated by insurance, or if products cannot be replaced and delivered to the customers, there are possibilities that increased logistics costs or delays in deliveries may result in lost sales opportunities and credibility with its customers.

***Canon's facilities, information systems and information security systems are subject to damage as a result of natural disasters and infectious diseases.***

Canon's headquarters building, information systems and major facilities of research and development centers are located in the Tokyo region, and earthquakes occur more frequently in Japan than in other parts of the world, making Japan an area that is vulnerable to the damage caused by such natural disasters. Canon's facilities and offices in the areas of research and development, procurement, production, logistics, sales and services are located throughout the world, and there are risks of disruptions due to the stoppage of infrastructure in the wake of natural disasters such as earthquakes and floods, as well as terrorist attacks. Such factors may adversely affect Canon's operations, incur cost related to physical and human damage, and lower the value of Canon brand.

Although Canon has continuously implemented risk management activities led by the relevant departments of the head office, there can be no assurance that Canon will be able to prevent or mitigate the effect of any disruptive events or developments. In preparation for the worst-case scenario, such as plant shutdowns, Canon has established the backup system for concurrent production of similar models at multiple sites which may not be adequate to mitigate the relevant risks. In order to quickly restore operations in the event of a shutdown, Canon has identified the initial actions to be taken, roles and responsibilities of the departments involved, and established the structure to communicate among departments in the event of an emergency. In addition, Canon has the backup structure for core systems used in R&D, procurement, production, logistics, sales and services in case of information systems failure. Nonetheless, there can be no assurance that Canon will be able to prevent or mitigate the effect of any disruptive events or developments.

In addition, the global infection of the novel coronavirus disease ("COVID -19") has had a negative effect on Canon's operating results and financial conditions. Initially, the pandemic disrupted supply chains around the world including the production activities of Canon. Canon took measures to temporarily halt operations at some of its plants and cut production. Sales are also greatly affected by the impact of closures of offices and retail outlets, overseas travel restrictions and shortage of international freight transport capacity which have resulted from the restrictions to economic activities such as the emergency declaration in Japan, lockdowns and travel restrictions across the globe. Canon has developed a task force to focus on preventing infection and have implemented such measures to cancel internal and external major events as well as promote staggered commuting and remote work of its employees. Canon has also made the efforts to adapt to the changes of the environment and recover production and sales activities around the world.

The time frame to contain COVID-19 remains uncertain. If the transmission further expands and prolongs, it could lead to a slowdown of the world economy and the business of Canon, a slowdown in the business of Canon's customers, suppliers and partners and lower investment sentiment for those parties. Further, requests by

governments to restrict Canon's business amid the pandemic may occur. COVID-19 may have other effects on Canon's businesses. For example, print volume of office MFDs may not recover to the expectations of Canon in view of the increasing popularity of remote work since COVID-19. Also, installation of industrial equipment may turn out to be slower than expected by Canon, due to slower recovery in business investment. All of these cases may have an adverse effect on Canon's financial position and operating results.

***Canon must continue to 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 qualified personnel in the area of R&D, production, sales and management. The competition to acquire human resources in the high-tech industries in which Canon operates has intensified in recent years. Moreover, owing 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.

Maintaining a high level of expertise in Canon's manufacturing technology is critical to Canon's business. However, it is difficult to secure the requisite expertise for specialized skill areas, such as lens processing, in a short time period. Canon strives to create a work environment in which each and every employee is highly motivated and can fully demonstrate his or her abilities by making the most of his or her individuality and sense of value in order to provide an attractive workplace for capable employees. In particular, when conducting business activities globally, Canon ensures thorough compliance with labor-related laws and regulations in each country and region, respect human rights, support the improvement of employees' abilities through the development of various training systems, and strengthen the development of human resources who can show leadership internationally. Canon is systematically training successors for certain skills.

However, failure by Canon to recruit and train qualified personnel or the loss of key employees could delay R&D or slow production and could increase the risks of outflow of technologies and skills, and inappropriate knowledge transfers. These factors may adversely affect Canon's business and operating results.

