CANON ANNUAL REPORT 2010

Fiscal Year Ended December 31, 2010

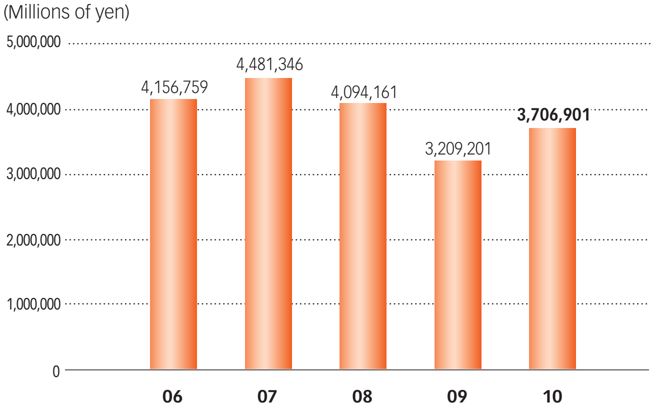
Canon

FINANCIAL HIGHLIGHTS

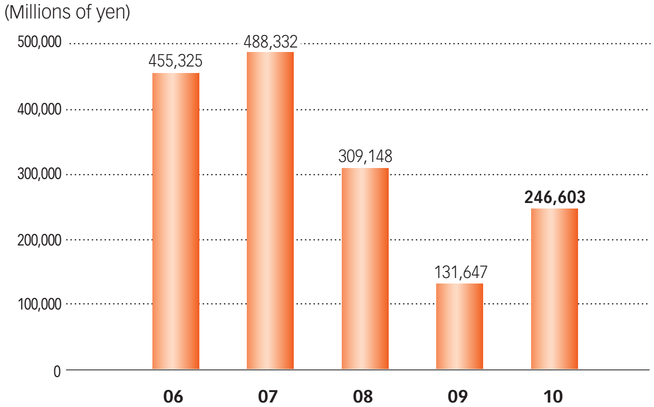
	Millions of yen (except per share amounts) 2010	2009	Change (%)	Thousands of U.S. dollars (except per share amounts) 2010
Net sales	**¥3,706,901**	¥3,209,201	+15.5	**$45,764,210**
Operating profit	**387,552**	217,055	+78.6	**4,784,593**
Income before income taxes	**392,863**	219,355	+79.1	**4,850,160**
Net income attributable to Canon Inc.	**246,603**	131,647	+87.3	**3,044,481**
Net income attributable to Canon Inc. stockholders per share:				
–Basic	**¥ 199.71**	¥ 106.64	+87.3	**$ 2.47**
–Diluted	**199.70**	106.64	+87.3	**2.47**
Total assets	**¥3,983,820**	¥3,847,557	+3.5	**$49,182,963**
Canon Inc. stockholders' equity	**¥2,645,782**	¥2,688,109	-1.6	**$32,663,975**

Notes:
1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY81=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2010, solely for the convenience of the reader.

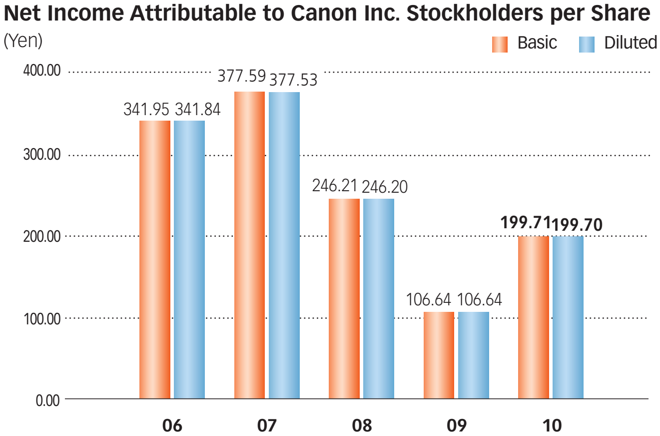
Net Sales
(Millions of yen)



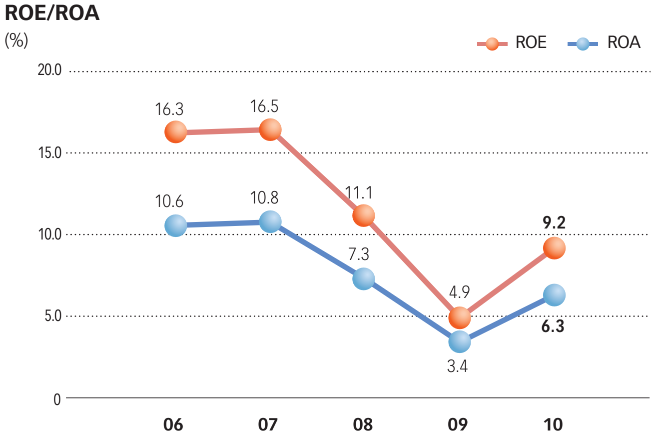
Net Income Attributable to Canon Inc.
(Millions of yen)



Net Income Attributable to Canon Inc. Stockholders per Share
(Yen)



ROE/ROA
(%)



CORPORATE PROFILE

Canon develops, manufactures and markets a growing lineup of copying machines, printers, cameras and industrial and other equipment. Through these products, the Company meets growing customer needs that are becoming increasingly diversified and sophisticated. Today, the Canon brand is recognized and trusted throughout the world.

In 1996, Canon launched its Excellent Global Corporation Plan with the aim of becoming a company worthy of admiration and respect the world over. Currently, the Company is promoting a "cross-media imaging" strategy—wherein advanced synergies are realized between input and output devices. At the same time, Canon is strengthening its solutions business while nurturing its operations in the fields of medical equipment and industrial equipment, the latter including intelligent robots, to establish new core businesses. Canon is working to fulfill its responsibilities to investors and society, emphasizing sound corporate governance and stepping up the implementation of activities that contribute to environmental and social sustainability.

CORPORATE PHILOSOPHY: *Kyosei*

The corporate philosophy of Canon is *kyosei*. A concise definition of this word would be "Living and working together for the common good." But Canon's definition is broader: *kyosei* is "All people, regardless of race, religion or culture, harmoniously living and working together into the future." Unfortunately, the presence of imbalances in the world in such areas as trade, income levels and the environment hinders the achievement of *kyosei.*

Addressing these imbalances is an ongoing mission, and Canon is doing its part by actively pursuing *kyosei.* True global companies must foster good relations, not only with their customers and the communities in which they operate, but also with nations; and they need to address environmental issues worldwide. In addition, global companies must bear responsibility for the impact of their activities on society. For this reason, Canon's goal is to contribute to global prosperity and to people's well-being, which will lead to continuing growth and bring the world closer to achieving *kyosei.*

CORPORATE GOAL

Canon sees itself growing and prospering over the next 100, even 200, years. To realize this goal, the Company is implementing its Excellent Global Corporation Plan, and the year 2011 saw our launch of this plan's Phase IV. Building on the financial strengths that it has continuously reinforced through the implementation of the plan, Canon aims to attain the status of being among the top 100 global companies in terms of key performance indicators.

CONTENTS

TO OUR STOCKHOLDERS 2
MESSAGE FROM THE PRESIDENT 6
CORPORATE GOVERNANCE 8
EXCELLENT GLOBAL CORPORATION PLAN: PHASE IV 12
CORPORATE FUNCTIONS 20
- RESEARCH & DEVELOPMENT
- PRODUCTION
- SALES & MARKETING
- CORPORATE SOCIAL RESPONSIBILITY

BUSINESS UNITS 32
- OFFICE BUSINESS UNIT
- CONSUMER BUSINESS UNIT
- INDUSTRY AND OTHERS BUSINESS UNIT

FINANCIAL SECTION 45
TRANSFER AND REGISTRAR'S OFFICE 110
STOCKHOLDER INFORMATION 110
MAJOR CONSOLIDATED SUBSIDIARIES 111

Cover Photo:
The advanced-amateur model, EOS 60D complemented Canon's existing digital SLR lineup, contributing to increased sales volume and expanded market share. The EOS 60D offers such advanced features as the Vari-angle Clear View LCD monitor and full-HD video capability.

TO OUR STOCKHOLDERS

Targeting Sound Growth Anew through Rapid Transformation

Under a new slogan, "Aiming for the Summit—Speed & Sound Growth," Canon will redouble its efforts to join the ranks of the world's top 100 companies in terms of all key performance indicators during the five-year Phase IV of the Excellent Global Corporation Plan.

Through the implementation of six key strategies over Phase IV, we aim to achieve consolidated net sales of more than ¥5 trillion by 2015.

2010 Overview

The global economy continued on a path toward mild recovery in 2010, supported by growth in China, India and other emerging markets. The U.S. economy continued to recover gradually while Europe showed signs of a turnaround. Although the Japanese economy had been picking up gradually, the recovery came to a standstill due to deflation and the strong yen.

In 2010, we completed Phase III, further enhancing our corporate constitution. Achieving our goal of making 2010 the first year in a new era of growth for Canon, we were able to go on the offensive despite the lingering effects of the global recession.

Times are changing. Over the next five years of Phase IV, we will undergo a transformation, opening new gateways to the next generation of Canon.

2010 Performance Results

In 2010, consolidated net sales increased 15.5% year on year to ¥3,706.9 billion, and the gross profit ratio rose 3.6 points to 48.1%. Operating profit jumped 78.6% to ¥387.6 billion. By segment,* in the Office Business Unit, sales grew 20.8% to ¥1,987.3 billion while operating profit surged 27.9% to ¥293.3 billion. In the Consumer Business Unit, sales edged up 6.9% to ¥1,391.3 billion while operating profit climbed 29.7% to ¥238.1 billion. As for the Industry and Others Business Unit, sales totaled ¥433.0 billion, up 20.9% year on year, and operating loss totaled ¥9.8 billion, an improvement of ¥66.1 billion. By geographic region, sales in the Americas grew 14.4% to ¥1,023.3 billion; sales in Europe increased 17.8% to ¥1,172.5 billion; in Japan, sales dipped 0.9% to ¥695.7 billion; and in Asia and Oceania (excluding Japan), sales grew 32.0% to ¥815.4 billion.

Selling, general and administrative expenses increased 19.2% to ¥1,079.7 billion while R&D expenses rose 3.7% to ¥315.8 billion. Net income attributable to Canon Inc. leapt 87.3% to ¥246.6 billion, while net income attributable to Canon Inc. stockholders per share amounted to ¥199.71 and ¥199.70 in basic and diluted terms, respectively.

The average value of the yen during the year was ¥87.40 against the U.S. dollar, a year-on-year appreciation of approximately ¥6.00, and ¥114.97 against the euro, a year-on-year increase of approximately ¥15.00. The strong yen against these and other currencies put downward pressure on our performance, reducing net sales and operating profit by ¥193.9 billion and ¥127.4 billion, respectively.

Despite the yen's sharp appreciation in the second half, Canon aggressively introduced new products and continued to reduce costs while improving production turnover in line with increased production. These activities enabled us to expand our profits substantially. Also, comprehensive cash flow management allowed us to enhance management efficiency and accumulate ample cash on hand.

Canon continues its proactive approach to steadily returning profits to stockholders while taking into consideration future investments, free cash flow and consolidated business performance. For 2010, Canon increased its full-year dividend to ¥120 per share, up ¥10 from 2009.

* Segment sales results include intersegment sales.

Achievements in Previous Phases

In Phase I, which started in 1996, we worked to strengthen the Company's financial standing, making efforts to change our mindset with a focus on total optimization and profitability. In Phase II, which began in 2001, as the world was overtaken by the wave of digitization, we reinforced Canon's product competitiveness through a new R&D infrastructure and the in-house production of key components.

In Phase III, launched in 2006, we worked to expand Canon's scale with the aim of becoming a truly excellent global company and achieving "sound growth." We improved the profitability of existing businesses and established new businesses through innovation, but, hit by the global recession in 2008, our record of eight consecutive years of sales and profit growth came to an end.

To overcome this crisis, we temporarily revised our strategy, shifting our focus in 2010 to improving management quality. We accelerated cost reductions, facilitated higher capital-investment efficiencies and promoted inventory reductions through the establishment of advanced supply chain management (SCM). These initiatives proved effective, enabling Canon to maintain a high stockholders' equity ratio and accumulate retained earnings and cash and cash equivalents. Furthermore, we joined the global top 100 companies in terms of market value.

Future Business Environments

Despite such uncertainties as high unemployment in the United States, financial instability in Europe, and persistent deflation in Japan, advanced nations are expected to continue moving toward gradual economic recovery. Meanwhile, China, India and other emerging nations are expected to sustain their steady economic growth. It is apparent that these emerging nations will drive the growth of the global economy. Also, looking at social and industrial trends, the acceleration of information communication technology (ICT) and increasing awareness of environmental issues will play increasingly important roles. As corporations focus their energies on these growing fields, global competition in these areas is expected to further intensify.

Strategies for Phase IV

Under the new slogan "Aiming for the Summit—Speed & Sound Growth," Canon aims to realize rapid transformation in anticipation of the changes of the times. Through this transformation, we will again take on the challenge of joining the world's top 100 companies in terms of all key performance indicators. To this end, we have formulated six strategies, as follows:

1. Achieving the overwhelming No. 1 position in all core businesses and expanding related and peripheral businesses
2. Developing new business through globalized diversification and establishing the Three Regional Headquarters management system
3. Establishing a world-leading globally optimized production system
4. Comprehensively reinforcing global sales capabilities
5. Building the foundations of an environmentally advanced corporation
6. Imparting a corporate culture, and cultivating human resources befitting a truly excellent global company

In line with these strategies, we have set the following targets for 2015, the final year of Phase IV.

Net sales:	¥5 trillion or more
Operating profit ratio:	20% or more
Net income ratio:	10% or more
Stockholders' equity ratio:	75% or more

By achieving these targets, Canon aims to renew itself and become a truly excellent global corporation. I would like to ask you all for your continued support and understanding.

Fujio Mitarai
Chairman and CEO
Canon Inc.

MESSAGE FROM THE PRESIDENT

Economies and industries worldwide are undergoing drastic changes. Aiming to achieve our targets for Phase IV of the Excellent Global Corporation Plan, we will take on new challenges, with the courage and conviction to change.

2011 marks the start of Phase IV of the Excellent Global Corporation Plan. In the course of working toward our targets for 2015, we first aim to achieve in 2012 results that exceed our record-high performance in 2007. To this end, we will take on new challenges to reach a higher summit.

Continuous Introduction of Innovative Products and Services

Canon will continue to launch innovative products and services to attain the overwhelming No. 1 position in all existing core businesses. To fulfill this goal, in all major product categories, we will strengthen the solutions and services we provide based on our powerful hardware portfolios and thereby expand our business domains.

In the Office Business Unit, we aim to bolster our solutions business through such initiatives as forming alliances with HP and other IT powerhouses, promoting Canon's proprietary Managed Print Services (MPS) and developing application software that supports cloud services. Meanwhile, by enhancing collaboration with Océ N.V., which became a consolidated subsidiary in 2010, we will expand our lineups of digital production printers and large-format inkjet printers while generating greater synergies in marketing by accelerating our solutions business.

Turning to the Consumer Business Unit, we will continue to improve the video capabilities of our digital SLR cameras while reinforcing our software offerings that facilitate the effective use of the cameras in photo studios and other settings. Also, in response to wide-ranging needs for image output through electrophotographic and inkjet printers, we will enhance and strengthen our product lineups, from personal-use to commercial-use models, by promoting a total printing strategy. Under this strategy, we will target imaging demand associated with the Internet and a wide array of input devices. As a first step, anticipating further growth in the retail photo-finishing and commercial printing markets along with the spread of digital cameras, Canon will enter the commercial photo printer market.

Aggressive Business Expansion in Emerging Markets

Emerging markets in China, India, ASEAN nations and other regions are expected to realize further expansion. The Company is carrying out fine-tuned initiatives designed to accommodate needs specific to individual markets and customers, from R&D to sales and service. For example, we will launch products exclusively designed for specific markets and customers, executing sales strategies tailored to the characteristics of each market.

Targeting Improved Productivity

We are working to establish an optimal global production structure. Under this structure, we will manufacture products worldwide at the most rational locations as determined by such factors as cost, logistics, procurement, quality and workforce. Our focus on improving productivity through the promotion of automated and in-house production also plays an important role within our strategy to realize optimal global production.

We have significantly enhanced productivity for laser printer toner cartridges through the automation of several hundred processes, from parts molding and assembly to inspection and packaging. We are now working to further improve the reliability of these automated machines and realize complete automation, thereby reinforcing our product competitiveness.

Through our IT reforms targeting total optimization, we have carried out a range of initiatives, including the standardization of 3D-CAD systems and the integration of 3D-CAD with our product data management (PDM) system. Such system integration has enabled us to share and use information throughout the entire product lifecycle, from procurement, development and production to sales and service. These IT reforms will have a substantial, positive impact on Canon's business management.

Continuous Enhancements of Product Quality

Product quality is the lifeline of all manufacturers. Even a single minor product defect could potentially undermine the credibility—indeed, the very foundations—of a corporation. Therefore, we must remain committed to maintaining and improving the quality of our products across the Canon Group. Canon has established a comprehensive quality-information management system spanning all processes, from design to mass-production. Based on this system, and by strengthening cooperation throughout the Company, we will continue to reinforce our structure to prevent critical product quality problems.

Toward Becoming a Truly Excellent Corporation

In the first year of Phase IV, we will work to further solidify our business foundation. Meanwhile, we will bolster efforts to develop human resources to ensure that Canon employees will be able to function as key players in the global market. We will train employees entrusted with the future of Canon by making use of practical settings, including local sales and production operations worldwide, particularly in rapidly growing Asian markets.

We will further expand our field of corporate activities. Accordingly, the need for us to fulfill our social responsibilities will become more important than ever. Under our corporate philosophy of *kyosei,* we will continue to promote activities to reduce the environmental burden of our corporate activities and products. At the same time, we aim to further bolster our compliance and internal controls.

Toward the achievement of our 2015 net sales target of more than ¥5 trillion, we are amassing our Groupwide strengths. Capitalizing on the sound financial constitution that we have realized to date, with the courage and conviction to change, we will continue to implement initiatives that will empower us to realize additional, sustainable growth. We ask for your continued support and understanding.

Tsuneji Uchida

Tsuneji Uchida
President and COO
Canon Inc.

CORPORATE GOVERNANCE

Canon maintains sound corporate governance as part of efforts to maximize its stockholders' value and become a truly excellent global corporation.

Basic Policy and Corporate Governance Structure

Canon recognizes that management supervision functions and management transparency are vital to strengthening its corporate governance and further raising corporate value. Canon's basic governance structure comprises the General Meeting of Shareholders, the Board of Directors and the Board of Corporate Auditors. Furthermore, the Executive Committee and management committees are dedicated to addressing key issues. All of these bodies work together to ensure the appropriate management of the Group through an internal auditing structure underpinned by the independent Corporate Audit Center and an information disclosure system for management activities.

Board of Directors

Important business matters are discussed and ratified during meetings of the Board of Directors and Executive Committee. As of December 31, 2010, the board consisted of 17 directors. In order to facilitate more practical and efficient decision making, the board is entirely composed of internal directors who have well-developed knowledge of the Company's affairs. Also, the board is supported by various management committees that address important management issues in their specific fields. These committees complement the Company's management system by business unit, facilitate efficient decision making and realize a mutual supervisory function for such matters as compliance and ethics.

Executive Officer System

Canon is endeavoring to realize more flexible and efficient management operations by maintaining an appropriately sized organization of directors and promoting capable human resources with accumulated executive knowledge across specific business areas.

Executive officers are appointed and dismissed by the Board of Directors and have a term of office of one year. The number of executive officers was 13 as of December 31, 2010.

Auditing System

Canon has five corporate auditors, including three outside corporate auditors who have no personal or business affiliations with the Company. Canon has notified the stock exchanges in Tokyo, Osaka, Nagoya, Fukuoka and Sapporo of the designation of these outside corporate auditors as independent auditors, as provided under the regulations of the stock exchanges. Corporate auditors' duties include attending meetings of the Board of Directors and of the Executive Committee,

Directors & Corporate Auditors (as of December 31, 2010)

Chairman & CEO

Fujio Mitarai

President & COO

Tsuneji Uchida

Executive Vice President & CFO

Toshizo Tanaka
Senior General Manager, External Relations Center
Senior General Manager, Corporate Communications Center
Vice Chairman, Supervisory Board of Océ N.V.

Executive Vice President & CTO

Toshiaki Ikoma
Group Executive, Corporate R&D Headquarters
Chief Executive, Optical Products Operations

Senior Managing Directors

Kunio Watanabe
Group Executive, Corporate Planning Development Headquarters

Yoroku Adachi
President & CEO, Canon U.S.A., Inc.

Yasuo Mitsuhashi
Chief Executive, Peripheral Products Operations

Managing Directors

Tomonori Iwashita
Group Executive, Environment Headquarters
Group Executive, Quality Management Headquarters

Masahiro Osawa
Group Executive, Global Procurement Headquarters
Group Executive, General Affairs Headquarters

Shigeyuki Matsumoto
Group Executive, Device Technology Development Headquarters

Katsuichi Shimizu
Chief Executive, Inkjet Products Operations

Ryoichi Bamba
President, Canon Europa N.V.
President, Canon Europe Ltd.

Toshio Homma
Chief Executive, L Printer Products Operations

Masaki Nakaoka
Chief Executive, Office Imaging Products Operations

Haruhisa Honda
Group Executive, Manufacturing Headquarters

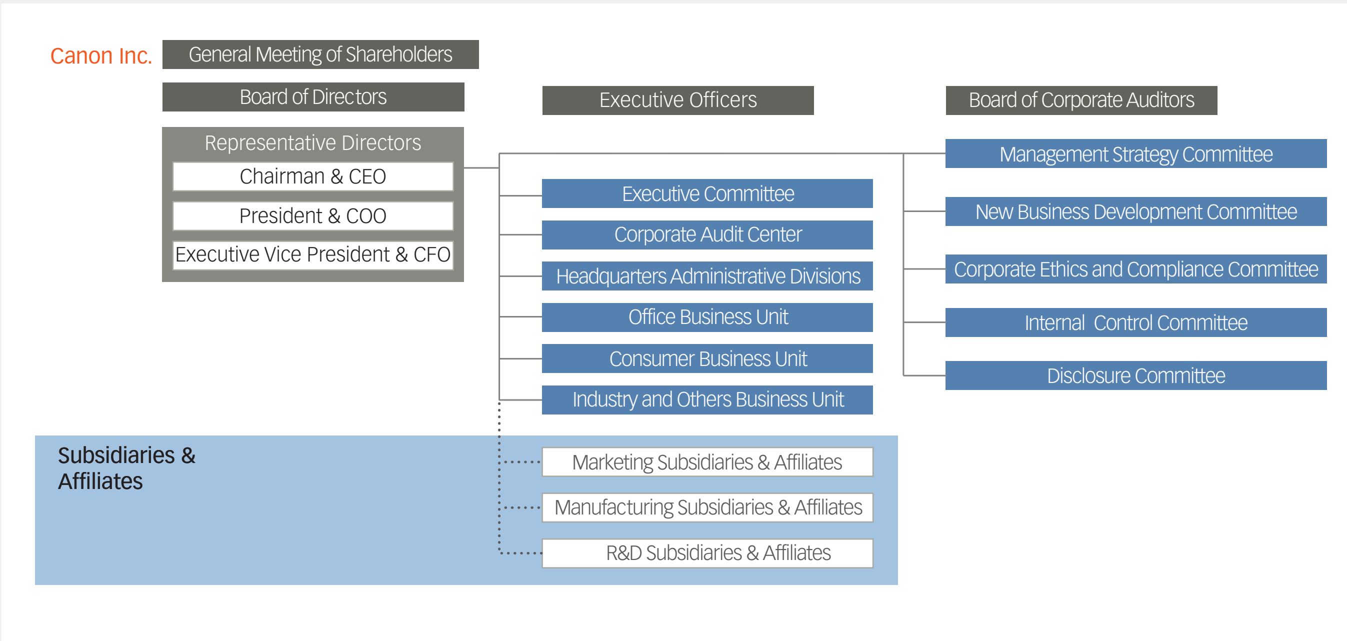
Hideki Ozawa
President & CEO, Canon (China) Co., Ltd.

Masaya Maeda
Chief Executive, Image Communication Products Operations

Corporate Auditors

Keijiro Yamazaki
Shunji Onda
(Outside)
Tadashi Ohe
Kazunori Watanabe
Kuniyoshi Kitamura

Governance Structure (as of December 31, 2010)



listening to business reports from directors, carefully examining documents related to important decisions and conducting strict audits of the Group's business and assets. Corporate auditors also work closely with accounting auditors and the Corporate Audit Center, which is in charge of monitoring the Company's compliance, risk management and internal control systems in addition to providing assessments and recommendations as required.

Internal Control Committee

In response to the Sarbanes-Oxley Act, including Section 404, which came into force during 2006, Canon continues to reinforce internal control systems and implement appropriate measures. The Internal Control Committee is responsible for Groupwide internal controls, including those pertaining to financial reporting.

In order to strengthen internal controls, Canon conducts comprehensive evaluations of internal controls across areas that include accounting, management oversight, legal compliance, IT systems and the promotion of corporate ethics. As of December 31, 2010, internal control over financial reporting has been assessed as effective by the management and an independent registered public accounting firm. (Please refer to pages 107 and 109.)

Compliance briefing at Canon Hi-Tech (Thailand) Ltd.

Compliance meeting at Canon Deutschland GmbH

Other Corporate Governance Committees

The Corporate Ethics and Compliance Committee, in addition to the Disclosure Committee, is the key body of Canon's management committees. The Corporate Ethics and Compliance Committee discusses and approves corporate ethics and compliance policies while monitoring the implementation of these policies. The Disclosure Committee works to ensure strict compliance with disclosure regulations as prescribed by stock exchanges.

Compliance

Shortly after its founding, Canon established the *San-Ji,* or "Three Selfs" spirit—namely: "self-motivation," or taking the initiative and being proactive in all things; "self-management," or conducting oneself responsibly and being accountable for all one's actions; and "self-awareness," or understanding one's situation and role in it. These principles remain the basis for employee education and provide the platform for the Canon Group Code of Conduct.

Recognizing the importance of safeguarding personal information, Canon does its utmost to protect this valuable form of information asset in the course of fulfilling its social responsibilities. With the aim of keeping its employees informed and aware, the Company conducts e-learning sessions as part of its personal information protection education programs every year.

Disclosure

Canon makes every effort to disclose information on its management and business strategies as well as its performance results to all stakeholders in an accurate, fair and timely manner. To this end, Canon holds regular briefings and posts the latest information on its website together with a broad range of disclosure materials.

Canon has formulated its own Disclosure Guidelines and established the Disclosure Committee, which makes decisions regarding information disclosure, including necessity, content and timing. The Disclosure Committee makes such decisions

Significant Differences in Corporate Governance Practices between Canon and U.S. Companies Listed on the NYSE

Section 303A of the New York Stock Exchange (the "NYSE") Listed Company Manual (the "Manual") provides that companies listed on the NYSE must comply with certain corporate governance standards. However, foreign private issuers whose shares have been listed on the NYSE, such as Canon Inc. (the "Company"), are permitted, with certain exceptions, to follow the laws and practices of their home country in place of the corporate governance practices stipulated under the Manual. In such circumstances, the foreign private issuer is required to disclose the significant differences between the corporate governance practices under Section 303A of the Manual and those required in Japan. A summary of these differences as they apply to the Company is provided below.

1. Directors

Currently, the Company's Board of Directors does not have any director who could be regarded as an "independent director" under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Corporation Law of Japan (the "Corporation Law") does not require Japanese companies with a board of corporate auditors such as the Company, to appoint independent directors as members of the board of directors. The NYSE Corporate Governance Rules require non-management directors of U.S. listed companies to meet at regularly scheduled executive sessions without the presence of management. Unlike the NYSE Corporate Governance Rules, however, the Corporation Law does not require companies to implement an internal corporate organ or committee comprised solely of independent directors. Thus, the Company's Board of Directors currently does not include any non-management directors.

2. Committees

Under the Corporation Law, the Company may choose to:
(i) have an audit committee, nomination committee and compensation committee and abolish the post of corporate auditors; or

(ii) have a board of corporate auditors.
The Company has elected to have a board of corporate auditors, whose duties include monitoring and reviewing the management and reporting the results of these activities to the stockholders or Board of Directors of the Company. While the NYSE Corporate Governance Rules provide that U.S. listed companies must have an audit committee, nominating committee and compensation committee, each composed entirely of independent directors, the Corporation Law does not require companies to have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

The Company's Board of Directors nominates candidates for directorships and submits a proposal at the General Meeting of Shareholders for stockholder approval. Pursuant to the Corporation Law, the stockholders then vote to elect directors at the meeting. The Corporation Law requires that the total amount or calculation method of compensation for directors and corporate auditors be determined by a resolution after receiving reports on information that might need to be disclosed from the person in charge of the disclosure working group at each headquarters.

Countering Antisocial Forces

Canon has formulated a basic policy stipulating that no Canon Group companies shall maintain relationships of any kind with antisocial forces that represent a threat to social order and security. To uphold this basic policy, Canon has established a department dedicated to activities aimed at countering such parties while reinforcing cooperative ties with applicable public authorities. In addition, Canon's Employment Regulations include a clause prohibiting such relationships, and the Company continues to step up efforts to ensure strict employee adherence.

Risk Management

As Canon pursues business expansion in various fields on a global scale, the business and other risks to which it may be exposed continue to diversify. With the goal of eliminating such risks altogether, while honoring the trust placed in it by its stakeholders, Canon works diligently to avoid or minimize its exposure, to this end assigning specifically designated management committees to address key issues.

In particular, the Executive Committee and various management committees engage in careful discussions regarding significant risk factors. The Corporate Audit Center preemptively identifies risk factors through audit activities. Also, Canon formulates in-house rules to guard against those risks and, in accordance with the policies formulated by the Internal Control Committee, strives to identify and assess relevant risks associated with individual business processes.

of the General Meeting of Shareholders respectively, unless the amount or calculation method is provided under the Articles of Incorporation. As the Articles of Incorporation of the Company do not provide an amount or calculation method, the amount of compensation for the directors and corporate auditors of the Company is determined by a resolution of the General Meeting of Shareholders. The allotment of compensation for each director from the total amount of compensation is determined by the Company's Board of Directors, and the allotment of compensation to each corporate auditor is determined by consultation among the Company's corporate auditors.

3. Audit Committee

The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Security Exchange Act, which provides that a foreign private issuer which has established a board of corporate auditors shall be exempt from the audit committee requirements, subject to certain requirements which continue to be applicable under Rule 10A-3.

Pursuant to the requirements of the Corporation Law, the stockholders elect the corporate auditors by resolution of a general meeting of shareholders. The Company currently has five corporate auditors, although the minimum number of corporate auditors required pursuant to the Corporation Law is three.

