



January 28, 2009

Canon Inc.  
Chairman & CEO: Fujio Mitarai  
Securities code: 7751  
[Tokyo (First Section) and other Stock Exchanges]

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## **Notice Regarding Issuance of Stock Options (Share Options)**

Canon Inc. (the “**Company**”) resolved, at the meeting of its board of directors (the “**Board of Directors**”) held on January 28, 2009 to make the following proposals at the Ordinary General Meeting of Shareholders for the 108th Business Term of the Company scheduled for March 27, 2009: a) that share options (*shinkabu yoyaku-ken*) be issued, without compensation, to the Company’s directors, executive officers and senior employees, as stock options, pursuant to the provisions of Articles 236, 238 and 239 of the Corporation Law (*Kaisha-ho*); b) that the determination of the matters regarding the offering be delegated to the Board of Directors; and c) that share options be issued to the Company’s directors as compensation. The Company hereby announces as follows:

### **1. The Reason for the Necessity to Solicit Those Who Subscribe for Share Options on Particularly Favorable Conditions**

Share options will be issued to the Company’s directors, executive officers and senior employees, without compensation, for the purpose of further enhancing their motivation and morale to improve the Company’s performance, with a view to long-term improvement of its corporate value.

### **2. Grantees of Share Options**

The Company’s directors, ten (10) executive officers, and not more than thirty-five (35) senior employees who are entrusted with important functions.

### **3. Maximum Number of Share Options**

The maximum number of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by resolution of the said shareholders meeting (the “**Resolution**”), will be eleven thousand (11,000).

### **4. Cash Payment for Share Options**

No cash payment will be required for the share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution.

## 5. Features of Share Options

The features of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution, will be as follows:

### (1) Number of Shares to be acquired upon Exercise of a Share Option

The number of shares to be acquired upon Exercise of one (1) share option (the “**Allotted Number of Shares**”) shall be one hundred (100) common shares, and the maximum total number of shares to be delivered due to the exercise of share options shall be one million one hundred thousand (1,100,000) shares.

However, if the Company effects a share split (including allotment of common shares without compensation; this inclusion being applicable below) or a share consolidation after the date of the allotment of the share options, the Allotted Number of Shares will be adjusted by the following calculation formula:

#### **Allotted Number of Shares after Adjustment**

= **Allotted Number of Shares before Adjustment x Ratio of Share Splitting or Share Consolidation.**

Such adjustment will be made only with respect to the number of issued share options that have not then been exercised, and any fractional number of less than one (1) share resulting from such adjustment will be rounded off.

### (2) Amount of Property to Be Contributed upon Exercise of Share Options

The amount of property to be contributed upon the exercise of each share option will be the amount obtained by multiplying the amount to be paid in for one share (the “**Exercise Price**”) to be delivered upon the exercise of a share option by the Allotted Number of Shares. The Exercise Price will be the product of the multiplication of 1.05 and the closing price of one (1) common share of the Company in ordinary trading at the Tokyo Stock Exchange as of the date of allotment of the share options (or if no trade is made on such date, the date immediately preceding the date on which such ordinary shares are traded), with any fractional amount of less than one (1) yen to be rounded up to one (1) yen.

The Exercise Price will be adjusted as follows:

- (i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to be rounded up to one (1) yen:

#### **Exercise Price after Adjustment**

= **Exercise Price before Adjustment x**  $\frac{1}{\text{Ratio of Share Splitting or Share Consolidation}}$

- (ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to be rounded up to one (1) yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

#### **Exercise Price after Adjustment = Exercise Price before Adjustment x**

$\frac{\text{Number of Issued and Outstanding Shares} + \frac{\text{Number of Newly Issued Shares} \times \text{Payment amount per Share}}{\text{Market Price}}}{\text{Number of Issued and Outstanding Shares} + \text{Number of Newly Issued Shares}}$

The “Number of Issued and Outstanding Shares” is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company’s disposal of shares owned by it, the “Number of Newly Issued Shares” will be replaced with the “Number of Own Shares to be Disposed.”

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

**(3) Period during Which Share Options Are Exercisable**

From May 1, 2011 to April 30, 2015.

**(4) Matters regarding Stated Capital and Capital Reserves Increased When Shares Are Issued upon Exercise of Share Options**

- (i) The increased amount of stated capital will be one half (1/2) of the maximum amount of increases of stated capital, etc. to be calculated in accordance with Article 40, Paragraph 1 of the Companies Accounting Regulations (*Kaisha Keisan Kisoku*). Any fractional amount of less than one (1) yen resulting from such calculation will be rounded up to one (1) yen.
- (ii) The increased amount of capital reserves shall be the amount of the maximum amount of increases of stated capital, etc., mentioned in (i) above, after the subtraction of increased amount of stated capital mentioned in (i) above.

**(5) Restriction on Acquisition of Share Options by Transfer**

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

**(6) Events for the Company’s Acquisition of Share Options**

If a proposal for the approval of a merger agreement under which the Company will become an extinguishing company or a proposal for the approval for a share exchange agreement or a share transfer plan under which the Company will become a wholly-owned subsidiary is approved by the Company’s shareholders at a shareholders’ meeting (or by the Board of Directors if no resolution of a shareholders’ meeting is required for such approval), the Company will be entitled to acquire the share options, without compensation, on a date separately designated by the Board of Directors.

**(7) Handling of Fractions**

Any fraction of a share (less than one (1) share) to be delivered to any holder of share options who has exercised share options will be disregarded.

**(8) Other Conditions for Exercise of Share Options**

- (i) One share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company’s general meeting of shareholders regarding the final business term within two (2) years from the end of the Ordinary General Meeting of Shareholders for the 108th Business Term of the Company.
- (iii) Holders of share options will be entitled to exercise their share options for two (2) years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately lose effect.

- (iv) No succession by inheritance is authorized for the share options.
- (v) Any other conditions for the exercise of share options may be established by the Board of Directors.

**6. Specific Method of Calculation of Remuneration to Directors**

The amount of share options to be issued to the directors of the Company, as remuneration, will be the amount to be obtained by multiplying the fair market value per share option as of the allotment date thereof by the total number (not more than five thousand seven hundred (5,700) share options) of share options to be allotted to the directors existing as of such allotment date. The fair market value of a share option will be calculated with the use of the Black-Scholes model on the basis of various conditions applicable on the allotment date. Upon the approval of Proposal No. 3, regarding election of directors, the number of directors will be Twenty-five (25).

End.