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

Canon is subject to certain Japanese and foreign environmental laws and regulations in areas such as mitigation of climate change, resource conservation including product recycling, reduction of hazardous substances, clean air, clean water and waste disposal. Although Canon is making group-wide efforts to respond to climate change through a variety of measures, including energy-saving activities and the development of energy-saving products, advanced resource recycling, strict management of chemical substances through sustainable procurement, reduction of chemical substances used in production processes and emission control, there can be no assurance that such efforts will successfully achieve compliance, particularly as environmental laws and regulations continue to become more stringent globally. Due to the laws and regulations, including enforcement of new environmental regulations in Japan and other countries and regions or more active enforcement of existing laws and regulations, Canon may face liability for additional costs and damages. Such costs and damages could adversely affect Canon's business and operating results.

Canon is subject to potential liability for the investigation and cleanup 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.

***Canon is subject to risks relating to information security and electronic data.***

Canon stores and has access to confidential electronic data relating to manufacturing, research and development, procurement and production, as well as sensitive information obtained from its customers, parties who have connections with Canon and other individuals and parties. Such electronic data is used by Canon and third party managed systems and networks. Electronic data is also used in various products to provide information services.

There are some risks inherent in the use of electronic data, including vulnerability to hacking, computer viruses, and cyber attacks, service failures and leakage of personal information due to infrastructure issues and issues arising from damage caused by natural disasters. Although Canon has implemented the controls of software used in its operations and company-wide employee training for information security and cyber attacks, in addition to data access restrictions and security measures, and continues to make improvements so as to alleviate these risks, such events may occur despite its best efforts. In particular, cyber attacks have become increasingly sophisticated and complex, and are targeted anywhere around the world. Canon's locations in Japan and overseas are exposed to these risks and if its infrastructure turns out to be technically vulnerable to such attacks, malicious access to Canon's network by third party, stoppage of websites and online services or other incidents may occur.

The materialization of such risks could result in disruptions of Canon's material operations, leakage of confidential data composed of both personal and business information and damage to the information service functions in products. The occurrence of any of these events may potentially cause Canon to be subject to claims from affected individuals and parties and may negatively affect Canon's brand image, the credibility it has developed, and its operating results and financial conditions.

#### Other Risks

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

Canon's assets include investments in publicly traded securities. Canon does not hold shares for the purpose of receiving profits from fluctuations in stock prices or dividends, and holds shares as part of its alliance with companies outside the Group, only with respect to those that are deemed useful for strengthening the Group's organizational structure because they are difficult to realize as management resources within the Group for medium- to long-term growth. As a result, volatility in financial markets and overall economic uncertainty create the risk that the actual amounts realized in the future on Canon's investments could differ significantly from the fair values currently assigned to them.

Canon's operating results and financial position may be negatively affected by price fluctuations in the stock and bond markets.

##### ***Canon may be subject to antitrust-related lawsuits, 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 after the initial equipment placement. The supplies and services have become more commoditized and there are many competitors in these markets. 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 a high market share in the market of supplies for office MFDs and printers. Accordingly, Canon may be subject to lawsuits, investigations or proceedings under relevant antitrust laws and regulations. Although Canon conducts risk management activities such as regular training for employees in the relevant departments under the leadership of the departments responsible at the Head Office, any such lawsuits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon's operating results or reputation.

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

Canon's success depends in part on maintenance and development of the value of its brand name. The main factors which could damage its brand value are defective product quality, circulation of counterfeit and failures of its compliance regime. Although Canon works to minimize risks that may arise from product quality and

liability issues, such as those triggered by the individual functionality and also from the combination of hardware and software that make up Canon's products, there can be no assurance that Canon will be able to eliminate or limit these issues and the resulting damages. If such factors adversely affect Canon's operating activities, generate additional expenses such as those related to product recalls, service and compensation, or otherwise hurt its brand image, Canon's operating results or reputation for quality may be adversely affected. Canon has been implementing measures to halt the spread of counterfeit products. However, the continued manufacture and sale of such products could adversely affect Canon's brand image as well as its operating results.