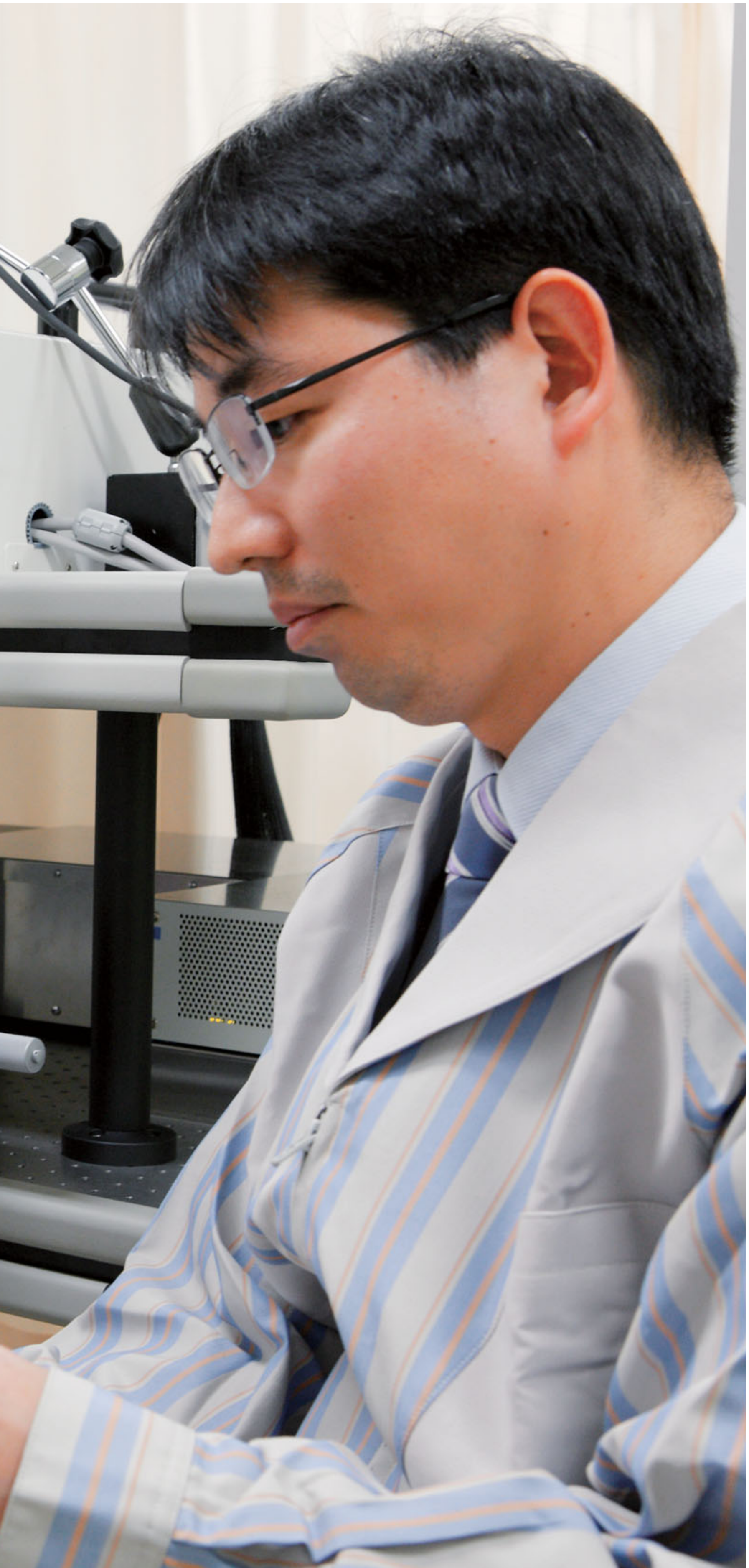
Unlike the NYSE Corporate Governance Rules, Japanese laws and regulations, including the Corporation Law, do not require corporate auditors to be experts in accounting or to have any other area of expertise. Under the Corporation Law, a board of corporate auditors may determine the auditing policies and methods for investigating the business and assets of a company, and may resolve other matters concerning the execution of the corporate auditor's duties. The Board of Corporate Auditors prepares auditors' reports and may veto a proposal for the nomination of corporate auditors, accounting auditors and the determination of the amount of compensation for the accounting auditors put forward by the Board of Directors.

Under the Corporation Law, the half or more of a company's corporate auditors must be "outside" corporate auditors. These are individuals who are prohibited to have ever been a director, executive officer, manager, or employee of the Company or its subsidiaries. The Company's current corporate auditor system meets these requirements. Among the five members on the Company's Board of Corporate Auditors, three are outside corporate auditors. The qualifications for an "outside" corporate auditor under the Corporation Law are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

4. Shareholder Approval of Equity Compensation Plans

The NYSE Corporate Governance Rules require that shareholders be given the opportunity to vote on all equity compensation plans and any material revisions of such plans, with certain limited exceptions. Under the Corporation Law, a company is required to obtain stockholder approval regarding the stock options to be issued to directors and corporate auditors as part of remuneration of directors and corporate auditors.

EXCELLENT GLOBAL CORPORATION PLAN: PHASE IV



CONTENTS

Overview 14

Six Key Strategies for Phase IV 15

Photo:
Through the Canon-Kyoto University Joint Research Project (CK Project), Canon is advancing R&D for medical imaging systems—one of its next-generation core businesses.

OVERVIEW

In 2011, Canon launched Phase IV of its Excellent Global Corporation Plan, which will continue through 2015. Under the new slogan "Aiming for the Summit—Speed & Sound Growth," Canon aims to rank among the world's top 100 companies in terms of key performance indicators.

Looking Back with a Focus on the Future

The Excellent Global Corporation Plan comprises strategies and initiatives consistent with Canon's corporate philosophy of *kyosei.* Under this plan, Canon has worked to become a truly excellent company that contributes to society through technological advances—a company that is admired and respected worldwide. Although we faced various challenges over the three five-year phases up to 2010, implementing management reforms in each phase, we succeeded in becoming what we are today.

During Phase IV of the Excellent Global Corporation Plan, Canon aims to post business results in 2012 that exceed the record performance it achieved in 2007. In addition, by 2015, the final year of Phase IV, Canon aims to realize net sales of more than ¥5 trillion, an operating profit ratio of more than 20% and a net income ratio of more than 10%.

To meet these targets, we will develop our medical and industrial fields into new business pillars. We will also continue our efforts to improve such basic manufacturing functions as R&D, production, and sales and marketing in order to keep abreast of ever-accelerating technological advances. For R&D, in particular, we will build a Three Regional Headquarters management system with innovation centers based in Japan, the United States and Europe. Under this system, Canon will carry out development and manufacturing activities in each region, and market the resulting products globally.

Key Strategies for Phase IV

Globalization and diversification—these are the two basic management strategies that have guided Canon since the Company's founding. In Phase IV, we will combine these policies and embark upon "globalized diversification" based on the following six key strategies.

1.	Achieving the overwhelming No. 1 position in all core businesses and expanding related and peripheral businesses
2.	Developing new business through globalized diversification and establishing the Three Regional Headquarters management system
3.	Establishing a world-leading globally optimized production system
4.	Comprehensively reinforcing global sales capabilities
5.	Building the foundations of an environmentally advanced corporation
6.	Imparting a corporate culture, and cultivating human resources befitting a truly excellent global company

External Rankings

• Financial Times Global 500
(May 29/30, 2010 issue)
Market value ranking: 93
(7th in the Technology Hardware & Equipment sector)

• FORTUNE Global 500
(July 26, 2010 issue)
Revenues ranking: 216
Profits ranking: 202
FORTUNE Global 500 is a registered trademark of FORTUNE Magazine, a division of Time Inc. in the United States of America.

SIX KEY STRATEGIES FOR PHASE IV

1. Achieving the overwhelming No. 1 position in all core businesses and expanding related and peripheral businesses

imageRUNNER ADVANCE-based solutions contributing to Sodexo, France-based integrated food and facilities management service provider

Canon's current core businesses include digital cameras, laser printers, office network MFDs, inkjet printers and semiconductor lithography equipment. In these segments, Canon will continue to launch innovative products and expand sales through strategic solutions and services, thereby attaining the overwhelming No. 1 position worldwide in all of them. At the same time, we will promote diversification to develop related and peripheral business fields.

In the Office Business Unit, in addition to introducing competitive products within our mainstay imageRUNNER ADVANCE-series lineup, we will strengthen our solutions, software and service offerings in each business area. In this way, we aim to transform this segment into a more comprehensive office equipment business in response to the changing times towards the establishment of a greater revenue base. And in the course of these developments, M&A will definitely be an option. Also, through closer collaboration with Océ, we will step up our technological cooperation, complementing each other's product portfolios and sales channels to realize concrete synergies.

As for the Consumer Business Unit, as the video capabilities of digital SLR cameras advance, we will aim for the No. 1 position in this field. In inkjet printers, we plan to improve our products' compatibility with smartphones and other new information terminals as well as with new applications. In this way, we will work to meet ever-diversifying customer needs while continuing to enhance the operability of these printers.

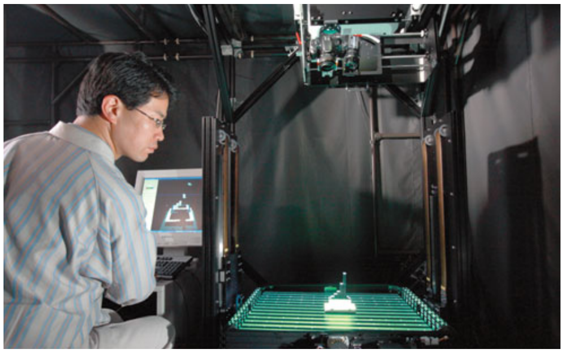
PHOTOPRESSO online photo service in Japan, a digital camera-related business

2. Developing new business through globalized diversification and establishing the Three Regional Headquarters management system

Océ N.V., Canon's new consolidated subsidiary, develops digital production printers.

Canon will establish innovation centers not only in Japan but in the United States and Europe. We will develop fundamental technologies and region-specific products and market these products through our global sales network. While acquiring new technologies and businesses through M&A, we will accelerate the establishment of our two next-generation business fields—namely, medical equipment and industrial equipment.

We have continuously led the world of imaging, and we will reinforce our visualization technologies through our innovative sensor and image-processing technologies, developing medical imaging into a new business pillar. For example, looking at our existing digital radiography systems, we have applied our proprietary technologies to realize high-resolution, high-speed dynamic imaging with reduced radiation doses. Canon aims to become the industry leader in the digital radiography segment for both static and dynamic medical imaging. As for ophthalmic equipment, leveraging synergies realized through the 2010 integration of OPTOPOL Technology S.A., we will expand our lineup of Optical Coherence Tomography (OCT) systems, essential for advanced medical examinations for lifestyle-related and other diseases. Looking to new areas, through the promotion of the Canon-Kyoto University Joint Research Project (CK Project), Canon is working to develop innovative medical systems, including optical ultrasound diagnostic systems that enable the early detection of cancer.



Super Machine Vision goes beyond the capabilities of human vision.

As for industrial equipment, we will bolster our existing businesses Groupwide. Also, we will strengthen our R&D efforts for Artificial Intelligence (AI) technologies that enable machines to better recognize human behavior and thinking. These technologies include Super Machine Vision—imaging technology surpassing the capabilities of human vision—and Mixed Reality (MR) technology. By integrating these technologies through the use of information communication technology (ICT), we aim to develop a portfolio of comprehensive solutions for all manufacturing processes. In the long term, these technologies have the potential to help Canon make inroads into the security and safety field, which includes risk prediction and nursing care.

3. Establishing a world-leading globally optimized production system

With the launch of new plant operations at Canon Virginia, Inc., Canon has established a toner cartridge SCM cycle, from production to recycling, in the United States.

By reviewing our global operations and comprehensively assessing the status of every aspect of our business, including costs, logistics, procurement, quality and workforce, we will reorganize our worldwide allocation of production bases from a long-term perspective and work to achieve an optimal production structure.

In January 2010, Canon Virginia, Inc. began the automated production of toner cartridges. With this, Canon has achieved toner cartridge supply chain management (SCM) in the United States, handling all the processes locally, from production and sales to collection and recycling. The establishment of a globally optimized production system is predicated on the promotion of automated processes and total automation. In toner cartridge production, we will further enhance the capabilities of our automated machines and accelerate their use for production in Europe and Asia, which is expected to become an even bigger market. Regarding other products—particularly those that are generating, or will generate, significant demand and for which automated production is viable—we plan to develop SCM cycles similar to those operated by Canon Virginia. Furthermore, we will promote "man-machine cell" production systems and in-house production while continuing to improve the quality of our products.

In-house production of a mold at Canon (Suzhou) Inc.

4. Comprehensively reinforcing global sales capabilities

Canon is diversifying service operations in China while expanding its after-sales service bases there through the establishment of Quick Service Stations.

Economic growth centers are shifting from Europe and the United States to Asia, South America, Africa and other emerging nations as well as to resource-producing nations. Accurately capturing such trends, we will strive to boost sales in these regions and nations. More specifically, in Asia, we will first sharpen our focus on building up our sales presence in China by bolstering our sales force. We will also work to expand sales in India, Indonesia and other ASEAN nations, along with Brazil, Russia and African nations. In all of our core businesses, we will enhance sales of our products, giving due consideration to the characteristics and actual conditions in each market.

In advanced nations as well, we will further enhance our sales capabilities. Starting with Europe, the United States and Japan, we will generate greater synergies through collaboration with Océ, taking full advantage of the company's powerful global sales channels and product portfolio, including digital production printers and industrial-use printing systems. Regardless of the region or nation, we will work to accelerate the provision of solutions based on our office equipment while expanding retail photo-finishing services.

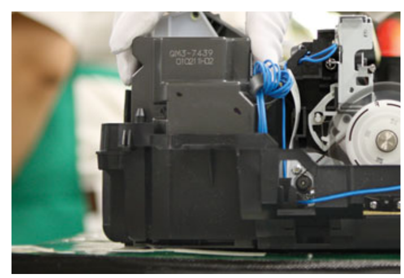
Canon Ru LLC strengthening sales activities in Russia

5. Building the foundations of an environmentally advanced corporation

Canon is working to reduce the lifecycle environmental burden of its products.

Canon is bolstering the development of energy- and resource-saving technologies to achieve unparalleled environmental performance throughout the entire product lifecycle. For example, the application of on-demand fixing technology has reduced power consumption during the toner fixing process on office network MFDs. Also, by promoting the remanufacturing and refurbishment of MFDs and the recycling of toner cartridges enabled through our proprietary technologies, we are working to reduce our environmental burden. Ultimately, we aim to become a global environmental leader.

Canon will promote a localized production model, which entails not only production and sales, but also the collection and recycling of used products in each region. This approach will contribute to reduced inventory and logistics costs while also enabling us to reduce our environmental burden even further.



Exterior part of inkjet printer power supply unit made from recycled materials

6. Imparting a corporate culture, and cultivating human resources befitting a truly excellent global company

Seminar held in Tokyo for managerial staff of Group companies in China

Amid the dramatic changes of the times, Canon places high value on its *San-ji,* or "Three Selfs," spirit—self-motivation, self-management and self-awareness—which provides the foundation of the Company's guiding principles, and will boost its enterprising spirit. Further promoting a corporate culture that encourages the entire Group to embrace the courage to change, we will put in place systems that we will be sure to pass on to the next generation. To this end, we will hasten the development of human resources capable of shouldering truly global business responsibilities.

CORPORATE FUNCTIONS

CONTENTS

Research & Development 22

Production 24

Sales & Marketing 26

Corporate Social Responsibility 28

Photo:
In the Americas, Canon is leading the development of solutions-based business products with its imageRUNNER ADVANCE series.
(Left: A FedEx Office Print and Ship Center in the United States)

RESEARCH & DEVELOPMENT

While strengthening R&D in fundamental technologies necessary for enhancing product competitiveness, Canon is promoting a diversification strategy and nurturing new businesses in medical and other fields.

Canon is advancing materials R&D with the aim of eliminating hazardous substances from its products through the adoption of a voluntary standard stricter than laws and regulations.

R&D Expenses and Patents

Canon continues to bolster R&D activities to remain the leader in the imaging field. R&D expenses totaled ¥315.8 billion, up ¥11.2 billion, or 3.7%, from 2009. The ratio to net sales was 8.5%. By segment, ¥96.2 billion, or 30.4% of the total expenses, was allocated to the Office Business Unit; ¥82.8 billion, or 26.2%, to the Consumer Business Unit; ¥21.1 billion, or 6.7%, to the Industry and Others Business Unit; and ¥115.8 billion, or 36.7%, to basic R&D, which cannot be classified by segment. During 2010, Canon was granted 2,543* patents in the United States.

* Source: U.S. Patent and Trademark Office. Calculated based upon publicly disclosed weekly totals

Reinforcing Core Technologies

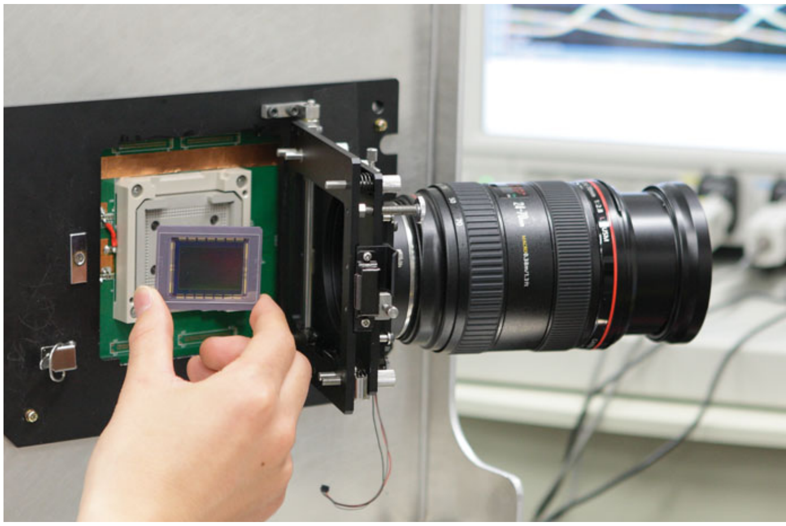
Canon continues to strengthen R&D for key components and devices. In CMOS sensors—a key component of digital cameras—Canon successfully developed a sensor that delivers image resolution of approximately 120 megapixels. Canon also developed a large CMOS sensor with ultra-high sensitivity. With a chip size of 202 mm x 205 mm, this sensor provides greater light-gathering capability, with potential applications including the video recording of night skies and nocturnal animal behavior as well as nighttime surveillance cameras. Canon will advance its R&D efforts, undertaking projects even in pre-competitive fields.

Nurturing New Businesses

Canon aims to establish operations in medical and industrial equipment as its new business pillars. In the medical field, Canon is cooperating with Kyoto University in developing diagnostic imaging systems that enable the early detection of diseases, including an optical ultrasound mammography system that uses near-infrared rays instead of X-rays, eliminating X-ray exposure, and an adaptive optics scanning laser ophthalmoscope (AO-SLO) for photoreceptor cell exams.

Canon is also stepping up R&D for intelligent robots that can detect changes in surrounding conditions and make appropriate judgments, just as humans do. Looking to the future in hazard prediction and nursing care, Canon will strengthen related R&D activities.

Moreover, Canon is promoting research on Mixed Reality (MR) technology—an imaging technology that seamlessly integrates the real and virtual worlds in real time—with potential applications including design simulation and prototype-less development.



Development of 120-megapixel CMOS sensor

R&D Globalization

Canon is enhancing its global R&D approach. In the United States, we are undertaking genetic diagnostic technology research. In 2010, we delivered a prototype system to the University of Utah. Genetic diagnostic systems are expected to improve drug administration based on genetic calculations. Meanwhile, Océ will play an important role in our R&D globalization.

In line with its Three Regional Headquarters management system, Canon aims to expand its R&D bases in Japan, the United States and Europe to launch R&D projects in new business areas. Through the strengthening of its R&D structure, it will accelerate strategic R&D activities.

Canon is advancing research on Mixed Reality (MR) technology—an imaging technology that integrates the real and virtual worlds.

PRODUCTION

While promoting in-house production, automated processes and total automation, Canon aims to establish an optimal global production structure.

"Man-machine cell" production system has been introduced at Canon Hi-Tech (Thailand) Ltd.

Establishing an Optimal Global Production Structure

Canon is working to optimize its production structure and allocation on a global scale by comprehensively assessing such factors as costs, logistics, procurement, quality and workforce. An optimized structure will lead to additional productivity improvements for the entire Canon Group.

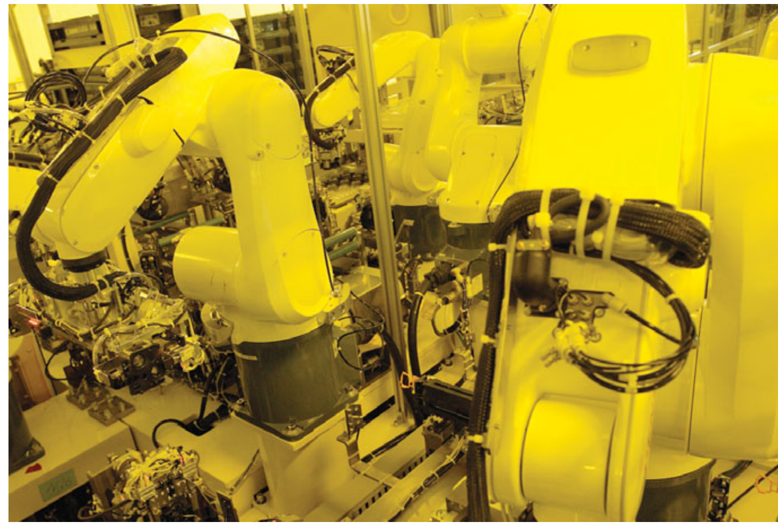
In 2010, Canon Virginia, Inc. began the automated production of toner cartridges to serve customers in North America, which is still a major market. With the start of such production, Canon Virginia has created a toner cartridge business model that completes the entire process, from production and sales to collection and recycling, within the United States.

Improving Productivity

In addition to improving cell production efficiency, Canon has introduced a "man-machine cell" production system that integrates manual and automated processes. We are also actively expanding automated production for products other than toner cartridges.

Aiming to strengthen technological expertise and reduce costs, Canon is promoting the in-house production of image sensors and other key components and devices. Canon plans to expand in-house production of materials and facilities, reducing costs and enhancing product competitiveness.

Meanwhile, Canon is implementing various IT reforms to eliminate redundancies in development, production and sales processes. As part of these reforms, Canon has established a centralized production management system, the introduction of which was completed as planned at 26 production bases in 2010. This system allows our production bases to share purchase-order information provided by sales companies in real time. Thus, materials and parts can be procured and products assembled to match the exact volume ordered, contributing to additional inventory reductions.



Automated toner cartridge production

Bolstering Production Capacity

To prepare for an expected increase of global demand for its products, Canon is working to strengthen its production structure worldwide by giving due consideration to optimal locations and capacity.

In 2010, Canon started the production of digital cameras at Nagasaki Canon Inc. In 2011, Canon Zhongshan Business Machines Co., Ltd., located in Guangdong, China plans to start operations of its new laser printer plant, and Canon High-Tech (Thailand), of its new inkjet printer plant.

As the laser printer market heads toward full-fledged recovery, Canon anticipates that demand for toner cartridges will grow again. In response, Canon will construct a new plant at Hita Canon Materials Inc. in Oita Prefecture, Japan for the manufacture of toner cartridge parts and toners. The plant construction will start during 2011, and the plant is scheduled to begin operations in 2012.

Digital camera production at Nagasaki Canon Inc.

Sales & Marketing

Canon continues to bolster its sales and marketing functions in all operations to better serve its customers through sophisticated products, advanced solutions and timely services.

Canon Information Technology Services, Inc. efficiently responds to inquiries from end users throughout the United States.

General Review

ICT applications are spreading, and demand for advanced solutions and services is growing. Canon aims to expand sales by offering new solutions and services in all of its businesses.

The consolidation of Océ N.V. has enabled Canon to provide a wider range of printing solutions worldwide. Meanwhile, through its 2009 alliance with HP, Canon is more capable than ever of helping offices throughout the world create optimal document input/output environments specific to individual customer needs. Also, we are promoting Canon Managed Document Services (Canon MDS), a common global service designed to assist customers manage more effectively their document input/output environments and document processes. Primarily targeting global corporations, we aim to expand our customer base for Canon MDS. In addition, Canon has entered the retail photo-finishing market and begun photo-related solutions offerings. In the medical field, it has launched integrated services by linking diagnostic imaging systems with digital production printers.

The Americas

Canon's sales totaled ¥1,023.3 billion (27.6% of consolidated net sales). Markets in this region picked up gradually and showed robust trends in the second half.

Canon renewed its IT systems to facilitate information sharing even with local distributors. These systems have enabled Canon to immediately gather inventory information and deliver products to customers in a more timely manner. Canon plans to establish a solutions business subsidiary in 2011. This subsidiary will develop and sell solutions combining digital cameras, printers, medical equipment and office network MFDs.

Europe

Sales in this segment, including Europe, the Middle East and Africa, amounted to ¥1,172.5 billion (31.6% of consolidated net sales).

Canon renewed its entire lineups of laser printers, office network MFDs and digital production printers. By linking these products with solutions, Canon effectively tapped into the market recovery in 2010. Also, Canon teamed up with Accenture and jointly launched Canon Consultancy Services. From 2011, Canon will work to attract clients from wide-ranging fields.

From 2009, Canon Europe headquarters assumed sales responsibility for large accounts, including electronics retail stores and Internet marketing operators, which had previously been handled by sales companies in individual countries. In 2010, the number of these accounts increased from 13 to 20, and total sales generated through these accounts grew to command more than half of the consumer product business in central and Western Europe.

“Showroom on Wheels”— Canon Image Express Campaign in India

Asia and Oceania

In Japan, sales totaled ¥695.7 billion (18.8% of consolidated net sales). In Asia and Oceania, excluding Japan, sales grew significantly from 2009 to ¥815.4 billion (22.0% of consolidated net sales), reflecting brisk sales expansion in the Asian market, centered on China and India. Sales grew briskly in the Asian market, centered on China.

In Japan, sales of office network MFDs and laser printers were strong. Also, through the establishment of an intermediate holding company, Canon MJ IT Group Holdings Inc. (Canon MJ-ITHD), IT solution business companies of the Canon Marketing Japan Group have been included in the consolidation of Canon MJ-ITHD. Based on this reorganization, and through a new data center under construction, Canon aims to accelerate its cloud services.

Canon relocated its Chinese inkjet printer business headquarters functions from Beijing to Shanghai. Meanwhile, we established new sales and service bases, such as eight new Quick Service Stations in China and four new Canon Image Squares in India to promote our consumer products. In 2010, inkjet printer sales in Indonesia ranked fourth among all the nations where Canon operates, following the United States, Japan and China.

In Australia, despite severe operating conditions, Canon worked to improve sales and marketing efficiencies and expand the markets for Canon products.

On-site photo print service in Singapore

CORPORATE SOCIAL RESPONSIBILITY

Canon strives to fulfill its social responsibility through environmental measures and social and cultural activities to help bring the world closer to achieving *kyosei.*

Through the Canon—Green Library for Kids initiative, Canon Singapore Pte. Ltd. has donated bookshelves and more than 40,000 children's and other books to elementary schools across Vietnam through its Vietnam representative office.

Canon's Basic Approach to CSR

Canon is promoting CSR activities befitting a truly excellent global corporation that is admired and respected by people worldwide. We aspire to a society in which all people—regardless of race, region or culture—live and work together for the common good into the future.

Environmental Activities

Canon announced "Action for Green," the Canon Environmental Vision, in 2009. In line with this vision, Canon is working to realize technological innovation and improve its management efficiency, thereby balancing the enhancement of product performance and functions and the minimization of the lifecycle environmental burden of its products. We are contributing to the establishment of a society in which people enjoy affluent lifestyles in a sound global environment.

Meanwhile, along with global warming, the preservation of biodiversity has become an important issue shared by the entire world. Through its business and CSR activities, Canon is implementing various initiatives aimed at preserving wild fauna and flora.

20th Anniversary of the Toner Cartridges Recycling Program

2010 marked the 20th anniversary of the Canon Toner Cartridges Recycling Program. In 1990, Canon established a cartridge return framework—an unthinkable initiative in the electronic devices field at that time—and has achieved the recycling of used cartridges collected without using them for landfill. The recycling program is now promoted in 24 nations worldwide and enabled Canon to reduce CO_2 emissions by an aggregate total of approximately 400,000 tons in 2010.

Promotion of Biomass Plastic Parts

Plant-derived, biomass plastics, which curb increases in CO_2, offer material properties that effectively reduce environmental burden. However, it had been difficult to achieve a sufficient level of moldability and flame retardance required for the exterior parts of office network MFDs and other products. In 2009, Canon and Toray Industries, Inc. successfully developed biomass plastic that boasts world-leading flame retardance and that can be utilized for an exterior part of an office network MFD. We have started using this material in imageRUNNER ADVANCE models. Through additional joint R&D efforts, in 2010 we succeeded in developing a large exterior part using the same material. Canon began using the biomass plastic part on the imagePRESS C7010VP digital production printer in 2010.

Support for Wildlife Preservation in Yellowstone National Park

Canon U.S.A., Inc. has provided funding to world-famous Yellowstone National Park in Wyoming and supported innovative scientific research aimed at protecting endangered species. Among various initiatives made possible by Canon funding, Eyes on Yellowstone—an education and research program—uses Canon imaging products to conduct wildlife monitoring. In fact, distributed through the Internet, videos of wildlife observations are used for the education of children worldwide. Through these and other initiatives, Canon is helping younger generations understand environmental issues and the importance of nature conservation.

imagePRESS C7010VP using a biomass plastic exterior part

Disclosure Regarding Conflict Minerals

The term conflict minerals refers to minerals such as tantalum, tin, gold and tungsten originating in the Democratic Republic of the Congo and adjoining countries in Africa that are alleged to be closely linked to conflict involving human rights violations in the eastern Democratic Republic of the Congo.

In the United States, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, a statute targeting financial reform, was enacted, and a provision relating to the disclosure of conflict minerals was included in the Act, requiring publicly listed companies in the United States to report and make public in the near future the use of so-called "conflict minerals" in their products.

Toner cartridge

Eyes on Yellowstone, an education and research program funded by Canon U.S.A. Inc.

Participants of the Canon PhotoMarathon Asia 2010, held in Singapore, took photos to submit to a photo contest.

Canon has begun investigations into whether or not the raw materials the Company purchases for use in its products include conflict minerals. Additionally, the Company will strive to act in accordance with the Dodd-Frank Act and related disclosure rules to be established by the U.S. Securities and Exchange Commission.

Contributing to Society

Canon conducts wide-ranging social contribution activities. The following are examples of these activities.

Canon—For a Green Vietnam

Canon has undertaken an environmental protection project, Canon—For a Green Vietnam, since 2009 with the aim of promoting environmental awareness among the people in Vietnam. As part of this project, in 2010, Canon conducted the Canon—Green Library for Kids initiative to donate bookshelves and more than 40,000 children's books and textbooks to pupils across the nation. These books were collected through the Canon—Environmental Bag Exchange program. Through such donations, Canon is contributing to the development of school libraries in Vietnam.

Canon Foundation Decides the First Research Grant Recipients

Canon established the Canon Foundation in 2008 to commemorate its 70th anniversary. This foundation supports organizations and individuals engaged in research and education in various academic fields, beginning with science and technology, as well as for cultural pursuits. In April 2010, the Canon Foundation decided on the recipients for its first research grants, which consisted of 13 grants in the Creation of Industrial Infrastructure category and three in the Pursuit of Ideals category.

The Tsuzuri Project

In cooperation with an NPO, the Kyoto Culture Association, Canon started a social contribution program called the Tsuzuri Project (official title: Cultural Heritage Inheritance Project) in 2007, aiming to preserve important Japanese cultural heritage and promote the effective use of meticulously reproduced original-based works. Through this project, Canon creates high-precision reproductions of recognized Japanese cultural heritage by employing its advanced digital image input, processing and output technologies, together with gold-leaf and gold-paint

Three Tsuzuri Project works were exhibited at the Expo 2010 Shanghai China.

treatments and other traditional techniques of skilled Japanese craftsmen. At the Expo 2010 Shanghai China, Canon displayed three works that were reproduced through the Tsuzuri Project to disseminate traditional Japanese art throughout the world.

