

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 18, 2011, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥81.14 = U.S.\$1.

Yen exchange rates per U.S. dollar:	Average	Term end	High	Low
2006	115.99	119.02	119.81	110.07
2007	117.45	111.71	124.09	108.17
2008	102.85	90.79	110.48	87.84
2009	93.67	93.08	100.71	86.12
2010 -Year	87.16	81.67	94.68	80.48
- 1(st) half		88.49	94.68	88.39
- July		86.43	88.59	86.40
- August		84.10	86.42	84.10
- September		83.53	85.77	83.05
- October		80.48	83.33	80.48
- November		83.56	84.34	80.61
- December		81.67	84.23	81.67
2011 - January		81.97	83.36	81.56
- February		81.94	83.79	81.48

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 printers, cameras, inkjet printers, semiconductor lithography equipment and LCD lithography equipment.

Primarily because of 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:

Risk Related to Earthquake in Northeastern Japan and its Aftermath

The earthquake and resulting tsunami that took place in Northeastern Japan on March 11, 2011 have had and will continue to have a significant negative impact on the Japanese economy. Canon has suffered from the direct effects of the disaster, including damages to certain of its buildings and other assets. In addition, Canon has suffered and may continue to suffer indirect effects of the disaster, including disruptions of electricity and water supplies as a result of damage to infrastructure, supply shortages of components resulting from damages to its suppliers, interruption of logistics services and a general decline in demand in the Japanese market. These factors and others may lead to reduced production turnover or suspension of production, which may cause harmful effect on Canon's business operations. In the short term, this could negatively affect Canon's revenue and generate increased costs, adversely affecting Canon's operating results and financial position.

Risks Related to Canon's Industries

Canon has invested and will continue to invest actively 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, there could be a material adverse effect on Canon's operating results.

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 render products under development by Canon uncompetitive. For several years, Canon has continued its investments in development and manufacturing in order to keep pace with technological evolution. If Canon's business strategies diverge from market demands, Canon may not recover some or all of its investments, or may lose business opportunities, or both, which may have a material adverse effect on Canon's operating results.

In addition, Canon has sought to develop production technology and equipment to accelerate the automation of its manufacturing processes and in-house production of key devices. If Canon cannot effectively implement these techniques, it may fail to realize cost advantages or product differentiation, and consequently 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 commercial acceptance of new technologies and products that it develops. If Canon pursues technologies or develops products that are not well received by the market, its operating results could be adversely affected.

Entering new business areas through the development of next-generation technologies is a focal point of Canon's corporate strategy. To the extent that Canon enters into such new business areas, Canon may not be able to establish a successful business models or may face severe competition with new competitors. If such events occur, 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 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. If Canon does not make effective transitions 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 marketability due to an improper product quality during the introductory period, variations in manufacturing costs, delays of customer purchasing decisions in anticipation of further introductions, uncertainty in predicting customer demand for new offerings and difficulty in effectively managing inventory levels in line with anticipated demand. Moreover, if Canon is unable to respond quickly to unexpected technological innovations with respects to information systems and networks, Canon's revenue may be significantly affected as a result of delays associated with the incorporation of such new information technologies into existing products and services as well as new offerings.

Canon's revenue and gross margin also may suffer adverse effects because of the timing of product or service introductions by its competitors. This risk is exacerbated when a product has a short life cycle or when a competitor introduces a new product immediately prior to 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 products and services, potentially offsetting the benefits derived from the introduction of a successful new product or service. Canon must also ensure that its new products are not wholly or partially duplicative of 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 could be reduced, and its operating results could decline.

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

The market for digital single-lens-reflex ("SLR") cameras is a key business area for Canon. Recently, a new type of interchangeable lens camera has been developed that eliminates the mirror mechanism, one of the key components of conventional digital SLRs, allowing for a more compact and lightweight product. During 2010, so-called "mirrorless" digital cameras were released by a number of our competitors, and these models have competed and will continue to compete for market share with Canon's existing products. If the growth of the mirrorless digital camera market erodes the market share of standard digital SLRs, or if Canon's digital SLR offerings are otherwise unable to remain competitive with mirrorless digital cameras produced by its competitors, Canon's current leading position in the digital camera market may suffer, which would have a material adverse effect on Canon's business, financial condition and operating results.