Canon has established a group-wide compliance system to ensure compliance with laws and regulations. However, if Canon fails to maintain its overall compliance regime, especially legal and regulatory compliance, or if Canon fails to take measures to any problems linked to its supply chain, this also could result in damage to Canon's credibility and brand value.

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

Many of the business areas in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features; frequent introduction of new products; short product life cycles; and continued qualitative improvements to current products at stable price levels. Canon has sought to invest substantial resources into introducing new products that are attractive, innovative and cost competitive. There are several risks inherent in the introduction of new products and services, such as delays in development or manufacturing, unsuitable product quality during the introductory period, variations in manufacturing costs, cannibalization of existing product sales, uncertainty in predicting customer demand and difficulty in effectively managing inventory levels. Moreover, if Canon is unable to respond quickly to technological innovations with respect to information systems and networks, Canon's revenue may be significantly affected as a result of delays associated with the incorporation into its products of such new information technologies.

Canon's revenues and gross margins also may suffer adverse effects because of the timing of product or service introductions by its competitors. In order to respond to the above risks, Canon has a system to promptly supply products that reflect the needs of the market. However, this risk is exacerbated when a competitor introduces a new product immediately prior to Canon's introduction of a similar product. If any of these risks materialize, future demand for Canon's products and services could be reduced, and its operating results could decline.

***Canon is subject to risks relating to legal proceedings.***

Canon is involved in various claims and legal actions arising in the ordinary course of its business. Results of actual and potential litigation are inherently uncertain. An unfavorable result in a legal proceeding could adversely affect Canon's reputation, financial condition and operating results.

***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. In relation to protection of its technologies, Canon faces 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 be unsuccessful; and intellectual property laws may not adequately protect Canon's intellectual property, particularly in certain emerging markets. Canon has established a department specializing in intellectual property, relies primarily on internally developed technology, and seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.



In relation to third party intellectual property rights, if any third party is adjudicated to have a valid infringement claim against Canon, Canon could be required to: refrain from selling the relevant product in certain markets; pay monetary damages; pursue development of non-infringing technologies, or attempt 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 may need to litigate in order to enforce its intellectual property rights or in order to defend against claims of infringement, which can be expensive and time-consuming.

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

With respect to employee inventions, Canon maintains company rules and an evaluation system and has been making adequate payments to employees for the invention rights based on these rules. However, there can be no assurance that disputes will not arise with respect to the amount of these payments to employees.

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

***Canon's financial results may be adversely affected if its deferred tax assets are not recoverable or if it is subject to international double taxation.***

Canon currently has deferred tax assets, which are subject to periodic recoverability assessments based on projected future taxable income. The changes of future profitability due to future market conditions and tax reforms including changes in tax rates may require possible recognition of significant valuation allowances to reduce the net carrying value of deferred tax asset balances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts which may not be realized are charged to income tax expense and will adversely affect net income.

In addition, recently, international corporate tax avoidance has developed into a political issue with a focus on aggressive tax planning strategies of certain multinational corporations. The Organisation for Economic Co-operation and Development ("OECD"), established the Base Erosion and Profit Shifting ("BEPS") project for the purpose of increasing cooperation among countries and implementing harmonization of taxation. The BEPS action plan was published in July 2013; the OECD then conducted further study based on that plan and published its final report in October 2015. Each country has been revising or amending its domestic taxation system and tax treaties based on the final report. Canon has been reviewing the transfer pricing policy taking into consideration the details stated in the reports published by OECD and the developments of international digital taxation rules.

It is, however, possible that there will be differences in opinion between Canon and tax authorities which may adversely affect Canon's operating results and financial condition.

***Canon's retirement and severance benefit obligations are subject to certain accounting assumptions.***

Canon has significant employee retirement and severance benefit obligations that are recognized based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, expected return on plan assets, assumed rate of increase in compensation level and mortality rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore any such differences would be expected to be linked to increases in actual costs, which may adversely affect net income.