Volunteer Day at Canon Nederland N.V.

Based in the Netherlands, Canon Nederland established "Volunteer Days" in 2004—days on which its employees conduct various volunteer activities, such as serving as travel guides for the elderly and visiting welfare facilities to provide support. In 2010, for the sixth consecutive year, activities included visiting hospitalized children, taking and printing photos with them and presenting these photos to the children.

Nurturing Diverse Human Resources

Aiming to become a truly excellent global corporation, Canon effectively uses education to motivate each employee to continue growing as an "excellent person." For Canon to achieve sustainable expansion of its global production structure in harmony with the development of the global community, it requires skilled and trained production personnel at each production base throughout the world. To nurture such human resources, Canon started intensive training of local managerial staff on a global scale in 2010 using highly qualified in-house trainers. Through localized training programs, Canon is bolstering its global production structure and workforce.

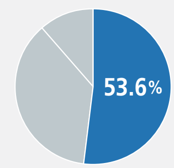
Volunteer Day at Canon Nederland N.V.

BUSINESS UNITS

CONTENTS

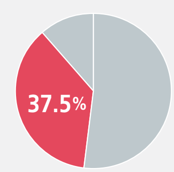
■ Office Business Unit 34

- Office network digital multifunction devices (MFDs)
- Color network digital MFDs
- Office copying machines
- Personal-use copying machines
- Full-color copying machines
- Laser printers
- Large format inkjet printers
- Digital production printers



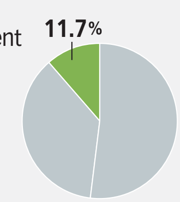
■ Consumer Business Unit 38

- Digital SLR cameras
- Compact digital cameras
- Interchangeable lenses
- Digital video camcorders
- Inkjet multifunction peripherals
- Single function inkjet printers
- Image scanners
- Broadcasting equipment



■ Industry and Others Business Unit 42

- Semiconductor lithography equipment
- LCD lithography equipment
- Medical image recording equipment
- Ophthalmic products
- Magnetic heads
- Micromotors
- Computers
- Handy terminals
- Document scanners
- Calculators



Note:
The percentage figures for the three business units presented in the pie charts above do not add up to 100% because “Eliminations,” used in consolidated accounting, were not included in calculation considerations.

Photo:
Canon is offering new imaging options through the advanced video capabilities of digital EOS, providing video professionals with high-quality motion-picture shooting possibilities enabled by digital SLR cameras.

OFFICE BUSINESS UNIT

Photo:
Thanks to its excellent office network MFD performance and unparalleled user-friendliness, the imageRUNNER ADVANCE series has been introduced in an elementary school in Chicago, the United States.

"Enhancing its lineups with imageRUNNER ADVANCE, Canon will accelerate the solutions business."

Masaki Nakaoka

Chief Executive, Office Imaging Products Operations

"Canon will lead the large-format inkjet printer industry by continuing to launch market needs-oriented products."

Toshio Homma

Chief Executive, L Printer Products Operations

In 2010, conditions in the office imaging products market showed stronger recovery, particularly in Asia. In office network MFDs, Canon strengthened its color and monochrome imageRUNNER ADVANCE lineups and solution-oriented sales activities. Owing to our collaboration with HP and Océ N.V., MFD sales volume grew in the Americas. In digital production printers, the imageRUNNER ADVANCE C9000 PRO series performed robustly in the Americas. The sales amount and volume of MFPs for SOHO use grew in all markets, particularly in Europe and Asia.

While promoting Canon MDS, we announced our plan to collaborate with Fujitsu Limited in offering cloud computing-based managed services for printing and other IT equipment. In 2011, the Office Business Unit aims to outpace market growth. Thus we will continue to strengthen imageRUNNER ADVANCE lineups and sales activities for our cloud business while expanding our solutions business.

In digital production printers, we will reinforce our product lineups and the synergy of working with Océ. We will also increase the sales volume of SOHO-use products by bolstering external collaboration in sales activities. Also, by enhancing our solutions menu based on imageRUNNER ADVANCE and improving our solutions provider presence, we aim to increase our market share.

In 2010, the worldwide large-format inkjet printer market rebounded after two years of contraction. Reflecting this situation, global shipments grew slightly year on year.

The use of large-format inkjet printers is spreading in the graphic arts field, including prepress color proofing and digital photo and on-demand poster production. In response, Canon released new products incorporating a high-precision mechanical structure that enables high-accuracy printing and featuring the new LUCIA EX 12-color pigment ink system. These products earned high acclaim, and their sales grew steadily, driving sales of Canon graphic arts printers. Reflecting the performance of these powerful products, Canon was able to record the largest shipments ever. We expanded sales in Europe and the United States and also reinforced our mutual sales structure organized with Océ.

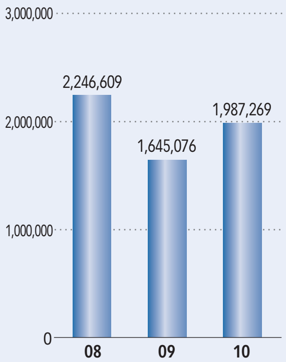
From 2011, conditions in advanced nations are expected to improve. China and other emerging markets will likely maintain their growth trends. To prepare ourselves for expected market expansion, we will bolster R&D for core technologies and enhance our optimal global production structure. In this way, we will further solidify our business, aggressively launching industry-leading, attractive products, and to meet ever-diversifying market needs, we will continue to reinforce our sales and R&D collaboration with Océ.

Digital production printer, imagePRESS C7010VP

Large-format inkjet printer, imagePROGRAF iPF8300

2010 Review—OFFICE BUSINESS UNIT

Sales Results
(Millions of yen)



Net sales in the Office Business Unit totaled ¥1,987.3 billion, increasing 20.8% year on year, despite the slow recovery in the production printing market. Global demand for office network MFDs—color devices in particular—recovered compared with 2009, while the laser printer market also achieved significant recovery.

In office network MFDs, the Office Business Unit realized double-digit growth in sales in Japan, the Americas, Europe, and Asia and Oceania. In China, sales of low-price models were robust. The sales volume and amount of color models, a mainstay in this category, soared thanks to strong sales of the imageRUNNER ADVANCE C5000 series. Also, the monochrome imageRUNNER ADVANCE 6000 series with 50 to 70 ppm capability and the color imageRUNNER ADVANCE C2000 series with 20 to 30 ppm capability performed well, pushing up the overall shipment of office network MFDs.

In laser printers, Canon's performance showed a significant improvement in line with the market recovery. In Japan, color A4-models, such as the imageCLASS MF8050 Cn (i-SENSYS MF8050 in some areas) and the imageCLASS MF8350 Cdn (i-SENSYS MF8350 in some areas), underwent expanded sales. Overseas, shipment surged in India, Vietnam and other Asian markets as well as in Europe and the United States. In emerging markets, the sales volume of monochrome SFPs and MFPs for individual use climbed significantly. This success reflected the enhanced competitiveness of these products owing to their faster printing speed and other functional enhancements.

In digital production printers, Canon released the imagePRESS C7010VP series for the commercial printing market and the monochrome imageRUNNER ADVANCE 8000 series during the reporting term. The Company worked to expand sales of these new series. In addition, we reinforced our product lineups and the synergies of working with Océ.

Meanwhile, Canon continued to enhance its solutions business. We expanded the applications of the Canon Multifunctional Embedded Application Platform (MEAP), which enables cloud service access via MFDs. Furthermore,

imageRUNNER ADVANCE C5045

Focus on Change—Accelerated Integration with Océ N.V.

After Océ officially joined the Canon Group in March 2010, the two companies have promoted their integration and strengthened their cooperation steadily. In particular, mainly in Europe and the United States, Canon and Océ are striving to expand product portfolios and are in the process of expanding product sales and strengthening the servicing function by utilizing each other's sales and service channels effectively. In Japan, Canon has expanded the lines of Océ products it handles, and it is strategically meeting increased demand for commercial digital printers for production printing. We will continue to complement each other in all business aspects, thereby targeting the leading position in the global printing industry.

Digital production printer of Océ N.V.


imageRUNNER ADVANCE C5051


imagePROGRAF iPF6350

cooperation with Group companies has allowed Canon to acquire new solutions business accounts.

The Asian market for large-format inkjet printers continued to grow, contributing to a substantial increase in sales volume. In 2010, Canon introduced three new series—namely, the iPF6300, iPF6350 and iPF8300—for the graphic arts market. Featuring the new LUCIA EX 12-color pigment ink system, which realizes improvements in the color density of black as well as in color gradation and range, new models in these series provide superior productivity, exquisite photographic output and the capability to reproduce fine detail. These models have been received well in the market since their launch, contributing to segment sales. In the CAD market, Canon sustained robust sales of the iPF750, which enables high-speed printing on an A1-size sheet in approximately 28 seconds.

During 2010, to effectively meet increased shipment needs, Canon established a new production base in China.


Color imageCLASS MF8350Cdn
(i-SENSYS MF8350Cdn in some areas)

Focus on Change—imageRUNNER ADVANCE High-Speed Monochrome Lineup Completed

Canon released three imageRUNNER ADVANCE 8000 PRO models in 2010 and completed its high-speed monochrome lineup. Thanks to their improved fuser unit performance, these printers require only one minute or less to warm up after powering on—the quickest of all A3 monochrome MFDs of 85 ppm or more.* In addition, they achieve industry-leading color scanning speed while supporting high-volume printing, with a maximum paper capacity of 7,700 sheets. Also, their footprint has been reduced by approximately 35% compared with their predecessor, the imageRUNNER 7105i.** The network of color and monochrome imageRUNNER ADVANCE models now enables a higher level of work efficiency in offices.

* As of September 3, 2010. Based on a Canon study.
** The footprint of imageRUNNER 7105i: 2,021 mm (W) x 792 mm (D)


imageRUNNER ADVANCE 8105 V2
(imageRUNNER ADVANCE 8105 PRO in some areas)

CONSUMER BUSINESS UNIT

Photo:
The EOS 60D is an advanced-amateur digital SLR camera that offers superior features, such as the Vari-angle Clear View LCD monitor, which provides enhanced monitor articulation, and excellent video capabilities, which have earned high acclaim from video professionals. Canon is reinforcing its lineup of digital SLR cameras packed with sophisticated functions.

"Further reinforcing its brand power, Canon will bolster its overwhelming No. 1 position."

Masaya Maeda

Chief Executive, Image Communication Products Operations

"Canon will aggressively launch appealing inkjet products to achieve additional growth."

Katsuichi Shimizu

Chief Executive, Inkjet Products Operations

The digital camera market grew steadily, and digital compact camera markets continued to thrive in emerging markets, while digital SLR camera markets remained strong worldwide, particularly in Asia.

In digital compact cameras, Canon released many models featuring the HS SYSTEM. Incorporating a high-sensitivity image sensor with Canon's proprietary DIGIC image processor, the HS SYSTEM enhances image quality in low-light conditions. The uniqueness and superiority of these cameras helped Canon secure its leading market position.

In digital SLR cameras, Canon enhanced the mid-range and high-end products. Sales volume expanded in each market, increasing Canon's share. The sales volume of Canon's digital video camcorders also increased.

In 2011, Canon will strengthen its optical technologies to create high-value-added products, thereby supporting higher image quality for still pictures and videos. It will also bolster its services to accommodate post-shooting needs, thereby pioneering new possibilities for digital cameras. Meanwhile, Canon will solidify its sales capabilities in emerging markets. By offering new products based on cutting-edge technologies, Canon is targeting its continuous growth.

The inkjet printer market expanded worldwide, particularly in Asia. However, overall conditions have not returned to a level on par with the 2007 peak.

Canon continues to expand inkjet sales even in a stagnant marketplace that has shrunk since the onset of the global recession in 2008. It managed to increase inkjet shipments in 2010 and will work to maintain this upward trend.

Reviewing its 2010 strategies, Canon renewed PIXMA inkjet printer designs. While working to increase the series' total sales volume by tapping into growing Asian markets, it strove to expand sales of high-value-added products with which customers are expected to perform high-volume printing. To that end, it aimed to expand sales of multifunction printers (MFPs) for home office use and mid-range and high-end products in the United States and other advanced nations. Consequently, sales of these products rose as planned.

In scanners, Canon increased sales volume amid market contraction, solidifying its leading position.

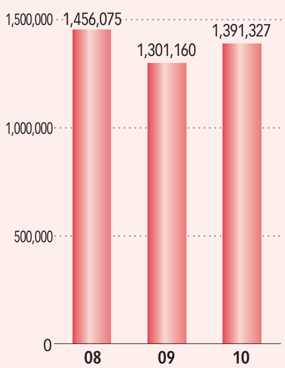
From 2011, Canon will enhance its FINE technology, which enables the high-speed printing of high-quality images thanks to its proprietary high-precision print head technology. By launching new, user-friendly products that feature excellent design and boosted user value, Canon aims for additional sales volume. To meet expected sales growth, Canon plans to build a new plant in Thailand.

Digital SLR camera,
EOS Rebel T3i (EOS 600D in some areas)

Inkjet printer,
PIXMA MX880 series

2010 Review—CONSUMER BUSINESS UNIT

Sales Results
(Millions of yen)



Net sales in the Consumer Business Unit grew 6.9% year on year to ¥1,391.3 billion. Sales steadily expanded for digital SLR cameras, digital compact cameras, inkjet printers and other consumer products.

In digital SLR cameras, Canon released the EOS Rebel T2i (EOS 550D in some areas)—an entry-level model with advanced full-HD video capabilities—and an advanced-amateur model, EOS 60D, the first EOS equipped with the Vari-angle LCD monitor. EOS cameras received high acclaim in the market, allowing Canon to increase its market share of digital SLR cameras. In digital compact cameras, Canon launched as many as 14 new models in 2010, including the PowerShot SD1300 IS DIGITAL ELPH (Digital IXUS 105 in some areas) featuring the HS SYSTEM. Other PowerShot models—specifically, the SD3500 IS DIGITAL ELPH (Digital IXUS 210 in some areas) with a 3.5-inch, wide touch panel—added to segment sales. The sales volume continued to increase, particularly in emerging markets.

In LCD projectors, the high-performance, high-resolution REALiS SX80 Mark II (XEED SX80 Mark II in some areas) with specifications optimized for medical imaging and high-definition photography contributed to segment sales.

Canon introduced the HJ15ex8.5B KRSE-V portable HD zoom lens with a built-in Optical Image Stabilizer in the

PowerShot SD1300 IS DIGITAL ELPH
(Digital IXUS 105 in some areas)

EOS Rebel T2i (EOS 550D in some areas)

EF70-200mm F2.8L IS II USM

Focus on Change—Full HD Video Capabilities on EOS Cameras

Released in November 2008, the EOS 5D Mark II digital SLR camera continues to gain recognition among video professionals. Equipped with a full-frame CMOS sensor, this is the first EOS to offer full HD video capture, at 1,920 x 1,080 resolution. It has been widely used for TV program shooting as well as for the shooting of some Hollywood movies. In fact, its CMOS sensor is double the size of those in commonly used broadcast cameras. It maximizes depth of field, or the aesthetic quality of blur—a shooting technique often used with SLR cameras—while providing compactness, portability and an extensive range of EF lenses. Featured on other EOS models, Canon's full HD video capability is opening up new possibilities for digital SLR cameras.

Video shooting using digital EOS in the United States


VIXIA HF M41 (LEGRIA HF M41 in some areas)


Inkjet printer, PIXMA MG6100 series

broadcasting lens. The HD image stability of this new product earned high acclaim among video professionals.

In inkjet printers, supported by overall market recovery and by sales growth, particularly in Asia, sales volume expanded compared with 2009. In the United States, the PIXMA MX870 for home office use and the PIXMA Pro9500 Mark II for professional and advanced amateur users were received well, pushing up segment sales. In China, while sustaining the high sales volume of the already-popular PIXMA iP1180, Canon achieved a brisk increase in sales of entry-model MFPs and MFPs for home office use from 2009.


REALiS SX80 Mark II (XEED SX80 Mark II in some areas)


PIXMA MG8100 series

Focus on Change—Renewal of PIXMA Inkjet Printer Series

Canon renewed the PIXMA lineups, upgrading the design and usability. New PIXMA models were released in 2010, including the PIXMA MG6100 series. Featuring a stylish black exterior, these PIXMA printers provide sophisticated design. Also, the Intelligent Touch System*—a light-guided, touch-sensitive button navigation system—enhances intuitive, effortless operations. Furthermore, the Full HD Movie Print function turns HD movie clips captured with compatible Canon digital cameras into beautiful photo prints. With these powerful machines, Canon continues to lead the inkjet printer market.

* Only available on the PIXMA MG8100 series and the PIXMA MG6100 series.


Intelligent Touch System

INDUSTRY AND OTHERS BUSINESS UNIT

Photo:
Canon's LCD lithography equipment for eighth-generation mirror projection aligners provides not only excellent productivity, but also speedy installation, contributing to customers' strategic LCD panel production.

"Our market needs-oriented business model is gaining a strong foothold in the market and producing tangible results. In 2011, Canon will accelerate the development of technologies and products that enable it to capture demand in new businesses."

Shigeyuki Uzawa

Chief Executive, Optical Products Operations (Effective January 1, 2011)

In 2010, the markets of both semiconductor lithography and LCD lithography equipment enjoyed rapid recovery, each expanding briskly year on year in terms of shipment volume. Behind such market expansion was manufacturers' strong drive for capital investment.

Our semiconductor lithography equipment business increased sales volume significantly. Canon expects that market recovery will continue in 2011 in anticipation of semiconductor manufacturers' spending on their facilities being either at the same level or higher compared with 2010. To capitalize on such positive conditions, Canon will facilitate closer collaboration among design and sales divisions and accurately grasp ever-diversifying customer needs while accelerating the development of products with unparalleled reliability and durability and upgrading its service quality. Through these activities, we will work to meet these needs flexibly.

The LCD lithography equipment business also expanded sales substantially. Performance in South Korea, Taiwan and China was particularly robust. In fact, our shipment volume increased substantially year on year. In 2011, the LCD lithography equipment market in China is expected to grow further as an increasing number of LCD panel manufacturers are accelerating local production. In response, Canon will strengthen sales activities and systems to provide support and other services. The Company plans to launch LCD lithography equipment to capture opportunities arising in line with LCD panel manufacturers' investment in facilities for 7.5- and eighth-generation mirror projection aligners. Meanwhile, we will work to improve the reliability and durability of our products and enhance our capabilities for quick equipment installation.

The development of optical products requires the latest in advanced technologies. This means that the outcome of R&D for optical products can be channeled into the development of other Canon products. In other words, R&D in this segment is the driver of technological advances achieved by the Canon Group. Bearing this significant responsibility, the Industry and Others Business Unit will continue to bolster the development of next-generation lithography, medical and other technologies.

Semiconductor lithography systems

Development of digital radiography system

2010 Review—INDUSTRY AND OTHERS BUSINESS UNIT

Sales Results
(Millions of yen)

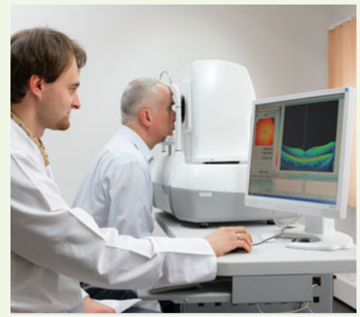
Net sales increased 20.9% year on year to ¥433.0 billion. In line with the recovery in capital investment by semiconductor and LCD panel manufacturers, Canon expanded sales volume.

In semiconductor lithography equipment, sales were strong for products targeting manufacturers of memory, sensor and imaging devices. In particular, products based on Canon's FPA-5500 platform, which boasts excellent stability and reliability, were received well in the markets of Japan, Taiwan and South Korea.

In LCD lithography equipment, our ability to install systems quickly helped customers promote their business strategies. Sales of the MPAsp-H700 series for eighth-generation mirror projection aligners were particularly robust.

In digital radiography systems, the market for static X-ray imaging systems expanded, especially in China. Meanwhile, released in 2009, the CXDI-55C/55G flat panel detector saw increased sales in Japan, Europe and the United States.

In ophthalmic equipment, sales of the CX-1 mydriatic/non-mydriatic two-in-one digital retinal camera contributed to overall segment performance. Also, sales of Optical Coherence Tomography (OCT) systems of Canon subsidiary OPTOPOL Technology S.A. grew, especially in Europe, pushing up segment sales.


OPTOPOL's ophthalmic equipment

In other categories, the industrial systems of Group companies performed robustly, including Canon Machinery Inc.'s BESTEM series of die bonders and Canon ANELVA Corporation's semiconductor film deposition equipment.


BESTEM-D10Sp

Focus on Change—CXDI-70C Wireless Digital Radiography System

Since its release of the world's first digital X-ray system, CXDI-11, in 1998, Canon has contributed to digital evolution in diagnostic imaging. As X-ray imaging equipment continues to go digital, Canon launched its first wireless digital radiography system, CXDI-70C Wireless, in October 2010.

Capable of wireless image transmission, the lightweight CXDI-70C Wireless provides great portability and flexible usage. Its outer dimension is the same as that of conventional film cassettes, allowing for an easy conversion of analog systems into digital. A new Canon-developed glass substrate with a pixel pitch of 125 microns achieves high-precision, high-resolution imaging. Also, the CXDI-70 Wireless is equipped with a highly sensitive cesium iodide (CsI) scintillator, which delivers high-quality images and reduces X-ray exposure to patients.


CXDI-70C Wireless

FINANCIAL SECTION

TABLE OF CONTENTS

FINANCIAL OVERVIEW 46
TEN-YEAR FINANCIAL SUMMARY 62
CONSOLIDATED BALANCE SHEETS 64
CONSOLIDATED STATEMENTS OF INCOME 65
CONSOLIDATED STATEMENTS OF EQUITY 66
CONSOLIDATED STATEMENTS OF CASH FLOWS 68
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 69
1 Basis of Presentation and Significant Accounting Policies
2 Basis of Financial Statement Translation 73
3 Investments
4 Trade Receivables 75
5 Inventories
6 Property, Plant and Equipment
7 Finance Receivables and Operating Leases 76
8 Acquisitions 77
9 Goodwill and Other Intangible Assets 78
10 Short-Term Loans and Long-Term Debt 80
11 Trade Payables
12 Employee Retirement and Severance Benefits 81
13 Income Taxes 87
14 Common Stock 90
15 Legal Reserve and Retained Earnings 91
16 Other Comprehensive Income (Loss)
17 Stock-Based Compensation 93
18 Net Income Attributable to Canon Inc. Stockholders per Share 95
19 Derivatives and Hedging Activities
20 Commitments and Contingent Liabilities 97
21 Disclosures about the Fair Value of Financial Instruments and Concentrations of Credit Risk 99
22 Fair Value Measurements 100
23 Supplemental Cash Flow Information 102
24 Segment Information
25 Subsequent Event 106
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 107
REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM 108

FINANCIAL OVERVIEW

GENERAL

The following discussion and analysis provides information that management believes to be relevant to understanding Canon's consolidated financial condition and results of operations. References in this discussion to the "Company" are to Canon Inc. and, unless otherwise indicated, references to the financial condition or operating results of "Canon" refer to Canon Inc. and its consolidated subsidiaries.

OVERVIEW

Canon is one of the world's leading manufacturers of plain paper copying machines, digital multifunction devices ("MFDs"), laser printers, cameras, inkjet printers, semiconductor lithography equipment and liquid crystal display ("LCD") lithography equipment. Canon earns revenues primarily from the manufacture and sale of these products domestically and internationally. Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

Canon divides its businesses into three segments: the Office Business Unit, the Consumer Business Unit, and the Industry and Others Business Unit.

Economic environment

Looking back at the global economy in 2010, economic conditions continued to improve broadly throughout the world, led by the economic growth of such emerging markets as China and India. In the United States, despite the unemployment rate remaining at a relatively high level and other concerns, economic conditions continued to recover gradually thanks in part to economic measures by the government. As for Europe, in spite of lingering financial and employment concerns along with the emergence of financial crises in some countries, the region overall managed to realize a recovery. China, which quickly recovered its growth pace through major economic stimulus measures, and the rest of Asia, along with other emerging nations, continued to achieve economic expansion. And in Japan, although signs began to appear indicating a turnaround, the recovery came to a standstill at the end of 2010 due to prolonged deflation and other factors.

Market environment

As for the markets in which Canon operates amid these conditions, within the office equipment market, demand for network digital MFDs recovered, mainly for color models, while laser printers also realized a steady rebound compared with the previous year. As for the consumer products market, demand for digital single-lens reflex ("SLR") cameras maintained healthy growth across global markets. As for compact digital cameras, although sales were sluggish in developed countries, demand in emerging markets grew favorably resulting in a slight increase overall. With regard to inkjet printers, demand continued on a track to recovery. In the industry and others market, demand for semiconductor lithography equipment and LCD lithography equipment grew steadily, owing to improved investment by semiconductor device and LCD panel manufacturers. The average value of the yen during the year was ¥87.40 to the U.S. dollar, a year-on-year appreciation of approximately ¥6 or 6%, and ¥114.97 to the euro, a year-on-year appreciation of approximately ¥15 or 12%.

Summary of operations

Amid the impact of the sharp appreciation of the yen, net sales for the year totaled ¥3,706.9 billion (U.S.$45,764 million), an increase of 15.5% from the previous year, owing to a substantial recovery in sales of laser printers among office products, continued robust sales of such consumer products as digital SLR cameras, the increase in sales within the Industry and Others Business Unit, and the effects of consolidation arising from corporate acquisitions, such as Océ N.V. Income before income taxes totaled ¥392.9 billion (U.S.$4,850 million), a year-on-year increase of 79.1%, while net income attributable to Canon Inc. also increased by 87.3% to ¥246.6 billion (U.S.$3,044 million).

Key performance indicators

The following are the key performance indicators ("KPIs") that Canon uses in managing its business. The changes from year to year in these KPIs are set forth in the table shown on page 47.

Revenues

As Canon pursues the goal to become a truly excellent global company, one indicator upon which Canon's management places strong emphasis is revenue. The following are some of the KPIs related to revenue that management considers to be important.

Net sales is one such KPI. Canon derives net sales primarily from the sale of products and, to a much lesser extent, provision of services associated with its products. Sales vary depending on such factors as product demand, the number and size of transactions within the reporting period, market acceptance for new products, and changes in sales prices. Other factors involved are market share and market environment. In addition, management considers the evaluation of net sales by segment to be important for the purpose of assessing Canon's sales performance in various segments, taking into account recent market trends.

Gross profit ratio (ratio of gross profit to net sales) is another KPI for Canon. Through its reforms of product development, Canon has been striving to shorten product development lead times in order to launch new, competitively priced products at a faster pace. Furthermore, Canon has further achieved cost reductions through enhancement of efficiency in its production. Canon believes that these achievements have contributed to improving Canon's gross profit ratio, and will continue pursuing the curtailment of product development lead times and reductions in production costs.

Operating profit ratio (ratio of operating profit to net sales) and research and development ("R&D") expense to net sales ratio are considered to be KPIs by Canon. Canon is focusing on two areas for improvement. Canon is striving to control and reduce its selling, general and administrative expenses as its first key point. Secondly, Canon's R&D policy is designed to maintain a certain level of spending in core technology to sustain Canon's leading position in its current business areas and to seek possibilities in other markets. Canon believes such investments will create the basis for future success in its business and operations.

Cash flow management

Canon also places significant emphasis on cash flow management. The following are the KPIs with regard to cash flow management that Canon's management believes to be important. Inventory turnover measured in days is a KPI because it measures the adequacy of supply chain management. Inventories have inherent risks of becoming obsolete, physically damaged or otherwise decreasing significantly in value, which may adversely affect Canon's operating results. To mitigate these risks, management believes that it is crucial to continue reducing inventories and decrease production lead times in order to promptly recover related product expenses by strengthening supply chain management.

Canon's management seeks to meet its liquidity and capital requirements primarily with cash flow from operations. Management also seeks debt-free operations. For a manufacturing company like Canon, it generally takes considerable time to realize profit from a business as the process of R&D, manufacturing and sales has to be followed for success. Therefore, management believes that it is important to have sufficient financial strength so that the Company does not have to rely on external funds. Canon has continued to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations.

Canon Inc. stockholders' equity to total assets ratio is another KPI for Canon. Canon believes that its stockholders' equity to total assets ratio measures its long-term sustainability. Canon also believes that achieving a high or rising stockholders' equity ratio indicates that Canon has maintained a strong financial position or further improved its ability to fund debt obligations and other unexpected expenses. In the long-term, Canon will be able to maintain a high level of stable investments for its future operations and development. As Canon puts strong emphasis on its R&D activities, management believes that it is important to maintain a stable financial base and, accordingly, a high level of its stockholders' equity to total assets ratio.

KEY PERFORMANCE INDICATORS

	2010	2009	2008	2007	2006
Net sales (Millions of yen)	**¥3,706,901**	¥3,209,201	¥4,094,161	¥4,481,346	¥4,156,759
Gross profit to net sales ratio	**48.1%**	44.5%	47.3%	50.1%	49.6%
R&D expense to net sales ratio	**8.5%**	9.5%	9.1%	8.2%	7.4%
Operating profit to net sales ratio	**10.5%**	6.8%	12.1%	16.9%	17.0%
Inventory turnover measured in days	**35 days**	39 days	47 days	44 days	45 days
Debt to total assets ratio	**0.3%**	0.3%	0.4%	0.6%	0.7%
Canon Inc. stockholders' equity to total assets ratio	**66.4%**	69.9%	67.0%	64.8%	66.0%

Note: Inventory turnover measured in days; Inventory divided by net sales for the previous six months, multiplied by 182.5.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and based on the selection and application of significant accounting policies which require management to make significant estimates and assumptions. Canon believes that the following are the more critical judgment areas in the application of its accounting policies that currently affect its financial condition and results of operations.

Revenue recognition

Canon generates revenue principally through the sale of consumer products, equipment, supplies, and related services under separate contractual arrangements. Canon recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is probable.

Revenue from sales of office products, such as office network digital multifunction devices and laser printers, and consumer products, such as digital cameras and inkjet multifunction peripherals, is recognized upon shipment or delivery, depending upon when title and risk of loss transfer to the customer.

Revenue from sales of optical equipment, such as semiconductor lithography equipment and LCD lithography equipment that are sold with customer acceptance provisions related to their functionality, is recognized when the equipment is installed at the customer site and the specific criteria of the equipment functionality are successfully tested and demonstrated by Canon. Service revenue is derived primarily from separately priced product maintenance contracts on equipment sold to customers and is measured at the stated amount of the contract and recognized as services are provided.

Canon also offers separately priced product maintenance contracts for most office imaging products, for which the customer typically pays a stated base service fee plus a variable amount based on usage. Revenue from these service maintenance contracts is measured at the stated amount of the contract and recognized as services are provided and variable amounts are earned.

Revenue from the sale of equipment under sales-type leases is recognized at the inception of the lease. Income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and the related revenue is recognized ratably over the lease term. When equipment leases are bundled with product maintenance contracts, revenue is first allocated considering the relative fair value of the lease and non-lease deliverables based upon the estimated relative fair values of each element. Lease deliverables generally include equipment, financing and executory costs, while non-lease deliverables generally consist of product maintenance contracts and supplies.

For all other arrangements with multiple elements, Canon allocates revenue to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting. Otherwise, revenue is deferred until the undelivered elements are fulfilled and accounted for as a single unit of accounting.

Canon records estimated reductions to sales at the time of sale for sales incentive programs including product discounts, customer promotions and volume-based rebates. Estimated reductions in sales are based upon historical trends and other known factors at the time of sale. In addition, Canon provides price protection to certain resellers of its products, and records reductions to sales for the estimated impact of price protection obligations when announced.

Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure.

Allowance for doubtful receivables

Allowance for doubtful receivables is determined using a combination of factors to ensure that Canon's trade and financing receivables are not overstated due to uncollectibility. These factors include the length of time receivables are past due, the credit quality of customers, macroeconomic conditions and historical experience. Also, Canon records specific reserves for individual accounts when Canon becomes aware of a customer's inability to meet its financial obligations to Canon, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

Valuation of inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the average method for domestic inventories and principally the first-in, first-out method for overseas inventories. Market value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale. Canon routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written-down to market value. Judgments and estimates must be made and used in connection with establishing such allowances in any accounting period. In estimating the market value of its inventories, Canon considers the age of the inventories and the likelihood of spoilage or changes in market demand for its inventories.

Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Determining the fair value of the asset involves the use of estimates and assumptions. These estimates and assumptions include future market conditions, net sales growth rate, gross margin and discount rate. Though Canon believes that the estimates and assumptions are reasonable, actual future results may differ from these estimates and assumptions.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. Canon performs its impairment test of goodwill using the two-step approach at the reporting unit level, which is one level below the operating segment level. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon performs the second step to measure an impairment charge in the amount by which the carrying amount of a reporting unit's goodwill exceeds its implied fair value. Intangible assets with finite useful lives consist primarily of software, license fees, patented technologies and customer relationships. Software and license fees are amortized using the straight-line method over the estimated useful lives, which range from 3 years to 5 years for software and 5 years to 10 years for license fees. Patented technologies are amortized using the straight-line method principally over the estimated useful life of 3 years. Customer relationships are amortized principally using the declining-balance method over the estimated useful life of 5 years.

Income taxes

Canon considers many factors when evaluating and estimating income tax uncertainties. These factors include an evaluation of the technical merits of the tax positions as well as the amounts and probabilities of the outcomes that could be realized upon settlement. The actual resolutions of those uncertainties will inevitably differ from those estimates, and such differences may be material to the financial statements.

Valuation of deferred tax assets

Canon currently has significant deferred tax assets, which are subject to periodic recoverability assessments. Realization of Canon's deferred tax assets is principally dependent upon its achievement of projected future taxable income. Canon's judgments regarding future profitability may change due to future market conditions, its ability to continue to successfully execute its operating restructuring activities and other factors. Any changes in these factors may require possible recognition of significant valuation allowances to reduce the net carrying value of these 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.

Employee retirement and severance benefit plans

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 and expected return on plan assets. Management must consider current market conditions, including changes in interest rates, in selecting these assumptions. Other assumptions include assumed rate of increase in compensation levels, mortality rate, and withdrawal rate. Changes in these assumptions inherent in the valuation are reasonably likely to occur from period to period. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect future pension expenses. While management believes that the assumptions used are appropriate, the differences may affect employee retirement and severance benefit costs in the future.

In preparing its financial statements for fiscal 2010, Canon estimated a weighted-average discount rate of 2.3% for Japanese plans and 4.9% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.6% for Japanese plans and 6.1% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income governmental and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the expected long-term rate of return on plan assets based on management's expectations of the long-term return of the various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. A decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately 9%. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension expense in the following years, and vice versa. For fiscal 2010, a change of 50 basis points in the expected long-term rate of return on plan assets would cause a change of approximately ¥3,290 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets, to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferral affects future pension expense.

Canon recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in its consolidated balance sheets, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

	Millions of yen					Thousands of U.S. dollars
	2010	change	2009	change	2008	**2010**
Net sales	**¥3,706,901**	**+15.5%**	¥3,209,201	–21.6%	¥4,094,161	**$45,764,210**
Operating profit	**387,552**	**+78.6**	217,055	–56.2	496,074	**4,784,593**
Income before income taxes	**392,863**	**+79.1**	219,355	–54.4	481,147	**4,850,160**
Net income attributable to Canon Inc.	**246,603**	**+87.3**	131,647	–57.4	309,148	**3,044,481**

Sales

Canon's consolidated net sales in fiscal 2010 totaled ¥3,706,901 million (U.S.$45,764 million), representing a 15.5% increase from the previous fiscal year. This increase of sales was due to a substantial recovery in sales of laser printers among office products, continued robust sales of such consumer products as digital SLR cameras, the increase in sales within the Industry and Other Business Unit, and the effects of consolidation arising from corporate acquisitions, such as Océ N.V. ("Océ"). Canon made Océ into a consolidated subsidiary in March 2010 to strengthen the printing business. Océ is engaged in research and development, manufacture and sale of document management systems, printing systems for professionals and high-speed, wide-format digital printing systems. The amounts of net sales of Océ included in the Canon's consolidated statement of income from the acquisition date to the year ended December 31, 2010 was ¥ 246,518 million (U.S.$3,043 million).

Overseas operations are significant to Canon's operating results and generated approximately 81% of total net sales in fiscal 2010. Such sales are denominated in the applicable local currency and are subject to fluctuations in the value of the yen to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen in fiscal 2010 was ¥87.40 to the U.S. dollar, and ¥114.97 to the euro, representing an appreciation of about ¥6 or 6% to the U.S. dollar, and a significant appreciation of approximately ¥15 or 12% against the euro, compared with the previous year. The effects of foreign exchange rate fluctuations negatively affected net sales by approximately ¥193,900 million in 2010. This unfavorable impact consisted of approximately ¥86,700 million for U.S. dollar denominated sales, ¥101,100 million for euro denominated sales and ¥6,100 million for other foreign currency denominated sales.

Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses from plants, maintenance expenses, light and fuel expenses along with rent expenses. The ratio of cost of sales to net sales for fiscal 2010 and 2009 was 51.9% and 55.5%, respectively.

Gross profit

Canon's gross profit in fiscal 2010 increased by 24.9% to ¥1,783,088 million (U.S.$22,013 million) from fiscal 2009. The gross profit ratio rose by 3.6 points year on year to 48.1%. Despite the significant impact of the strong yen, this improvement was achieved due to the launch of new products and ongoing cost-reduction efforts, along with heightened production turnover accompanying ramped-up production.

Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Despite the negative impact of consolidation of ¥172,800 million (U.S.$2,133 million), continued Group-wide efforts to significantly reduce spending contributed to a decline in total operating expenses to sales ratio of 37.6% for fiscal 2010, a 0.1 point improvement compared with fiscal 2009.

Operating profit

Operating profit in fiscal 2010 increased 78.6% to a total of ¥387,552 million (U.S.$4,785 million) from fiscal 2009, constituting 10.5% of net sales.

Other income (deductions)

Other income (deductions) for fiscal 2010 improved by ¥3,011 million (U.S.$37 million), mainly due to earnings and losses on investments in affiliated companies.

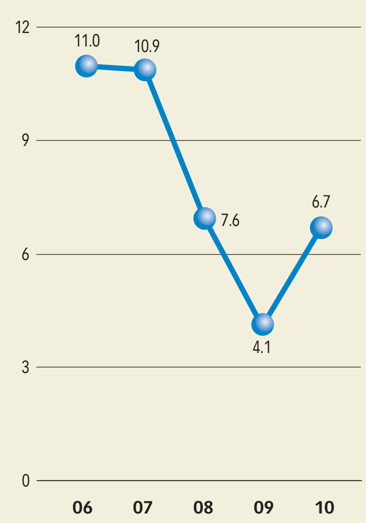
Income before income taxes

Income before income taxes in fiscal 2010 was ¥392,863 million (U.S.$4,850 million), an increase of 79.1% from fiscal 2009, and constituted 10.6% of net sales.

Income taxes

Provision for income taxes in fiscal 2010 increased by ¥56,038 million (U.S.$692 million) from fiscal 2009, primarily as a result of the increase in income before income taxes. The effective tax rate during fiscal 2010 dropped by 2.6% compared with fiscal 2009. This was due mainly to an increase in tax deduction for R&D expenses in fiscal 2010.

Return on Sales
(%)



Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in fiscal 2010 increased by 87.3% to ¥246,603 million (U.S.$3,044 million), which represents a 6.7% return on net sales.

Segment information

Canon divides its businesses into three segments: the Office Business Unit, the Consumer Business Unit and the Industry and Others Business Unit.

• **The Office Business Unit** mainly includes Office network digital MFDs / Color network digital MFDs / Personal-use network digital MFDs / Office copying machines /Full-color copying machines / Personal-use copying machines /Laser printers / Large format inkjet printers/ Digital production printers

• **The Consumer Business Unit** mainly includes Digital SLR cameras / Compact digital cameras / Interchangeable lenses / Digital video camcorders / Inkjet multifunction peripherals / Single function inkjet printers / Image scanners / Broadcast lenses

• **The Industry and Others Business Unit** mainly includes Semiconductor lithography equipment / LCD lithography equipment / Medical image recording equipment / Ophthalmic products / Magnetic heads / Micromotors / Computers / Handy terminals / Document scanners / Calculators.

Sales by segment

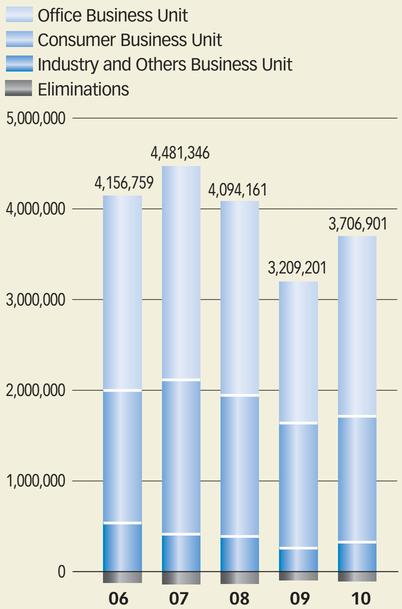
Please refer to the table of sales by segment in Note 24 of the Notes to Consolidated Financial Statements.

Canon's sales by segment are summarized as follows:

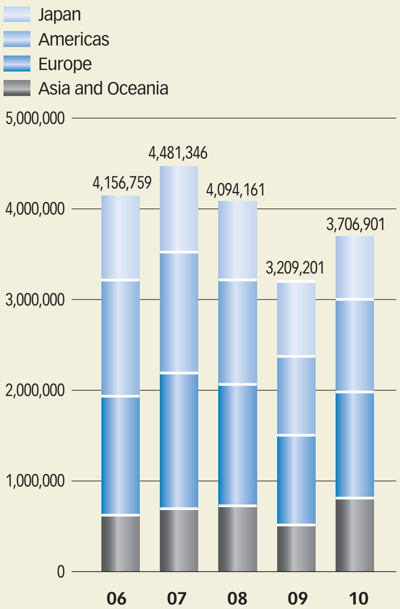
SALES BY SEGMENT

	Millions of yen					Thousands of U.S. dollars
	2010	change	2009	change	2008	2010
Office	**¥1,987,269**	**+20.8%**	¥1,645,076	–26.8%	¥2,246,609	**$24,534,185**
Consumer	**1,391,327**	**+6.9**	1,301,160	–10.6	1,456,075	**17,176,877**
Industry and Others	**432,958**	**+20.9**	357,998	–31.5	522,405	**5,345,160**
Eliminations	**(104,653)**	**—**	(95,033)	—	(130,928)	**(1,292,012)**
Total	**¥3,706,901**	**+15.5%**	¥3,209,201	–21.6%	¥4,094,161	**$45,764,210**

Sales by Segment
(Millions of yen)



Sales by Geographic Area
(Millions of yen)



Sales of the Office Business Unit constituting 53.6% of consolidated net sales, increased by 20.8% to ¥1,987,269 million (U.S.$24,534 million) in fiscal 2010. Sales volume of both color and monochrome network digital MFDs increased, boosted by the recovery in demand for office equipment along with the introduction of new imageRUNNER ADVANCE-series products. Laser printers recorded a substantial increase in sales volume. The consolidation of Océ also contributed to the sales increase.

Sales of the Consumer Business Unit constituting 37.5% of consolidated net sales, increased by 6.9% to ¥1,391,327 million (U.S.$17,177 million) in fiscal 2010. Sales volumes increased significantly for such digital SLR cameras as EOS Digital Rebel T1i (EOS 500D) and new EOS Digital Rebel T2i (EOS 550D), the competitively priced model, along with the EOS 5D Mark II, EOS 7D and new 60D, the advanced-amateur models. As for compact digital cameras, the Company launched five new ELPH (IXUS)-series models and seven new PowerShot-series models, boosting sales volumes particularly in emerging markets. As for inkjet printers, sales volume increased from year-ago level particularly in Asia.

Sales of the Industry and Others Business Unit increased by 20.9% in fiscal 2010, to ¥432,958 million (U.S.$5,345 million). Within this segment, sales volume of LCD lithography equipment, semiconductor lithography and semiconductor-related independent business sales by Group subsidiaries increased. Sales of the Industry and Others Business Unit constituted 11.7% of consolidated net sales in fiscal 2010.

Intersegment sales of ¥104,653 million (U.S.$1,292 million), representing 2.8% of total sales, are eliminated from the total sales of the three segments, and are described as “Eliminations”.

Sales by geographic area

Please refer to the table of sales by geographic area in Note 24 of the Notes to Consolidated Financial Statements.

A geographical analysis indicates that net sales in fiscal 2010 increased in the major geographic areas.

In Japan, sales decreased by 0.9% in fiscal 2010.

In the Americas, net sales increased by 14.4% on yen basis in fiscal 2010, due to an increase in sales volume of digital SLR cameras and laser printers.

In Europe, net sales increased by 17.8% on yen basis in fiscal 2010, mainly due to rebounded sales of laser printers.

Sales in Asia and Oceania increased by 32.0% on a yen basis in fiscal 2010, largely due to the increased sales of digital SLR cameras.

A summary of net sales by geographic area is provided below.

Operating profit by segment

Please refer to the table of segment information in Note 24 of the Notes to Consolidated Financial Statements.

Operating profit for the Office Business Unit in fiscal 2010 increased by ¥63,926 million (U.S.$789 million) to ¥293,322 million (U.S.$3,621 million). This increase resulted primarily from the increase in sales.

Operating profit for the Consumer Business Unit in fiscal 2010 increased by ¥54,573 million (U.S.$674 million) to ¥238,065 million (U.S.$2,939 million). This increase resulted primarily from the increase in sales.

Operating profit for the Industry and Others Business Unit in fiscal 2010 was a loss of ¥9,831 million (U.S.$121 million). Significant recovery of sales volume contributed to reduction of loss amount by ¥66,125 million (U.S.$816 million) .

SALES BY GEOGRAPHIC AREA

	Millions of yen					Thousands of U.S. dollars
	2010	change	2009	change	2008	**2010**
Japan	**¥ 695,749**	**−0.9%**	¥ 702,344	−19.1%	¥ 868,280	**$ 8,589,494**
Americas	**1,023,299**	**+14.4**	894,154	−22.6	1,154,571	**12,633,321**
Europe	**1,172,474**	**+17.8**	995,150	−25.8	1,341,400	**14,474,988**
Asia and Oceania	**815,379**	**+32.0**	617,553	−15.4	729,910	**10,066,407**
Total	**¥3,706,901**	**+15.5%**	¥3,209,201	−21.6%	¥4,094,161	**$45,764,210**

Note: This summary of net sales by geographic area is determined by the location where the product is shipped to the customer.

FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

Canon's marketing activities are performed by subsidiaries in various regions in local currencies, while the cost of sales is generally in yen. Given Canon's current operating structure, appreciation of the yen has a negative impact on net sales and the gross profit ratio. To reduce the financial risks from changes in foreign exchange rates, Canon utilizes derivative financial instruments, which consist principally of forward currency exchange contracts.

The operating profit on foreign operation sales is usually lower than that from domestic operations because foreign operations consist mainly of marketing activities. Marketing activities are generally less profitable than production activities, which are mainly conducted by the Company and its domestic subsidiaries. Please refer to the table of geographic information in Note 24 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents in fiscal 2010 increased by ¥45,545 million (U.S.$562 million) to ¥840,579 million (U.S.$10,378 million), compared with ¥795,034 million in fiscal 2009 and ¥679,196 million in fiscal 2008. Canon's cash and cash equivalents are typically denominated both in Japanese yen and in U.S. dollar, with the remainder denominated in foreign currencies.

Net cash provided by operating activities in fiscal 2010 increased by ¥133,178 million (U.S.$1,644 million) from the previous year to ¥744,413 million (U.S.$9,190 million), as a result of significant increase of profit. Cash flow from operating activities consisted of the following key components: the major component of Canon's cash inflow is cash received from customers, and the major components of Canon's cash outflow are payments for parts and materials, selling, general and administrative expenses, and income taxes.

For fiscal 2010, cash inflow from cash received from customers increased, due to the significant increase of sales. There were no significant changes in Canon's collection rates. Cash outflow for payments for parts and materials also increased, as a result of an increase in net sales, however this increase remained within a range of net sales increase due to cost reductions activities. Cost reductions reflect a decline in unit prices of parts and raw materials, as well as a streamlining of the process of using these parts and materials through promoting efficiency in operations. Cash outflow for payments for selling, general and administrative expenses increased, however, also remained within the range of sales increase due to cost-cutting efforts.

Net cash used in investing activities in fiscal 2010 was ¥342,133 million (U.S.$4,224 million), compared with ¥ 370,244 million in fiscal 2009 and ¥472,480 million in fiscal 2008, consisting primarily of purchases of fixed assets and acquisition of shares of Océ. The purchases of fixed assets, which totaled ¥199,152 million (U.S.$2,459 million) in fiscal 2010, were focused on items relevant to raising production capacity and reducing production cost.

Canon defines "free cash flow" by deducting the cash flows from investing activities from the cash flows from operating activities. For fiscal 2010, free cash flow totaled ¥402,280 million (U.S.$4,966 million) as compared with ¥240,991 million for fiscal 2009. Canon's management recognizes that constant and intensive investment in facilities and R&D is required to maintain and strengthen the competitiveness of its products. Canon's management seeks to meet its capital requirements with cash flow principally earned from its operations, therefore, its capital resources are primarily sourced from internally generated funds. Accordingly, Canon has included the information with regard to free cash flow as its management frequently monitors this indicator, and believes that such indicator is beneficial to the understanding of investors. Furthermore, Canon's management believes that this indicator is significant in understanding Canon's current liquidity and the alternatives of use in financing activities because it takes into consideration its operating and investing activities. Canon refers to this indicator together with relevant U.S. GAAP financial measures shown in its consolidated statements of cash flows and consolidated balance sheets for cash availability analysis.

Net cash used in financing activities totaled ¥279,897 million (U.S.$3,456 million) in fiscal 2010, mainly resulting from the dividend payout of ¥136,103 million (U.S.$1,680 million), repurchase of treasury stock and repayment of borrowings of Océ N.V. The Company paid dividends in fiscal 2010 of ¥110.00 (U.S.$1.36) per share.

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access to various funding sources, including the issuance of additional share capital, long-term debt or short-term loans. While Canon has been able to obtain funding from its traditional financing sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon's liquidity or long-term funding in the future.

Short-term loans (including the current portion of long-term debt) amounted to ¥7,200 million (U.S.$89 million) at December 31, 2010 compared with ¥4,869 million at December 31, 2009. Long-term debt (excluding the current portion) amounted to ¥4,131 million (U.S.$51 million) at December 31, 2010 compared with ¥4,912 million at December 31, 2009.

Canon's long-term debt (excluding the current portion) mainly consists of lease obligations.

In order to facilitate access to global capital markets, Canon obtains credit ratings from two rating agencies: Moody's Investors Services, Inc. ("Moody's") and Standard and Poor's Ratings Services ("S&P"). In addition, Canon maintains a rating from Rating and Investment Information, Inc. ("R&I"), a rating agency in Japan, for access to the Japanese capital market.

As of March 15, 2011, Canon's debt ratings are: Moody's: Aa1 (long-term); S&P: AA (long-term), A-1+ (short-term); and R&I: AA+ (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase the cost of its borrowings.

Increase in property, plant and equipment on an accrual basis in fiscal 2010 amounted to ¥158,976 million (U.S.$1,963 million) compared with ¥216,128 million in fiscal 2009 and ¥361,988 million in fiscal 2008. In fiscal 2010, decrease in property, plant and equipment was due to limiting investment to necessary facilities. For fiscal 2011, Canon projects its increase in property, plant and equipment will be approximately ¥260,000 million (U.S.$3,210 million).

Employer contributions to Canon's worldwide defined benefit pension plans were ¥21,435 million (U.S.$265 million) in fiscal 2010, ¥18,232 million in fiscal 2009, ¥23,033 million in fiscal 2008. In addition, employer contributions to Canon's worldwide defined contribution pension plans were ¥11,780 million (U.S.$145 million) in fiscal 2010, ¥9,148 million in fiscal 2009, and ¥10,840 million in fiscal 2008.

Working capital in fiscal 2010 decreased by ¥601 million (U.S.$7 million), to ¥1,233,488 million (U.S.$15,228 million), compared with ¥1,234,089 million in fiscal 2009 and ¥1,120,848 million in fiscal 2008. Canon believes its working capital will be sufficient for its requirements for the foreseeable future. Canon's capital requirements are primarily dependent on management's business plans regarding the levels and timing of purchases of fixed assets and investments. The working capital ratio (ratio of current assets to current liabilities) for fiscal 2010 was 2.38 compared to 2.57 for fiscal 2009 and to 2.19 for fiscal 2008.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 6.3% in fiscal 2010, compared to 3.4% in fiscal 2009 and 7.3% in fiscal 2008.

Return on Canon Inc. stockholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. stockholders' equity) was 9.2% in fiscal 2010 compared with 4.9% in fiscal 2009 and 11.1% in fiscal 2008.

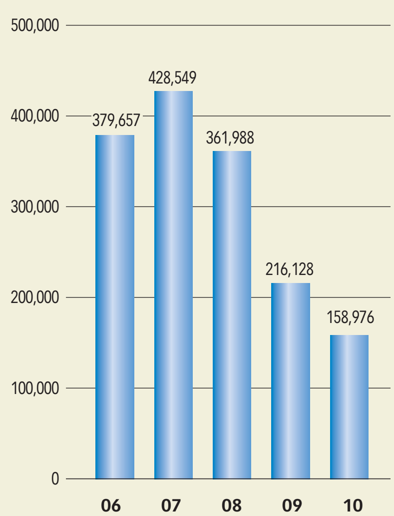
Debt to total assets ratio was 0.3%, 0.3% and 0.4% as of December 31, 2010, 2009 and 2008, respectively. Canon had short-term loans and long-term debt of ¥11,331 million (U.S.$140 million) as of December 31, 2010, ¥9,781 million as of December 31, 2009 and ¥13,963 million as of December 31, 2008.

OFF-BALANCE SHEET ARRANGEMENTS

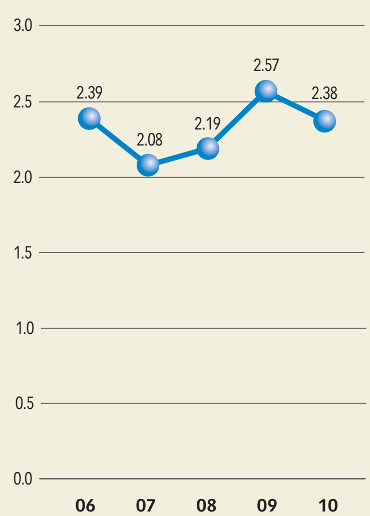
As part of its ongoing business, Canon does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Canon provides guarantees for bank loans of its employees, affiliates and other companies. Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract periods of 1 year to 30 years in the case of employees with housing loans, and 1 year to 10 years in the case of affiliates and other companies. The maximum amount of undiscounted payments Canon would have had to make in the event of default by all borrowers was ¥16,746 million (U.S.$207 million) at December 31, 2010. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees were insignificant.

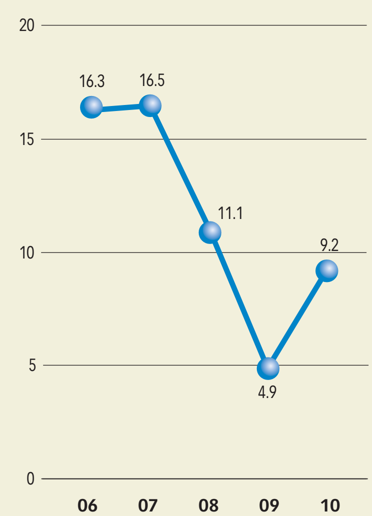
Increase in Property, Plant and Equipment
(Millions of yen)



Working Capital Ratio



Return on Canon Inc. Stockholders' Equity
(%)



CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes Canon's contractual obligations at December 31, 2010.

		Payments due by period			
Millions of yen	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Long-term debt:					
Capital lease obligations	**¥ 8,247**	¥ 4,268	¥ 2,806	¥ 1,105	¥ 68
Other long-term debt	**1,013**	861	55	50	47
Operating lease obligations	**83,800**	23,413	32,344	13,941	14,102
Purchase commitments for:					
Property, plant and equipment	**29,383**	29,383	—	—	—
Parts and raw materials	**86,434**	86,434	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	**30,071**	30,071	—	—	—
Total	**¥238,948**	¥174,430	¥35,205	¥15,096	¥14,217

Note: The table does not include provisions for uncertain tax positions and related accrued interest and penalties, as the specific timing of future payments related to these obligations cannot be projected with reasonable certainty. See Note 13, Income Taxes in the Notes to Consolidated Financial Statements for further details. Contribution to defined benefit pension plans reflects the expected amount only for the next fiscal year, since contributions beyond the next fiscal year are not currently determinable due to uncertainties related to changes in actuarial assumptions, returns on plan assets and changes to plan membership.

		Payments due by period			
Thousands of U.S. dollars	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Long-term debt:					
Capital lease obligations	**$ 101,815**	$ 52,691	$ 34,642	$ 13,642	$ 840
Other long-term debt	**12,506**	10,630	679	617	580
Operating lease obligations	**1,034,568**	289,049	399,309	172,112	174,098
Purchase commitments for:					
Property, plant and equipment	**362,753**	362,753	—	—	—
Parts and raw materials	**1,067,086**	1,067,086	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	**371,247**	371,247	—	—	—
Total	**$2,949,975**	$2,153,456	$434,630	$186,371	$175,518

Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related costs are established at the time revenue are recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty cost are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2010, accrued product warranty costs amounted to ¥13,343 million (U.S.$165 million).

At December 31, 2010, commitments outstanding for the purchase of property, plant and equipment were approximately ¥29,383 million (U.S.$363 million), and commitments outstanding for the purchase of parts and raw materials were approximately ¥86,434 million (U.S.$1,067 million), both for use in the ordinary course of its business. Canon anticipates that funds needed to fulfill these commitments will be generated internally through operations.

During fiscal 2011, Canon expects to contribute ¥22,055 million (U.S.$272 million) to its Japanese defined benefit pension plans and ¥8,016 million (U.S.$99 million) to its foreign defined benefit pension plans.

Canon's management believes that current financial resources, cash generated from operations and Canon's potential capacity for additional debt and/or equity financing will be sufficient to fund current and future capital requirements.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Year 2010 marks the final year of the Excellent Global Corporation Plan, which started in 2006. The slogan of the third phase ("Phase III") is "Innovation & Sound Growth" and there are four core strategies:

- Realize an overwhelming No.1 position worldwide in all current core businesses;
- Expand operations through diversification;
- Identify new business domains and accumulate necessary technological capabilities; and
- Establish new production system to sustain global competitiveness.

Canon has been striving to implement the three R&D related strategies as follows:

- Realize an overwhelming No.1 position worldwide in all current core businesses: Pursue development of new products which enable "cross-media imaging" by sophisticated functional synergy among the variety of Canon's image handling products, benefiting from the proliferation of broad band communication environment.
- Expand operations through diversification: Focus on developing various types of display, including Organic Light-Emitting Diode displays ("OLED").
- Identify new business domains and accumulate necessary technological capabilities: Accumulate technological capability to create innovative products and systems in the focused three domains of the medical imaging sector, intelligent robot industry and safety technology domain.

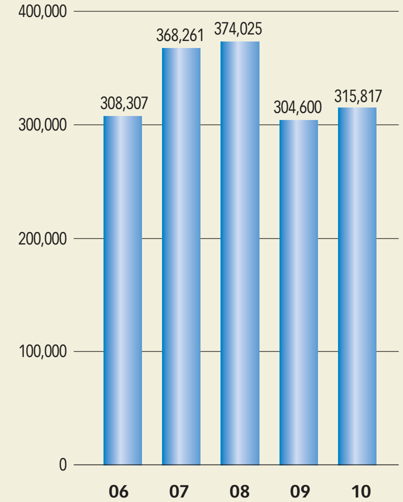
Canon has developed and strengthened relationships with universities and other research institutes, such as Kyoto University, Tokyo Institute of Technology, Stanford University, The University of Arizona, the New Energy and Industrial Technology Development Organization and the National Institute of Advanced Industrial Science and Technology to assist with fundamental research and to develop cutting-edge technologies.

Canon has fully introduced 3D-CAD systems across the Canon group, boosting R&D efficiency to curtail product development times and costs. Moreover, Canon enhanced and evolved its simulation, measurement, and analysis technologies by establishing leading-edge facilities, including one of Japan's highest-performance cluster computers. As such, Canon has succeeded in further reducing the need for prototypes, dramatically lowering costs and shortening product development lead times.

Canon has R&D centers worldwide. Each R&D center is collaborating with other centers to achieve synergies, and is cultivating closer ties in fields ranging from basic research to product development.

Canon's consolidated R&D expenses were ¥315,817 million (U.S.$3,899 million) in fiscal 2010, ¥304,600 million in fiscal 2009 and ¥374,025 million in fiscal 2008. The ratios of R&D expenses to the consolidated total net sales for fiscal 2010, 2009 and 2008 were 8.5%, 9.5% and 9.1%, respectively.

R&D Expenses
(Millions of yen)



Canon believes that new products protected by patents will not easily allow competitors to compete with it, and will give it an advantage in establishing standards in the market and industry.

RECENT DEVELOPMENT

On March 11, 2011, Japan experienced a massive earthquake and tsunami off the Pacific coast of Northeastern Japan. The earthquake caused damage to inventories and buildings at manufacturing facilities primarily in the Company's Utsunomiya Plant, and Fukushima Canon Inc., a manufacturing subsidiary. In addition, certain distribution warehouses of the Company and Canon Marketing Japan Inc., a sales subsidiary, located in Northeastern Japan sustained damage to inventories. As a result, production operations have been suspended at certain plants of the Company and its manufacturing subsidiaries. The Company has organized a special taskforce, "Earthquake Disaster Recovery Task Force", in order to rapidly respond to these events and is currently making effort to resume operations immediately.

Canon cannot estimate the effect of the earthquake on its consolidated results of operations and financial condition as of the issuance date of the consolidated financial statements. However, in the short term, the costs for recovery may occur along with the decrease of revenues, which may adversely affect on Canon to a certain degree.

MARKET RISK EXPOSURE

Canon is exposed to market risks, including changes in foreign currency exchange rates, interest rates and prices of marketable securities and investments. In order to hedge the risks of changes in foreign currency exchange rates, Canon uses derivative financial instruments.

Equity price risk

Canon holds marketable securities included in current assets, which consist generally of highly-liquid and low-risk instruments. Investments included in noncurrent assets are held as long-term investments. Canon does not hold marketable securities and investments for trading purposes.