The markets for digital media and video recording technologies are subject to rapid technological change.

The markets in which Canon operates are subject to rapid technological change. The video camcorder industry has almost completed a transition to digital formats, and the increase in High Definition ("HD") television broadcasts has accelerated the shift away from the Standard Definition ("SD") format. Similarly, recording media are also experiencing a rapid transition to flash memory and away from Mini DV tapes, DVDs, and hard disk drives. The pace of technological change has made predicting future market trends more difficult than was previously the case. If Canon is unable to forecast accurately the demand for particular new recording or media formats, this could reduce demand for its products, which would have a material adverse effect on Canon's business, financial condition and operating results.

Video camcorders are no longer the only products on the market that are capable of recording movies. Digital SLRs and compact digital cameras are now also capable of recording HD movies. Although the image quality of webcams is inferior to that of standard video camcorders, digital SLRs and compact digital cameras, the relatively low price of webcams has led to solid growth in sales volume, particularly in North America. An increase in market share of these new products and resultant contraction of the video camcorder market could have a material adverse effect on Canon's business, financial condition and operating results.

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

The lithography equipment industry is characterized by business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of semiconductor devices and LCD panels have at times led to significantly reduced demand for capital equipment, including the semiconductor lithography equipment and LCD lithography equipment that Canon produces. Despite this cyclicity, 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. In addition, LCD panel manufacturers are facing demands for severe price reductions of LCD panels as a result of intense competition among makers of televisions and personal computer monitors. As a result, panel manufacturers may reduce their investment in equipment, which may adversely affect Canon's operating results.

Downturns in the semiconductor and LCD industries 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. On the other hand, an oligopoly is developing in the large-sized LCD panel production industry. Therefore, if Canon is insufficiently responsive to market trends, including market reorganization led by these manufacturers, Canon may not be able to maintain its customer base, which may result in a material adverse effect on Canon's business operations. In addition, it is difficult for Canon to predict the future effects 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.

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

Canon's semiconductor and LCD lithography equipments are subject to rapid technological change and can quickly become obsolete. Future success in the semiconductor and LCD lithography equipments business depend on Canon's ability to enhance its existing products and develop new products using new and more advanced technologies. In particular, as semiconductor pattern sizes continue to shrink, the demand for more technologically advanced semiconductor lithography equipments are likely to increase. Canon's existing semiconductor and LCD lithography equipments could become obsolete sooner than expected because of faster than anticipated changes in one or more of the technologies related to Canon's products or in demand for products based on a particular technology. Any failure by Canon to develop the advanced technologies required by its customers at progressively lower cost or to supply sufficient quantities to its worldwide customer base could adversely affect Canon's net sales and profitability.

Risks Related to Canon's Business

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

Although global economic conditions have begun to improve, prospects for global economic recovery remain uncertain, reflecting concerns about the weakening effects of stimulus policies in advanced countries, deflation in Japan and inflation in emerging countries. As a result of the economic downturn in recent periods, declines in consumption and restrained investment in Canon's major markets, including Japan, the United States, Europe and Asia, have affected both individual consumer and corporate sales, and if economic conditions do not improve, these trends may continue. Canon's operating results for products such as office and industrial equipment are affected by the financial results of its corporate customers, and deterioration of these financial results has caused and may continue to cause customers to restrain their capital investments. Demand for Canon's consumer products, such as cameras and inkjet printers, is discretionary. The rise in inventory levels, rapid price declines owing to intensifying competition and the recent decline in the level of consumer spending and corporate investment driven by the economic downturn could adversely affect Canon's operating results 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. During fiscal 2010, approximately 20% of Canon's net sales were to Hewlett-Packard. As a result, Canon's business and operating results may be affected by the policies, business and operating results 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 operating results.

Canon depends on specific outside suppliers for certain key components.

Canon relies on specific outside suppliers that meet Canon's strict criteria for quality, efficiency and environmental friendliness for critical components and special materials used in its products. In some cases, Canon may be forced to discontinue production of some or all of its products if the specific outside suppliers that supply key components and special materials across Canon's product lines experience unforeseen difficulties, or if such parts and special materials suffer from quality problems or are in short supply. Further, the prices of components and special materials purchased from specific outside suppliers may surge, triggered by the imbalance of supply and demand along with other factors. If such risks occur as an outcome of the dependency on such specific outside vendors, Canon's operating results may be adversely affected.