Maturities and fair values of such marketable securities and investments with original maturities of more than three months, all of which were classified as available-for-sale securities, were as follows at December 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars	
Available-for-sale securities	Cost	Fair value	Cost	Fair value
Due within one year	¥ 1,001	¥ 1,001	$ 12,358	$ 12,358
Due after one year through five years	952	972	11,753	12,000
Due after five years through ten years	2,026	1,981	25,012	24,456
Equity securities	18,288	23,402	225,778	288,914
	¥22,267	¥27,356	$274,901	$337,728

Foreign currency exchange rate and interest rate risk

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign currency exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for trading purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars and euros into Japanese yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables which are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales are hedged using foreign exchange contracts which principally mature within three months.

The following table provides information about Canon's major derivative financial instruments related to foreign currency exchange transactions existing at December 31, 2010. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2011.

Millions of yen	U.S.$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	¥254,676	¥178,962	¥32,723	¥466,361
Estimated fair value	4,963	6,134	(282)	10,815
Forwards to buy foreign currencies:				
Contract amounts	¥ 21,944	¥ 24,414	¥ 2,328	¥ 48,686
Estimated fair value	(106)	(55)	383	222

Thousands of U.S. dollars	U.S.$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	$3,144,148	$2,209,407	$403,988	$5,757,543
Estimated fair value	61,272	75,728	(3,481)	133,519
Forwards to buy foreign currencies:				
Contract amounts	$ 270,914	$ 301,407	$ 28,741	$ 601,062
Estimated fair value	(1,309)	(679)	4,728	2,740

All of Canon's long-term debt is fixed rate debt. Canon expects that fair value changes and cash flows resulting from reasonable near-term changes in interest rates will be immaterial. Accordingly, Canon believes interest rate risk is insignificant. See also Note 10 of the Notes to Consolidated Financial Statements.

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (deductions) in the same period as the hedged items affect earnings. Substantially all such amounts recorded in accumulated other comprehensive income (loss) at year-end are expected to be recognized in earnings over the next 12 months. Canon excludes the time value component from the assessment of hedge effectiveness. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings and not considered hedge ineffectiveness.

The amount of the hedging ineffectiveness was not material for the years ended December 31, 2010, 2009 and 2008. The amounts of net losses excluded from the assessment of hedge effectiveness (time value component) which was recorded in other income (deductions) was ¥302 million (U.S.$4 million), ¥462 million and ¥3,701 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Canon has entered into certain foreign currency exchange contracts to manage its foreign currency exposures. These foreign currency exchange contracts have not been designated as hedges. Accordingly, the changes in fair values of these contracts are recorded in earnings immediately.

LOOKING FORWARD

As for the global economy, in the U.S., despite the risk of a slowdown due to the ongoing credit crisis and high unemployment, we expect the trend toward gradual recovery to continue. In Europe, while concerns remain regarding financial instability, we believe the economy will make steady progress toward recovery. In Asia, the overall trend toward economic recovery is expected to continue, fueled by such factors as continued strong economic expansion in such countries as China and India. As for Japan, while the economy will likely continue to realize a gradual economic rebound against the backdrop of a global economic recovery, we expect the current trend of economic deflation to continue due to weak domestic consumption.

Amid this climate, Canon has launched its latest five-year plan: Phase IV of the Global Excellent Corporation Plan (2011-2015). Our ultimate aim is to realize our goal of joining the ranks of the world's top 100 companies in terms of all major management indicators.

In order to achieve our targets, we aim to expand our scale and business operations, further strengthening our imaging-related businesses and working to expand business domains by cultivating such areas as medical and industrial equipment. At the same time, we will make efforts to transform our manufacturing operations in keeping with the changing times through the reinforcement of such basic functions as research and development, production, and sales and marketing. Specifically, we will strive to change to a situation where products developed in each region are sold globally, accelerating transition to a three regional headquarters management system, which includes R&D centers in Japan, the U.S. and Europe, as we solicit the world's great minds and innovative power.

Targeting this kind of change and transformation, we will also make active use of M&As. For this, we set up a special organization in charge of further promoting M&As, effective January 1, 2011.

At the same time, we will work to solidify our foundation as a leading environmental company that aims for both growth and environmental conservation, by further raising the environmental performance of our products and reducing the impact of all corporate activities on the environment.

Office Business Unit

In 2010, Canon's copying machine and MFD businesses rebounded substantially from the economic downturn, which had affected the entire industry in 2009. Emerging markets, such as in Asia, were particularly notable for their growth.

The importance of providing added value in the form of networking, integration, color printing, multifunction and solutions has grown in the office imaging products business. Canon seeks to maintain its leading position in both the printing and in the office products markets.

Canon has matched its business strategy to market trends by strengthening its lineup of digital color network MFDs and print-on-demand machines. In 2010, Canon further expanded the imageRUNNER ADVANCE series with the introduction of a monochrome lineup and a low-end color device. We also launched the imagePRESS C7010VP series, designed to meet the needs of print professionals in commercial print shops with advanced function. To maintain and enhance its competitive edge and to meet increasingly sophisticated customer demands, Canon will continue reinforcing its hardware and software product lineups and solutions capability.

Canon's laser printer business has a strong market position. The market declined rapidly in the wake of the global economic downturn but slowly recovered in 2010.

In the monochrome laser printer market, sales to the micro-office/ home office segment expanded.

The color laser printer market is expected to grow over the long term, although demand slowed recently due to the economic downturn. Competition has intensified as competitors have pursued aggressive pricing strategies to establish market share.

Canon is promoting technological development in order to provide competitive products in all segments with a focus on bringing new and improved offerings to market in a well-timed manner.

The large format printer market shrank in 2009. However, the trend was toward recovery in 2010. Total business growth in 2010 increased slightly, with particularly strong growth in Asia.

In 2010, we launched three new 12-color printer models (iPF6300/6350/8300), designed to meet the needs of the graphic art market (exceptional color reproduction, high print quality, and furthermore, high usability).

We also released two new CAD models (iPF815/825), for a market that demands high productivity. These models have achieved a strong reputation, resulting in double-digit unit sales growth in 2010 as compared to 2009. Market share of our CAD models also increased steadily during 2010.

Consumer Business Unit

The digital SLR market continued to grow steadily in 2010. Additional manufacturers entered the market this year, expanding the market with mirrorless digital cameras, and solid growth in digital SLR cameras continued. These trends show that there is still a strong market need for high-quality digital photography.

With respect to digital SLR cameras, the market shows demand for increased numbers of pixels. Higher sensitivity, miniaturization, reduced weight and video functions have become standard specifications as well, including the support by each company of full HD image quality in this market. By offering new products based on cutting-edge technology, Canon seeks to continue its growth into the foreseeable future.

In addition, sales volume in emerging markets appears ready to expand dramatically. For this reason, there is an urgent need to upgrade sales structures and other systems in order to handle this expansion.

During fiscal year 2010, the compact digital camera market was driven by growth in China, Russia, and other emerging economic regions. Although markets in some developed economic regions have expanded due to a reduction in average prices across the industry, overall, such regions have remained stable or have declined as compared to the previous year. Total global growth increased slightly, while Canon has maintained a high share at the same level as during the previous consolidated fiscal year.

Developed markets are expected to remain stable in 2011, and emerging markets are expected to remain on a positive growth track, resulting in a projected slight increase worldwide as compared to consolidated fiscal 2010.

A fierce price war and the strong yen have been drastically squeezing profit margins in the digital camera market. Although the industry as a whole is relying more and more on electronic manufacturing service (“EMS”) companies and cost competition is expected to intensify in the future, we plan to take advantage of our industry-leading economies of scale and its 100% internal manufacturing system in order to maintain and solidify our profitability.

We expect continued growth in the interchangeable lens market due to the rapid spread of digital SLR cameras and mirrorless digital cameras. Canon aims to continue expanding its sales and market share by introducing products with features that satisfy customer needs, such as lenses with image stabilizer functionality.

The global digital video camcorder market has diversified due to the introduction of new recording media, such as flash memory. During this consolidated fiscal year, however, trends toward flash memory and HD as the future mainstream medium became clear. Despite the worldwide economic downturn that started in the second half of 2008, the flash memory and HD market segments have continued to grow year-on-year. The new, lowest-priced webcam product category (under $200) has proven strong, particularly in North America. Webcams appeal to a user segment that wants to enjoy convenient video capabilities, and they have been selling in increasing numbers. Canon is working to expand sales of its powerful lineup of products to meet a wide range of user needs with even greater added value and seeks to differentiate itself from the competition based on its high-quality HD image technology concept.

The business application projector market experienced the effects of the continuing economic downturn during this consolidated fiscal year as well, resulting in a slowdown as compared to previous forecasts. In particular, this downturn affected products with high added value. However, system integrators and other video professionals continue to require these high added value products, and therefore Canon plans to continue working to maintain and expand sales.

In 2010, although expansion in the market for network cameras used for surveillance video and monitoring applications softened somewhat, this market has been recording solid growth up until the present. We expect that the trends toward larger numbers of pixels, advancements in video analysis technology and the industry standardization of operational commands will lead to future growth in this market. In order to avoid missing these trends, Canon is working to increase sales with an expanded competitive lineup.

The broadcast television lens market experienced a temporary decline in the wake of the economic downturn. However, the market has been on course for a gradual overall recovery during consolidated fiscal year 2010, partially thanks to an expansion of the market in countries where the industry is still emerging. Nevertheless, due to the progressive reduction in prices caused by equipment downsizing as well as the influence of the strong yen, while revenue growth was achieved, profits declined. We expect this downsizing trend to continue, and starting next year, Canon will work to expand profits by reinforcing its family of products aimed at responding to this change in the industry. In the medium term, we expect that this industry will be revitalized by increased demand for equipment upgrades due to the industry switch to digital broadcasting as well as demand from emerging markets. Canon already has a large market share worldwide, and plans to increase sales and expand its share further as the market recovers by releasing highly competitive products to the market in a timely fashion, further solidifying its position in the industry.

The Inkjet printer market recovered in 2010. While emerging countries have contributed to the growth of market volume, in advanced countries there are increasing demands of small and home office for high-value added products including MFPs with fax and ADF function and also wireless models. Along with basic performance, such as image quality and print speed, each vendor began to enhance the product design, ease of use and applications to increase user satisfaction. To manage these trends, Canon has introduced new models with variety of new features, such as an Intelligent Touch System, which provides light-guided direction, and Full HD Movie Print. Thereby strengthening its lineup from entry-level to high-end models, Canon intends further sales expansion.

Industry and Others Business Unit

In fiscal 2010, the semiconductor device market recovered strongly from the economic downturn starting in the second half of fiscal 2008. There were noteworthy improvements for semiconductor device market categories such as DRAM and NAND-flash memory, due to strong sales of PCs and smart phones, as well as the so-called "green" products such as LED and power devices.

As a result, shipments of semiconductor lithography equipment in fiscal 2010 recovered sharply over fiscal 2009. By market, sales in Korea have been strong, thanks to increased investment by major memory manufacturers, while in Japan demand has been steadily improving for lithography equipment for sensors and image devices.

The market for LCD lithography equipment in fiscal 2010 grew dramatically from the previous year. Makers of LCD panels have significantly increased their equipment investment in order to capture growing demand in developing countries. Total equipment investment among the top LCD panel makers grew strongly in fiscal 2010 from the previous year, topping the level recorded during the boom market of fiscal 2008.

Against this background, shipments of LCD lithography equipment markedly improved rapidly compared to fiscal 2009. By region, shipments in Japan declined, but those to Korea, Taiwan and China improved significantly. Shipments of generation-7.5 and 8 LCD lithography equipment for televisions improved noticeably.

The medical equipment market in Europe and the United States was adversely influenced by the economic downturn. However, the market for static digital X-ray equipment has been expanding, although competition has become more severe through the entry of computed radiography manufacturers into the market. The medical equipment market in Asia (mainly China) is expanding rapidly, and the static digital X-ray equipment market has followed this trend.

Thin and lightweight CXDI-55C/55G portable digital radiography system, which was released in 2009, contributed to an increase of sales in Europe, the United States and Japan. In 2010, Canon's overall sales increased steadily compared to the previous fiscal year. We also focused on emerging markets and particularly, we set the low-end market in China, which is supported by the Chinese government, as a main target. As a result, we have been successful in increasing sales to China, and orders from Central and South America have also contributed to our U.S. sales figures. During 2010, Canon released dynamic digital radiography CXDI-50RF in Europe and the United States, and Virtual Imaging, which Canon acquired in 2009, contributed to our increase in sales with its DR system. A strategic new product, the CXDI-70C Wireless, was launched in November 2010.

The ophthalmic products market shrank in 2010, especially in Europe and the United States, due to the economic downturn. However, the optical coherence tomography ("OCT") market expanded steadily compared to 2009. Therefore, many of Canon's competitors released new strategic OCT products. In order to keep pace with these trends, Canon is striving to increase sales by expanding competitive lineup of products to gain the market acceptance.

Canon acquired Optopol Technology in 2010 and plans to use Optopol Technology as a development and production center. In 2010, sales of Optopol's OCT technology in Japan, Europe and the United States contributed to our net sales. Sales of hybrid retinal cameras, first released in 2009, contributed to sales in 2010, while sales of non-mydriatic retinal cameras declined slightly due to the economic downturn in Japan, Europe and the United States. Canon released the extremely compact non-mydriatic retinal camera CR2 in November 2010 and aims to increase sales in this market.

Among the "imageFORMULA series" document scanners handled by Canon Electronics Inc., the high-durability, high-speed "DR-9050C/6050C," compact "DR-2010C/2510C" and new "ScanFront 300P," with network functionality, all met with strong market receptions, chalking up increases in units sold and revenues in every region where they are marketed. Sales have been particularly strong in China, India, and other parts of Asia, with significant increases in terms of both units and revenues. Meanwhile, in the Japanese market, strong sales of the extremely compact and portable document scanner "DR-150" have led a major increase in unit sales.

Sales of the FA system-related devices handled by Canon Machinery Inc. ended the term with a year-on-year increase as solid first-half results outweighed sales declines in the second half. Die bonders had promising orders for the LED (light-emitting diode) compatible "BESTEM-D01 series," helped in particular by vigorous first-half capital investments by LED manufacturers. It enjoyed significantly higher sales for the term, despite lower orders in the second half.

The magnetic disk manufacturing equipment handled by Canon ANELVA Corporation saw sales revenues more than double from the previous term as demand for hard disk drives to be used in servers and personal computers rose and customers increased capital investments. Sales of magnetic head manufacturing equipment and semiconductor film deposition equipment also rose significantly.

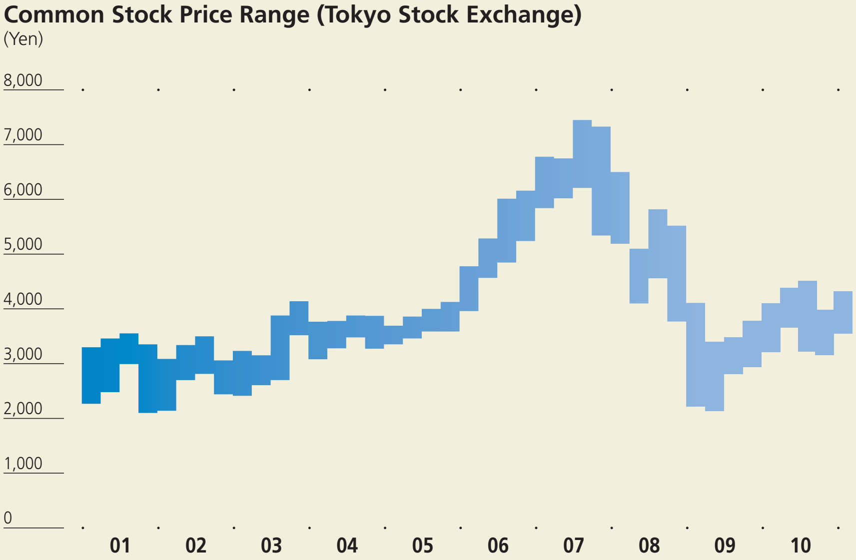
Forward looking statements

The foregoing discussion and other disclosure in this report contains forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events that may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements: foreign currency exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of foreign currency exchange rate fluctuations; uncertainty as to economic conditions in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; uncertainty as to the recovery of computer and related markets; uncertainty of recovery in demand for Canon's semiconductor lithography equipment; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced, and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign currency exchange rates; and inventory risk due to shifts in market demand.

TEN-YEAR FINANCIAL SUMMARY

	Millions of yen (except per share amounts)			
	2010	2009	2008	2007
Net sales:				
Domestic	**¥ 695,749**	¥ 702,344	¥ 868,280	¥ 947,587
Overseas	**3,011,152**	2,506,857	3,225,881	3,533,759
Total	**3,706,901**	3,209,201	4,094,161	4,481,346
Percentage of previous year	**115.5%**	78.4%	91.4%	107.8%
Net income attributable to Canon Inc.	**246,603**	131,647	309,148	488,332
Percentage of sales	**6.7%**	4.1%	7.6%	10.9%
Advertising	**94,794**	78,009	112,810	132,429
Research and development expenses	**315,817**	304,600	374,025	368,261
Depreciation of property, plant and equipment	**232,327**	277,399	304,622	309,815
Increase in property, plant and equipment	**158,976**	216,128	361,988	428,549
Long-term debt, excluding current installments	**¥ 4,131**	¥ 4,912	¥ 8,423	¥ 8,680
Canon Inc. stockholders' equity	**2,645,782**	2,688,109	2,659,792	2,922,336
Total assets	**3,983,820**	3,847,557	3,969,934	4,512,625
Per share data:				
Income before cumulative effect of change in accounting principle:				
Basic	**¥ 199.71**	¥ 106.64	¥ 246.21	¥ 377.59
Diluted	**199.70**	106.64	246.20	377.53
Net income attributable to Canon Inc. stockholders per share:				
Basic	**199.71**	106.64	246.21	377.59
Diluted	**199.70**	106.64	246.20	377.53
Dividends per share	**120.00**	110.00	110.00	110.00
Stock price:				
High	**4,520**	4,070	5,820	7,450
Low	**3,205**	2,115	2,215	5,190
Average number of common shares in thousands	**1,234,818**	1,234,482	1,255,626	1,293,296
Number of employees	**197,386**	168,879	166,980	131,352

Common Stock Price Range (Tokyo Stock Exchange)



2006	2005	2004	2003	2002	2001	Thousands of U.S. dollars (except per share amounts) 2010
¥ 932,290	¥ 856,205	¥ 849,734	¥ 801,400	¥ 732,551	¥ 827,288	**$ 8,589,494**
3,224,469	2,897,986	2,618,119	2,396,672	2,207,577	2,080,285	**37,174,716**
4,156,759	3,754,191	3,467,853	3,198,072	2,940,128	2,907,573	**45,764,210**
110.7%	108.3%	108.4%	108.8%	101.1%	107.8%	**115.5%**
455,325	384,096	343,344	275,730	190,737	167,561	**3,044,481**
11.0%	10.2%	9.9%	8.6%	6.5%	5.8%	**6.7%**
116,809	106,250	111,770	100,278	71,725	66,837	**1,170,296**
308,307	286,476	275,300	259,140	233,669	218,616	**3,898,975**
235,804	205,727	174,397	168,636	158,469	147,286	**2,868,235**
379,657	383,784	318,730	210,038	198,702	207,674	**1,962,667**
¥ 15,789	¥ 27,082	¥ 28,651	¥ 59,260	¥ 81,349	¥ 95,526	**$ 51,000**
2,986,606	2,604,682	2,209,896	1,865,545	1,591,950	1,458,476	**32,663,975**
4,521,915	4,043,553	3,587,021	3,182,148	2,942,706	2,844,756	**49,182,963**
¥ 341.95	¥ 288.63	¥ 258.53	¥ 209.21	¥ 145.04	¥ 124.71	**$ 2.47**
341.84	288.36	257.85	207.17	143.20	123.03	**2.47**
341.95	288.63	258.53	209.21	145.04	127.53	**2.47**
341.84	288.36	257.85	207.17	143.20	125.80	**2.47**
83.33	66.67	43.33	33.33	20.00	16.67	**1.48**
6,780	4,780	3,880	4,140	3,500	3,553	**55.80**
4,567	3,460	3,273	2,607	2,413	2,100	**39.57**
1,331,542	1,330,761	1,328,048	1,317,974	1,315,074	1,313,940	
118,499	115,583	108,257	102,567	97,802	93,620	

Notes:
1. U.S. dollar amounts are translated from yen at the rate of U.S.$1 = JPY81, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2010.
2. The Company made a three-for-two stock split on July 1, 2006. The average number of common shares and the per share data for the periods prior to the stock split have been adjusted to reflect the stock split.

CONSOLIDATED BALANCE SHEETS

CANON INC. AND SUBSIDIARIES

DECEMBER 31, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2010**	2009	**2010**
Current assets:			
Cash and cash equivalents (Note 1)	**¥ 840,579**	¥ 795,034	**$10,377,519**
Short-term investments (Note 3)	**96,815**	19,089	**1,195,247**
Trade receivables, net (Note 4)	**557,504**	556,572	**6,882,765**
Inventories (Note 5)	**384,777**	373,241	**4,750,333**
Prepaid expenses and other current assets (Notes 7,13 and 19)	**250,754**	273,843	**3,095,729**
Total current assets	**2,130,429**	2,017,779	**26,301,593**
Noncurrent receivables (Note 20)	**16,771**	14,936	**207,049**
Investments (Note 3)	**81,529**	114,066	**1,006,531**
Property, plant and equipment, net (Notes 6 and 7)	**1,201,968**	1,269,785	**14,839,111**
Intangible assets, net (Note 9)	**153,021**	117,396	**1,889,148**
Other assets (Notes 7, 9, 12 and 13)	**400,102**	313,595	**4,939,531**
Total assets	**¥3,983,820**	¥3,847,557	**$49,182,963**

LIABILITIES AND EQUITY			
Current liabilities:			
Short-term loans and current portion of long-term debt (Note 10)	**¥ 7,200**	¥ 4,869	**$ 88,889**
Trade payables (Note 11)	**383,251**	339,113	**4,731,494**
Accrued income taxes (Note 13)	**72,482**	50,105	**894,840**
Accrued expenses (Notes 12 and 20)	**299,710**	274,300	**3,700,123**
Other current liabilities (Notes 6, 13 and 19)	**134,298**	115,303	**1,658,000**
Total current liabilities	**896,941**	783,690	**11,073,346**
Long-term debt, excluding current installments (Note 10)	**4,131**	4,912	**51,000**
Accrued pension and severance cost (Note 12)	**197,609**	115,904	**2,439,617**
Other noncurrent liabilities (Note 13)	**75,502**	63,651	**932,123**
Total liabilities	**1,174,183**	968,157	**14,496,086**
Commitments and contingent liabilities (Note 20)			
Equity:			
Canon Inc. stockholders' equity:			
Common stock			
Authorized 3,000,000,000 shares; issued 1,333,763,464 shares in 2010 and in 2009 (Note 14)	**174,762**	174,762	**2,157,556**
Additional paid-in capital (Note 14)	**400,425**	404,293	**4,943,518**
Legal reserve (Note 15)	**57,930**	54,687	**715,185**
Retained earnings (Note 15)	**2,965,237**	2,871,437	**36,607,864**
Accumulated other comprehensive income (loss) (Note 16)	**(390,459)**	(260,818)	**(4,820,481)**
Treasury stock, at cost; 105,295,975 shares in 2010 and 99,288,001 shares in 2009	**(562,113)**	(556,252)	**(6,939,667)**
Total Canon Inc. stockholders' equity	**2,645,782**	2,688,109	**32,663,975**
Noncontrolling interests	**163,855**	191,291	**2,022,902**
Total equity	**2,809,637**	2,879,400	**34,686,877**
Total liabilities and equity	**¥3,983,820**	¥3,847,557	**$49,182,963**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

CANON INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2010	2009	2008	**2010**
Net sales	**¥3,706,901**	¥3,209,201	¥4,094,161	**$45,764,210**
Cost of sales (Notes 6, 9, 12 and 20)	**1,923,813**	1,781,808	2,156,153	**23,750,778**
Gross profit	**1,783,088**	1,427,393	1,938,008	**22,013,432**
Operating expenses (Notes 1, 6 ,9, 12, 17 and 20):				
Selling, general and administrative expenses	**1,079,719**	905,738	1,067,909	**13,329,864**
Research and development expenses	**315,817**	304,600	374,025	**3,898,975**
	1,395,536	1,210,338	1,441,934	**17,228,839**
Operating profit	**387,552**	217,055	496,074	**4,784,593**
Other income (deductions):				
Interest and dividend income	**6,022**	5,202	19,442	**74,346**
Interest expense	**(1,931)**	(336)	(837)	**(23,840)**
Other, net (Notes 1, 3, 19 and 22)	**1,220**	(2,566)	(33,532)	**15,061**
	5,311	2,300	(14,927)	**65,567**
Income before income taxes	**392,863**	219,355	481,147	**4,850,160**
Income taxes (Note 13)	**140,160**	84,122	160,788	**1,730,370**
Consolidated net income	**252,703**	135,233	320,359	**3,119,790**
Less: Net income attributable to noncontrolling interests	**6,100**	3,586	11,211	**75,309**
Net income attributable to Canon Inc.	**¥ 246,603**	¥ 131,647	¥ 309,148	**$ 3,044,481**
	Yen			U.S. dollars (Note 2)
Net income attributable to Canon Inc. stockholders per share (Note 18):				
Basic	**¥ 199.71**	¥ 106.64	¥ 246.21	**$ 2.47**
Diluted	**199.70**	106.64	246.20	**2.47**
Cash dividends per share	**120.00**	110.00	110.00	**1.48**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EQUITY

CANON INC. AND SUBSIDIARIES

	Millions of yen								
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. stockholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2007	¥174,698	¥402,991	¥46,017	¥2,720,146	¥ 34,670	¥(456,186)	¥2,922,336	¥222,870	¥3,145,206
Conversion of convertible debt	64	63					127		127
Equity transactions with noncontrolling interests and other		761					761	(26,218)	(25,457)
Dividends paid to Canon Inc. stockholders				(145,024)			(145,024)		(145,024)
Dividends paid to noncontrolling interests								(5,123)	(5,123)
Transfer to legal reserve			7,689	(7,689)			—		—
Comprehensive income (loss):									
Net income				309,148			309,148	11,211	320,359
Other comprehensive income (loss), net of tax (Note 16):									
Foreign currency translation adjustments					(258,764)		(258,764)	(1,911)	(260,675)
Net unrealized gains and losses on securities					(5,152)		(5,152)	(690)	(5,842)
Net gains and losses on derivative instruments					2,342		2,342	—	2,342
Pension liability adjustments					(65,916)		(65,916)	(8,949)	(74,865)
Total comprehensive income (loss)							(18,342)	(339)	(18,681)
Repurchase of treasury stock, net		(25)		(5)		(100,036)	(100,066)		(100,066)
Balance at December 31, 2008	174,762	403,790	53,706	2,876,576	(292,820)	(556,222)	2,659,792	191,190	2,850,982
Equity transactions with noncontrolling interests and other		503					503	(1,376)	(873)
Dividends paid to Canon Inc. stockholders				(135,793)			(135,793)		(135,793)
Dividends paid to noncontrolling interests								(3,326)	(3,326)
Transfer to legal reserve			981	(981)			—		—
Comprehensive income:									
Net income				131,647			131,647	3,586	135,233
Other comprehensive income (loss), net of tax (Note 16):									
Foreign currency translation adjustments					33,340		33,340	30	33,370
Net unrealized gains and losses on securities					2,150		2,150	67	2,217
Net gains and losses on derivative instruments					(1,422)		(1,422)	(1)	(1,423)
Pension liability adjustments					(2,066)		(2,066)	1,121	(945)
Total comprehensive income							163,649	4,803	168,452
Repurchase of treasury stock, net				(12)		(30)	(42)		(42)
Balance at December 31, 2009	174,762	404,293	54,687	2,871,437	(260,818)	(556,252)	2,688,109	191,291	2,879,400
Acquisition of subsidiaries								**19,168**	**19,168**
Equity transactions with noncontrolling interests and other		**(3,787)**		**(13,453)**	**(680)**	**55,250**	**37,330**	**(43,214)**	**(5,884)**
Dividends paid to Canon Inc. stockholders				**(136,103)**			**(136,103)**		**(136,103)**
Dividends paid to noncontrolling interests								**(2,827)**	**(2,827)**
Transfer to legal reserve			**3,243**	**(3,243)**			**—**		**—**
Comprehensive income (loss):									
Net income				**246,603**			**246,603**	**6,100**	**252,703**
Other comprehensive income (loss), net of tax (Note 16):									
Foreign currency translation adjustments					**(122,667)**		**(122,667)**	**(4,251)**	**(126,918)**
Net unrealized gains and losses on securities					**(222)**		**(222)**	**76**	**(146)**
Net gains and losses on derivative instruments					**833**		**833**	**(66)**	**767**
Pension liability adjustments					**(6,905)**		**(6,905)**	**(2,422)**	**(9,327)**
Total comprehensive income (loss)							**117,642**	**(563)**	**117,079**
Repurchase of treasury stock, net		**(81)**		**(4)**		**(61,111)**	**(61,196)**		**(61,196)**
Balance at December 31, 2010	**¥174,762**	**¥400,425**	**¥57,930**	**¥2,965,237**	**¥ (390,459)**	**¥(562,113)**	**¥2,645,782**	**¥163,855**	**¥2,809,637**

	Thousands of U.S. dollars (Note 2)								
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. stockholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2009	$2,157,556	$4,991,272	$675,148	$35,449,840	$ (3,219,975)	$(6,867,310)	$33,186,531	$2,361,617	$35,548,148
Acquisition of subsidiaries								236,642	236,642
Equity transactions with noncontrolling interests and other		(46,754)		(166,087)	(8,395)	682,100	460,864	(533,506)	(72,642)
Dividends paid to Canon Inc. stockholders				(1,680,284)			(1,680,284)		(1,680,284)
Dividends paid to noncontrolling interests								(34,901)	(34,901)
Transfer to legal reserve			40,037	(40,037)			—		—
Comprehensive income (loss):									
Net income				3,044,481			3,044,481	75,309	3,119,790
Other comprehensive income (loss), net of tax (Note 16):									
Foreign currency translation adjustments					(1,514,407)		(1,514,407)	(52,481)	(1,566,888)
Net unrealized gains and losses on securities					(2,741)		(2,741)	938	(1,803)
Net gains and losses on derivative instruments					10,284		10,284	(815)	9,469
Pension liability adjustments					(85,247)		(85,247)	(29,901)	(115,148)
Total comprehensive income (loss)							1,452,370	(6,950)	1,445,420
Repurchase of treasury stock, net		(1,000)		(49)		(754,457)	(755,506)		(755,506)
Balance at December 31, 2010	$2,157,556	$4,943,518	$715,185	$36,607,864	$(4,820,481)	$(6,939,667)	$32,663,975	$2,022,902	$34,686,877

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CANON INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2010	2009	2008	**2010**
Cash flows from operating activities:				
Consolidated net income	**¥252,703**	¥135,233	¥320,359	**$ 3,119,790**
Adjustments to reconcile consolidated net income to net cash provided by operating activities:				
Depreciation and amortization	**276,193**	315,393	341,337	**3,409,790**
Loss on disposal of property, plant and equipment	**21,120**	8,215	11,811	**260,741**
Impairment loss of fixed assets (Note 6)	**1,288**	15,466	13,503	**15,901**
Impairment loss of investments	**23,330**	2,398	10,568	**288,025**
Equity in (earnings) losses of affiliated companies	**(10,471)**	12,649	20,047	**(129,272)**
Deferred income taxes	**29,381**	20,712	(32,497)	**362,728**
(Increase) decrease in trade receivables	**(6,671)**	48,244	83,521	**(82,358)**
(Increase) decrease in inventories	**(17,532)**	143,580	49,547	**(216,444)**
Increase (decrease) in trade payables	**115,726**	(76,843)	(36,719)	**1,428,716**
Increase (decrease) in accrued income taxes	**25,228**	(21,023)	(77,340)	**311,457**
Increase (decrease) in accrued expenses	**77**	(9,827)	(30,694)	**951**
Increase (decrease) in accrued (prepaid) pension and severance cost	**4,147**	4,765	(12,128)	**51,198**
Other, net	**29,894**	12,273	(44,631)	**369,061**
Net cash provided by operating activities	**744,413**	611,235	616,684	**9,190,284**
Cash flows from investing activities:				
Purchases of fixed assets (Note 6)	**(199,152)**	(327,983)	(428,168)	**(2,458,667)**
Proceeds from sale of fixed assets (Note 6)	**3,303**	8,893	7,453	**40,778**
Purchases of available-for-sale securities	**(10,891)**	(3,253)	(7,307)	**(134,457)**
Proceeds from sale and maturity of available-for-sale securities	**3,910**	2,460	4,320	**48,272**
Proceeds from maturity of held-to-maturity securities	**—**	—	10,000	**—**
(Increase) decrease in time deposits, net	**(80,904)**	(11,345)	2,892	**(998,815)**
Acquisitions of subsidiaries, net of cash acquired	**(55,686)**	(2,979)	(5,999)	**(687,481)**
Purchases of other investments	**(1,955)**	(37,981)	(45,473)	**(24,136)**
Other, net	**(758)**	1,944	(10,198)	**(9,358)**
Net cash used in investing activities	**(342,133)**	(370,244)	(472,480)	**(4,223,864)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	**5,902**	3,361	6,841	**72,864**
Repayments of long-term debt	**(5,739)**	(6,282)	(15,397)	**(70,852)**
Decrease in short-term loans, net	**(74,933)**	(280)	(2,643)	**(925,099)**
Dividends paid	**(136,103)**	(135,793)	(145,024)	**(1,680,284)**
Repurchases of treasury stock, net	**(61,196)**	(42)	(100,066)	**(755,506)**
Other, net	**(7,828)**	(3,343)	(21,276)	**(96,642)**
Net cash used in financing activities	**(279,897)**	(142,379)	(277,565)	**(3,455,519)**
Effect of exchange rate changes on cash and cash equivalents	**(76,838)**	17,226	(131,906)	**(948,617)**
Net change in cash and cash equivalents	**45,545**	115,838	(265,267)	**562,284**
Cash and cash equivalents at beginning of year	**795,034**	679,196	944,463	**9,815,235**
Cash and cash equivalents at end of year	**¥840,579**	¥795,034	¥679,196	**$10,377,519**
Supplemental disclosure for cash flow information (Note 23):				
Cash paid during the year for:				
Interest	**¥ 1,924**	¥ 384	¥ 901	**$ 23,753**
Income taxes	**80,212**	82,906	263,392	**990,272**

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CANON INC. AND SUBSIDIARIES

1. Basis of Presentation and Significant Accounting Policies

(a) Description of Business

Canon Inc. (the "Company") and subsidiaries (collectively "Canon") is one of the world's leading manufacturers in such fields as office products, consumer products and industry and other products. Office products consist mainly of network digital multifunction devices ("MFDs"), copying machines, laser printers, large format inkjet printers and digital production printers. Consumer products consist mainly of digital single-lens reflex ("SLR") cameras, compact digital cameras, interchangeable lenses, digital video camcorders, inkjet multifunction peripherals, single function inkjet printers, image scanners and broadcasting equipment. Industry and other products consist mainly of semiconductor lithography equipment, lithography equipment for liquid crystal display ("LCD") panels, and medical equipment. Canon's consolidated net sales for the years ended December 31, 2010, 2009 and 2008 were distributed as follows: the Office Business Unit 54%, 51% and 55%, the Consumer Business Unit 38%, 41% and 35%, the Industry and Others Business Unit 12%, 11% and 13%, and elimination between segments 4%, 3% and 3%, respectively. These percentages were computed by dividing segment net sales, including intersegment sales, by consolidated net sales, based on the segment operating results described in Note 24.