Although competition is increasing in the market for supplies and services following initial product placement, Canon maintains a high market share in such sales. As a result, 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. 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 a high market share in the market for supplies. Accordingly, Canon may be subject to lawsuits, investigations or proceedings under relevant antitrust laws and regulations. Any such lawsuits, 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, counterfeiting of Canon products has increased worldwide. Counterfeit products may diminish Canon's brand image, particularly if purchasers of such products mistakenly attribute the counterfeit products' poor 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 manufacture 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 costs of Canon's products have historically been highest when products are newly introduced into production. The introduction of new products has at times had a negative impact on gross profit, operating results and cash flow. Cost reductions and enhancements are typically achieved 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 seasonal trends in the sales of its consumer-oriented products. Canon has little control over the various factors that produce these seasonal trends. Accordingly, it is difficult to predict short-term demand, placing pressure on Canon's inventory management and logistics systems. If product supply from Canon exceeds actual demand, excess inventory will put downward pressure on selling prices and raise inefficiency in cash management, potentially reducing Canon's revenue. Alternatively, if actual demand exceeds the supply of products, Canon's ability to fulfill orders may be limited, which could adversely affect net sales and increase the risk of unanticipated variations in its operating results.

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

A substantial portion of Canon's market share is concentrated in a relatively small number of large distributors, particularly in Europe and the United States. Canon's product sales to these distributors constitute a significant percentage of its 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 the concentration of sales to 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 operating results.

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

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'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 the value of its brand name. Any negative publicity regarding the quality of Canon's products could have an adverse impact on operations, especially negative publicity 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 operating results. If Canon fails to maintain its overall compliance regime, especially legal or regulatory compliance, this also could result in damage to Canon's credibility and brand value.

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, including in developing and emerging markets in Asia. There are a number of risks inherent in doing business in such markets, including the following:

- underdeveloped technological infrastructure, which can affect production or other activities or result in lower customer acceptance of Canon's services;
- difficulties in recruiting and retaining qualified 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.

Any inability to manage the risks inherent in Canon's international activities could adversely affect its business and operating results. In order to reduce costs and produce Canon's products competitively, Canon maintains 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 shortages 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. Given the importance of Canon's research and development, production and sales activities in Asia, Canon's business may be more acutely exposed to such risks than to the global economy in general.

The outbreak, prevalence or spread of an epidemic disease, such as a new strain of influenza, in any region around the globe could also have a negative effect on Canon's business operations, including its research and development, production and sales activities, along with the disruption of markets for Canon's products.

In addition, unexpected changes in import taxes imposed by foreign governments could adversely affect Canon's business and operating results.

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 potentially imposed upon Canon. A major infringement could result in a temporary or permanent 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.

Any of the above factors regarding international operations could have an adverse effect on Canon's operating results.

Canon's operating and financing activities expose it 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. Sales of Canon's products denominated in foreign currencies, as well as its margins 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 business transactions and the yen value of Canon's foreign currency-denominated equity investments have fluctuated and may continue to fluctuate. These fluctuations may have unpredictable effects on Canon's consolidated financial statements. Moreover, Canon's consolidated financial statements have been and may continue to be affected by currency translations from the financial statements of Canon's foreign affiliates, which are denominated in various foreign currencies. Furthermore, the values of a number of foreign currencies, such as the U.S. dollar and the euro, have weakened significantly more than expected against the yen, which has negatively affected and may continue to affect Canon's operating results and financial position. Although Canon strives to mitigate the effects of foreign currency fluctuations arising from its international business activities, Canon's operating results and financial position could continue to be 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 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 systems, an outbreak of war and strife within Canon's operating regions or regional labor disputes, such as a dockworkers' strike, could lead to a disruption of Canon's operations and result not only in increased logistical costs, but also in the loss of sales opportunities owing to delays in delivery. Moreover, because demand for Canon's consumer products may fluctuate throughout the year, transportation means, such as cargo vessels or air freight, and warehouse space must be appropriately adjusted to take such fluctuations into account. Failure to do so could result in either a loss of sales opportunities or the incurrence of unnecessary costs.