Sales are made principally under the Canon brand name, almost entirely through sales subsidiaries. These subsidiaries are responsible for marketing and distribution, and primarily sell to retail dealers in their geographic area. Approximately 81%, 78% and 79% of consolidated net sales for the years ended December 31, 2010, 2009 and 2008 were generated outside Japan, with 28%, 28% and 28% in the Americas, 32%, 31% and 33% in Europe, and 21%, 19% and 18% in Asia and Oceania, respectively.

Canon sells laser printers on an OEM basis to Hewlett-Packard Company; such sales constituted approximately 20%, 20% and 23% of consolidated net sales for the years ended December 31, 2010, 2009 and 2008, respectively, and are included in the Office Business Unit.

Canon's manufacturing operations are conducted primarily at 26 plants in Japan and 19 overseas plants which are located in countries or regions such as the United States, Germany, France, Netherlands, Taiwan, China, Malaysia, Thailand and Vietnam.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan. Foreign subsidiaries maintain their books of account in conformity with financial accounting standards of the countries of their domicile.

Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with U.S. generally accepted accounting principles ("GAAP"). These adjustments were not recorded in the statutory books of account.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and those variable interest entities where the Company or its consolidated subsidiaries are the primary beneficiaries. All significant intercompany balances and transactions have been eliminated.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions are reflected in valuation and disclosure of revenue recognition, allowance for doubtful receivables, valuation of inventories, impairment of long-lived assets, environmental liabilities, valuation of deferred tax assets, uncertain tax positions and employee retirement and severance benefit obligations. Actual results could differ materially from those estimates.

(e) Translation of Foreign Currencies

Assets and liabilities of the Company's subsidiaries located outside Japan with functional currencies other than Japanese yen are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from translation of financial statements are excluded from earnings and are reported in other comprehensive income (loss).

Gains and losses resulting from foreign currency transactions, including foreign exchange contracts, and translation of assets and liabilities denominated in foreign currencies are included in other income (deductions) in the consolidated statements of income. Foreign currency exchange gains and losses were net gains of ¥3,089 million ($38,136 thousand) and ¥1,842 million for the years ended December 31, 2010 and 2009, respectively, and was a net loss of ¥11,212 million for the year ended December 31, 2008.

(f) Cash Equivalents

All highly liquid investments acquired with original maturities of three months or less are considered to be cash equivalents. Certain debt securities with original maturities of less than three months classified as available-for-sale securities of ¥249,907 million ($3,085,272 thousand) and ¥184,856 million at December 31, 2010 and 2009, respectively, are included in cash and cash equivalents in the consolidated balance sheets. Additionally, certain debt securities with original maturities of less than three months classified as held-to-maturity securities of ¥1,000 million ($12,346 thousand) and ¥999 million at December 31, 2010 and 2009, respectively, are also included in cash and cash equivalents. Fair value for these securities approximates their cost.

(g) Investments

Investments consist primarily of time deposits with original maturities of more than three months, debt and marketable equity securities, investments in affiliated companies and non-marketable equity securities. Canon reports investments with maturities of less than one year as short-term investments.

Canon classifies investments in debt and marketable equity securities as available-for-sale or held-to-maturity securities. Canon does not hold any trading securities, which are bought and held primarily for the purpose of sale in the near term.

Available-for-sale securities are recorded at fair value. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. Unrealized holding gains and losses, net of the related tax effect, are reported as a separate component of other comprehensive income (loss) until realized. Held-to-maturity securities are recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts.

Available-for-sale and held-to-maturity securities are regularly reviewed for other-than-temporary declines in the carrying amount based on criteria that include the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and Canon's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. For debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, impairments are separated into the amount related to credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income (loss). For debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, impairments in their entirety are recognized in earnings. For equity securities for which the declines are deemed to be other-than-temporary, impairments in their entirety are recognized in earnings. Canon recognizes an impairment loss to the extent by which the cost basis of the investment exceeds the fair value of the investment.

Realized gains and losses are determined by the average cost method and reflected in earnings.

Investments in affiliated companies over which Canon has the ability to exercise significant influence, but does not hold a controlling financial interest, are accounted for by the equity method.

Non-marketable equity securities in companies over which Canon does not have the ability to exercise significant influence are stated at cost and reviewed periodically for impairment.

(h) Allowance for Doubtful Receivables

Allowance for doubtful trade and finance receivables is maintained for all customers based on a combination of factors, including aging analysis, macroeconomic conditions and historical experience. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. When all collection options are exhausted including legal recourse, the accounts or portions thereof are deemed to be uncollectable and charged against the allowance.

(i) Inventories

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

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset and the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(k) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

The depreciation period ranges from 3 years to 60 years for buildings and 1 year to 20 years for machinery and equipment.

Assets leased to others under operating leases are stated at cost and depreciated to the estimated residual value of the assets by the straight-line method over the period ranging from 2 years to 5 years.

(l) Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. Canon performs its impairment test of goodwill using the two-step approach at the reporting unit level, which is one level below the operating segment level. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon performs the second step to measure an impairment charge in the amount by which the carrying amount of a reporting unit's goodwill exceeds its implied fair value. Intangible assets with finite useful lives consist primarily of software, license fees, patented technologies and customer relationships. Software and license fees are amortized using the straight-line method over the estimated useful lives, which range from 3 years to 5 years for software and 5 years to 10 years for license fees. Patented technologies are amortized using the straight-line method principally over the estimated useful life of 3 years. Customer relationships are amortized principally using the declining-balance method over the estimated useful life of 5 years. Certain costs incurred in connection with developing or obtaining internal use software are capitalized. These costs consist primarily of payments made to third parties and the salaries of employees working on such software development. Costs incurred in connection with developing internal use software are capitalized at the application development stage. In addition, Canon develops or obtains certain software to be sold where related costs are capitalized after establishment of technological feasibility.

(m) Environmental Liabilities

Liabilities for environmental remediation and other environmental costs are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

(n) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Canon records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not realizable.

Canon recognizes the financial statement effects of tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

(o) Stock-Based Compensation

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

(p) Net Income Attributable to Canon Inc. Stockholders per Share

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

(q) Revenue Recognition

Canon generates revenue principally through the sale of office and consumer products, equipment, supplies, and related services under separate contractual arrangements. Canon recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is probable.

Revenue from sales of office products, such as office network digital MFDs and laser printers, and consumer products, such as digital cameras and inkjet multifunction peripherals, is recognized upon shipment or delivery, depending upon when title and risk of loss transfer to the customer.

Revenue from sales of optical equipment, such as semiconductor lithography equipment and LCD lithography equipment that are sold with customer acceptance provisions related to their functionality, is recognized when the equipment is installed at the customer site and the specific criteria of the equipment functionality are successfully tested and demonstrated by Canon. Service revenue is derived primarily from separately priced product maintenance contracts on equipment sold to customers and is measured at the stated amount of the contract and recognized as services are provided.

Canon also offers separately priced product maintenance contracts for most office products, for which the customer typically pays a stated base service fee plus a variable amount based on usage. Revenue from these service maintenance contracts is measured at the stated amount of the contract and recognized as services are provided and variable amounts are earned.

Revenue from the sale of equipment under sales-type leases is recognized at the inception of the lease. Income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When equipment leases are bundled with product maintenance contracts, revenue is first allocated considering the relative fair value of the lease and non-lease deliverables based upon the estimated relative fair values of each element. Lease deliverables generally include equipment, financing and executory costs, while non-lease deliverables generally consist of product maintenance contracts and supplies.

For all other arrangements with multiple elements, Canon allocates revenue to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting. Otherwise, revenue is deferred until the undelivered elements are fulfilled and accounted for as a single unit of accounting.

Canon records estimated reductions to sales at the time of sale for sales incentive programs including product discounts, customer promotions and volume-based rebates. Estimated reductions in sales are based upon historical trends and other known factors at the time of sale. In addition, Canon provides price protection to certain resellers of its products, and records reductions to sales for the estimated impact of price protection obligations when announced.

Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses in the consolidated statements of income. Estimates for accrued product warranty costs are based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure.

Taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statements of income.

(r) Research and Development Costs

Research and development costs are expensed as incurred.

(s) Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were ¥94,794 million ($1,170,296 thousand), ¥78,009 million and ¥112,810 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(t) Shipping and Handling Costs

Shipping and handling costs totaled ¥56,306 million ($695,136 thousand), ¥45,966 million and ¥62,128 million for the years ended December 31, 2010, 2009 and 2008, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(u) Derivative Financial Instruments

All derivatives are recognized at fair value and are included in prepaid expenses and other current assets, or other current liabilities in the consolidated balance sheets.

Canon uses and designates certain derivatives as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Canon formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Canon also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Canon discontinues hedge accounting prospectively. Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the hedged item. Gains and losses from hedging ineffectiveness are included in other income (deductions). Gains and losses related to the components of hedging instruments excluded from the assessment of hedge effectiveness are included in other income (deductions).

Canon also uses certain derivative financial instruments which are not designated as hedges. The changes in fair values of these derivative financial instruments are immediately recorded in earnings.

Canon classifies cash flows from derivatives as cash flows from operating activities in the consolidated statements of cash flows.

(v) Guarantees

Canon recognizes, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing guarantees.

(w) Recently Issued Accounting Guidance

In October 2009, the FASB issued new accounting guidance for revenue recognition under multiple-deliverable arrangements. This guidance modifies the criteria for separating consideration under multiple-deliverable arrangements and requires allocation of the overall consideration to each deliverable using the estimated selling price in the absence of vendor-specific objective evidence or third-party evidence of selling price for deliverables. As a result, the residual method of allocating arrangement consideration will no longer be permitted. The guidance also requires additional disclosures about how a vendor allocates revenue in its arrangements and about the significant judgments made and their impact on revenue recognition. This guidance is effective for fiscal years beginning on or after June 15, 2010 and is required to be adopted by Canon no later than the first quarter beginning January 1, 2011 (with early adoption permitted). The provisions are effective prospectively for revenue arrangements entered into or materially modified after the effective date, or retrospectively for all prior periods. Canon does not expect the adoption of this guidance to have a material impact on Canon's consolidated financial statements.

In October 2009, the FASB issued new accounting guidance for software revenue recognition. This guidance modifies the scope of the software revenue recognition guidance to exclude from its requirements non-software components of tangible products and software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. This guidance is effective for fiscal years beginning on or after June 15, 2010 and is required to be adopted by Canon no later than the first quarter beginning January 1, 2011 (with early adoption permitted) using the same effective date and the same transition method used to adopt the guidance for revenue recognition under multiple-deliverable arrangements. Canon does not expect the adoption of this guidance to have a material impact on Canon's consolidated financial statements.

(x) Reclassifications

Certain reclassifications have been made to the prior years' consolidated statements of cash flows to conform to the current year presentation.

2. Basis of Financial Statement Translation

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥81 = U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on December 30, 2010. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

3. Investments

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale securities included in short-term investments and investments by major security type at December 31, 2010 and 2009 were as follows:

December 31 Millions of yen	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2010: Current:				
Government bonds	**¥ 1**	**¥ —**	**¥ —**	**¥ 1**
Corporate bonds	**1,000**	**—**	**—**	**1,000**
	¥ 1,001	**¥ —**	**¥ —**	**¥ 1,001**
Noncurrent:				
Government bonds	**¥ 183**	**¥ —**	**¥ 22**	**¥ 161**
Corporate bonds	**1,017**	**42**	**65**	**994**
Fund trusts	**1,778**	**20**	**—**	**1,798**
Equity securities	**18,288**	**5,768**	**654**	**23,402**
	¥21,266	**¥5,830**	**¥741**	**¥26,355**

Millions of yen	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2009: Current:				
Government bonds	¥ 222	¥ —	¥ —	¥ 222
Noncurrent:				
Government bonds	¥ 225	¥ —	¥ 21	¥ 204
Corporate bonds	1,397	27	55	1,369
Fund trusts	2,275	300	7	2,568
Equity securities	11,932	7,295	1,501	17,726
	¥15,829	¥7,622	¥1,584	¥21,867

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

December 31 Thousands of U.S. dollars	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2010: Current:				
Government bonds	$ 12	$ —	$ —	$ 12
Corporate bonds	12,346	—	—	12,346
	$ 12,358	$ —	$ —	$ 12,358
Noncurrent:				
Government bonds	$ 2,259	$ —	$ 272	$ 1,987
Corporate bonds	12,555	519	802	12,272
Fund trusts	21,951	246	—	22,197
Equity securities	225,778	71,210	8,074	288,914
	$262,543	$71,975	$9,148	$325,370

Maturities of available-for-sale debt securities and fund trusts included in short-term investments and investments in the accompanying consolidated balance sheets were as follows at December 31, 2010:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair value	Cost	Fair value
Due within one year	¥1,001	¥1,001	$12,358	$12,358
Due after one year through five years	952	972	11,753	12,000
Due after five years through ten years	2,026	1,981	25,012	24,456
	¥3,979	¥3,954	$49,123	$48,814

Gross realized gains were ¥641 million ($7,914 thousand), ¥277 million and ¥116 million for the years ended December 31, 2010, 2009 and 2008, respectively. Gross realized losses, including write-downs for impairments that were other than temporary, were ¥1,961 million ($24,210 thousand), ¥2,482 million and ¥7,868 million for the years ended December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than 12 months.

Time deposits with original maturities of more than three months are ¥95,814 million ($1,182,889 thousand) and ¥18,852 million at December 31, 2010 and 2009, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥26,475 million ($326,852 thousand) and ¥28,567 million at December 31, 2010 and 2009, respectively. Investments with an aggregate cost of ¥24,053 million ($296,951 thousand) were not evaluated for impairment because (a) Canon did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investments and (b) Canon did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

Investments in affiliated companies accounted for by the equity method amounted to ¥26,817 million ($331,074 thousand) and ¥61,595 million at December 31, 2010 and 2009, respectively. Canon's share of the net earnings (losses) in affiliated companies accounted for by the equity method, included in other income (deductions), were earnings of ¥10,471 million ($129,272 thousand) for the year ended December 31, 2010, and losses of ¥12,649 million and ¥20,047 million for the years ended December 31, 2009 and 2008, respectively.

4. Trade Receivables

Trade receivables are summarized as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes	**¥ 15,441**	¥ 13,037	**$ 190,630**
Accounts	**556,983**	554,878	**6,876,333**
	572,424	567,915	**7,066,963**
Less allowance for doubtful receivables	**(14,920)**	(11,343)	**(184,198)**
	¥557,504	¥556,572	**$6,882,765**

5. Inventories

Inventories are summarized as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished goods	**¥232,584**	¥228,161	**$2,871,407**
Work in process	**116,679**	129,824	**1,440,482**
Raw materials	**35,514**	15,256	**438,444**
	¥384,777	¥373,241	**$4,750,333**

6. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and are summarized as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Land	**¥ 266,631**	¥ 258,824	**$ 3,291,741**
Buildings	**1,320,121**	1,299,154	**16,297,790**
Machinery and equipment	**1,439,246**	1,422,076	**17,768,469**
Construction in progress	**85,673**	105,713	**1,057,691**
	3,111,671	3,085,767	**38,415,691**
Less accumulated depreciation	**(1,909,703)**	(1,815,982)	**(23,576,580)**
	¥1,201,968	¥1,269,785	**$14,839,111**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 was ¥232,327 million ($2,868,235 thousand), ¥277,399 million and ¥304,622 million, respectively.

Amounts due for purchases of property, plant and equipment were ¥23,306 million ($287,728 thousand) and ¥29,030 million at December 31, 2010 and 2009, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets. Fixed assets presented in the consolidated statements of cash flows include property, plant and equipment and intangible assets.

As a result of continued sluggish demand in the semiconductor manufacturing industry and diminished profitability of the semiconductor lithography equipment business, Canon recognized impairment losses related primarily to property, plant and equipment of its semiconductor lithography equipment business, which are included in the results of the Industry and Others Business Unit for the year ended December 31, 2009. Long-lived assets with a carrying amount of ¥15,390 million were written down to their fair value of zero, which was estimated using discounted future cash flows expected to be generated over their remaining useful life. The impairment losses were included in selling, general and administrative expenses in the consolidated statement of income.

Canon also recognized impairment losses of ¥11,164 million related primarily to property, plant and equipment of its semiconductor lithography equipment business, which are included in the results of the Industry and Others Business Unit for the year ended December 31, 2008, mainly as a result of declining demand in the semiconductor manufacturing industry. The impairment losses were estimated using discounted cash flows and included in selling, general and administrative expenses in the consolidated statement of income.

7. Finance Receivables and Operating Leases

Finance receivables represent financing leases which consist of sales-type leases and direct-financing leases resulting from the marketing of Canon's and complementary third-party products primarily in foreign countries. These receivables typically have terms ranging from 1 year to 8 years. The components of the finance receivables, which are included in prepaid expenses and other current assets, and other assets in the accompanying consolidated balance sheets, are as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total minimum lease payments receivable	**¥215,925**	¥206,267	**$2,665,741**
Unguaranteed residual values	**11,120**	14,630	**137,284**
Executory costs	**(2,063)**	(1,973)	**(25,469)**
Unearned income	**(27,891)**	(26,994)	**(344,333)**
	197,091	191,930	**2,433,223**
Less allowance for doubtful receivables	**(7,983)**	(9,023)	**(98,556)**
	189,108	182,907	**2,334,667**
Less current portion	**(71,500)**	(65,146)	**(882,716)**
	¥117,608	¥117,761	**$1,451,951**

The activity in the allowance for credit losses is as follows:

Year ended December 31, 2010	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	**¥9,023**	**$111,395**
Charge-offs	**(3,103)**	**(38,309)**
Provision	**1,995**	**24,630**
Other	**68**	**840**
Balance at end of year	**¥7,983**	**$ 98,556**

Canon has policies in place to ensure that its products are sold to customers with an appropriate credit history, and continuously monitors its customers' credit quality based on information including length of period in arrears, macroeconomic conditions, initiation of legal proceedings against customers and bankruptcy filings. The allowance for credit losses of finance receivables are evaluated collectively based on historical experience of credit losses. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. Finance receivables which are past due or individually evaluated for impairment at December 31, 2010 are not significant.

The cost of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2010 and 2009 was ¥63,239 million ($780,728 thousand) and ¥53,807 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2010 and 2009 was ¥43,829 million ($541,099 thousand) and ¥39,992 million, respectively.

The following is a schedule by year of the future minimum lease payments to be received under financing leases and non-cancelable operating leases at December 31, 2010.

Year ending December 31:	Millions of yen		Thousands of U.S. dollars	
	Financing leases	Operating leases	Financing leases	Operating leases
2011	¥ 84,049	¥11,581	$1,037,642	$142,975
2012	60,245	6,449	743,765	79,617
2013	39,883	3,365	492,383	41,543
2014	21,143	1,456	261,025	17,975
2015	9,945	532	122,778	6,568
Thereafter	660	163	8,148	2,013
	¥215,925	¥23,546	$2,665,741	$290,691

8. Acquisitions

In March 2010, Canon acquired 45.2% of the total outstanding shares of Océ N.V. ("Océ"), which is listed on NYSE Euronext Amsterdam, principally through a fully self-funded public cash tender offer for consideration of ¥50,374 million ($621,901 thousand), in addition to the 22.9% interest Canon held before the public cash tender offer. In addition, Canon acquired Océ's convertible cumulative financing preference shares representing 19.1% of the total outstanding shares of Océ for consideration of ¥8,027 million ($99,099 thousand). As a result, Canon's aggregate interest represents 87.2% of the total outstanding shares of Océ. The fair value of the 12.8% noncontrolling interest in Océ of ¥18,245 million ($225,247 thousand) was measured based on the quoted price of Océ's common stock on the acquisition date.

The acquisition was accounted for using the acquisition method. Prior to the March 2010 acquisition date, Canon accounted for its 22.9% interest in Océ using the equity method. The acquisition-date fair value of the previous equity interest of ¥25,508 million ($314,914 thousand) was remeasured using the quoted price of Océ's common stock on the acquisition date and included in the measurement of the total acquisition consideration. In connection with the acquisition, Canon repaid ¥55,378 million ($683,679 thousand) of Océ's existing bank debt and ¥22,936 million ($283,160 thousand) of Océ's existing United States Private Placement notes, which are included in decrease in short-term loans in the consolidated statement of cash flows.

Océ is engaged in research and development, manufacture and sale of document management systems, printing systems for professionals and high-speed, wide format digital printing systems. Canon and Océ have complementary technologies and products and would benefit from this strong business relationship. Amid the increasingly competitive printing industry, Canon is further strengthening its business foundation in order to solidify its position as one of the global leaders. Canon aims to provide diversified solutions to its customers in the printing industry by making Océ a consolidated subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at acquisition date.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥122,248	$1,509,235
Property, plant and equipment	51,156	631,556
Intangible assets	56,297	695,025
Goodwill	77,253	953,741
Other noncurrent assets	42,658	526,642
Non-current assets	227,364	2,806,964
Total acquired assets	349,612	4,316,199
Total assumed liabilities	247,458	3,055,038
Net assets acquired	¥102,154	$1,261,161

Intangible assets acquired, which are subject to amortization, consist of customer relationships of ¥32,747 million ($404,284 thousand), patented technologies of ¥11,316 million ($139,704 thousand), and other intangible assets of ¥12,234 million ($151,037 thousand). Canon has estimated the amortization period for the customer relationships and patented technologies to be 5 years and 3 years, respectively. The weighted average amortization period for all intangible assets is approximately 4.4 years.

Goodwill recognized, which is assigned to the Office Business Unit for impairment testing, is attributable primarily to expected synergies from combining operations of Océ and Canon. None of the goodwill is expected to be deductible for income tax purposes.

The amount of net sales of Océ included in Canon's consolidated statement of income from the acquisition date for the year ended December 31, 2010 was ¥246,518 million ($3,043,432 thousand).

The unaudited pro forma net sales as if Océ had been included in Canon's consolidated statements of income from the beginning of the years ended December 31, 2010 and 2009 were ¥3,772,425 million ($46,573,148 thousand) and ¥3,554,316 million, respectively. Pro forma net income was not disclosed because the impact on Canon's consolidated statements of income was not material.

Canon acquired businesses other than those described above during the years ended December 31, 2010, 2009, and 2008 that were not material to its consolidated financial statements.

9. Goodwill and Other Intangible Assets

Intangible assets developed or acquired during the year ended December 31, 2010 totaled ¥94,474 million ($1,166,346 thousand), which are subject to amortization and primarily consist of software of ¥34,441 million ($425,198 thousand), which is mainly for internal use, in addition to those recorded from acquired businesses. The weighted average amortization period for software and intangible assets in total is approximately 4 years and 4 years, respectively.

The components of intangible assets subject to amortization at December 31, 2010 and 2009 were as follows:

December 31	2010		2009	
Millions of yen	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Software	**¥200,245**	**¥109,200**	¥198,276	¥114,410
Customer relationships	**37,637**	**12,107**	8,585	2,245
Patented technologies	**25,425**	**9,377**	11,648	2,878
License fees	**22,108**	**14,436**	23,889	13,546
Other	**16,686**	**4,641**	10,377	3,135
	¥302,101	**¥149,761**	¥252,775	¥136,214

Thousands of U.S. dollars	2010	
	Gross carrying amount	Accumulated amortization
Software	**$2,472,161**	**$1,348,148**
Customer relationships	**464,654**	**149,469**
Patented technologies	**313,889**	**115,765**
License fees	**272,938**	**178,222**
Other	**206,000**	**57,297**
	$3,729,642	**$1,848,901**

Aggregate amortization expense for the years ended December 31, 2010, 2009 and 2008 was ¥43,866 million ($541,555 thousand), ¥37,994 million and ¥36,715 million, respectively. Estimated amortization expense for intangible assets currently held for the next five years ending December 31 is ¥46,572 million ($574,963 thousand) in 2011, ¥36,765 million ($453,889 thousand) in 2012, ¥25,030 million ($309,012 thousand) in 2013, ¥16,559 million ($204,432 thousand) in 2014, and ¥7,190 million ($88,765 thousand) in 2015.

Intangible assets not subject to amortization other than goodwill at December 31, 2010 and 2009 were not significant.

For management reporting purposes, goodwill is not allocated to the segments. Goodwill has been allocated to its respective segment for impairment testing.

The changes in the carrying amount of goodwill by segment, which is included in other assets in the consolidated balance sheets, for the years ended December 31, 2010 and 2009 were as follows:

Years ended December 31 Millions of yen		Office	Consumer	Industry and Others	Total
2010:	Balance at beginning of year	**¥ 39,845**	**¥13,303**	**¥2,723**	**¥ 55,871**
	Goodwill acquired during the year	**79,156**	**—**	**3,719**	**82,875**
	Translation adjustments and other	**(11,700)**	**(917)**	**(940)**	**(13,557)**
	Balance at end of year	**¥107,301**	**¥12,386**	**¥5,502**	**¥125,189**

Millions of yen		Office	Consumer	Industry and Others	Total
2009:	Balance at beginning of year	¥ 36,966	¥ 13,279	¥ 509	¥ 50,754
	Goodwill acquired during the year	2,462	—	2,343	4,805
	Translation adjustments and other	417	24	(129)	312
	Balance at end of year	¥ 39,845	¥ 13,303	¥ 2,723	¥ 55,871

Thousands of U.S. dollars		Office	Consumer	Industry and Others	Total
2010:	Balance at beginning of year	**$ 491,914**	**$164,235**	**$33,616**	**$ 689,765**
	Goodwill acquired during the year	**977,234**	**—**	**45,914**	**1,023,148**
	Translation adjustments and other	**(144,444)**	**(11,321)**	**(11,605)**	**(167,370)**
	Balance at end of year	**$1,324,704**	**$152,914**	**$67,925**	**$1,545,543**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

10. Short-Term Loans and Long-Term Debt

Short-term loans consisting of bank borrowings at December 31, 2010 were ¥2,071 million ($25,568 thousand). The weighted average interest rate on short-term loans outstanding at December 31, 2010 was 1.46%.

Long-term debt consisted of the following:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loans, principally from banks, maturing in installments through 2020; bearing weighted average interest of 1.83% and 0.30% at December 31, 2010 and 2009, respectively	**¥1,013**	¥ 20	**$ 12,506**
Capital lease obligations	**8,247**	9,761	**101,815**
	9,260	9,781	**114,321**
Less current portion	**(5,129)**	(4,869)	**(63,321)**
	¥4,131	¥4,912	**$ 51,000**

The aggregate annual maturities of long-term debt outstanding at December 31, 2010 were as follows:

Year ending December 31:	Millions of yen	Thousands of U.S. dollars
2011	¥5,129	$ 63,321
2012	1,799	22,210
2013	1,062	13,111
2014	833	10,284
2015	322	3,975
Thereafter	115	1,420
	¥9,260	$114,321

Both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank.

11. Trade Payables

Trade payables are summarized as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes	**¥ 13,676**	¥ 7,608	**$ 168,840**
Accounts	**369,575**	331,505	**4,562,654**
	¥383,251	¥339,113	**$4,731,494**

12. Employee Retirement and Severance Benefits

The Company and certain of its subsidiaries have contributory and noncontributory defined benefit pension plans covering substantially all of their employees. Benefits payable under the plans are based on employee earnings and years of service. The Company and certain of its subsidiaries also have defined contribution pension plans covering substantially all of their employees.

The amounts of cost recognized for the defined contribution pension plans of the Company and certain of its subsidiaries for the years ended December 31, 2010, 2009 and 2008 were ¥11,780 million ($145,432 thousand), ¥9,148 million and ¥10,840 million, respectively.

Obligations and funded status

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

Years ended December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Change in benefit obligations:						
Benefit obligations at beginning of year	**¥ 551,320**	¥521,985	**$ 6,806,420**	**¥ 94,170**	¥ 78,468	**$1,162,593**
Service cost	**23,331**	21,759	**288,037**	**5,660**	2,426	**69,877**
Interest cost	**12,636**	12,535	**156,000**	**11,792**	4,251	**145,580**
Plan participants' contributions	**—**	—	**—**	**2,460**	1,177	**30,370**
Amendments	**(423)**	(674)	**(5,223)**	**(149)**	—	**(1,840)**
Actuarial (gain) loss	**22,290**	10,822	**275,185**	**(5,946)**	3,533	**(73,407)**
Benefits paid	**(15,880)**	(15,107)	**(196,049)**	**(7,458)**	(1,784)	**(92,074)**
Acquisition	**—**	—	**—**	**198,754**	—	**2,453,753**
Foreign currency exchange rate changes	**—**	—	**—**	**(38,153)**	6,099	**(471,025)**
Benefit obligations at end of year	**593,274**	551,320	**7,324,370**	**261,130**	94,170	**3,223,827**
Change in plan assets:						
Fair value of plan assets at beginning of year	**457,208**	429,870	**5,644,543**	**75,058**	62,996	**926,642**
Actual return on plan assets	**4,533**	26,616	**55,963**	**19,307**	4,844	**238,358**
Employer contributions	**13,283**	15,173	**163,988**	**8,152**	3,059	**100,642**
Plan participants' contributions	**—**	—	**—**	**2,460**	1,177	**30,370**
Benefits paid	**(14,934)**	(14,451)	**(184,371)**	**(7,413)**	(1,784)	**(91,519)**
Acquisition	**—**	—	**—**	**128,043**	—	**1,580,778**
Foreign currency exchange rate changes	**—**	—	**—**	**(27,772)**	4,766	**(342,864)**
Fair value of plan assets at end of year	**460,090**	457,208	**5,680,123**	**197,835**	75,058	**2,442,407**
Funded status at end of year	**¥(133,184)**	¥ (94,112)	**$(1,644,247)**	**¥ (63,295)**	¥(19,112)	**$ (781,420)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

Amounts recognized in the consolidated balance sheets at December 31, 2010 and 2009 are as follows:

December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Other assets	**¥ 345**	¥ 707	**$ 4,259**	**¥ 1,318**	¥ 2,069	**$ 16,271**
Accrued expenses	**—**	—	**—**	**(533)**	(96)	**(6,580)**
Accrued pension and severance cost	**(133,529)**	(94,819)	**(1,648,506)**	**(64,080)**	(21,085)	**(791,111)**
	¥(133,184)	¥(94,112)	**$(1,644,247)**	**¥(63,295)**	¥(19,112)	**$(781,420)**

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2010 and 2009 before the effect of income taxes are as follows:

December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Actuarial loss	**¥257,625**	¥237,822	**$3,180,555**	**¥3,538**	¥19,411	**$43,679**
Prior service credit	**(142,473)**	(155,928)	**(1,758,926)**	**(486)**	(670)	**(6,000)**
Net transition obligation	**722**	1,444	**8,914**	**—**	—	**—**
	¥115,874	¥ 83,338	**$1,430,543**	**¥3,052**	¥18,741	**$37,679**

The accumulated benefit obligation for all defined benefit plans was as follows:

December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Accumulated benefit obligation	**¥565,406**	¥522,582	**$6,980,321**	**¥216,239**	¥80,361	**$2,669,617**

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows:

December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Plans with projected benefit obligations in excess of plan assets:						
Projected benefit obligations	**¥589,391**	¥545,466	**$7,276,432**	**¥258,326**	¥94,123	**$3,189,210**
Fair value of plan assets	**455,862**	450,647	**5,627,926**	**193,713**	72,942	**2,391,519**
Plans with accumulated benefit obligations in excess of plan assets:						
Accumulated benefit obligations	**¥559,468**	¥509,638	**$6,907,012**	**¥144,225**	¥80,314	**$1,780,556**
Fair value of plan assets	**453,342**	442,756	**5,596,815**	**122,590**	72,942	**1,513,457**

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss)
Net periodic benefit cost for Canon's employee retirement and severance defined benefit plans for the years ended December 31, 2010, 2009 and 2008 consisted of the following components:

Years ended December 31	Japanese plans				Foreign plans			
	Millions of yen			Thousands of U.S. dollars	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**	**2010**	2009	2008	**2010**
Service cost	**¥23,331**	¥21,759	¥20,786	**$288,037**	**¥ 5,660**	¥2,426	¥3,141	**$ 69,877**
Interest cost	**12,636**	12,535	12,253	**156,000**	**11,792**	4,251	4,991	**145,580**
Expected return on plan assets	**(16,591)**	(15,808)	(19,721)	**(204,827)**	**(10,540)**	(4,211)	(5,519)	**(130,123)**
Amortization of net transition obligation	**722**	722	722	**8,914**	**—**	—	—	**—**
Amortization of prior service credit	**(13,878)**	(13,650)	(13,373)	**(171,334)**	**(116)**	(98)	(271)	**(1,433)**
Amortization of actuarial loss	**14,545**	13,923	7,068	**179,568**	**1,050**	1,014	898	**12,963**
	¥20,765	¥19,481	¥ 7,735	**$256,358**	**¥ 7,846**	¥3,382	¥3,240	**$ 96,864**

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2010 and 2009 are summarized as follows:

Years ended December 31	Japanese plans			Foreign plans		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**	**2010**	2009	**2010**
Current year actuarial (gain) loss	**¥34,348**	¥ 14	**$424,049**	**¥(14,713)**	¥2,900	**$(181,642)**
Amortization of actuarial loss	**(14,545)**	(13,923)	**(179,568)**	**(1,050)**	(1,014)	**(12,963)**
Prior service credit due to amendments	**(423)**	(674)	**(5,223)**	**(149)**	—	**(1,840)**
Amortization of prior service credit	**13,878**	13,650	**171,334**	**116**	98	**1,433**
Amortization of net transition obligation	**(722)**	(722)	**(8,914)**	**—**	—	**—**
	¥32,536	¥ (1,655)	**$401,678**	**¥(15,796)**	¥1,984	**$(195,012)**

The estimated net transition obligation, prior service credit and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follows:

	Japanese plans		Foreign plans	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Net transition obligation	¥ 722	$ 8,914	¥ —	$ —
Prior service credit	(13,574)	(167,580)	(132)	(1,630)
Actuarial loss	14,562	179,778	500	6,173

Assumptions
Weighted-average assumptions used to determine benefit obligations are as follows:

December 31	Japanese plans		Foreign plans	
	2010	2009	**2010**	2009
Discount rate	**2.1%**	2.3%	**4.9%**	5.2%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%	**2.9%**	3.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

Years ended December 31	Japanese plans			Foreign plans		
	2010	2009	2008	**2010**	2009	2008
Discount rate	**2.3%**	2.4%	2.5%	**4.9%**	5.3%	5.1%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%	2.9%	**2.8%**	3.1%	3.1%
Expected long-term rate of return on plan assets	**3.6%**	3.7%	3.7%	**6.1%**	6.2%	6.5%

Canon determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Canon considers the current expectations for future returns and the actual historical returns of each plan asset category.

Plan assets

Canon's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Canon formulates a "model" portfolio comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Canon evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. Canon revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Canon's model portfolio for Japanese plans consists of three major components: approximately 30% is invested in equity securities, approximately 50% is invested in debt securities, and approximately 20% is invested in other investment vehicles, primarily consisting of investments in life insurance company general accounts.

Outside Japan, investment policies vary by country, but the long-term investment objectives and strategies remain consistent. However, Canon's model portfolio for foreign plans has been developed as follows: approximately 40% is invested in equity securities, approximately 55% is invested in debt securities, and approximately 5% is invested in other investment vehicles, primarily consisting of investments in real estate assets.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Canon has investigated the business condition of the investee companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds, public debt instruments, and corporate bonds. Prior to investing, Canon has investigated the quality of the issue, including rating, interest rate, and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity and debt securities described above. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment vehicles, Canon has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Canon has selected the appropriate investment country and currency.

The three levels of input used to measure fair value are more fully described in Note 22.
The fair values of Canon's pension plan assets at December 31, 2010 and 2009, by asset category, are as follows:

December 31, 2010	Millions of yen							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	¥50,177	¥ —	¥ —	¥ 50,177	¥ —	¥ —	¥ —	¥ —
Foreign companies	5,352	—	—	5,352	3,474	—	—	3,474
Pooled funds (b)	—	90,597	—	90,597	—	80,666	—	80,666
Debt securities:								
Government bonds (c)	9,687	—	—	9,687	2,074	—	—	2,074
Municipal bonds	—	323	—	323	—	—	—	—
Corporate bonds	—	6,518	—	6,518	—	—	—	—
Pooled funds (d)	—	194,286	—	194,286	—	104,650	—	104,650
Mortgage backed securities (and other asset backed securities)	—	1,980	—	1,980	—	232	—	232
Life insurance company general accounts	—	91,610	—	91,610	—	—	—	—
Other assets	—	8,521	1,039	9,560	—	6,739	—	6,739
	¥65,216	¥393,835	¥1,039	¥460,090	¥5,548	¥192,287	¥ —	¥197,835

December 31, 2009	Millions of yen							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (e)	¥48,844	¥ —	¥ —	¥ 48,844	¥ —	¥ —	¥ —	¥ —
Foreign companies	5,444	—	—	5,444	3,898	—	—	3,898
Pooled funds (f)	—	85,353	—	85,353	—	47,290	—	47,290
Debt securities:								
Government bonds (g)	14,803	—	—	14,803	1,581	—	—	1,581
Municipal bonds	—	879	—	879	—	—	—	—
Corporate bonds	—	7,665	—	7,665	—	6,673	—	6,673
Pooled funds (h)	—	189,870	—	189,870	—	9,343	—	9,343
Mortgage backed securities (and other asset backed securities)	—	943	—	943	—	256	—	256
Life insurance company general accounts	—	94,269	—	94,269	—	—	—	—
Other assets	—	8,367	771	9,138	—	6,017	—	6,017
	¥69,091	¥387,346	¥771	¥457,208	¥5,479	¥69,579	¥ —	¥75,058

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

December 31, 2010	Thousands of U.S. dollars							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	$619,469	$ —	$ —	$ 619,469	$ —	$ —	$ —	$ —
Foreign companies	66,074	—	—	66,074	42,889	—	—	42,889
Pooled funds (b)	—	1,118,481	—	1,118,481	—	995,877	—	995,877
Debt securities:								
Government bonds (c)	119,593	—	—	119,593	25,605	—	—	25,605
Municipal bonds	—	3,988	—	3,988	—	—	—	—
Corporate bonds	—	80,469	—	80,469	—	—	—	—
Pooled funds (d)	—	2,398,593	—	2,398,593	—	1,291,975	—	1,291,975
Mortgage backed securities (and other asset backed securities)	—	24,444	—	24,444	—	2,864	—	2,864
Life insurance company general accounts	—	1,130,988	—	1,130,988	—	—	—	—
Other assets	—	105,197	12,827	118,024	—	83,197	—	83,197
	$805,136	$4,862,160	$12,827	$5,680,123	$68,494	$2,373,913	$ —	$2,442,407

(a) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥1,044 million ($12,889 thousand) at December 31, 2010.

(b) These funds invest in listed equity securities consisting of approximately 50% Japanese companies and 50% foreign companies for Japanese plans and mainly foreign companies for foreign plans.

(c) This class includes approximately 50% Japanese government bonds and 50% foreign government bonds.

(d) These funds invest in approximately 60% Japanese government bonds, 20% foreign government bonds, 10% Japanese municipal bonds, and 10% corporate bonds for Japanese plans. These funds invest in approximately 40% foreign government bonds and 60% corporate bonds for foreign plans.

(e) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥950 million at December 31, 2009.

(f) These funds invest in listed equity securities consisting of approximately 50% Japanese companies and 50% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.

(g) This class includes approximately 80% Japanese government bonds and 20% foreign government bonds.

(h) These funds invest in approximately 55% Japanese government bonds, 25% foreign government bonds, 10% Japanese municipal bonds, and 10% corporate bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not necessarily indicate the risks or ratings of the assets.

Level 1 assets are comprised principally of equity securities and government bonds, which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions. Level 2 assets are comprised principally of pooled funds that invest in equity and debt securities, corporate bonds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsor of the fund and have daily liquidity. Corporate bonds are valued using quoted prices for identical assets in markets that are not active. Investments in life insurance company general accounts are valued at conversion value.

The fair value of Level 3 assets, consisting of hedge funds, was ¥1,039 million ($12,827 thousand) and ¥771 million at December 31, 2010 and 2009, respectively. Amounts of actual returns on, and purchases and sales of, these assets during the years ended December 31, 2010 and 2009 were not significant.

Contributions

Canon expects to contribute ¥22,055 million ($272,284 thousand) to its Japanese defined benefit pension plans and ¥8,016 million ($98,963 thousand) to its foreign defined benefit pension plans for the year ending December 31, 2011.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31:	Japanese plans		Foreign plans	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2011	¥ 14,442	$ 178,296	¥ 9,199	$113,568
2012	15,397	190,086	9,420	116,296
2013	16,779	207,148	9,801	121,000
2014	17,692	218,420	10,045	124,012
2015	19,552	241,383	10,483	129,420
2016–2020	123,422	1,523,728	61,020	753,333

13. Income Taxes

Domestic and foreign components of income before income taxes and the current and deferred income tax expense (benefit) attributable to such income are summarized as follows:

Years ended December 31		Millions of yen		
		Japanese	Foreign	Total
2010:	Income before income taxes	**¥302,965**	**¥89,898**	**¥392,863**
	Income taxes:			
	Current	**¥ 78,359**	**¥32,420**	**¥110,779**
	Deferred	**35,496**	**(6,115)**	**29,381**
		¥113,855	**¥26,305**	**¥140,160**
2009:	Income before income taxes	¥ 130,857	¥ 88,498	¥ 219,355
	Income taxes:			
	Current	¥ 45,079	¥ 18,331	¥ 63,410
	Deferred	15,415	5,297	20,712
		¥ 60,494	¥ 23,628	¥ 84,122
2008:	Income before income taxes	¥ 382,299	¥ 98,848	¥ 481,147
	Income taxes:			
	Current	¥ 168,428	¥ 24,857	¥ 193,285
	Deferred	(34,073)	1,576	(32,497)
		¥ 134,355	¥ 26,433	¥ 160,788

		Thousands of U.S. dollars		
		Japanese	Foreign	Total
2010:	Income before income taxes	**$3,740,309**	**$1,109,851**	**$4,850,160**
	Income taxes:			
	Current	**$ 967,395**	**$ 400,247**	**$1,367,642**
	Deferred	**438,222**	**(75,494)**	**362,728**
		$1,405,617	**$ 324,753**	**$1,730,370**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

The Company and its domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, represent a statutory income tax rate of approximately 40% for the years ended December 31, 2010, 2009 and 2008.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

Years ended December 31	**2010**	2009	2008
Japanese statutory income tax rate	**40.0%**	40.0%	40.0%
Increase (reduction) in income taxes resulting from:			
Expenses not deductible for tax purposes	**0.8**	0.9	0.5
Income of foreign subsidiaries taxed at lower than Japanese statutory tax rate	**(3.5)**	(5.4)	(2.6)
Tax credit for research and development expenses	**(5.1)**	(2.8)	(4.6)
Change in valuation allowance	**2.8**	5.4	0.1
Other	**0.7**	0.2	0.0
Effective income tax rate	**35.7%**	38.3%	33.4%

Net deferred income tax assets and liabilities are included in the accompanying consolidated balance sheets under the following captions:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Prepaid expenses and other current assets	**¥ 69,197**	¥ 94,798	**$ 854,284**
Other assets	**136,727**	117,263	**1,687,988**
Other current liabilities	**(2,149)**	(2,018)	**(26,531)**
Other noncurrent liabilities	**(47,827)**	(36,278)	**(590,457)**
	¥155,948	¥173,765	**$1,925,284**

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Inventories	¥ 23,836	¥ 24,121	$ 294,272
Accrued business tax	6,200	3,861	76,543
Accrued pension and severance cost	78,552	52,639	969,778
Research and development—costs capitalized for tax purposes	14,740	45,718	181,975
Property, plant and equipment	41,737	53,011	515,272
Accrued expenses	35,823	29,409	442,259
Net operating losses carried forward	28,373	12,305	350,284
Other	52,869	44,709	652,704
	282,130	265,773	3,483,087
Less valuation allowance	(35,307)	(22,188)	(435,889)
Total deferred tax assets	246,823	243,585	3,047,198
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	(8,215)	(8,023)	(101,420)
Net unrealized gains on securities	(2,119)	(2,052)	(26,160)
Tax deductible reserve	(6,038)	(7,797)	(74,543)
Financing lease revenue	(37,353)	(35,505)	(461,148)
Prepaid pension and severance cost	(2,018)	(314)	(24,914)
Other	(35,132)	(16,129)	(433,729)
Total deferred tax liabilities	(90,875)	(69,820)	(1,121,914)
Net deferred tax assets	¥155,948	¥173,765	$1,925,284

The net changes in the total valuation allowance were increases of ¥13,119 million ($161,963 thousand), ¥11,371 million and ¥1,490 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that Canon will realize the benefits of these deferred tax assets, net of the existing valuation allowance, at December 31, 2010.

At December 31, 2010, Canon had net operating losses which can be carried forward for income tax purposes of ¥112,779 million ($1,392,333 thousand) to reduce future taxable income. Periods available to reduce future taxable income vary in each tax jurisdiction and generally range from one year to twenty years as follows:

	Millions of yen	Thousands of U.S. dollars
Within one year	¥ 511	$ 6,309
After one year through five years	9,601	118,531
After five years through ten years	47,961	592,111
After ten years through twenty years	28,689	354,185
Indefinite period	26,017	321,197
Total	¥112,779	$1,392,333

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as the tax law provides a means by which the dividends from a domestic subsidiary can be received tax free.

Canon has not recognized deferred tax liabilities of ¥26,406 million ($326,000 thousand) for a portion of undistributed earnings of foreign subsidiaries that arose for the year ended December 31, 2010 and prior years because Canon currently does not expect to have such amounts distributed or paid as dividends to the Company in the foreseeable future. Deferred tax liabilities will be recognized when Canon expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. At December 31, 2010, such undistributed earnings of these subsidiaries were ¥816,317 million ($10,077,988 thousand).

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Years ended December 31	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Balance at beginning of year	**¥13,235**	¥12,689	¥15,791	**$163,395**
Additions for tax positions of the current year	**73**	—	8,700	**901**
Additions for tax positions of prior years	**805**	1,442	1,354	**9,938**
Reductions for tax positions of prior years	**(8,354)**	(1,106)	(8,512)	**(103,136)**
Settlements with tax authorities	**(2,471)**	—	(1,208)	**(30,506)**
Additions from acquisitions	**4,066**	—	—	**50,198**
Other	**(1,319)**	210	(3,436)	**(16,284)**
Balance at end of year	**¥ 6,035**	¥13,235	¥12,689	**$ 74,506**

The total amounts of unrecognized tax benefits that would reduce the effective tax rate, if recognized, are ¥6,035 million ($74,506 thousand) and ¥4,746 million at December 31, 2010 and 2009, respectively.

Although Canon believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audit settlements and any related litigation could affect the effective tax rate in the future period. Based on each of the items of which Canon is aware at December 31, 2010, no significant changes to the unrecognized tax benefits are expected within the next twelve months.

Canon recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes. Both interest and penalties accrued at December 31, 2010 and 2009, and interest and penalties included in income taxes for the years ended December 31, 2010, 2009 and 2008 are not material.

Canon files income tax returns in Japan and various foreign tax jurisdictions. In Japan, Canon is no longer subject to regular income tax examinations by the tax authority for years before 2006. While there has been no specific indication by the tax authority that Canon will be subject to a transfer pricing examination in the near future, the tax authority could conduct a transfer pricing examination for years after 2003. In other major foreign tax jurisdictions, including the United States and Netherlands, Canon is no longer subject to income tax examinations by tax authorities for years before 2004 with few exceptions. The tax authorities are currently conducting income tax examinations of Canon's income tax returns for years after 2005 in Japan and for certain years after 2003 in major foreign tax jurisdictions.

14. Common Stock

For the year ended December 31, 2008, the Company issued 127,254 shares of common stock in connection with the conversion of convertible debt. In accordance with the Corporation Law of Japan, conversion into common stock of convertible debt is accounted for by crediting one-half or more of the conversion price to the common stock account and the remainder to the additional paid-in capital account.

15. Legal Reserve and Retained Earnings

The Corporation Law of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law of Japan also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended December 31, 2010, 2009 and 2008 represent dividends paid out during those years and the related appropriations to the legal reserve. Retained earnings at December 31, 2010 did not reflect current year-end dividends in the amount of ¥79,850 million ($985,802 thousand) which were approved by the stockholders in March 2011.

The amount available for dividends under the Corporation Law of Japan is based on the amount recorded in the Company's nonconsolidated books of account in accordance with financial accounting standards of Japan. Such amount was ¥1,304,811 million ($16,108,778 thousand) at December 31, 2010.

Retained earnings at December 31, 2010 included Canon's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥15,133 million ($186,827 thousand).

16. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) are as follows:

Years ended December 31	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Foreign currency translation adjustments:				
Balance at beginning of year	**¥(202,628)**	¥(235,968)	¥ 22,796	**$(2,501,580)**
Adjustments for the year	**(122,984)**	33,340	(258,764)	**(1,518,321)**
Balance at end of year	**(325,612)**	(202,628)	(235,968)	**(4,019,901)**
Net unrealized gains and losses on securities:				
Balance at beginning of year	**3,285**	1,135	6,287	**40,556**
Adjustments for the year	**(265)**	2,150	(5,152)	**(3,272)**
Balance at end of year	**3,020**	3,285	1,135	**37,284**
Net gains and losses on derivative instruments:				
Balance at beginning of year	**71**	1,493	(849)	**876**
Adjustments for the year	**846**	(1,422)	2,342	**10,445**
Balance at end of year	**917**	71	1,493	**11,321**
Pension liability adjustments:				
Balance at beginning of year	**(61,546)**	(59,480)	6,436	**(759,827)**
Adjustments for the year	**(7,238)**	(2,066)	(65,916)	**(89,358)**
Balance at end of year	**(68,784)**	(61,546)	(59,480)	**(849,185)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	**(260,818)**	(292,820)	34,670	**(3,219,975)**
Adjustments for the year	**(129,641)**	32,002	(327,490)	**(1,600,506)**
Balance at end of year	**¥(390,459)**	¥(260,818)	¥(292,820)	**$(4,820,481)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments, including amounts attributable to noncontrolling interests, are as follows:

Years ended December 31	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2010:			
Foreign currency translation adjustments	**¥(128,271)**	**¥ 1,353**	**¥(126,918)**
Net unrealized gains and losses on securities:			
Amount arising during the year	**(2,179)**	**671**	**(1,508)**
Reclassification adjustments for gains and losses realized in net income	**1,320**	**42**	**1,362**
Net change during the year	**(859)**	**713**	**(146)**
Net gains and losses on derivative instruments:			
Amount arising during the year	**8,409**	**(3,573)**	**4,836**
Reclassification adjustments for gains and losses realized in net income	**(6,990)**	**2,921**	**(4,069)**
Net change during the year	**1,419**	**(652)**	**767**
Pension liability adjustments:			
Amount arising during the year	**(19,170)**	**8,314**	**(10,856)**
Reclassification adjustments for gains and losses realized in net income	**2,323**	**(794)**	**1,529**
Net change during the year	**(16,847)**	**7,520**	**(9,327)**
Other comprehensive income (loss)	**¥(144,558)**	**¥ 8,934**	**¥(135,624)**
2009:			
Foreign currency translation adjustments	¥ 35,459	¥ (2,089)	¥ 33,370
Net unrealized gains and losses on securities:			
Amount arising during the year	2,231	(1,333)	898
Reclassification adjustments for gains and losses realized in net income	2,205	(886)	1,319
Net change during the year	4,436	(2,219)	2,217
Net gains and losses on derivative instruments:			
Amount arising during the year	298	(119)	179
Reclassification adjustments for gains and losses realized in net income	(2,670)	1,068	(1,602)
Net change during the year	(2,372)	949	(1,423)
Pension liability adjustments:			
Amount arising during the year	(4,115)	1,891	(2,224)
Reclassification adjustments for gains and losses realized in net income	1,911	(632)	1,279
Net change during the year	(2,204)	1,259	(945)
Other comprehensive income (loss)	¥ 35,319	¥ (2,100)	¥ 33,219
2008:			
Foreign currency translation adjustments	¥ (266,568)	¥ 5,893	¥ (260,675)
Net unrealized gains and losses on securities:			
Amount arising during the year	(17,485)	6,992	(10,493)
Reclassification adjustments for gains and losses realized in net income	7,752	(3,101)	4,651
Net change during the year	(9,733)	3,891	(5,842)
Net gains and losses on derivative instruments:			
Amount arising during the year	23,121	(9,248)	13,873
Reclassification adjustments for gains and losses realized in net income	(19,219)	7,688	(11,531)
Net change during the year	3,902	(1,560)	2,342
Pension liability adjustments:			
Amount arising during the year	(111,215)	39,233	(71,982)
Reclassification adjustments for gains and losses realized in net income	(4,956)	2,073	(2,883)
Net change during the year	(116,171)	41,306	(74,865)
Other comprehensive income (loss)	¥ (388,570)	¥ 49,530	¥ (339,040)

	Thousands of U.S. dollars		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2010:			
Foreign currency translation adjustments	**$(1,583,593)**	**$ 16,705**	**$(1,566,888)**
Net unrealized gains and losses on securities:			
Amount arising during the year	**(26,901)**	**8,284**	**(18,617)**
Reclassification adjustments for gains and losses realized in net income	**16,296**	**518**	**16,814**
Net change during the year	**(10,605)**	**8,802**	**(1,803)**
Net gains and losses on derivative instruments:			
Amount arising during the year	**103,815**	**(44,111)**	**59,704**
Reclassification adjustments for gains and losses realized in net income	**(86,296)**	**36,061**	**(50,235)**
Net change during the year	**17,519**	**(8,050)**	**9,469**
Pension liability adjustments:			
Amount arising during the year	**(236,666)**	**102,641**	**(134,025)**
Reclassification adjustments for gains and losses realized in net income	**28,678**	**(9,801)**	**18,877**
Net change during the year	**(207,988)**	**92,840**	**(115,148)**
Other comprehensive income (loss)	**$(1,784,667)**	**$110,297**	**$(1,674,370)**

17. Stock-Based Compensation

On May 1, 2010, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 890,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2010 was ¥988 ($12.20).

On May 1, 2009, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 954,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2009 was ¥699.

On May 1, 2008, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 592,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2008 was ¥1,247.

The compensation cost recognized for these stock options for the years ended December 31, 2010, 2009 and 2008 was ¥643 million ($7,938 thousand), ¥564 million and ¥246 million, respectively, and is included in selling, general and administrative expenses in the consolidated statements of income.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model that incorporates the assumptions presented below:

Years ended December 31	**2010**	2009	2008
Expected term of option (in years)	**4.0**	4.0	4.0
Expected volatility	**38.00%**	40.08%	37.39%
Dividend yield	**2.53%**	3.51%	2.10%
Risk-free interest rate	**0.45%**	0.64%	0.95%

A summary of option activity under the stock option plans as of and for the years ended December 31, 2010, 2009 and 2008 is presented below:

	Shares	Weighted-average exercise price		Weighted-average remaining contractual term	Aggregate intrinsic value	
		Yen	U.S. dollars	Year	Millions of yen	Thousands of U.S. dollars
Outstanding at January 1, 2008	—	¥ —				
Granted	592,000	5,502				
Forfeited	—	—				
Outstanding at December 31, 2008	592,000	5,502		3.3	¥ —	$ —
Granted	954,000	3,287				
Forfeited	(34,000)	4,851				
Outstanding at December 31, 2009	1,512,000	4,119	$50.85	3.0	588	7,259
Granted	**890,000**	**4,573**	**56.46**			
Exercised	**—**	**—**	**—**			
Forfeited	**(182,000)**	**3,479**	**42.95**			
Outstanding at December 31, 2010	**2,220,000**	**¥4,354**	**$53.75**	**2.5**	**¥722**	**$8,914**
Exercisable at December 31, 2010	**558,000**	**¥5,502**	**$67.93**	**1.3**	**¥ —**	**$ —**

At December 31, 2010, all outstanding option awards were vested or expected to be vested.

A summary of the status of the Company's nonvested shares at December 31, 2010, and changes during the year ended December 31, 2010, is presented below:

Year ended December 31, 2010	Shares	Weighted-average grant-date fair value	
		Yen	U.S. dollars
Nonvested at January 1, 2010	**1,512,000**	**¥ 905**	**$11.17**
Granted	**890,000**	**988**	**12.20**
Vested	**(558,000)**	**1,247**	**15.40**
Forfeited	**(182,000)**	**745**	**9.20**
Nonvested at December 31, 2010	**1,662,000**	**¥ 852**	**$10.52**

At December 31, 2010, there was ¥671 million ($8,284 thousand) of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 0.86 year. The total fair value of shares vested during the year ended December 31, 2010 was ¥696 million ($8,593 thousand).

18. Net Income Attributable to Canon Inc. Stockholders per Share

A reconciliation of the numerators and denominators of basic and diluted net income attributable to Canon Inc. stockholders per share computations is as follows:

Years ended December 31	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Net income attributable to Canon Inc.	**¥246,603**	¥131,647	¥309,148	**$3,044,481**
Effect of dilutive securities:				
1.30% Japanese yen convertible debentures, due 2008	**—**	—	2	**—**
Diluted net income attributable to Canon Inc.	**¥246,603**	¥131,647	¥309,150	**$3,044,481**

	Number of shares		
Average common shares outstanding	**1,234,817,511**	1,234,481,836	1,255,626,490
Effect of dilutive securities:			
Stock options	**50,603**	—	—
1.30% Japanese yen convertible debentures, due 2008	**—**	—	79,929
Diluted common shares outstanding	**1,234,868,114**	1,234,481,836	1,255,706,419

	Yen			U.S. dollars
Net income attributable to Canon Inc. stockholders per share:				
Basic	**¥199.71**	¥106.64	¥246.21	**$2.47**
Diluted	**199.70**	106.64	246.20	**2.47**

The computation of diluted net income attributable to Canon Inc. stockholders per share for the years ended December 31, 2009 and 2008 excludes outstanding stock options because the effect would be anti-dilutive. The computation of diluted net income attributable to Canon Inc. stockholders per share for the year ended December 31, 2010 excludes certain outstanding stock options because the effect would be anti-dilutive.

19. Derivatives and Hedging Activities

Risk management policy

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for trading purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Foreign currency exchange rate risk management

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars and euros into Japanese yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables that are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales are hedged using foreign exchange contracts which principally mature within three months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

Cash flow hedge
Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (deductions) in the same period as the hedged items affect earnings. Substantially all amounts recorded in accumulated other comprehensive income (loss) at year-end are expected to be recognized in earnings over the next 12 months. Canon excludes the time value component from the assessment of hedge effectiveness. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings and not considered hedge ineffectiveness.

Derivatives not designated as hedges
Canon has entered into certain foreign exchange contracts to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with certain assets denominated in foreign currencies. Although these foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately.

Contract amounts of foreign exchange contracts as of December 31, 2010 and 2009 are set forth below:

December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
To sell foreign currencies	¥466,361	¥494,314	$5,757,543
To buy foreign currencies	48,686	30,978	601,062

Fair value of derivative instruments in the consolidated balance sheets
The following tables present Canon's derivative instruments measured at gross fair value as reflected in the consolidated balance sheets as of December 31, 2010 and 2009.