In addition, the increasing levels of precision required of semiconductor lithography equipment and LCD lithography equipment and the resulting increase in the value and the size of such equipment in recent years have resulted in a concurrent increase in the need for sensitive handling and transportation of these products. Because of their precise nature, even a minor shock during the handling and transportation process can potentially cause irreparable damage to such products. If unforeseen accidents during the handling and transportation process render a significant portion of Canon's high-end precision products unmarketable, costs will increase, and Canon may lose sales opportunities and the trust of its customers.

Substantially higher crude oil prices and the supply-and-demand balance of transportation means could lead to increases in the cost of freight, which could adversely affect Canon's operating results.

Furthermore, earthquakes or volcanic eruptions may cause a breakdown of transportation facilities, such as ports or airports, or otherwise interrupt critical logistics services, which may have an adverse effect on production or sales activities.

Risks Related to Environmental Issues

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 energy resource conservation, reduction of hazardous substances, product recycling, clean air, clean water and waste disposal.

The requirements of future legislation in the energy conservation area, particularly with respect to international emission trading schemes or energy conservation requirements, could have an adverse effect on Canon's operating results.

In other cases, such as the "Directive Establishing a Framework for the Setting of EcoDesign Requirements for Energy-related Products across the European Union", detailed implementation standards responsive to environmental requirements remain under review. Canon strives to comply with such standards to the extent possible in advance of their official release. If, however, Canon's current measures are deemed insufficient to satisfy such standards at the time of release, Canon may be required to take further action and incur additional compliance costs.

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

Environmental cleanup 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 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.

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

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 internally developed technology, and seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

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.

To the extent that Canon is unaware of actual or potential infringements of, or adverse claims to, its rights in such technologies, any interference with 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. If any government agency or third party is adjudicated to have a valid 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, which may not be feasible; 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 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 renewal conditions of such licenses could affect Canon's business.

Canon's businesses, corporate image and operating results 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 for employee inventions, the rights to which have been assigned to Canon. This risk is particularly relevant in countries such as Japan and Germany, where patent laws require companies to remunerate employees for the assignment of employee invention rights to the company. Canon maintains company rules and an evaluation system for employee inventions. Canon believes it has been making adequate payments to employees for the assignment of 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. Such disputes may adversely affect Canon's brand image as well as its business.

Other Risks

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 qualified personnel in development, production, sales and management. The competition for 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. Failure by Canon to recruit and train qualified personnel or the loss of key employees could delay development or slow production, and adversely affect Canon's business and operating results.

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. While Canon engages in advance planning to obtain the expertise needed for each skill 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 operating results.

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

Canon's headquarters functions, information systems and research and development centers are located in or near Tokyo, Japan, where the possibility of 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, materials procurement, manufacturing, logistics, sales and services are located throughout the world and subject to the possibility of outage or similar disruption as a result of a variety 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 prevent or mitigate the effect of such events or developments the leakage of harmful substances, shutdowns of information systems, and leakage, falsification, and loss of internal databases. Although Canon has implemented backup plans to permit the manufacture of its 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 at sufficient 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 consequently be adversely affected.

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

Canon is engaged in alliances, joint ventures, and strategic investments with other companies. Canon also acquires other companies. These activities can help to promote Canon's technological development process and expand its customer base. However, weak business trends or disappointing performance by partners or targets may adversely affect the success of such activities. In addition, the success of such activities may be adversely affected by the inability of Canon and its partners or targets to successfully define and reach common objectives. Even if Canon and its partners or targets 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 targets. Integration of operations may take more time than expected. 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, adversely affecting Canon's operating results and financial position.

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 areas in which Canon participates, thereby affecting Canon's future operating results.

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. The current volatility in financial markets and overall economic uncertainty increase 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. In addition, if valuations of investment assets decrease because of conditions in stock or bond markets, for example, 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 on 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 affected individuals or parties. In addition, Canon uses computer systems and electronic data in managing information relating to its employees. Although Canon makes every effort to maintain the confidentiality of such information 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 affected individuals or parties, suffer harm to its reputation or be subject to liabilities or penalties under applicable statutes.

Inadvertent disclosure of confidential information regarding new technology could also have a material adverse effect on Canon's business.