Derivatives designated as hedging instruments

December 31		Fair value		
		Millions of yen		Thousands of U.S. dollars
	Balance sheet location	2010	2009	2010
Assets:				
Foreign exchange contracts	Prepaid expenses and other current assets	¥2,487	¥ —	$ 30,704
Liabilities:				
Foreign exchange contracts	Other current liabilities	426	644	5,259

Derivatives not designated as hedging instruments

December 31		Fair value		
		Millions of yen		Thousands of U.S. dollars
	Balance sheet location	2010	2009	2010
Assets:				
Foreign exchange contracts	Prepaid expenses and other current assets	¥9,463	¥ 752	$116,827
Liabilities:				
Foreign exchange contracts	Other current liabilities	487	6,566	6,013

Effect of derivative instruments on the consolidated statements of income

The following tables present the effect of Canon's derivative instruments on the consolidated statements of income for the years ended December 31, 2010 and 2009.

Derivatives in cash flow hedging relationships

Years ended December 31		Gain (loss) recognized in OCI (effective portion)	Gain (loss) reclassified from accumulated OCI into income (effective portion)		Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
Millions of yen		Amount	Location	Amount	Location	Amount
2010:	Foreign exchange contracts	**¥ 1,419**	Other, net	**¥ 6,990**	Other, net	**¥ (302)**
2009:	Foreign exchange contracts	¥ (2,372)	Other, net	¥ 2,670	Other, net	¥ (462)
Thousands of U.S. dollars						
2010:	Foreign exchange contracts	**$17,519**	Other, net	**$86,296**	Other, net	**$(3,728)**

The amount of the hedging ineffectiveness was not material for the year ended December 31, 2008. The amount of net gains or losses excluded from the assessment of hedge effectiveness (time value component) which was recorded in other income (deductions) was net losses of ¥3,701 million for the year ended December 31, 2008.

Derivatives not designated as hedging instruments

Years ended December 31		Gain (loss) recognized in income on derivative		
		Millions of yen		Thousands of U.S. dollars
	Location	**2010**	2009	**2010**
Foreign exchange contracts	Other, net	**¥50,794**	¥(8,638)	**$627,086**

20. Commitments and Contingent Liabilities

Commitments

At December 31, 2010, commitments outstanding for the purchase of property, plant and equipment approximated ¥29,383 million ($362,753 thousand), and commitments outstanding for the purchase of parts and raw materials approximated ¥86,434 million ($1,067,086 thousand).

Canon occupies sales offices and other facilities under lease arrangements accounted for as operating leases. Deposits made under such arrangements aggregated ¥13,686 million ($168,963 thousand) and ¥14,210 million at December 31, 2010 and 2009, respectively, and are included in noncurrent receivables in the accompanying consolidated balance sheets. Rental expenses under such operating lease arrangements amounted to ¥40,396 million ($498,716 thousand), ¥36,474 million and ¥41,169 million for the years ended December 31, 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CANON INC. AND SUBSIDIARIES

Future minimum lease payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year at December 31, 2010 are as follows:

Year ending December 31:	Millions of yen	Thousands of U.S. dollars
2011	¥23,413	$ 289,049
2012	22,054	272,272
2013	10,290	127,037
2014	8,359	103,198
2015	5,582	68,914
Thereafter	14,102	174,098
Total future minimum lease payments	¥83,800	$1,034,568

Guarantees

Canon provides guarantees for bank loans of its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees of loans of its affiliates and other companies are made to ensure that those companies operate with less financial risk.

For each guarantee provided, Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract periods of 1 year to 30 years, in the case of employees with housing loans, and of 1 year to 10 years, in the case of affiliates and other companies. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥16,746 million ($206,741 thousand) at December 31, 2010. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2010 were not significant.

Canon also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended December 31, 2010 and 2009 are summarized as follows:

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Balance at beginning of year	**¥13,944**	¥17,372	**$172,148**
Addition	**17,605**	21,670	**217,346**
Utilization	**(14,713)**	(22,050)	**(181,642)**
Other	**(3,493)**	(3,048)	**(43,124)**
Balance at end of year	**¥13,343**	¥13,944	**$164,728**

Legal proceedings

In October 2003, a lawsuit was filed by a former employee against the Company at the Tokyo District Court in Japan. The lawsuit alleges that the former employee is entitled to ¥45,872 million ($566,321 thousand) as reasonable remuneration for an invention related to certain technology used by the Company, and the former employee has sued for a partial payment of ¥1,000 million ($12,346 thousand) and interest thereon. On January 30, 2007, the Tokyo District Court of Japan ordered the Company to pay the former employee approximately ¥33.5 million ($414 thousand) and interest thereon. On the same day, the Company appealed the decision. On February 26, 2009, the Intellectual Property High Court of Japan issued a judgment in the appellate court review and ordered the Company to pay the former employee approximately ¥69.6 million ($859 thousand), consisting of reasonable remuneration of approximately ¥56.3 million ($695 thousand) and interest thereon. On March 12, 2009, the Company appealed the decision to the Supreme Court. On October 19, 2010, the Supreme Court, by an order, dismissed the Company's appeal without prejudice, and the judgment made by the Intellectual Property High Court became final and binding.

In Germany, Verwertungsgesellschaft Wort ("VG Wort"), a collecting society representing certain copyright holders, has filed a series of lawsuits seeking to impose copyright levies upon digital products such as PCs and printers, that allegedly enable the reproduction of copyrighted materials, against the companies importing and distributing these digital products. VG Wort filed a lawsuit in January 2006 against Canon seeking payment of copyright levies on single-function printers, and the court of first instance in Düsseldorf ruled in favor of the claim by VG Wort in November 2006. Canon lodged an appeal against such decision in December 2006 before the court of appeals in Düsseldorf. Following a decision by the same court of appeals in Düsseldorf on January 23, 2007 in relation to a similar court case seeking copyright levies on single-function printers of Epson Deutschland GmbH, Xerox GmbH and Kyocera Mita Deutschland GmbH, whereby the court rejected such alleged levies, in its judgment of November 13, 2007, the court of appeals rejected VG Wort's claim against Canon. VG Wort appealed further against said decision of the court of appeals before the Federal Supreme Court. In December 2007, for a similar Hewlett-Packard GmbH case relating to single-function printers, the Federal Supreme Court delivered its judgment in favor of Hewlett-Packard GmbH and dismissed VG Wort's claim. VG Wort has already filed a constitutional complaint with the Federal Constitutional Court against said judgment of the Federal Supreme Court. Likewise, after rejection by the Federal Supreme Court of an appeal by VG Wort in relation to Canon's single-function printers case in September 2008, VG Wort lodged a claim before the Federal Constitutional Court. The Federal Constitutional Court gave its decision in September 2010 for Hewlett-Packard GmbH case where the court has reverted the case back to the Federal Supreme Court, admitting VG Wort's claim for lack of 'due process' (i.e., request for European Court of Justice's preliminary ruling). It is not clear at this stage what the implication of said decision for Hewlett-Packard GmbH case would be on Canon's case. In 2007, an amendment of German copyright law was carried out, and a new law has been effective from January 1, 2008 for both multi-function printers and single-function printers. The new law sets forth that the scope and tariff of copyright levies will be agreed between industry and the collecting society. Industry and the collecting society, based on the requirement under the new law, reached an agreement in December 2008. This agreement is applicable retroactively from January 1, 2008 and will remain effective through end of 2011. However, in Canon's assessment, the final outcome of the court case regarding the single-function printers sold in Germany before January 1, 2008 remains uncertain.

Canon is involved in various claims and legal actions, including those noted above, arising in the ordinary course of business. Canon has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. Canon reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on its experience, Canon believes that any damage amounts claimed in the specific matters discussed above and other outstanding matters are not a meaningful indicator of Canon's potential liability. In the opinion of management, the ultimate disposition of outstanding matters would not have a material adverse effect on Canon's consolidated financial position, results of operations, or cash flows. However, litigation is inherently unpredictable. While Canon believes that it has valid defenses with respect to legal matters pending against it, it is possible that Canon's consolidated financial position, results of operations, or cash flows could be materially affected in any particular period by the unfavorable resolution of one or more of these matters.

21. Disclosures about the Fair Value of Financial Instruments and Concentrations of Credit Risk

Fair value of financial instruments

The estimated fair values of Canon's financial instruments at December 31, 2010 and 2009 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, finance receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses for which fair values approximate their carrying amounts. The summary also excludes investments which are disclosed in Note 3.

December 31	Millions of yen				Thousand of U.S. dollars	
	2010		2009		**2010**	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current installments	**¥ (9,260)**	**¥ (9,245)**	¥(9,781)	¥(9,777)	**$(114,321)**	**$(114,136)**
Foreign exchange contracts:						
Assets	**11,950**	**11,950**	752	752	**147,531**	**147,531**
Liabilities	**(913)**	**(913)**	(7,210)	(7,210)	**(11,272)**	**(11,272)**

The following methods and assumptions are used to estimate the fair value in the above table.

Long-term debt

The fair values of Canon's long-term debt instruments are based on the present value of future cash flows associated with each instrument discounted using current market borrowing rates for similar debt instruments of comparable maturity.

Foreign exchange contracts

The fair values of foreign exchange contracts are measured based on the market price obtained from financial institutions.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentrations of credit risk

At December 31, 2010 and 2009, one customer accounted for approximately 21% and 22% of consolidated trade receivables, respectively. Although Canon does not expect that the customer will fail to meet its obligations, Canon is potentially exposed to concentrations of credit risk if the customer failed to perform according to the terms of the contracts.

22. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities.
Level 2 — Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3 — Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

Assets and liabilities measured at fair value on a recurring basis

The following tables present Canon's assets and liabilities that are measured at fair value on a recurring basis consistent with the fair value hierarchy at December 31, 2010 and 2009.

December 31 Millions of yen	Level 1	Level 2	Level 3	Total
2010: Assets:				
Cash and cash equivalents	**¥ —**	**¥249,907**	**¥ —**	**¥249,907**
Available-for-sale (current):				
Government bonds	**1**	**—**	**—**	**1**
Corporate bonds	**—**	**—**	**1,000**	**1,000**
Available-for-sale (noncurrent):				
Government bonds	**161**	**—**	**—**	**161**
Corporate bonds	**—**	**44**	**950**	**994**
Fund trusts	**10**	**1,788**	**—**	**1,798**
Equity securities	**23,402**	**—**	**—**	**23,402**
Derivatives	**—**	**11,950**	**—**	**11,950**
Total assets	**¥23,574**	**¥263,689**	**¥1,950**	**¥289,213**
Liabilities:				
Derivatives	**¥ —**	**¥ 913**	**¥ —**	**¥ 913**
Total liabilities	**¥ —**	**¥ 913**	**¥ —**	**¥ 913**

Millions of yen	Level 1	Level 2	Level 3	Total
2009: Assets:				
Cash and cash equivalents	¥ —	¥ 184,856	¥ —	¥ 184,856
Available-for-sale (current):				
Government bonds	222	—	—	222
Available-for-sale (noncurrent):				
Government bonds	204	—	—	204
Corporate bonds	—	29	1,340	1,369
Fund trusts	1,589	979	—	2,568
Equity securities	17,726	—	—	17,726
Derivatives	—	752	—	752
Total assets	¥ 19,741	¥ 186,616	¥ 1,340	¥ 207,697
Liabilities:				
Derivatives	¥ —	¥ 7,210	¥ —	¥ 7,210
Total liabilities	¥ —	¥ 7,210	¥ —	¥ 7,210

Thousands of U.S. dollars		Level 1	Level 2	Level 3	Total
2010:	Assets:				
	Cash and cash equivalents	**$ —**	**$3,085,272**	**$ —**	**$3,085,272**
	Available-for-sale (current):				
	Government bonds	**12**	**—**	**—**	**12**
	Corporate bonds	**—**	**—**	**12,346**	**12,346**
	Available-for-sale (noncurrent):				
	Government bonds	**1,987**	**—**	**—**	**1,987**
	Corporate bonds	**—**	**544**	**11,728**	**12,272**
	Fund trusts	**123**	**22,074**	**—**	**22,197**
	Equity securities	**288,914**	**—**	**—**	**288,914**
	Derivatives	**—**	**147,531**	**—**	**147,531**
	Total assets	**$291,036**	**$3,255,421**	**$24,074**	**$3,570,531**
	Liabilities:				
	Derivatives	**$ —**	**$ 11,272**	**$ —**	**$ 11,272**
	Total liabilities	**$ —**	**$ 11,272**	**$ —**	**$ 11,272**

Level 1 investments are comprised principally of Japanese equity securities, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions. Level 2 cash and cash equivalents are valued based on market approach, using quoted prices for identical assets in markets that are not active. Level 3 investments are mainly comprised of corporate bonds, which are valued based on cost approach, using unobservable inputs as the market for the assets was not active at the measurement date.

Derivative financial instruments are comprised of foreign exchange contracts. Level 2 derivatives are valued using quotes obtained from counterparties or third parties, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and interest rates, based on market approach.

The following table presents the changes in Level 3 assets measured on a recurring basis, consisting primarily of corporate bonds, for the years ended December 31, 2010 and 2009.

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Balance at beginning of year	**¥1,340**	¥1,516	**$16,543**
Total gains or losses (realized or unrealized):			
Included in earnings	**(79)**	(221)	**(975)**
Included in other comprehensive income (loss)	**(7)**	(1)	**(86)**
Purchases, issuances, and settlements	**696**	46	**8,592**
Balance at end of year	**¥1,950**	¥1,340	**$24,074**

Gains and losses included in earnings are mainly related to corporate bonds still held at December 31, 2010 and 2009, and are reported in "Other, net" in the consolidated statements of income.

Assets and liabilities measured at fair value on a nonrecurring basis

During the year ended December 31, 2010, non-marketable equity securities with a carrying amount of ¥5,000 million ($61,728 thousand) were written down to their fair value of ¥2,422 million ($29,901 thousand) and equity securities accounted for by the equity method with a carrying amount of ¥33,984 million ($419,556 thousand) were written down to their fair value of ¥15,164 million ($187,210 thousand), resulting in an other-than-temporary impairment charge totaling ¥21,398 million ($264,173 thousand), which was included in earnings. The non-marketable equity securities were classified as Level 2 instruments and valued based on a market approach using observable inputs such as unadjusted quoted prices for similar instruments in active markets at the measurement date. Equity securities accounted for by the equity method were classified as Level 3 instruments and valued based on a combination of income approach and market approach using both unobservable and observable inputs including the use of inputs such as financial metrics, ratios and projected income of the investees and appropriate comparable public companies.

During the year ended December 31, 2009, long-lived assets held and used with a carrying amount of ¥15,390 million were written down to their fair value of zero, resulting in an impairment charge of ¥15,390 million, and non-marketable equity securities with a carrying amount of ¥1,468 million were written down to their fair value of ¥480 million, resulting in an other-than-temporary impairment charge of ¥988 million, which was included in earnings. Both the long-lived assets and the non-marketable equity securities were classified as Level 3 instruments and valued based on an income approach using unobservable inputs such as estimate of future cash flows.

23. Supplemental Cash Flow Information

During the year ended December 31, 2010, the Company executed three separate share exchanges under which the Company made its three listed subsidiaries, Canon Finetech Inc., Canon Machinery Inc. and Tokki Corporation, its wholly owned subsidiaries. The Company issued no new shares, as it issued 10,000,853 shares of treasury stock for these transactions in total.

As a result of the share exchanges, the carrying amount of the Company's noncontrolling interest in Canon Finetech Inc., Canon Machinery Inc. and Tokki Corporation was decreased from ¥38,644 million to zero.

24. Segment Information

Canon operates its business in three segments: the Office Business Unit, the Consumer Business Unit, and the Industry and Others Business Unit, which are based on the organizational structure and information reviewed by Canon's management to evaluate results and allocate resources.

The primary products included in each segment are as follows:

Office Business Unit:
Office network digital MFDs / Color network digital MFDs / Personal-use network digital MFDs / Office copying machines / Full-color copying machines / Personal-use copying machines / Laser printers / Large format inkjet printers / Digital production printers

Consumer Business Unit:
Digital SLR cameras / Compact digital cameras / Interchangeable lenses / Digital video camcorders / Inkjet multifunction peripherals / Single function inkjet printers / Image scanners / Broadcasting equipment

Industry and Others Business Unit:
Semiconductor lithography equipment / LCD lithography equipment / Medical image recording equipment / Ophthalmic products / Magnetic heads / Micromotors / Computers / Handy terminals / Document scanners / Calculators

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Canon evaluates performance of, and allocates resources to, each segment based on operating profit.

Information about operating results and assets for each segment as of and for the years ended December 31, 2010, 2009 and 2008 is as follows:

Millions of yen	Office	Consumer	Industry and Others	Corporate and eliminations	Consolidated
2010: Net sales:					
External customers	**¥1,978,945**	**¥1,389,622**	**¥338,334**	**¥ —**	**¥3,706,901**
Intersegment	**8,324**	**1,705**	**94,624**	**(104,653)**	**—**
Total	**1,987,269**	**1,391,327**	**432,958**	**(104,653)**	**3,706,901**
Operating cost and expenses	**1,693,947**	**1,153,262**	**442,789**	**29,351**	**3,319,349**
Operating profit (loss)	**¥ 293,322**	**¥ 238,065**	**¥ (9,831)**	**¥ (134,004)**	**¥ 387,552**
Total assets	**¥ 855,893**	**¥ 414,022**	**¥307,029**	**¥2,406,876**	**¥3,983,820**
Depreciation and amortization	**103,548**	**41,665**	**37,387**	**93,593**	**276,193**
Capital expenditures	**53,115**	**36,266**	**27,105**	**77,061**	**193,547**
2009: Net sales:					
External customers	¥ 1,635,056	¥ 1,299,194	¥ 274,951	¥ —	¥ 3,209,201
Intersegment	10,020	1,966	83,047	(95,033)	—
Total	1,645,076	1,301,160	357,998	(95,033)	3,209,201
Operating cost and expenses	1,415,680	1,117,668	433,954	24,844	2,992,146
Operating profit (loss)	¥ 229,396	¥ 183,492	¥ (75,956)	¥ (119,877)	¥ 217,055
Total assets	¥ 745,646	¥ 437,160	¥ 359,635	¥ 2,305,116	¥ 3,847,557
Depreciation and amortization	90,878	48,701	60,770	115,044	315,393
Capital expenditures	96,718	27,503	25,644	108,387	258,252
2008: Net sales:					
External customers	¥ 2,223,253	¥ 1,453,647	¥ 417,261	¥ —	¥ 4,094,161
Intersegment	23,356	2,428	105,144	(130,928)	—
Total	2,246,609	1,456,075	522,405	(130,928)	4,094,161
Operating cost and expenses	1,789,263	1,232,951	570,281	5,592	3,598,087
Operating profit (loss)	¥ 457,346	¥ 223,124	¥ (47,876)	¥ (136,520)	¥ 496,074
Total assets	¥ 822,660	¥ 502,927	¥ 453,581	¥ 2,190,766	¥ 3,969,934
Depreciation and amortization	99,962	58,082	71,557	111,736	341,337
Capital expenditures	139,046	52,641	31,445	180,268	403,400

Thousands of U.S. dollars	Office	Consumer	Industry and Others	Corporate and eliminations	Consolidated
2010: Net sales:					
External customers	**$24,431,420**	**$17,155,827**	**$4,176,963**	**$ —**	**$45,764,210**
Intersegment	**102,765**	**21,050**	**1,168,197**	**(1,292,012)**	**—**
Total	**24,534,185**	**17,176,877**	**5,345,160**	**(1,292,012)**	**45,764,210**
Operating cost and expenses	**20,912,926**	**14,237,803**	**5,466,530**	**362,358**	**40,979,617**
Operating profit (loss)	**$ 3,621,259**	**$ 2,939,074**	**$ (121,370)**	**$ (1,654,370)**	**$ 4,784,593**
Total assets	**$10,566,580**	**$ 5,111,383**	**$3,790,481**	**$29,714,519**	**$49,182,963**
Depreciation and amortization	**1,278,370**	**514,383**	**461,568**	**1,155,469**	**3,409,790**
Capital expenditures	**655,741**	**447,728**	**334,630**	**951,370**	**2,389,469**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CANON INC. AND SUBSIDIARIES

Intersegment sales are recorded at the same prices used in transactions with third parties. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate research and development expenses. Segment assets are based on those directly associated with each segment. Corporate assets primarily consist of cash and cash equivalents, finance receivables, investments, deferred tax assets, goodwill and corporate properties. Capital expenditures represent the additions to property, plant and equipment and intangible assets measured on an accrual basis.

Information by major geographic area as of and for the years ended December 31, 2010, 2009 and 2008 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Net sales:				
Japan	**¥ 695,749**	¥ 702,344	¥ 868,280	**$ 8,589,494**
Americas	**1,023,299**	894,154	1,154,571	**12,633,321**
Europe	**1,172,474**	995,150	1,341,400	**14,474,988**
Asia and Oceania	**815,379**	617,553	729,910	**10,066,407**
Total	**¥3,706,901**	¥3,209,201	¥4,094,161	**$45,764,210**
Long-lived assets:				
Japan	**¥1,104,949**	¥1,205,887	¥1,314,092	**$13,641,346**
Americas	**69,034**	59,273	43,435	**852,272**
Europe	**108,160**	44,875	47,392	**1,335,308**
Asia and Oceania	**72,846**	77,146	71,407	**899,333**
Total	**¥1,354,989**	¥1,387,181	¥1,476,326	**$16,728,259**

Net sales are attributed to areas based on the location where the product is shipped to the customers. Other than in Japan and the United States, Canon does not conduct business in any individual country in which its sales in that country exceed 10% of consolidated net sales. Net sales in the United States are ¥836,645 million ($10,328,951 thousand), ¥793,428 million and ¥1,043,333 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Long-lived assets represent property, plant and equipment and intangible assets for each geographic area.

The following information is based on the location of the Company and its subsidiaries as of and for the years ended December 31, 2010, 2009 and 2008. In addition to the disclosure requirements under U.S. GAAP, Canon discloses this information as supplemental information based on the disclosure requirements of the Japanese Financial Instruments and Exchange Law.

Millions of yen		Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Consolidated
2010:	Net sales:						
	External customers	**¥ 854,208**	**¥1,008,200**	**¥1,163,452**	**¥ 681,041**	**¥ —**	**¥3,706,901**
	Intersegment	**1,974,591**	**7,975**	**3,489**	**723,423**	**(2,709,478)**	**—**
	Total	**2,828,799**	**1,016,175**	**1,166,941**	**1,404,464**	**(2,709,478)**	**3,706,901**
	Operating cost and expenses	**2,398,439**	**993,310**	**1,126,521**	**1,357,663**	**(2,556,584)**	**3,319,349**
	Operating profit	**¥ 430,360**	**¥ 22,865**	**¥ 40,420**	**¥ 46,801**	**¥ (152,894)**	**¥ 387,552**
	Total assets	**¥1,321,572**	**¥ 251,587**	**¥ 472,785**	**¥ 421,250**	**¥1,516,626**	**¥3,983,820**
2009:	Net sales:						
	External customers	¥ 827,762	¥ 871,633	¥ 991,336	¥ 518,470	¥ —	¥ 3,209,201
	Intersegment	1,714,375	1,263	919	534,147	(2,250,704)	—
	Total	2,542,137	872,896	992,255	1,052,617	(2,250,704)	3,209,201
	Operating cost and expenses	2,288,471	860,863	964,606	1,019,208	(2,141,002)	2,992,146
	Operating profit	¥ 253,666	¥ 12,033	¥ 27,649	¥ 33,409	¥ (109,702)	¥ 217,055
	Total assets	¥ 1,386,511	¥ 198,094	¥ 378,477	¥ 384,795	¥ 1,499,680	¥ 3,847,557
2008:	Net sales:						
	External customers	¥ 998,676	¥ 1,141,560	¥ 1,337,147	¥ 616,778	¥ —	¥ 4,094,161
	Intersegment	2,318,521	3,758	4,329	670,678	(2,997,286)	—
	Total	3,317,197	1,145,318	1,341,476	1,287,456	(2,997,286)	4,094,161
	Operating cost and expenses	2,812,645	1,136,288	1,314,942	1,247,156	(2,912,944)	3,598,087
	Operating profit	¥ 504,552	¥ 9,030	¥ 26,534	¥ 40,300	¥ (84,342)	¥ 496,074
	Total assets	¥ 1,607,653	¥ 203,255	¥ 417,562	¥ 344,638	¥ 1,396,826	¥ 3,969,934

Thousands of U.S. dollars		Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Consolidated
2010:	Net sales:						
	External customers	**$10,545,778**	**$12,446,914**	**$14,363,605**	**$ 8,407,913**	**$ —**	**$45,764,210**
	Intersegment	**24,377,666**	**98,456**	**43,074**	**8,931,149**	**(33,450,345)**	**—**
	Total	**34,923,444**	**12,545,370**	**14,406,679**	**17,339,062**	**(33,450,345)**	**45,764,210**
	Operating cost and expenses	**29,610,358**	**12,263,086**	**13,907,667**	**16,761,272**	**(31,562,766)**	**40,979,617**
	Operating profit	**$ 5,313,086**	**$ 282,284**	**$ 499,012**	**$ 577,790**	**$ (1,887,579)**	**$ 4,784,593**
	Total assets	**$16,315,704**	**$ 3,106,012**	**$ 5,836,852**	**$ 5,200,617**	**$18,723,778**	**$49,182,963**

25. Subsequent Event

On March 11, 2011, Japan experienced a massive earthquake and tsunami off the Pacific coast of Northeastern Japan. The earthquake caused damage to inventories and buildings at manufacturing facilities primarily in the Company's Utsunomiya Plant, and Fukushima Canon Inc., a manufacturing subsidiary. In addition, certain distribution warehouses of the Company and Canon Marketing Japan Inc., a sales subsidiary, located in Northeastern Japan sustained damage to inventories. Production operations have been suspended at certain plants of the Company and its manufacturing subsidiaries and Canon is currently taking action to resume operations. Canon cannot estimate the effect of the earthquake on its consolidated results of operations and financial condition as of the issuance date of the consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Canon is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Canon's management assessed the effectiveness of internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (the "COSO criteria").

Based on its assessment, management concluded that, as of December 31, 2010, Canon's internal control over financial reporting was effective based on the COSO criteria.

Canon's independent registered public accounting firm, Ernst & Young ShinNihon LLC, has issued an audit report on the effectiveness of our internal control over financial reporting.

Fujio Mitarai
Chairman and CEO

Toshizo Tanaka
Executive Vice President and CFO

March 30, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1191
Fax: +81 3 3503 1277

The Board of Directors and Stockholders of
Canon Inc.

We have audited the accompanying consolidated balance sheets of Canon Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2010, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Inc. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Canon Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2011 expressed an unqualified opinion thereon.

We have also recomputed the translation of the consolidated financial statements as of and for the year ended December 31, 2010 into United States dollars. In our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 2.

Ernst & Young ShinNihon LLC

March 30, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1191
Fax: +81 3 3503 1277

The Board of Directors and Stockholders of
Canon Inc.

We have audited Canon Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Canon Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Canon Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Canon Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2010, all expressed in Japanese yen, and our report dated March 30, 2011 expressed an unqualified opinion thereon.

Ernst & Young ShinNihon LLC

March 30, 2011

TRANSFER AND REGISTRAR'S OFFICE

Canon Inc.
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan

Manager of the Register of Stockholders
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

Depositary and Agent with Respect to American Depositary Receipts for Common Shares
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58, New York, N.Y. 10005-1401, U.S.A.

STOCKHOLDER INFORMATION

Stock Exchange Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo and New York stock exchanges

American Depositary Receipts are traded on the New York Stock Exchange (CAJ).

Ordinary General Meeting of Shareholders:
March 30, 2011, in Tokyo

Further Information:
For publications or information, please contact the Corporate Communications Center, Canon Inc., Tokyo, or access Canon's Website at
www.canon.com

MAJOR CONSOLIDATED SUBSIDIARIES

(As of December 31, 2010)

MANUFACTURING
Canon Electronics Inc.
Canon Finetech Inc.
Nisca Corporation
Canon Semiconductor Equipment Inc.
Canon Ecology Industry Inc.
Canon Chemicals Inc.
Canon Components, Inc.
Canon Precision Inc.
Oita Canon Inc.
Nagasaki Canon Inc.
Nagahama Canon Inc.
Oita Canon Materials Inc.
Ueno Canon Materials Inc.
Fukushima Canon Inc.
Canon Optron, Inc.
Canon Mold Co., Ltd.
Canon Machinery Inc.
Canon ANELVA Corporation
Tokki Corporation
Canon Imaging Systems Inc.
Canon Virginia, Inc.
Canon Giessen GmbH
Canon Bretagne S.A.S.
OPTOPOL Technology S.A.
Canon Inc., Taiwan
Canon Dalian Business Machines, Inc.
Canon Zhuhai, Inc.
Canon Zhongshan Business Machines Co., Ltd.
Tianjin Canon Co., Ltd.
Canon (Suzhou) Inc.
Canon Opto (Malaysia) Sdn. Bhd.
Canon Hi-Tech (Thailand) Ltd.
Canon Engineering (Thailand) Ltd.
Canon Vietnam Co., Ltd.
Canon Electronic Business Machines (H.K.) Co., Ltd.

RESEARCH & DEVELOPMENT
Canon Research Centre France S.A.S.
Canon Information Systems Research Australia Pty. Ltd.
Canon Information Technology (Beijing) Co., Ltd.
Canon (Suzhou) System Software Inc.
Canon i-tech Inc.

MARKETING & OTHER
Canon Marketing Japan Inc.
Canon System and Support Inc.
Canon IT Solutions Inc.
Canon Software Inc.
e-System Corporation
ASPAC Inc.
Canon U.S.A., Inc.
Canon Canada, Inc.
Canon Mexicana, S. de R.L. de C.V.
Canon Latin America, Inc.
Canon do Brasil Industria e Comercio Limitada
Canon Chile, S.A.
Canon Panama, S.A.
Canon Argentina, S.A.
Virtual Imaging, Inc.
Canon Business Solutions, Inc.
Canon Financial Services, Inc.
Canon Information Technology Services, Inc.
Canon Europa N.V.
Canon Europe Ltd.
Canon (UK) Ltd.
Canon Deutschland GmbH
Canon France S.A.S.
Canon Italia S.p.A.
Canon España S.A.
Canon Nederland N.V.
Canon Danmark A/S
Canon Belgium N.V./S.A.
Canon (Schweiz) AG
Canon Austria GmbH
Canon Svenska AB
Canon Oy
Canon North-East Oy
Canon Norge A.S.
Canon Ru LLC
Canon CEE GmbH
Canon Eurasia A.S.
Canon Portugal S.A.
Océ N.V.
Canon Middle East FZ-LIC
Canon South Africa Pty. Ltd.
Canon Australia Pty. Ltd.
Canon New Zealand Ltd.
Canon Finance Australia Ltd.
Canon (China) Co., Ltd.
Canon Singapore Pte. Ltd.
Canon Hongkong Co., Ltd.
Canon Marketing (Malaysia) Sdn. Bhd.
Canon Marketing (Philippines), Inc.
Canon Marketing (Thailand) Co., Ltd.
Canon India Pvt. Ltd.
Canon Korea Consumer Imaging Inc.
Canon Semiconductor Engineering Korea Inc.
Canon Semiconductor Equipment Taiwan Inc.
Canon Engineering Hong Kong Co., Ltd.
Canon Optical Industrial Equipment (Shanghai) Inc.
Canon Optical Industrial Equipment Service (Shanghai) Inc.

CANON INC. 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan

PUB. BEP020 0411N9.6 Printed in Japan